

CITY OF LAGUNA BEACH, CALIFORNIA

Comprehensive Annual Financial Report

Year Ended June 30, 2013

CITY OF LAGUNA BEACH, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

City Council:

Kelly Boyd, Mayor
Elizabeth Pearson, Mayor Pro Tem
Toni Iseman, Council Member
Bob Whalen, Council Member
Steve Dicterow, Council Member

Laura Parisi, City Treasurer

Lisette Chel-Walker, City Clerk

John Pietig, City Manager

**Prepared by:
Finance Department**

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Year ended June 30, 2013

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INTRODUCTORY SECTION



December 18, 2013

To the Members of the City Council & Citizens of the City of Laguna Beach:

It is the policy of the City of Laguna Beach to annually publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial statements of the City of Laguna Beach ("the City") for the fiscal year ended June 30, 2013.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Vavrinek, Trine, Day & CO., LLP. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2013, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the fiscal year ended June 30, 2013, were fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City, incorporated in 1927, is located in southwest Orange County, approximately 55 miles southeast of Los Angeles. The City currently occupies a land area of 8.84 square miles and serves a population of approximately 25,000. The City is home of the Pageant of the Masters and the Festival of the Arts. The

City attracts approximately three million visitors annually due to its eight miles of coastline, the Mediterranean climate and the summer art festivals and pageants.

The City has operated under the council-manager form of government since 1944. Policy-making and legislative authority are vested in a City Council consisting of the mayor and four other council members. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The council is elected on a non-partisan basis. Council members serve four-year staggered terms, with new council members elected every two years. The mayor is elected by the council members on an annual basis.

The City provides a full range of services, including police, fire and marine safety protection; maintenance of streets, parks, the sewer system and parking facilities; solid waste; transit operations; community development; recreational activities and cultural events; and administrative services.

The biannual (two year) budget serves as the foundation for the City's financial planning and control. All departments of the City are required to submit requests for appropriation to the City's manager in January. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the council for review in May. The council is required to hold public hearings on the proposed budget and to adopt a final budget by June 30th, the close of the City's fiscal year. The budget is organized by department (e.g., police, fire protection, marine safety, street and park maintenance, and general administrative services). The City Council may amend the budget through a vote of a majority or super majority of the Council during the fiscal year. The City Manager may transfer funds from one object or purpose to another within the same department, excluding capital outlay. Actual expenditures may not exceed budgeted appropriations at the department level.

Within the General Fund, an available fund balance of at least 10% of appropriations has been established as a reserve for contingencies. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund and major special revenue funds, this comparison is presented as part of the required supplementary information in the accompanying financial statements. For governmental funds that have appropriated annual budgets, other than the general fund and major special revenue funds, this comparison is presented in the supplementary section of the accompanying financial statements.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local economy. The City is a balanced community with commercial, retail, light industrial and residential areas. Over the past several years, the City's tax base has performed well under adverse circumstances which have helped the City weather the last recession and enter into an economic recovery.

The national economy continues to gain strength. The labor market conditions appear to be improving, inflation remains tame, and the housing market is improving. Unfortunately, the unemployment rate still remains high at around 7.3%. High unemployment coupled with the federal government sequestration could jeopardize this tepid recovery.

In California, voters in November 2012, approved the Governor's tax initiative, Proposition 30, to increase income taxes on the top earners and sales taxes by a quarter-cent on the dollar to generate \$6 billion annually through fiscal year 2018-19. Now, thanks to Proposition 30 and the improving economy the state Legislative Analyst's Office is projecting that with continued growth in the economy and restraint in new program commitments, the state budget could see a multibillion-dollar operating surpluses within a few years.

While not immune to the effects of the recession, Laguna Beach fared relatively well during the recession due in part to strong governance, disciplined fiscal decisions and strong underlying tax base. Municipal services were maintained even though the City reduced its workforce without layoffs or furloughs. Today, the City of Laguna Beach is emerging from the recession with prudent reserves and a more streamlined organization.

Long-term financial planning. The local economy is starting to recover and revenue from sales tax, transient occupancy and property tax is increasing. Unfortunately, the cost of providing City services, and the demand for additional services, is also increasing. In the foreseeable future, Laguna Beach will continue to be faced with balancing modest revenue growth against increasing operating costs, retirement costs and healthcare costs.

Over the next year, capital improvements are underway for projects such as a new Lifeguard Headquarters; Village Entrance; parks rehabilitation at Moulton Meadows Park, Lang Park and Alta Laguna Park; Burn Dump Restoration; retaining wall replacement at Alta Vista Way; pathway from the Laguna College of Art and Design to the ACT V parking lot; stair replacement at Thalia Beach Access Road; and storm drain replacement at Anita Street and Temple Hills. The costs of the improvements are estimated at \$12 million. The City has funded these projects over the last several years; therefore, it is not necessary to borrow funds to cover project costs.

Cash management policies and practices. Cash temporarily idle during the year was invested primarily in the State Local Agency Investment Fund and in securities of U.S. government agencies. Cash management of the City is facilitated by the pooling of cash and investments, whereby the maximum rate of return and cash flow flexibility can be achieved while maintaining a high level of safety of principal. Interest earnings are allocated semi-annually to the various funds based on the average cash balance during the preceding six months. The City's investment transactions are conducted in conformance with internal investment policies and the State of California Government Code. The City Council has assigned the responsibility for investing to the elected City Treasurer.

Risk management. The City is a member of the California Insurance Pool Authority (CIPA). CIPA, a consortium of 13 cities, was established to pool resources, share risks, purchase excess insurance and share costs for professional risk management and claims administration. Member cities may be assessed the difference between funds available and the \$20 million annual aggregate coverage in proportion to their annual premiums in the event of an imminent shortfall of funds. Additional information regarding risk management can be found in the notes to the financial statements

Pension and other postemployment benefits. The City contributes to the California Public Employees Retirement System, a cost-sharing multiple-employer public employee defined benefit pension plan for its employees. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the City must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City fully funds each year's annual required contribution to the pension plan as determined by this funding policy.

In September 2012, Governor Brown signed the California Public Employees' Pension Reform Act (PEPRA). PEPRA made several changes to the pension benefits that may be offered to employees hired after January 1, 2013, including setting a new maximum benefit, a lower-cost pension formula for safety and non-safety employees with requirements to work for a longer period of time in order to reach full retirement age and a cap on the amount used to calculate a pension. The fiscal impact of PEPRA on the City budget will not be known for several years, but PEPRA is not expected to have a significant short term impact.

In April 2013, the CalPERS Board approved a new actuarial method raising employer retirement rates roughly 50 percent over five years beginning in FY 2015-16. Recently negotiated increases in employee retirement contributions are expected to offset a portion of this increase. In June 2013, the Municipal Employees Association and management employees both agreed to members contributing more to their pension and limits on vacation and sick leave. The three year Municipal Employees Association agreement is expected to save \$140,000 over the term of the agreement and the three-year adjustment to management salaries and benefits is expected to save the City \$175,000.

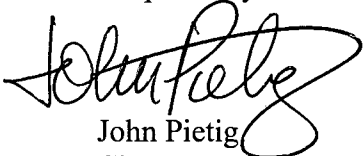
The City allows retirees to pay full premiums to the City for health insurance coverage. Additional information regarding the City's pension arrangements and post-employment benefits can be found in the notes to the financial statements.

Other factors affecting financial condition: The City is part of the 800 MHz Countywide Communications System (CCCS). This system provide radio service to over sixty-one agencies including city and county law enforcement, fire services public works and lifeguard/marine safety departments. In 2009, it was determined that the system was to be upgraded by the spring of 2018. The estimated cost to the City of Laguna Beach for its share of the cost to upgrade and perpetuate the county-wide system is \$3.7 million over the next five years. To date, the City has set aside \$2 million.


Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Division. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report.


Respectfully submitted,



John Pietig
City Manager



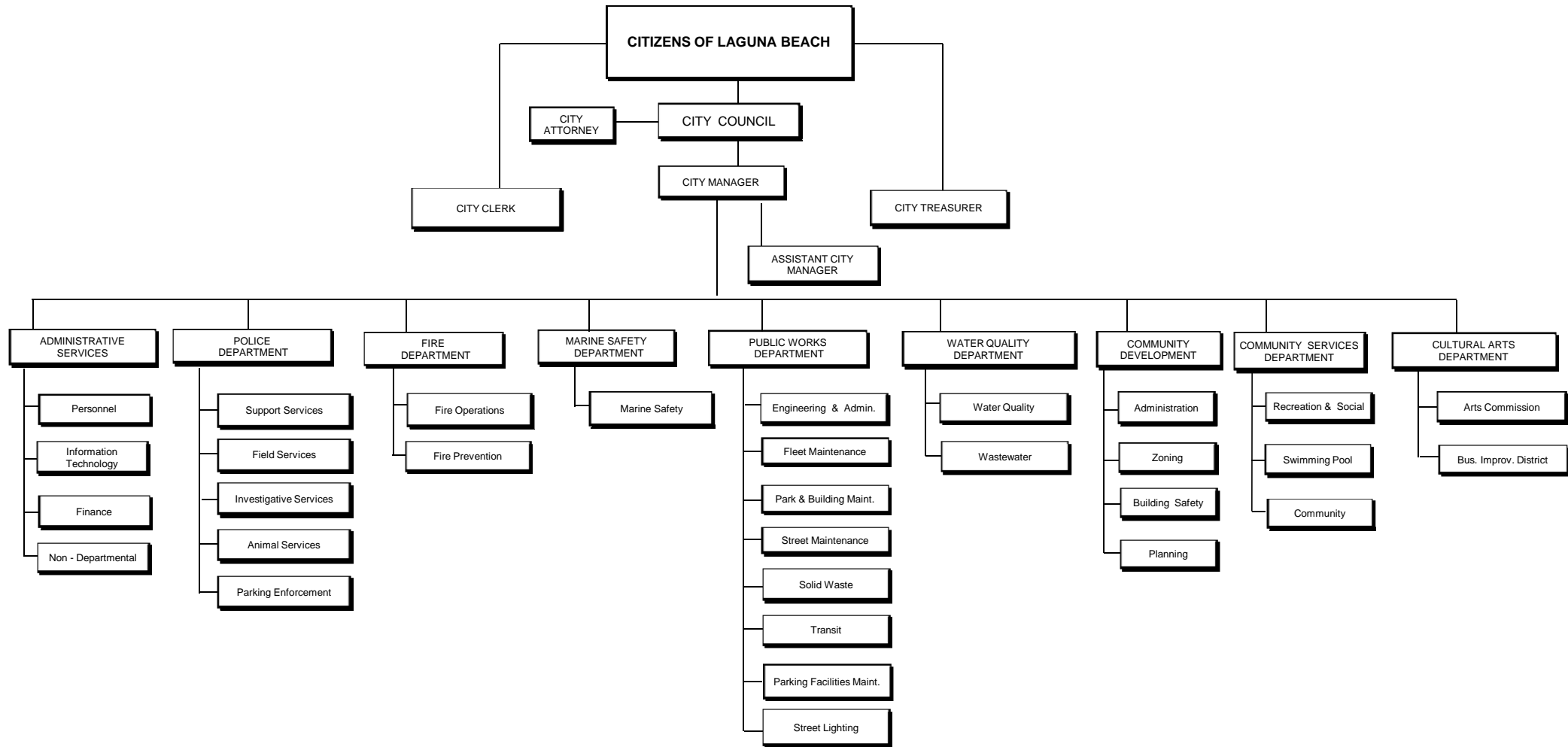
Gavin Curran
Director of Finance and Information Technology



Nancy Pauley
Finance Officer

CITY OF LAGUNA BEACH

Organizational Chart



FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the City Council
City of Laguna Beach, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Laguna Beach, California, (the "City") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Laguna Beach County Water District (the "District"), which represent 100 percent, 100 percent, and 100 percent, respectively, of the assets, net position, and revenues of the discretely component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the District, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2013, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the City adopted Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of funding progress on pages 4 through 13 and 59 through 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Report on Summarized Comparative Information

We have previously audited the City's 2012 financial statements, and we expressed an unmodified audit opinion on the financial statements in our report dated December 27, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated December 13, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Vaurio, Trine, Day, Co., LLP

Laguna Hills, California
December 13, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the City of Laguna Beach provides an overview of the City's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Also included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds and internal service funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services, like public safety, were financed in the short term as well as what remains for future spending.
 - Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses, such as the City's transit system.
 - Fiduciary fund statements provide information about the fiduciary relationships – like the agency funds of the City – in which the City acts solely as agent or trustee for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that provides additional financial and budgetary information.

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1
Major Features of the City's Government-wide and Fund Financial Statements

	Government-wide <u>Statements</u>	<u>Fund Statements</u>		
		<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses	Instances in which the City is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities • Reconciliation of revenues, expenses, and changes in fund net position 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term debt included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the City's fiduciary funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid.

Reporting the City as a Whole

The accompanying government-wide financial statements include two statements that present financial data for the City as a whole. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities 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.

These two statements report the City's net position and changes in them. You can think of the City's net position – the difference between assets and liabilities – as one way to measure the City's financial health, or financial position. Over time, increases and decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities – Most of the City's basic services are reported here. Charges for Services, grants, sales taxes, property taxes, state subventions, and other revenues finance most of these activities.
- Business-type activities – The City charges user fees to customers to offset all or most of the expenses accounted for in this fund.

Reporting the City's Major Funds

The fund financial statements provide detailed information about the City's most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting administrative responsibilities for using certain taxes, grants, or other money. The City's two kinds of funds – governmental and proprietary – use different accounting approaches.

- Governmental funds – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the 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 current 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship or differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.
- Proprietary funds – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities.

Reporting the City's Fiduciary Responsibilities

The City is an agent for certain assets held for, and under the control of, other organizations and individuals. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

Table 1
Net Position
(in Millions)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and Other Assets	\$ 76.9	69.2	1.2	0.5	78.1	69.7
Capital Assets	333.6	329.2	2.6	2.8	336.2	332.0
Total Assets	<u>410.5</u>	<u>398.4</u>	<u>3.8</u>	<u>3.3</u>	<u>414.3</u>	<u>401.7</u>
Long-Term Debt Outstanding	10.8	11.1	0.1	0.1	10.9	11.2
Other Liabilities	6.3	6.7	0.7	-	7.0	6.7
Total Liabilities	<u>17.1</u>	<u>17.8</u>	<u>0.8</u>	<u>0.1</u>	<u>17.9</u>	<u>17.9</u>
Net Position						
Net investment in						
Capital Assets	328.9	324.2	2.6	2.8	331.5	327.0
Restricted	6.4	5.9	-	-	6.4	5.9
Unrestricted	<u>58.1</u>	<u>50.5</u>	<u>0.4</u>	<u>0.4</u>	<u>58.5</u>	<u>50.9</u>
Total Net Position	<u>\$ 393.4</u>	<u>380.6</u>	<u>3.0</u>	<u>3.2</u>	<u>396.4</u>	<u>383.8</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by approximately \$396.4 million as of June 30, 2013.

The largest portion of the City's net position, \$331.5 million (84%) are reflected in its investment in capital assets (e.g., land, street infrastructure, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt will be provided from future revenues and the remaining 16% of the City's net position, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the City's net position of \$6.4 million (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$58.5 million (14%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City was able to report positive balances in all three categories of net position for the City as a whole, as well as the governmental activities. For the City's business-type activities, the balance was also positive and there was no restricted net position.

The City's total net position increased by \$12.6 million during the current fiscal year. The net position of governmental activities increased by \$12.7 million and business-type activities had a decrease of \$174 thousand.

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

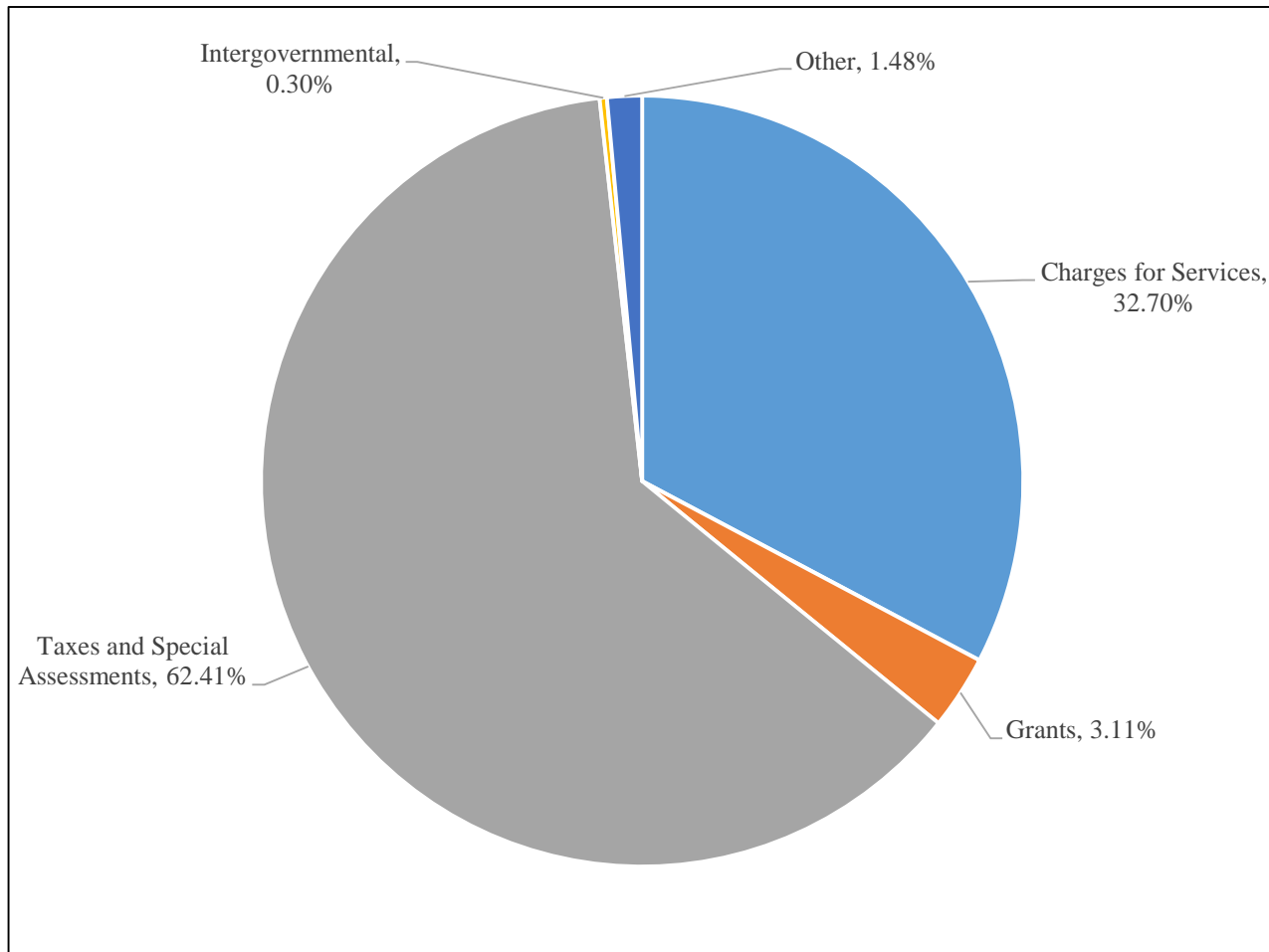
Table 2
Changes in Net Position
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program Revenues						
Charges for Services	\$ 22,653	20,485	327	318	22,980	20,803
Operating Grants/Contributions	2,024	1,962	1,304	1,321	3,328	3,283
Capital Grants/Contributions	131	878	-	-	131	878
General Revenues						-
Taxes and special assessments	43,237	41,574	-	-	43,237	41,574
Intergovernmental	211	201	-	-	211	201
Rental income	428	420	-	-	428	420
Investment income	(70)	740	-	4	(70)	744
Miscellaneous revenues	326	955	-	-	326	955
Gain (loss) on sale/disposal of capital assets	272	70	-	-	272	70
Total Revenues	<u>69,212</u>	<u>67,285</u>	<u>1,631</u>	<u>1,643</u>	<u>70,843</u>	<u>68,928</u>
Expenses:						
General government	4,773	4,658	-	-	4,773	4,658
Community development	3,827	3,992	-	-	3,827	3,992
Public safety	24,695	26,937	-	-	24,695	26,937
Public works	12,424	13,914	-	-	12,424	13,914
Recreation and social services	4,788	5,004	-	-	4,788	5,004
Sewer service operating costs	5,520	6,064	-	-	5,520	6,064
Interest and fiscal charges	129	212	-	-	129	212
Municipal transit			2,148	2,232	2,148	2,232
Total Expenses	<u>56,156</u>	<u>60,781</u>	<u>2,148</u>	<u>2,232</u>	<u>58,304</u>	<u>63,013</u>
Increase (Decrease) in Net Position Before Transfers	13,056	6,504	(517)	(589)	12,539	5,915
Transfers	(343)	(391)	343	391	-	-
Increase (Decrease) in Net Position	12,713	6,113	(174)	(198)	12,538	5,915
Net Position-Beginning	<u>380,665</u>	<u>374,552</u>	<u>3,207</u>	<u>3,405</u>	<u>383,872</u>	<u>377,957</u>
Net Position-Ending	<u>\$ 393,378</u>	<u>380,665</u>	<u>3,033</u>	<u>3,207</u>	<u>396,410</u>	<u>383,872</u>

The City's total revenues were \$70.8 million while the total expenditures were \$58.3 million. Property taxes were the City's largest revenue source at \$27.5 million (38.8% of total revenues and 39.7% of governmental revenues). Transient lodging taxes at \$8.5 million (12.0% of total revenues and 12.2% governmental revenues) and sales tax also at \$4.7 million (6.63% of total revenues and 6.9% of governmental revenues) were the second largest revenue sources for the City this past year. Property taxes have increased approximately 3%. The City's sales taxes increased approximately 6.9% and transient lodging taxes have increased approximately 7.8% over prior fiscal year.

Governmental activities. The governmental activities' increase in net position of \$12.7 million accounted for 100% of the total growth in net position for the City this past year. The following graph depicts the major revenue sources of the City. It depicts very clearly the reliance on taxes and special assessments to fund governmental activities.

Revenues by Source – Governmental Activities



General government expenses (including City Council, City Manager, City Attorney, City Clerk, City Treasurer and Administrative Services) were 8.5% of the total cost of governmental activities. Charges for services offset 19% of the cost of providing these services.

Community development expenditures were 6.8% of the total cost of governmental activities and charges for services offset 71% of the cost of providing these services.

Public safety expenses comprised the largest component of governmental activities in terms of cost 44% this past year. Charges for services, operating and capital grants and contributions offset 10% of the cost of providing these services.

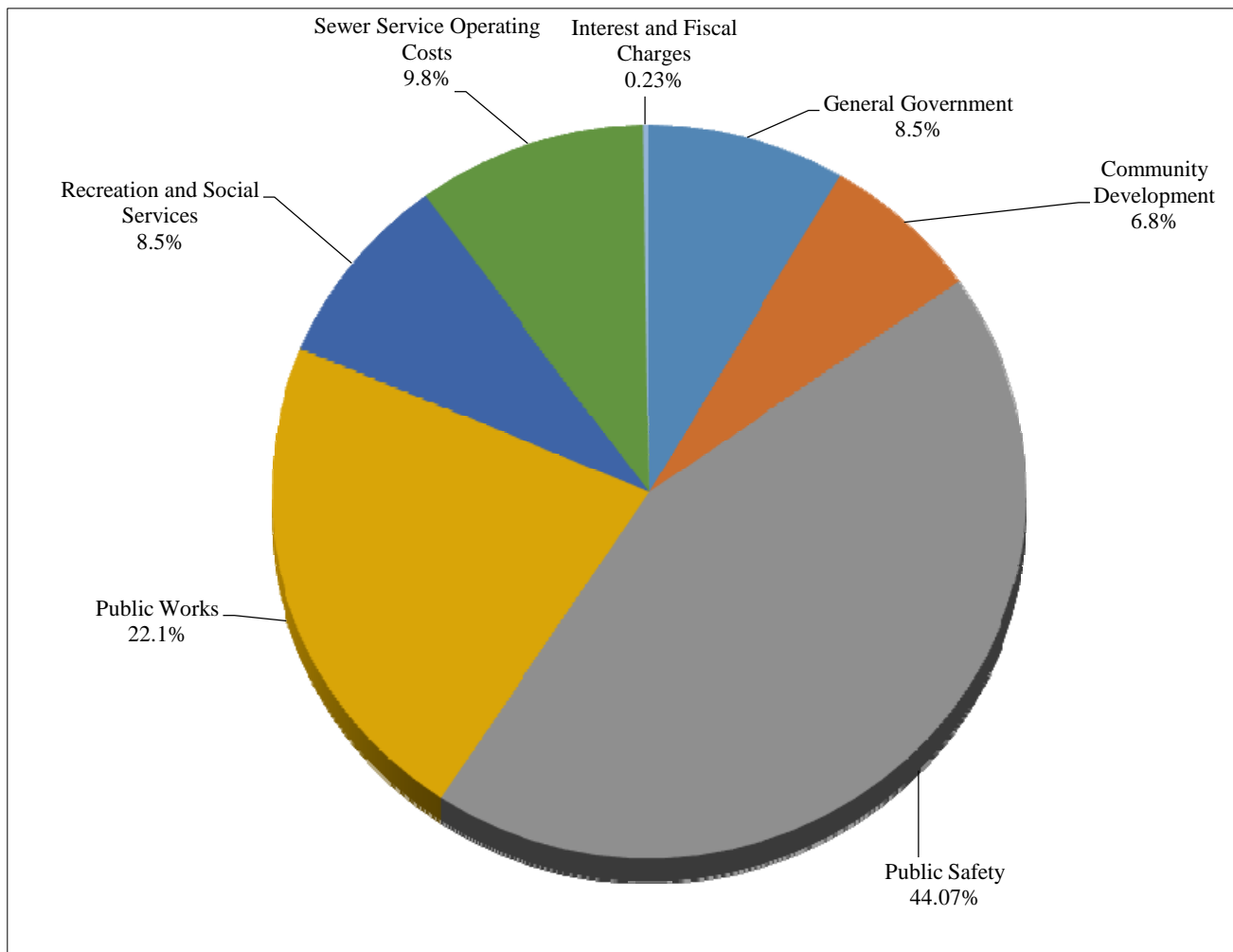
Public Works was the second largest governmental activity representing 22.1% of the total cost of governmental activities. Charges for services and operating grants and contributions helped to offset 71% of the cost of these activities.

Recreation and social services expenditures were 8.5% of the total cost of governmental activities. Charges for services, operating grants and contributions offset 68% of the cost of providing these services.

Sewer service operating costs were 9.8% of the total cost of governmental activities. Charges for services, operating and capital grants and contributions offset 100% of expenses including costs incurred for capitalized assets.

Interest and fiscal charges on long term debt costs were .23% of the total cost of governmental activities with all costs offset by general tax revenues.

Expenses by Function – Governmental Activities



- **Business-type activities.** Business-type activities of the City had a decrease in net position of \$174 thousand. The expenses of the City’s business-type activity, the municipal transit system, including costs incurred for capitalized assets were funded by charges for services and operating and capital grants. The majority of the decrease in net position consisted of a decrease in operating grants and contributions and capital grants and contributions in fiscal year 2012-13.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to provide proper financial management of the City's resources and to 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 and may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2013, the governmental funds reported combined ending fund balances of \$51 million, an increase of \$7.5 million in comparison with the prior year. The City has \$3.6 million (7.1%) in fund balance classified as nonspendable to indicate it cannot be readily converted to cash; \$6.4 million (12.5%) in restricted fund balance to indicate that it has an externally imposed restriction on how the money may be spent; \$6.2 million (12.2%) in committed fund balance to indicate that the City Council committed how the money will be spent; \$27.5 million (53.9%) in assigned fund balance to indicate that the City Council has an assigned purpose or intent for how the money should be spent; and \$7.1 million (13.9%) in unassigned fund balance to indicate that it is the residual balance not otherwise restricted, committed or assigned.

The fund balance of the City's General Fund increased by \$5.2 million during the fiscal year ending June 30, 2013, which was a larger increase compared to the previous fiscal year. Reasons for significant changes in the revenues and expenditures of the City's General Fund from the prior year is as follows:

- Revenues increased \$3.5 million with \$1 million resulting from property taxes. Sales and use taxes, transient occupancy taxes increased by \$932 thousand compared to the prior year. Parking revenue increased \$1.1 million mainly due to the majority of parking permits sold bi-annually.
- Overall, expenditures increased \$386 thousand compared to the prior year. This was due to an expected increases in special programs and capital items.

The other City's major fund is the Disaster Contingency Fund.

The Disaster Contingency Fund has a total fund balance of \$5.9 million which is used exclusively for (a) repair of public facilities and (b) the emergency protection of public and private property and lives during natural or manmade disasters. This funding is from the accumulation of a voter approved temporary ½ cent sales tax that was in effect for the period of July, 2006 through June, 2009.

Enterprise Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Municipal Transit Fund at the end of the fiscal year amounted to \$309 thousand. The total decrease in net position for the fund was \$174 thousand. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGET

Differences between the original budget and the final amended budget of the General Fund totaled \$24.1 million and major items can be briefly summarized as follows:

- \$19 million increase in the budget for prior year carry over appropriations.
- \$2.3 million increase for capital equipment additions and replacement, mainly due to the ongoing reserve of \$1.6 million for the 800 MHZ Communication system.
- \$650 thousand for parking credit card machines.

Major deviations between the final budget of the General Fund and its actual operating results were as follows:

- Total revenues were \$1.5 million above final budgeted revenues for the year ended June 30, 2013. The favorable variance includes increases in, property taxes, sales and use taxes, transient lodging taxes, planning fees, parks and recreations fees, and parking fees. Grant revenues of \$1.1 million was budgeted in fiscal year 2012-2013 but are not expected to be received until fiscal year 2013-2014.
- Total expenditures were under the budgeted amount by \$25.0 million, mostly as a result of capital projects not yet completed or deferred to next fiscal year. The remaining budget for these capital projects is included with the carryover appropriations. There were only two departments that exceeded their approved operating budgeted amounts. The City Treasurer department exceeded the budget in contractual services. Administrative Services due to the gas tax exchange program with the Orange County Transportation Authority, which is offset by an operating transfer from the Gas Tax Fund.

These deviations did not significantly affect the City's liquidity or ability to provide future government services.

	Capital Assets - Net of Depreciation					
	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 82,110,354	80,603,754	196,106	196,106	82,306,460	80,799,860
Buildings and Improvements	29,701,539	30,793,642	1,572,378	1,635,548	31,273,917	32,429,190
Office Equipment & Machinery	1,815,274	1,672,678	3,419	3,991	1,818,693	1,676,669
Furniture and Fixtures	1,362,540	1,307,233	-	-	1,362,540	1,307,233
Equipment Machinery & Tools	1,066,059	1,137,105	-	-	1,066,059	1,137,105
Sewer Plant and Lines	38,786,892	37,936,819	-	-	38,786,892	37,936,819
Automotive Equipment	2,702,364	3,072,890	870,175	998,906	3,572,539	4,071,796
Infrastructure	163,872,046	164,422,267	-	-	163,872,046	164,422,267
Construction in Progress	12,199,129	8,311,555	-	-	12,199,129	8,311,555
Total	\$ 333,616,197	329,257,943	2,642,078	2,834,551	336,258,275	332,092,494

The major change to the capital assets during the year ended June 30, 2013 were the purchase of Open Space Property, a new telephone system, replacement vehicles and Construction in Progress for the Lifeguard Headquarters; Broadway Streetscape; Lift Station Rehabilitation and Replacement. Unexpended construction commitments as of year-end are discussed in note 6 to the financial statements. Additional information on the City's capital assets can be found in the notes to the financial statements.

LONG-TERM DEBT

	Long-Term Liabilities					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Installment Agreement	\$ 4,671,980	5,032,020	-	-	4,671,980	5,032,020
Net OPEB Liability	253,536	218,696			253,536	218,696
Total	\$ 4,925,516	5,250,716	-	-	4,925,516	5,250,716

The City's total debt decreased by \$325 thousand (6.1%) during the current fiscal year. Additional information on the City's long-term debt can be found in the notes to the accompanying financial statements.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Office, at the City of Laguna Beach, 505 Forest Avenue, Laguna Beach, California 92651.

BASIC FINANCIAL STATEMENTS

CITY OF LAGUNA BEACH
Statement of Net Position
June 30, 2013
(With Comparative Totals for June 30, 2012)

	Primary Government				Component Unit
	Governmental Activities	Business-type Activities	Totals		Water District
			2013	2012	
ASSETS					
Cash and investments (note 2)	\$ 68,121,855	\$ 726,417	\$ 68,848,272	\$ 60,373,476	\$ 12,196,926
Receivables:					
Taxes	3,853,767	-	3,853,767	3,851,340	44,072
Accounts	701,829	8,302	710,131	1,396,157	1,732,721
Interest	9,263	-	9,263	11,048	31,590
Intergovernmental	144,179	383,922	528,101	121,964	-
Notes	911,935	-	911,935	944,567	7,045,439
Prepays	1,071,335	35,875	1,107,210	868,143	126,692
Inventory	45,004	-	45,004	60,331	137,154
Computer loans to employees	-	-	-	-	13,796
Property held for investment	2,032,253	-	2,032,253	2,032,253	-
Capital assets, not being depreciated (note 5)	94,309,483	196,106	94,505,589	89,111,415	3,103,201
Capital assets, net of depreciation (note 5)	<u>239,306,714</u>	<u>2,445,972</u>	<u>241,752,686</u>	<u>242,981,079</u>	<u>43,476,528</u>
Total Assets	<u>410,507,617</u>	<u>3,796,594</u>	<u>414,304,211</u>	<u>401,751,773</u>	<u>67,908,119</u>
LIABILITIES					
Accounts payable and accrued liabilities	3,790,952	85,007	3,875,959	3,847,513	1,377,464
Interest payable	53,533	-	53,533	56,610	-
Deposits	10,500	-	10,500	-	-
Due to other government agencies	31,896	-	31,896	26,332	-
Unearned revenue	-	661,267	661,267	395,143	-
Noncurrent liabilities (note 11):					
Due within one year	2,428,624	3,557	2,432,181	2,429,972	-
Due in more than one year	<u>10,814,361</u>	<u>14,228</u>	<u>10,828,589</u>	<u>11,124,079</u>	<u>576,857</u>
Total Liabilities	<u>17,129,866</u>	<u>764,059</u>	<u>17,893,925</u>	<u>17,879,649</u>	<u>1,954,321</u>
NET POSITION					
Net investment in capital assets	328,944,217	2,642,078	331,586,295	327,060,474	46,579,729
Restricted for:					
Capital projects	4,383,102	-	4,383,102	5,626,146	-
Other purposes	3,445,002	-	3,445,002	243,641	-
Unrestricted	<u>56,605,430</u>	<u>390,457</u>	<u>56,995,887</u>	<u>50,941,863</u>	<u>19,374,069</u>
Total Net Position	<u>\$ 393,377,751</u>	<u>\$ 3,032,535</u>	<u>\$ 396,410,286</u>	<u>\$ 383,872,124</u>	<u>\$ 65,953,798</u>

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH
Statement of Activities
Year Ended June 30, 2013
(With Comparative Totals for Year Ended June 30, 2012)

	Program Revenues				Total Program Revenues
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 4,773,294	\$ 906,051	\$ -	\$ -	\$ 906,051
Community development	3,826,827	2,731,302	-	-	2,731,302
Public safety	24,694,999	1,797,519	582,202	-	2,379,721
Public works	12,424,715	7,428,761	1,329,342	115,225	8,873,328
Recreation and social services	4,787,756	3,200,792	50,000	-	3,250,792
Sewer service operating costs	5,519,819	6,588,390	62,764	16,272	6,667,426
Interest and fiscal charges	129,382	-	-	-	-
Total Governmental Activities	<u>56,156,792</u>	<u>22,652,815</u>	<u>2,024,308</u>	<u>131,497</u>	<u>24,808,620</u>
Business-type activities:					
Municipal transit	2,148,718	326,723	1,304,127	-	1,630,850
Total Business-type Activities	<u>2,148,718</u>	<u>326,723</u>	<u>1,304,127</u>	<u>-</u>	<u>1,630,850</u>
Total Primary Government	<u>\$ 58,305,510</u>	<u>\$ 22,979,538</u>	<u>\$ 3,328,435</u>	<u>\$ 131,497</u>	<u>\$ 26,439,470</u>
Component units:					
Water District	\$ 11,357,589	\$ 9,192,809	\$ -	\$ -	\$ 9,192,809
Total Component Units	<u>\$ 11,357,589</u>	<u>\$ 9,192,809</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,192,809</u>

General revenues:

Taxes
Intergovernmental
Rental income
Investment income, net of unrealized losses
Gain on disposal of capital assets
Miscellaneous
Transfers (note 14)

Total General Revenues and Transfers

Change in net position

Net Position at Beginning of Year

Net Position at End of Year

See accompanying notes to basic financial statements.

Net (Expense) Revenue and Changes in Net Position				
Primary Government				Component Unit
Governmental Activities	Business-type Activities	Totals		Water District
		2013	2012	
\$ (3,867,243)	\$ -	\$ (3,867,243)	\$ (3,775,410)	\$ -
(1,095,525)	-	(1,095,525)	(1,796,836)	-
(22,315,278)	-	(22,315,278)	(24,700,457)	-
(3,551,387)	-	(3,551,387)	(5,839,114)	-
(1,536,964)	-	(1,536,964)	(1,946,471)	-
1,147,607	-	1,147,607	814,668	-
(129,382)	-	(129,382)	(211,810)	-
(31,348,172)	-	(31,348,172)	(37,455,430)	-
-	(517,868)	(517,868)	(594,170)	-
-	(517,868)	(517,868)	(594,170)	-
(31,348,172)	(517,868)	(31,866,040)	(38,049,600)	-
				(2,164,780)
				(2,164,780)
43,237,854	-	43,237,854	41,574,026	2,167,655
211,181	-	211,181	201,458	-
427,341	-	427,341	419,641	-
(70,016)	-	(70,016)	743,568	587,258
271,698	-	271,698	70,207	-
326,144	-	326,144	954,954	-
(343,400)	343,400	-	-	-
44,060,802	343,400	44,404,202	43,963,854	2,754,913
12,712,630	(174,468)	12,538,162	5,914,254	590,133
380,665,121	3,207,003	383,872,124	377,957,870	65,363,665
<u>\$ 393,377,751</u>	<u>\$ 3,032,535</u>	<u>\$ 396,410,286</u>	<u>\$ 383,872,124</u>	<u>\$ 65,953,798</u>

See accompanying notes to basic financial statements.

GOVERNMENTAL FUNDS

MAJOR GOVERNMENTAL FUNDS

GENERAL FUND

The General Fund, which is required to be classified as a major fund, is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues (other than expendable trusts and major capital projects) and the related expenditures which are legally required to be accounted for in a separate fund. The City of Laguna Beach has the following major Special Revenue Fund:

DISASTER CONTINGENCY FUND

This Fund is used exclusively for the repair of public facilities and the emergency protection of public and private property and lives during natural or manmade disasters and was funded with a temporary restricted sales tax increase, approved by the voters.

NONMAJOR GOVERNMENTAL FUNDS

These funds constitute all other governmental funds that do not meet the criteria to be a major fund, which are the 10% test of assets, liabilities, revenues or expenditures for the governmental funds and the 5% test of total assets, liabilities, revenues or expenditures for the total governmental and enterprise funds combined. These funds include other Special Revenue, Debt Service, and Capital Projects Funds of the City.

CITY OF LAGUNA BEACH
Governmental Fund Types
Balance Sheet
June 30, 2013
(With Comparative Totals for June 30, 2012)

ASSETS	<u>General</u>	<u>Special Revenue Disaster Contingency</u>	<u>Nonmajor Governmental Funds</u>
Cash and investments	\$ 46,025,884	\$ 5,984,699	\$ 4,013,561
Receivables:			
Taxes	1,237,751	-	13,456
Accounts	626,994	-	42,088
Interest	9,263	-	
Intergovernmental	80,046	-	64,133
Notes	348,000	-	-
Due from other funds (note 4)	106,747	-	-
Prepays	84,212	-	987,123
Inventory	45,004	-	-
Advances to other funds (note 4)	-	-	2,190,000
Property held for investment	-	-	354,444
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 48,563,901</u>	<u>\$ 5,984,699</u>	<u>\$ 7,664,805</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 3,454,488	\$ -	\$ 118,891
Due to other funds (note 4)	-	-	106,747
Deposits	-	-	10,500
Due to other government agencies	31,896	-	-
Deferred revenue	64,782	-	-
Advances from other funds (note 4)	6,700,000	-	690,000
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>10,251,166</u>	<u>-</u>	<u>926,138</u>
Fund balances (deficit) (note 13):			
Nonspendable	129,216	-	3,531,567
Restricted	3,317,856	-	3,089,978
Committed	306,359	5,984,699	-
Assigned	27,272,289	-	265,217
Unassigned	7,287,015	-	(148,095)
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>38,312,735</u>	<u>5,984,699</u>	<u>6,738,667</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 48,563,901</u>	<u>\$ 5,984,699</u>	<u>\$ 7,664,805</u>

See accompanying notes to basic financial statements.

<u>Totals - Governmental Funds</u>	
<u>2013</u>	<u>2012</u>
\$ 56,024,144	\$ 48,358,928
1,251,207	1,308,646
669,082	1,035,966
9,263	11,048
144,179	62,096
348,000	348,000
106,747	1,146,043
1,071,335	834,779
45,004	60,331
2,190,000	2,500,000
354,444	354,444
<u>\$ 62,213,405</u>	<u>\$ 56,020,281</u>
\$ 3,573,379	\$ 3,225,483
106,747	1,146,043
10,500	
31,896	26,332
64,782	395,143
<u>7,390,000</u>	<u>7,710,000</u>
<u>11,177,304</u>	<u>12,503,001</u>
3,660,783	895,110
6,407,834	13,912,131
6,291,058	306,539
27,537,506	20,962,498
<u>7,138,920</u>	<u>7,441,002</u>
<u>51,036,101</u>	<u>43,517,280</u>
<u>\$ 62,213,405</u>	<u>\$ 56,020,281</u>

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH
Governmental Funds
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
June 30, 2013

Fund balances of governmental funds	\$ 51,036,101
<p>Amounts reported for governmental activities in the Statement of Net Position are difference because:</p>	
<p>Capital assets net of depreciation have not been included as financial resources in governmental fund activity.</p>	
Capital assets	436,023,067
Accumulated depreciation	(105,097,671)
<p>Long term debt of the General Fund that have not been included in the governmental fund activity.</p>	
Loan payable	(4,671,980)
<p>Accrued interest payable for the current portion of interest due on debt service has not been reported in the governmental funds.</p>	
	(53,533)
<p>Receivable amounts that were earned during the year but not collected within the availability period have not been reported in the governmental funds.</p>	
	2,667,342
<p>Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds must be added to the Statement of Net Position.</p>	
	13,474,425
Net Position of Governmental Activities	\$ 393,377,751

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2013
(With Comparative Totals for Year Ended June 30, 2012)

	<u>General</u>	<u>Special Revenue Disaster Contingency</u>	<u>Nonmajor Governmental Funds</u>
Revenues:			
Taxes	\$ 42,421,145	\$ -	\$ 1,508,027
Licenses and permits	1,052,041	-	-
Fines and penalties	1,326,936	-	15,025
Investment income, net of unrealized losses	(130,128)	55,166	4,946
Rental	427,341	-	-
Intergovernmental	1,007,019	-	1,114,467
Charges for services	13,603,713	-	-
Parking meters, lots and permits	5,384,197	-	-
Development tax	433,526	-	-
Other	585,048	-	67,873
Total Revenues	66,110,838	55,166	2,710,338
Expenditures:			
Current:			
General government	4,014,084	-	-
Community development	3,751,468	-	-
Public safety	24,336,927	-	-
Public works	10,704,288	-	253,758
Recreation and social services	4,216,980	-	-
Sewer service operating costs	3,950,183	-	-
Capital expenditures	8,106,168	-	867,943
Debt service:			
Principal	360,040	-	-
Interest and fiscal charges	132,459	-	-
Total Expenditures	59,572,597	-	1,121,701
Excess (deficiency) of revenues over (under) expenditures	6,538,241	55,166	1,588,637
Other financing sources (uses):			
Transfers in (note 14)	509,731	-	1,187,400
Transfers out (note 14)	(2,105,205)	-	(509,731)
Bond proceeds	-	-	-
Sale of land and equipment	254,582	-	-
Total Other Financing Sources (Uses)	(1,340,892)	-	677,669
Net Change in Fund Balances	5,197,349	55,166	2,266,306
Fund Balances, Beginning of Year	33,115,386	5,929,533	4,472,361
Fund Balances, End of Year	\$ 38,312,735	\$ 5,984,699	\$ 6,738,667

See accompanying notes to basic financial statements.

<u>Totals - Governmental Funds</u>	
<u>2013</u>	<u>2012</u>
\$ 43,929,172	\$ 41,653,733
1,052,041	975,884
1,341,961	1,283,698
(70,016)	739,628
427,341	419,641
2,121,486	3,469,505
13,603,713	12,987,838
5,384,197	4,276,533
433,526	183,704
652,921	900,815
<u>68,876,342</u>	<u>66,890,979</u>
4,014,084	4,071,235
3,751,468	3,600,452
24,336,927	24,419,318
10,958,046	10,671,049
4,216,980	4,049,299
3,950,183	4,062,448
8,974,111	10,745,569
360,040	1,915,472
132,459	181,283
<u>60,694,298</u>	<u>63,716,125</u>
<u>8,182,044</u>	<u>5,946,729</u>
1,697,131	987,270
(2,614,936)	(2,446,370)
-	459,263
254,582	12,109
<u>(663,223)</u>	<u>(987,728)</u>
7,518,821	2,187,126
43,517,280	41,330,154
<u>\$ 51,036,101</u>	<u>\$ 43,517,280</u>

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures,
And Changes in Fund Balances of Governmental Funds
To the Statement of Activities
Year Ended June 30, 2013

Net change in fund balances - total governmental funds	\$ 7,518,821
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expenses. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital outlay	9,741,444
Depreciation expense	(5,016,535)
Repayment of debt service principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	360,040
Accrued interest for debt service. This is the net change in accrued interest for the current period.	3,077
Receivable amounts that were earned in the audit period but not collected within the availability period were reported in the governmental funds.	64,782
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The net revenues (expenses) of the internal service funds must be added to the Statement of Net Position.	<u>41,001</u>
Change in net position of governmental activities	<u><u>\$ 12,712,630</u></u>

See accompanying notes to basic financial statements.

PROPRIETARY FUNDS

MAJOR ENTERPRISE FUNDS

The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprise – where the intent of the City Council is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

The City of Laguna Beach has the following major Enterprise Fund:

MUNICIPAL TRANSIT FUND – The fund is used to account for the operations of the City’s transit system. All activities necessary to provide such services are accounted for in this fund, including but not limited to, administration, operations and maintenance.

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency of a government to other departments or agencies on a cost reimbursement basis.

CITY OF LAGUNA BEACH
Proprietary Funds
Statement of Net Position
June 30, 2013
(With Comparative Totals for June 30, 2012)

	Business- Type Activities	Governmental Activities	Business- Type Activities	Governmental Activities
	Municipal Transit	Internal Service Funds	2012 Municipal Transit	2012 Internal Service Funds
ASSETS				
Current assets:				
Cash and investments	\$ 726,417	\$ 12,097,711	\$ 88,109	\$ 11,926,439
Receivables:				
Accounts	8,302	32,747	351,240	8,951
Intergovernmental	383,922	-	-	-
Prepays	35,875	-	33,364	-
Total Current Assets	<u>1,154,516</u>	<u>12,130,458</u>	<u>472,713</u>	<u>11,935,390</u>
Noncurrent assets:				
Advances to other funds (note 4)	-	5,200,000	-	5,210,000
Notes receivable	-	563,935	-	596,567
Property held for investment	-	1,677,809	-	1,677,809
Capital assets, not being depreciated	196,106	7,218	196,106	-
Capital assets, net of depreciation	2,445,972	2,683,583	2,638,445	3,057,458
Total Noncurrent Assets	<u>2,642,078</u>	<u>10,132,545</u>	<u>2,834,551</u>	<u>10,541,834</u>
Total Assets	<u>3,796,594</u>	<u>22,263,003</u>	<u>3,307,264</u>	<u>22,477,224</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	85,007	217,573	81,286	540,744
Compensated absences due within one year	3,557	872,971	-	830,750
Insurance claims payable due within one year	-	1,185,784	-	1,239,182
Unearned revenue	661,267	-	-	-
Total Current Liabilities	<u>749,831</u>	<u>2,276,328</u>	<u>81,286</u>	<u>2,610,676</u>
Non-current liabilities:				
Compensated absences (note 11)	14,228	3,491,886	18,975	3,323,004
Insurance claims payable (note 7)	-	2,766,828	-	2,891,424
Net OPEB liability (note 12)	-	253,536	-	218,696
Total Noncurrent Liabilities	<u>14,228</u>	<u>6,512,250</u>	<u>18,975</u>	<u>6,433,124</u>
Total Liabilities	<u>764,059</u>	<u>8,788,578</u>	<u>100,261</u>	<u>9,043,800</u>
NET POSITION				
Net Position				
Net investment in capital assets	2,642,078	2,690,801	2,834,551	3,057,458
Unrestricted	390,457	10,783,624	372,452	10,375,966
Total Net Position	<u>\$ 3,032,535</u>	<u>\$ 13,474,425</u>	<u>\$ 3,207,003</u>	<u>\$ 13,433,424</u>

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Position
Year Ended June 30, 2013
(With Comparative Totals for Year Ended June 30, 2012)

	Business- Type Activities	Governmental Activities	Business- Type Activities	Governmental Activities
	Municipal Transit	Internal Service Funds	2012 Municipal Transit	2012 Internal Service Funds
Operating revenues:				
Passenger revenues	\$ 326,723	\$ -	\$ 318,205	\$ -
Vehicle rentals	-	1,107,704	-	1,104,700
Employee benefits charges	-	790,300	-	759,800
Insurance charges	-	5,944,293	-	5,674,517
Total Operating Revenues	<u>326,723</u>	<u>7,842,297</u>	<u>318,205</u>	<u>7,539,017</u>
Operating expenses:				
Personnel services	1,183,697	-	1,150,219	-
Contractual services	149,379	-	196,406	-
Materials and supplies	337,422	-	427,535	-
Administration	285,746	120,537	260,385	144,160
Employee benefits	-	964,708	-	915,026
Insurance claims and premiums	-	6,657,711	-	5,937,581
Depreciation	192,474	649,861	198,951	553,461
Total Operating Expenses	<u>2,148,718</u>	<u>8,392,817</u>	<u>2,233,496</u>	<u>7,550,228</u>
Operating Income (Loss)	<u>(1,821,995)</u>	<u>(550,520)</u>	<u>(1,915,291)</u>	<u>(11,211)</u>
Nonoperating revenues (expenses):				
Investment income	-	-	3,936	-
Intergovernmental	1,304,127	-	1,321,121	-
Gain on disposal of capital assets	-	17,116	-	58,098
Total Nonoperating Revenues (Expenses)	<u>1,304,127</u>	<u>17,116</u>	<u>1,325,057</u>	<u>58,098</u>
Income (Loss) Before Transfers	<u>(517,868)</u>	<u>(533,404)</u>	<u>(590,234)</u>	<u>46,887</u>
Transfers:				
Transfers in (note 14)	343,400	574,405	391,300	1,067,800
Total Transfers	<u>343,400</u>	<u>574,405</u>	<u>391,300</u>	<u>1,067,800</u>
Change in Net Position	(174,468)	41,001	(198,934)	1,114,687
Net Position at Beginning of Year	<u>3,207,003</u>	<u>13,433,424</u>	<u>3,405,937</u>	<u>12,318,737</u>
Net Position at End of Year	<u>\$ 3,032,535</u>	<u>\$ 13,474,425</u>	<u>\$ 3,207,003</u>	<u>\$ 13,433,424</u>

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2013
(With Comparative Totals for Year Ended June 30, 2012)

	Business- Type Activities	Governmental Activities	Business- Type Activities	Governmental Activities
	Municipal Transit	Internal Service Funds	2012 Municipal Transit	2012 Internal Service Funds
Cash flows from operating activities:				
Cash received from customers	\$ 285,739	\$ -	\$ 269,282	\$ -
Cash received from user departments	-	7,818,501	-	7,530,066
Cash payments to suppliers for goods and services	(771,336)	(7,033,470)	(890,620)	(5,510,273)
Cash payments to employees for services	(1,184,888)	(964,708)	(1,154,460)	(915,026)
Net cash provided by (used for) operating activities	<u>(1,670,485)</u>	<u>(179,677)</u>	<u>(1,775,798)</u>	<u>1,104,767</u>
Cash flows from noncapital financing activities:				
Operating grant proceeds received	1,304,126	-	1,321,121	-
Cash received from other funds	343,400	574,405	391,300	1,067,800
Cash received in advance of operating grants	86,267	-	-	-
Cash received for payment on advance to other funds	-	10,000	-	990,000
Repayments received on notes receivable	-	32,632	-	39,104
Net cash provided by (used for) noncapital financing activities	<u>1,733,793</u>	<u>617,037</u>	<u>1,712,421</u>	<u>2,096,904</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	-	(283,204)	-	(1,076,820)
Cash received (returned) for advance of capital grants	575,000	-	(675,226)	-
Proceeds from sale of capital assets	-	17,116	-	58,098
Net cash provided by (used for) capital and related financing activities	<u>575,000</u>	<u>(266,088)</u>	<u>(675,226)</u>	<u>(1,018,722)</u>
Cash flows from investing activities:				
Interest received	-	-	3,936	-
Net cash provided by (used for) investing financing activities	<u>-</u>	<u>-</u>	<u>3,936</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	638,308	171,272	(734,667)	2,182,949
Cash and cash equivalents at beginning of year	88,109	11,926,439	822,776	9,743,490
Cash and cash equivalents at end of year	<u>\$ 726,417</u>	<u>\$ 12,097,711</u>	<u>\$ 88,109</u>	<u>\$ 11,926,439</u>

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2013
(With Comparative Totals for Year Ended June 20, 2012)
(Continued)

	<u>Business- Type Activities</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Governmental Activities</u>
	<u>Municipal Transit</u>	<u>Internal Service Funds</u>	<u>2012 Municipal Transit</u>	<u>2012 Internal Service Funds</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (1,821,995)	\$ (550,520)	\$ (1,915,291)	\$ (11,211)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	192,474	649,861	198,951	553,461
(Increase) decrease in accounts receivable	342,938	(23,796)	(348,735)	(8,951)
(Increase) decrease in prepaids	(2,511)	-	17,632	266,823
(Increase) decrease in other assets	(383,922)	-	299,812	-
Increase (decrease) in accounts payable and accrued liabilities	3,721	(323,171)	(23,926)	460,199
Increase (decrease) in compensated absences payable	(1,190)	211,103	(4,241)	355,020
Increase (decrease) in net OPEB liability	-	34,840	-	50,005
Increase (decrease) in insurance claims payable	-	(177,994)	-	(560,579)
Net cash provided by (used for) operating activities	<u>\$ (1,670,485)</u>	<u>\$ (179,677)</u>	<u>\$ (1,775,798)</u>	<u>\$ 1,104,767</u>

Noncash capital, financing, and investing activities

There were no noncash capital, financing, or investing activities during the year ended June 30, 2013.

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH
Agency Funds
Statement of Fiduciary Assets and Liabilities
June 30, 2013
(With Comparative Totals for June 30, 2012)

	2013	2012
ASSETS		
Cash and investments (note 2)	\$ 3,194,732	\$ 2,694,241
Investments with fiscal agent (note 2)	596,859	685,337
Receivables:		
Taxes	15,675	18,878
Accounts	4,235	4,235
Intergovernmental	7,254	7,058
Total Assets	\$ 3,818,755	\$ 3,409,749
LIABILITIES		
Accounts payable and accrued liabilities	\$ 34,010	\$ 148,544
Deposits	2,273,740	1,800,615
Due to bondholders	1,511,005	1,460,590
Total Liabilities	\$ 3,818,755	\$ 3,409,749

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Laguna Beach, California have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant policies:

A. Reporting Entity

The City of Laguna Beach was incorporated in 1927 under the General Laws of the State of California. The City operates under a Council-Manager form of government governed by a five member council and provides the following services: public safety (police, fire, paramedic, marine safety, and ambulance), highway and streets, parks and recreation, public improvements, planning and zoning and general administrative service.

Discretely Presented Component Unit

The Laguna Beach County Water District (the District) was incorporated in 1925, under the County Water District Act of the State Water Code, and is the second oldest operating district of its type in California. The District is governed by the publicly-elected Laguna Beach City Council members, serving as the District's Board of Directors. In 1998, the Local Agency Formation Commission of the County of Orange, California approved the Districts application to become a subsidiary district of the City of Laguna Beach, effective November 1, 2000. The District has a separately issued report that can be obtained from: Laguna Beach County Water District, 306 Third Street, Laguna Beach, California, 92652.

The District is considered a component unit because the City Council also serves as its Board of Directors, and the District's Board of Directors is considered to be financially accountable.

B. Basis of Accounting and Measurement Focus

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

- Government-wide financial statements
- Fund financial statements
- Notes to basic financial statements

Financial reporting is based upon all GASB pronouncements required to be adopted and implemented by the end of the fiscal year.

CITY OF LAGUNA BEACH, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

***NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)***

B. Basis of Accounting and Measurement Focus (Continued)

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government.

Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the City.

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

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

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

As discussed earlier, the government has a discretely presented component unit, the Laguna Beach County Water District.

Fund Financial Statements

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

Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about the major fund individually and nonmajor funds in the aggregate for governmental and enterprise funds. Fiduciary statements include financial information for fiduciary funds. Fiduciary funds of the City primarily represent assets held by the City in a custodial capacity for other individuals or organizations.

CITY OF LAGUNA BEACH, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

***NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)***

B. Basis of Accounting and Measurement Focus (Continued)

Governmental Funds

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus* and the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available*. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City uses an availability period of 60 days for most of its material revenues including property taxes and uses an availability period of 180 days for grants.

Sales taxes, property taxes, franchise taxes, gas taxes, transient occupancy taxes, grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period, as defined above. All other revenue items are considered to be measurable and available when cash is received by the government.

Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed nonexchange transactions* are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary nonexchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

As stated above, in the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Recognition of governmental fund type revenues represented by non-current receivables are deferred until they become current receivables.

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

CITY OF LAGUNA BEACH, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

***NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)***

B. Basis of Accounting and Measurement Focus (Continued)

Governmental Funds (Continued)

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

Proprietary and Fiduciary Funds

The City's enterprise funds and internal service funds are proprietary funds. In the fund financial statements, the proprietary funds and fiduciary funds are presented using the *accrual basis of accounting*. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are presented using the *economic resources measurement focus*. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies, taxes, and investment earnings result from nonexchange transactions or ancillary activities. Amounts paid to acquire capital assets are capitalized as assets in the enterprise fund financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the enterprise fund financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the enterprise fund are reported as a reduction of the related liability, rather than as an expenditure. Agency funds are custodial in nature (assets equal liabilities) and do not involve the recording of City revenues and expenses.

C. Fund Classifications

The City of Laguna Beach reports the following major governmental funds:

General Fund - This is the primary operating fund of the City. It accounts for all activities of the general government, except those required to be accounted for in another fund.

Disaster Contingency Fund - This is used exclusively for the repair of public facilities and the emergency protection of public and private property and lives during natural or manmade disasters with committed resources.

The City of Laguna Beach reports the following major enterprise fund:

Municipal Transit Fund - This fund is used to account for the operations of the City's transit system. All activities necessary to provide such service are accounted for in this fund, including, but not limited to, administration, operations, and maintenance.

CITY OF LAGUNA BEACH, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

***NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)***

C. Fund Classifications (Continued)

The City's fund structure also includes the following fund types:

Internal Service Fund - The Internal Service Funds are used to account for the City's cost of providing employee benefits and various forms of insurance provided to the City departments, and the cost of maintaining and replacing the City's vehicles.

Agency Funds - Various fiduciary funds are used to account for assets held by the City as an agent for bondholders, property owners, contractors, developers and other individuals who have made miscellaneous deposits to the City.

D. Encumbrances

The City utilizes an encumbrance system as a management control technique to assist in controlling expenditures. Under this system, encumbrances are recorded in the general, special revenue, and capital projects funds to represent purchase orders, contracts and other commitments. Encumbrances at year end are reported as restricted, committed, or assigned fund balance depending on the resources that have been identified to fund the applicable encumbrance.

E. Cash and Investments

All cash and investments other than that held by fiscal agents are either held in certificates of deposits in local banks or in a City-wide investment pool. Accordingly, all cash and investments in the proprietary fund types are considered cash and cash equivalents.

Investments are reported at fair value (generally based on quoted market prices). The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The California Local Agency Investment Fund is not insured or collateralized. The Fund is subject to regulatory oversight by the State of California Treasurer, although it is not registered with the SEC.

Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains and losses realized upon the liquidation, maturity, or sale of investments.

F. Advances to Other Funds

Long-term interfund advances are recorded as a receivable and as nonspendable fund balance by the advancing governmental fund.

CITY OF LAGUNA BEACH, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

G. Inventory

Inventories are valued at cost, and are consumed using the first-in/first-out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

H. Investments with Fiscal Agent

Certain proceeds from the issuance of debt, as well as certain resources set aside for the payment of debt, are classified as investments with fiscal agent because their use is limited by applicable debt agreements.

I. Capital Assets

Capital assets (including infrastructure) are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. Generally, capital asset purchases in excess of \$1,000 are capitalized if they have an expected useful life of three years or more.

Capital assets include public domain (infrastructure) general capital assets consisting of certain improvements other than buildings, including storm drains, beach stairways, streets, sidewalks, sewer line relinings, sewer lines, and nuisance water diversification units.

Capital assets used in operations are depreciated over their estimated useful lives. The City uses the straight-line method in the government-wide financial statements for depreciating storm drains, beach stairways, streets, sidewalks, sewer line relinings, sewer lines, nuisance water diversification units, buildings and improvements, office equipment and machines, furniture and fixtures, equipment, machinery and tools, and automotive equipment. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net position. The ranges of lives used for depreciation for each fixed asset class are as follows:

	<u>Years</u>
Storm drains	40 years
Beach stairways	30 years
Streets	50 years
Sidewalks	50 years
Sewer line relining	40 years
Sewer lines	50 years
Nuisance water diversification units	30 years
Buildings and improvements	30 years
Office equipment and machines	5 years
Furniture and fixtures	3 to 8 years
Equipment, machinery and tools	3 to 8 years
Automotive equipment	2 to 30 years

CITY OF LAGUNA BEACH, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

***NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)***

J. Compensated Absences

Accumulated unpaid vacation and sick leave amounts are currently funded and recorded as expenditures in the individual funds. These amounts are recorded as employee benefit charges and are accrued when incurred in the Insurance and Employee Benefits Internal Service Fund.

K. Fund Equity

Fund balances are reported in the fund statements in the following classifications:

Nonspendable Fund Balance:

Nonspendable Fund Balance – this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).

Spendable Fund Balance:

Restricted Fund Balance – this includes amounts that can be spent only for specific purposes stipulated by legal requirements imposed by other governments, external resource providers, enabling legislation, or creditors.

Committed Fund Balance – this includes amounts that can only be used for specific purposes pursuant to constraints imposed by the highest level of formal action of the City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action. The constraints are imposed by Resolution of the City Council, the highest level of approval.

Assigned Fund Balance – this includes amounts that are intended to be used for specific purposes as indicated by City Council or by persons to whom City Council has delegated the authority to assign amounts for specific purposes. City Council has not delegated such authority.

Unassigned Fund Balance – this includes the remaining spendable amounts which are not included in one of the other classifications. The use of this classification is limited to the General Fund or other governmental funds with a deficit fund balance.

It is the City's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the Council.

L. General Fund Balance Policy

It is the policy of the City to maintain a minimum reserve in unassigned fund balance for unforeseen emergencies or catastrophic impacts upon the city, and whenever fiscally possible and financially prudent, to maintain a greater target reserve. The minimum reserve of the General Fund is 10% of General Fund operating expenditures. Total expenditures were \$59,572,597 and minimum reserve requirement was \$5,957,260.

CITY OF LAGUNA BEACH, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

M. Comparative Data

Comparative total data for the prior year has been presented in the accompanying basic financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative data has not been presented in each of the statements since its inclusion would make the statements unduly complex and difficult to understand. Certain minor reclassifications of prior year data have been made in order to enhance its comparability with current year figures.

N. New GASB Pronouncements

Adopted in the Current Year

GASB Statement No. 62 – In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations, 2) Accounting Principles Board Opinions, and 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretation that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The City implemented this pronouncement effective July 1, 2012. The City has determined that there was not a material effect on the financial statements.

GASB Statement No. 63 – In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Statement is effective for periods beginning after December 15, 2011. The City implemented this pronouncement effective July 1, 2012.

Effective in Future Years

GASB Statement No. 65 – In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Statement is effective for periods beginning after December 15, 2012, or the 2013-2014 fiscal year. The City has not determined the effect on the financial statements.

CITY OF LAGUNA BEACH, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

N. New GASB Pronouncements (Continued)

Effective in Future Years (Continued)

GASB Statement No. 66 – In March 2012, GASB issued Statement No. 66 *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Statement is effective for periods beginning after December 15, 2012, or the 2013-2014 fiscal year. The City has not determined the effect on the financial statements.

GASB Statement No. 67 – In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of *Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and *Statement No. 50, Pension Disclosures*, as they relate to pension plans that are not administered through trust covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The Statement is effective for periods beginning after June 15, 2013, or the 2013-2014 fiscal year. This Statement is specifically for pension plan providers.

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Statement is effective for periods beginning after June 15, 2014, or the 2014-2015 fiscal year. The City has not determined the effect on the financial statements.

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to establish reporting standards related to government combinations and disposals of government operations. The Statement is effective for periods beginning after December 15, 2013, or the 2014-2015 fiscal year. The City has not determined the effect on the financial statements.

GASB Statement No. 70 – In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The Statement is effective for periods beginning after June 15, 2013, or the 2013-2014 fiscal year. The City has not determined the effect on the financial statements.

CITY OF LAGUNA BEACH, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2013 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and investments	
Governmental Activities	\$ 68,121,855
Business-Type Activities	726,417
Statement of Fiduciary Assets and Liabilities:	
Cash and investments	3,194,732
Cash and investments held by fiscal agent	596,859
	<hr/>
Total cash and investments	\$ 72,639,863
	<hr/> <hr/>

Cash and investments as of June 30, 2013 consist of the following:

Cash on hand (petty cash and change funds)	\$ 3,618
Deposits with financial institutions	679,213
Investments	71,957,032
	<hr/>
Total cash and investments	\$ 72,639,863
	<hr/> <hr/>

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

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

Investment Types Authorized by State Law	Authorized By Investment Policy	Maximum Maturity*	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer*
Local Municipal Bonds	Yes	5 years	25%	None
U.S. Treasury Obligations	Yes	5 years	None	None
Federal Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	25%	None
Commerical Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	25%	None
Repurchase Agreements	No	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	Yes	5 years	25%	None
Mutual Funds	No	N/A	15%	10%
Money Market Mutual Funds	No	N/A	20%	10%
Mortgage Pass-Through Securities	No	5 years	20%	None
Passbook savings accounts	Yes	N/A	25%	None
County Pooled Investments Funds	No	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	\$40,000,000
JPA Pools (other investment pools)	No	N/A	None	None

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

CITY OF LAGUNA BEACH, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by Debt Agreements

Investments of debt proceeds held by 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. The debt agreements permit the investments held by bond trustee to be invested in investment types that are permitted by California Government Code Section 53601 as illustrated in the previous table.

Disclosures Relating to Interest Rate Risk

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

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

Investment Type	Total	Remaining Maturity (in Months)		
		18 Month Or Less	19 to 24 Months	25 to 60 Months
Federal Agency Securities	\$ 46,329,450	\$ 2,022,190	\$ -	\$ 44,307,260
Local Municipal Bonds	1,001,480	1,001,480	-	-
State Investment Pool	11,139,865	11,139,865	-	-
Certificates of Deposit	7,743,914	4,255,798	998,918	2,489,198
Medium-Term Notes	5,145,464	-	-	5,145,464
Held by bond fiscal agent:				
State Investment Pool	596,859	596,859	-	-
Total	<u>\$ 71,957,032</u>	<u>\$ 19,016,192</u>	<u>\$ 998,918</u>	<u>\$ 51,941,922</u>

CITY OF LAGUNA BEACH, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City’s investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

Investment Type	Total	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year End		
				AA+	A	Not Rated
Federal Agency Securities	\$ 46,329,450	N/A	\$ -	\$ 46,329,450	\$ -	\$ -
Local Municipal Bonds	1,001,480	A	-	-	1,001,480	-
State Investment Pool	11,139,865	N/A	-	-	-	11,139,865
Certificates of Deposit	7,743,914	N/A	7,743,914	-	-	-
Medium-Term Notes	5,145,464	A	-	5,145,464	-	-
Held by bond fiscal agent:						
State Investment Pool	596,859	N/A	-	-	-	596,859
Total	<u>\$ 71,957,032</u>		<u>\$ 7,743,914</u>	<u>\$ 51,474,914</u>	<u>\$ 1,001,480</u>	<u>\$ 11,736,724</u>

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments are as follows:

Issuer	Investment Type	Reported Amount
Federal Farm Credit Bank	Federal agency securities	\$ 12,759,620
Federal Home Loan Mortgage Corporation	Federal agency securities	5,922,850
Federal National Mortgage Association	Federal agency securities	17,793,080
Federal Home Loan Bank	Federal agency securities	9,853,900

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's investment policy requires that all investment transactions be conducted on a delivery-versus-payment (DVP) basis. The City's investment policy also requires that an independent, third party custodian designated by the Treasurer hold all securities. For all executed transactions, the third party custodian is required to issue a safekeeping receipt to the City that lists the specific instrument, rate, maturity and other information pertinent to the transaction.

CITY OF LAGUNA BEACH, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The City has \$429,213 in excess of FDIC Insurance. This amount is collateralized by the bank.

For investments identified herein as held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

Investment in State Investment Pool

The City is a voluntary participant in the Local City Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California.

The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE 3 – PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments on December 10 and April 10. The County bills and collects the property taxes and remits them to the City in installments during the year. City property tax revenues are recognized when levied to the extent that they result in current receivables.

The County is permitted by State law (Proposition 13) to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax value base no more than 2% per year.

CITY OF LAGUNA BEACH, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 – INTERFUND ACTIVITY

Interfund balances at June 30, 2013 consisted of the following:

Receivable Fund	Payable Fund	Amount
General Fund	Non-Major Governmental Funds	(a) \$ 106,747
Advances to Other Funds	Advances from Other Funds	Amount
Non-Major Governmental Funds	Non-Major Governmental Funds	\$ 690,000
		(b) <u>690,000</u>
Internal Service Fund	General Fund	4,500,000
Internal Service Fund	General Fund	700,000
Non-Major Governmental Funds	General Fund	1,500,000
		(c) <u>6,700,000</u>
		<u>\$ 7,390,000</u>

- (a) The General Fund has provided a temporary subsidy to the Assessment District Fund for negative cash flows.
- (b) The City has authorized the interfund borrowing listed for the operations of the Gas Tax Fund. The funds are expected to be paid without interest within the next five years. The purpose of these advances was to fund a Citywide street resurfacing project.
- (c) During 2010, the City authorized an interfund borrowing to fund the pay off of the City’s side fund obligation associated with the City’s safety pension plans. The funds are to be repaid annually in the amount of \$857,078 over a period fourteen years at an interest rate of 2.75%. The amount paid in FY 2012-2013 is principal \$630,000 and interest \$227,100 and is not recorded on the Statement of Activities. The principal payment schedule from the general fund is as follows:

Year	Payment Amount
2013 - 2014	\$ 647,521
2014 - 2015	665,554
2015 - 2016	684,090
2016 - 2017	703,141
2017 - 2018	722,723
2019 - 2023	2,711,434
2024	565,537
	<u>\$ 6,700,000</u>

CITY OF LAGUNA BEACH, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance at July 1, 2012	Additions	Deletions/ Transfers	Balance at June 30, 2013
Governmental activities:				
Capital assets, not depreciated:				
Land	\$ 80,603,754	\$ 1,506,600	\$ -	\$ 82,110,354
Construction in progress	8,311,555	6,850,116	(2,962,542)	12,199,129
Total Capital Assets, Not Depreciated	<u>88,915,309</u>	<u>8,356,716</u>	<u>(2,962,542)</u>	<u>94,309,483</u>
Capital assets, being depreciated:				
Buildings and improvements	49,850,655	350,134	(25,949)	50,174,840
Office equipment and machinery	5,721,515	466,872	(69,954)	6,118,433
Furniture and fixtures	1,666,835	79,938	-	1,746,773
Equipment, machinery and tools	4,638,770	389,677	(12,034)	5,016,413
Sewer plan and lines	68,326,185	1,807,780	-	70,133,965
Automotive equipment	8,236,482	283,203	(149,035)	8,370,650
Infrastructure	207,816,998	614,982	-	208,431,980
Total Capital Assets Being Depreciated	<u>346,257,440</u>	<u>3,992,586</u>	<u>(256,972)</u>	<u>349,993,054</u>
Less accumulated depreciation for:				
Buildings and improvements	(19,057,013)	(1,438,891)	22,603	(20,473,301)
Office equipment and machinery	(4,048,836)	(319,786)	65,463	(4,303,159)
Furniture and fixtures	(359,602)	(24,631)	-	(384,233)
Equipment, machinery and tools	(3,501,665)	(456,580)	7,891	(3,950,354)
Sewer plan and lines	(30,389,356)	(957,717)	-	(31,347,073)
Automotive equipment	(5,163,594)	(653,727)	149,035	(5,668,286)
Infrastructure	(43,394,731)	(1,165,203)	-	(44,559,934)
Total Accumulated Depreciation	<u>(105,914,797)</u>	<u>(5,016,535)</u>	<u>244,992</u>	<u>(110,686,340)</u>
Total Capital Assets Being Depreciated, Net	<u>240,342,643</u>	<u>(1,023,949)</u>	<u>(11,980)</u>	<u>239,306,714</u>
Governmental Activities Capital Assets, Net	<u>\$ 329,257,952</u>	<u>\$ 7,332,767</u>	<u>\$ (2,974,522)</u>	<u>\$ 333,616,197</u>

CITY OF LAGUNA BEACH, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 – CAPITAL ASSETS (CONTINUED)

	Balance at July 1, 2012	Additions	Deletions/ Transfers	Balance at June 30, 2013
Business-type activities:				
Capital assets, not depreciated:				
Land	\$ 196,106	\$ -	\$ -	\$ 196,106
Total Capital Assets, Not Depreciated	<u>196,106</u>	<u>-</u>	<u>-</u>	<u>196,106</u>
Capital assets, being depreciated:				
Buildings and improvements	1,950,672	-	-	1,950,672
Office equipment and machinery	51,146	-	-	51,146
Furniture and fixtures	1,500	-	-	1,500
Automotive equipment	3,492,161	-	-	3,492,161
Total Capital Assets Being Depreciated	<u>5,495,479</u>	<u>-</u>	<u>-</u>	<u>5,495,479</u>
Less accumulated depreciation for:				
Buildings and improvements	(315,124)	(63,170)	-	(378,294)
Office equipment and machinery	(47,155)	(572)	-	(47,727)
Furniture and fixtures	(1,500)	-	-	(1,500)
Automotive equipment	(2,493,255)	(128,731)	-	(2,621,986)
Total Accumulated Depreciation	<u>(2,857,034)</u>	<u>(192,473)</u>	<u>-</u>	<u>(3,049,507)</u>
Total Capital Assets Being Depreciated, Net	<u>2,638,445</u>	<u>(192,473)</u>	<u>-</u>	<u>2,445,972</u>
Business-type Activities Capital Assets, Net	<u>\$ 2,834,551</u>	<u>\$ (192,473)</u>	<u>\$ -</u>	<u>\$ 2,642,078</u>

Depreciation expense was charged to the following functions of governmental activities in the Statement of Activities:

General government	\$ 208,690
Community development	75,359
Public safety	358,072
Public works	2,234,002
Recreation and social services	570,776
Sewer service operating costs	1,569,636
Total	<u>\$ 5,016,535</u>

Depreciation expense was charged to the following function of business-type activities as follows:

Municipal transit	<u>\$ 192,473</u>
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CITY OF LAGUNA BEACH, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 6 – CONSTRUCTION COMMITMENTS

As of June 30, 2013, contract commitments for major capital projects included the following:

<u>Description</u>	<u>Project Contract</u>	<u>Expenditures To Date</u>	<u>Unexpended Balance</u>
Burn Dump Resotation	\$ 1,000,000	\$ 188,127	\$ 811,873
Storm Drain-Anita Street/Seaview Street	800,000	10,436	789,564
Storm Drain-Temple Hills Drive	700,000	30,766	669,234
Retaining Wall-Alta Vista Way	1,100,000	27,524	1,072,476
Lifeguard Headquarters and Restroom	8,001,700	3,651,785	4,349,915
Laguna Canyon Channel Rehabilitation	638,000	177,195	460,805
Creek Erosion Protection	849,000	156,947	692,053
Parks Rehabilitation-Moulton, Alta, Lang	700,000	89,767	610,233
Broadway Landscaping/Fencing	700,000	551,766	148,234
Main Beach Lift Station Reconstruction	3,999,950	3,874,669	125,281
	<u>\$ 18,488,650</u>	<u>\$ 8,758,982</u>	<u>\$ 9,729,668</u>

NOTE 7 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters.

The City retains the risk of loss for general/auto liability claims of up to \$400,000 per occurrence and workers' compensation claims of up to \$300,000 per person per occurrence. Additionally, the City has retained risk of loss for employee dental insurance claims. The City is fully insured for medical claims. The City has established the Insurance and Employee Benefits Internal Service Fund to account for and finance these uninsured risks of loss, and liabilities are accrued when incurred, whether or not reported, in this fund. An estimate for incurred but not reported claims for dental coverage has not been accrued because management believes the liability for incurred but not recorded claims would be immaterial to the financial statements.

The City is also a member of the California Insurance Pool Authority (CIPA), a public entity risk pool consisting of 13 member cities in Southern California, which was established to pool resources, share risks, purchase excess insurance, and share costs for professional risk management and claims administration. The coverage for general and auto liability extends to \$1,600,000 per occurrence with a \$20,000,000 annual aggregate. The coverage for workers' compensation extends to a limit of \$3,000,000. CIPA provides coverage for workers' compensation claims above each member's self insured retention to \$1,000,000 for claims occurring on or before June 30, 2003. For claims occurring on or after July 1, 2002, CIPA provides coverage above each member's SIR to \$3,000,000. Member cities make payments to CIPA based on underwriting estimates and may be assessed the difference between funds available and the \$20,000,000 annual aggregate in proportion to their annual premium.

CITY OF LAGUNA BEACH, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 7 – RISK MANAGEMENT (CONTINUED)

All funds of the City participate in the risk management program and make payments to the Insurance and Employee Benefits Internal Service Fund based on estimates of the amounts needed to pay prior-year and current-year claims. A claims liability of \$3,952,612 is reported in the Insurance and Employee Benefits Internal Service Fund, at June 30, 2013. Changes in the Insurance and Employee Benefits Internal Service Fund's claims liability amounts in fiscal years 2013 and 2012 were as follows:

	2013	2012
Beginning of year liability	\$ 4,130,606	\$ 4,691,185
Current year claims and changes in estimates	2,081,314	1,453,257
Claims payments	(2,259,308)	(2,013,836)
Insurance claims payable	\$ 3,952,612	\$ 4,130,606

For the past three fiscal years, claims paid did not exceed the amount of applicable insurance coverage and there have been no significant changes in insurance policies or coverage amounts.

NOTE 8 – IMPROVEMENT DISTRICTS

Bonds issued for improvement districts are liabilities of the property owners and are secured by liens against the assessed property. The City is not liable for repayment, but is only acting as an agent to expend the project funds on behalf of the property owners and to collect principal and interest payments from property owners and remit such monies to the bondholders. During the fiscal year ended June 30, 2013, contributions from property owners were \$963,679. At June 30, 2013, the unpaid principal assessments in the 1915 Bond Improvement Districts were \$5,372,951.

NOTE 9 – DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Federal legislation requires that the Section 457 plan assets be held in trust for employees. This change, which was implemented in the 1999 fiscal year, means that employee assets held in Section 457 plans are no longer the property of the City and are no longer subject to claims of the City's general creditors.

The City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. At June 30, 2013, the deferred compensation assets are not reflected in the City's financial statement.

CITY OF LAGUNA BEACH, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 10 – OPERATING LEASE

The City rents a community center under an operating lease that extends through January 31, 2014. Total expenditures under this lease were \$26,400 for the year ended June 30, 2013. The minimum future rental payments under this lease are as follows:

<u>Year Ending June 30:</u>	
2014	<u>\$ 24,500</u>
Total	<u>\$ 24,500</u>

NOTE 11 – LONG-TERM LIABILITIES

The following is a summary of the changes in the principal balance of long-term liabilities for the year ended June 30, 2013:

	<u>Balance at July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2013</u>	<u>Due within One year</u>	<u>Due beyond One year</u>
Governmental activities:						
I-Bank installment agreement	\$ 5,032,020	\$ -	\$ (360,040)	\$ 4,671,980	\$ 369,869	\$ 4,302,111
Net OPEB liability	218,696	150,021	(115,181)	253,536	-	253,536
Compensated absences	4,153,754	2,694,046	(2,482,943)	4,364,857	872,971	3,491,886
Insurance claims payable	4,130,606	2,081,314	(2,259,308)	3,952,612	1,185,784	2,766,828
Total Long-Term Liabilities	<u>\$ 13,535,076</u>	<u>\$ 4,925,381</u>	<u>\$ (5,217,472)</u>	<u>\$ 13,242,985</u>	<u>\$ 2,428,624</u>	<u>\$ 10,814,361</u>

I-Bank Installment Sale Agreement

On June 1, 2004, the City entered into an I-Bank Installment Sale Agreement with the California Infrastructure and Economic Development Bank (CIEDB). The agreement was amended on August 1, 2005 to increase the maximum loan amount to \$7,000,000, which will be used for the City's Sewer Line Reconstruction, Line and Manhole Rehabilitation Project. The loan is secured by revenues generated by the Sewer Service Fund (which is consolidated with the General Fund for reporting purposes) and bears interest at a rate of 2.73% per annum. As of June 30, 2013, all of the \$7,000,000 loan proceeds have been disbursed under the loan agreement, and accordingly interest is due semiannually on February 1 and August 1 which commenced on August 1, 2005. Principal is due annually on August 1 which commenced on August 1, 2006. As of June 30, 2013, the outstanding principal amount was \$4,671,980. Total revenues available for debt service was \$6,667,426 and total debt service, including interest, was \$492,499.

The annual payment amounts required to retire the Sales Agreement as of June 30, 2013 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2014	\$ 369,869	\$ 122,496	\$ 492,365
2015	379,966	112,261	492,227
2016	390,339	101,746	492,085
2017	400,996	90,945	491,941
2018	411,943	79,848	491,791
2019 - 2023	2,234,672	221,894	2,456,566
2024	484,195	6,609	490,804
	<u>\$ 4,671,980</u>	<u>\$ 735,799</u>	<u>\$ 5,407,779</u>

CITY OF LAGUNA BEACH, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 12 – POST EMPLOYMENT BENEFIT PLAN

Plan Description: The City administers a single-employer defined benefit plan which provides medical insurance benefits to eligible retirees and their spouses in accordance with various labor agreements. The City does not pay any of the cost of health benefits; however, eligible retirees and their spouses are permitted to participate in the City's medical insurance plan until age 65. After age 65, Medicare automatically becomes the primary provider of health coverage. The City's defined benefit plan becomes the secondary provider. Eligible retirees will have no noticeable change in health benefits or plan administration; however, there is a reduction in the City's cost of health coverage as the secondary provider. A separate report is not issued for the plan.

City's Funding Policy: The contribution requirements of plan members and the City are established and may be amended by City Council. The contribution required to be made under City Council and labor agreement requirements is based on a pay-as-you-go basis (i.e., as medical insurance premiums become due). For fiscal year 2012-13, plan members receiving benefits contributed \$115,181 (100% of total premiums) through their required contribution.

The City has not established an irrevocable trust that is administered by the City for the purpose of holding assets accumulated for plan benefits.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for these benefits:

Annual required contribution	\$ 153,301
Interest on net OPEB obligation	10,935
Adjustments to annual required contributions	<u>(14,215)</u>
Annual OPEB cost (expense)	150,021
Contributions made (including premiums paid)	<u>(115,181)</u>
Increase in net OPEB obligation	34,840
Net OPEB obligation - beginning of year	<u>218,696</u>
Net OPEB obligation - end of year	<u><u>\$ 253,536</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$ 128,950	56%	\$ 168,691
6/30/2012	150,762	67%	218,696
6/30/2013	150,021	76%	253,536

CITY OF LAGUNA BEACH, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 12 – POST EMPLOYMENT BENEFIT PLAN (CONTINUED)

Funded Status and Funded Progress. The funded status of the plan as of June 30, 2012, was as follows:

Actuarial accrued liability (AAL)	\$ 1,346,828
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,346,828</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	20,159,361
UAAL as a percentage of covered payroll	6.7%

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.

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 Projected Unit Credit with Service Pro-Rate method. The actuarial assumptions included a 5 percent investment rate of return, which is the assumed rate of the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8 percent initially, reduced by decrements of 1 percent per year to an ultimate rate of 5 percent after the third year. The UAAL is being amortized as a level percentage of projected payroll over 30 years. It is assumed the City's payroll will increase 3 percent per year.

CITY OF LAGUNA BEACH, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 13 – FUND BALANCES (DEFICIT)

Fund balances are classified as follows:

	General Fund*	Major Special Revenue Fund		Total
		Disaster Contingency Fund	Nonmajor Governmental Funds	
Fund balances:				
Nonspendable:				
Inventory	\$ 45,004	\$ -	\$ -	\$ 45,004
Prepays	84,212	-	987,123	1,071,335
Advances to other funds	-	-	2,190,000	2,190,000
Property held for investment	-	-	354,444	354,444
Total Nonspendable	<u>129,216</u>	<u>-</u>	<u>3,531,567</u>	<u>3,660,783</u>
Restricted for:				
Sewer service	1,887,586	-	-	1,887,586
Parking in-lieu	111,206	-	-	111,206
Park in-lieu	276,519	-	-	276,519
Art in-lieu	149,655	-	-	149,655
Drainage	58,473	-	-	58,473
Housing in-lieu	834,417	-	-	834,417
Gas tax	-	-	820,891	820,891
Street lighting district	-	-	2,131,941	2,131,941
Public safety	-	-	137,146	137,146
Subtotal	<u>3,317,856</u>	<u>-</u>	<u>3,089,978</u>	<u>12,890,089</u>
Committed for:				
Solid waste	306,359	-	-	306,359
Repair of public facilities and natural disaster	-	5,984,699	-	5,984,699
Total Committed	<u>306,359</u>	<u>5,984,699</u>	<u>-</u>	<u>306,359</u>
Assigned to:				
Open space	210,825	-	-	210,825
Parking authority	9,271,547	-	-	9,271,547
Capital projects	17,789,917	-	265,217	18,055,134
Subtotal	<u>27,272,289</u>	<u>-</u>	<u>265,217</u>	<u>27,537,506</u>
Unassigned ⁺	<u>7,287,015</u>	<u>-</u>	<u>(148,095)</u>	<u>7,138,920</u>
Total Fund Balance	<u>\$ 38,312,735</u>	<u>\$ 5,984,699</u>	<u>\$ 6,738,667</u>	<u>\$ 51,029,001</u>

*For financial statement reporting the City has included the following in the General Fund: General Fund, Sewer Service, Open Space, Capital Improvement, Parking Authority, Parking In-Lieu, Park In-Lieu, Drainage, and Housing In-Lieu Funds.

⁺See footnote 1L for the General Fund Balance Reserve Policy.

CITY OF LAGUNA BEACH, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 14 – INTERFUND TRANSFERS

Interfund transfers at June 30, 2013 consisted of the following:

<u>Transfers In</u>	<u>Transfers Out</u>		
	General Fund	Nonmajor Governmental Funds	Total
General Fund	\$ -	\$ 509,731	\$ 509,731
Non-Major Governmental Fund	1,187,400		1,187,400
Transit Fund	343,400	-	343,400
Internal Service Fund	574,405	-	574,405
	<u>\$ 2,105,205</u>	<u>\$ 509,731</u>	<u>\$ 2,614,936</u>

Transfers are used to:

1. Transfer from General Fund to Non-Major Governmental Fund in the amount of \$1,187,400 for the following purposes: 1) \$1,060,000 transferred to cover unreimbursed disaster recovery costs, and 2) \$127,400 transferred to cover capital expenditures.
2. Transfer from the General Fund to the Transit Fund in the amount of \$343,400 to cover balance of expenditures not funded from grants or other revenue.
3. Transfer from General Fund to the Internal Service Fund in the amount of \$574,405 for the following purposes: 1) \$174,405 transferred to cover the balance of compensated absences; 2) \$400,000 transfer for unexpected tort claims and a number of additional claims related to the December 2010 Storms.
4. Transfer from Non-Major Governmental Fund to the General Fund in the amount of \$509,731 for the following purposes: 1) \$4,675 to transfer residual assets of the General Obligation Bond debt service fund not needed to satisfy debt service obligations; 2) \$505,056 to match revenues received by the Orange County Transportation Authority Gas Tax Exchange Program.

NOTE 15 – SEWAGE TREATMENT FACILITIES

In March 1972, the City, five water districts and one sanitation district entered into a joint exercise of powers agreement to form the Aliso Water Management Agency, which ultimately joined other agencies and created the South Orange County Wastewater Authority (SOCWA), a public corporation. SOCWA currently includes ten member agencies, including the City. SOCWA was formed to develop a total water management program for its members' consolidated service areas. Specifically, SOCWA is to provide for construction, maintenance and operation of a regional wastewater transmission, treatment and disposal system. This system consists of an interceptor system, pumping stations, wastewater treatment plants and an ocean outfall.

CITY OF LAGUNA BEACH, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 15 – SEWAGE TREATMENT FACILITIES (CONTINUED)

The governing board is comprised of one member from each participating agency and is responsible for the selection of management and for the budgeting and financial management of the Agency. As of June 30, 2012 (the most recent information available), SOCWA had total assets of \$57,625,521 total liabilities of \$4,527,382 and total equity of \$53,098,139. A separate financial report may be obtained from the South Orange County Wastewater Authority, 31592 West Street, Laguna Beach, California 92651.

The City's share of ownership varies by year depending upon the purchased capacities of each subsystem. Each member is responsible for its share of maintenance and operations costs proportional to its purchased capacity which is billed to each member by SOCWA. Sewer service charges are assessed to fund these and other operating costs. The City paid \$1,657,190 and \$1,301,980 for its share of operating and capital costs, respectively, during the fiscal year ended June 30, 2013.

NOTE 16 – PENSION PLAN (DEFINED BENEFIT)

Plan Description

The City of Laguna Beach contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer public employee defined benefit pension plan for the safety participants and a single employer public employee defined benefit pension plan for miscellaneous employees. CalPERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by PERS. Copies of CalPERS' annual financial report may be obtained by writing to 400 "P" Street, Sacramento, California 95814.

Contributions

Miscellaneous and safety (police, fire, and lifeguards) participants are required to contribute 8% and 9%, respectively, of their annual covered salary. The City makes all or a portion of the contributions required of City employees on their behalf and for their account. Benefit provisions and all other requirements are established by state statute and city contract with employee bargaining groups.

For each of the fiscal years shown below, the City has contributed at the actuarially determined rate provided by CalPERS' actuaries. Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2012 to June 30, 2013 has been determined by an actuarial valuation of the plan as of June 30, 2011. The City's covered payroll for PERS was \$20,581,301 for the year ended June 30, 2013, while the City's total payroll expense for all employees was \$25,176,410 during the same period. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2013, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2012 to June 30, 2013.

CITY OF LAGUNA BEACH, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 16 – PENSION PLAN (DEFINED BENEFIT) (CONTINUED)

Annual Pension Cost

For the fiscal year ended June 30, 2013, the City's annual pension cost (employer contribution) was equal to the City's required and actual contributions. For all plans, the required contribution was determined as part of an actuarial valuation performed as of June 30, 2011 using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.00 percent living adjustments. Both (a) and (b) included an inflation component of 2.75 percent.

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 percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling 30 year period, which results in an amortization of 6 percent 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 period not to exceed 30 years.

Funded Status and Funding Progress (Police) - As of June 30, 2011, the most recent actuarial valuation date, the plan was 88.3 percent funded. The actuarial accrued liability for benefits was \$56,005,750, and the actuarial value of assets was \$49,455,888, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,549,862. The covered payroll (annual payroll of active employees covered by the plan) was \$4,516,920, and the ratio of the UAAL to the covered payroll was 68.9 percent.

Funded Status and Funding Progress (Fire) - As of June 30, 2011, the most recent actuarial valuation date, the plan was 88.3 percent funded. The actuarial accrued liability for benefits was \$44,369,108, and the actuarial value of assets was \$39,180,149, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,188,959. The covered payroll (annual payroll of active employees covered by the plan) was \$3,917,269, and the ratio of the UAAL to the covered payroll was 75.4 percent.

Funded Status and Funding Progress (Lifeguards) - As of June 30, 2011, the most recent actuarial valuation date, the plan was 89.6percent funded. The actuarial accrued liability for benefits was \$4,324,208, and the actuarial value of assets was \$3,876,217, resulting in an unfunded actuarial accrued liability (UAAL) of \$447,991. The covered payroll (annual payroll of active employees covered by the plan) was \$629,061, and the ratio of the UAAL to the covered payroll was 140.4 percent.

Funded Status and Funding Progress (Miscellaneous) - As of June 30, 2011, the most recent actuarial valuation date, the plan was 81.4 percent funded. The actuarial accrued liability for benefits was \$76,911,997, and the actuarial value of assets was \$62,585,557, resulting in an unfunded actuarial accrued liability (UAAL) of \$14,326,440. The covered payroll (annual payroll of active employees covered by the plan) was \$11,442,146, and the ratio of the UAAL to the covered payroll was 125.2 percent.

CITY OF LAGUNA BEACH, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 16 – PENSION PLAN (DEFINED BENEFIT) (CONTINUED)

Three-Trend Information

Annual Pension Cost (Police)

Fiscal Year	Employer Contribution Rate	Employer Contribution	Percentage Contributed	Net Pension Obligated
6/30/2011	19.094%	\$ 879,977	100%	\$ -
6/30/2012	24.112%	1,085,577	100%	-
6/30/2013	24.706%	1,086,869	100%	-

Annual Pension Cost (Fire)

Fiscal Year	Employer Contribution Rate	Employer Contribution	Percentage Contributed	Net Pension Obligated
6/30/2011	19.094%	\$ 820,731	100%	\$ -
6/30/2012	24.112%	1,004,674	100%	-
6/30/2013	24.706%	997,235	100%	-

Annual Pension Cost (Lifeguards)

Fiscal Year	Employer Contribution Rate	Employer Contribution	Percentage Contributed	Net Pension Obligated
6/30/2011	16.407%	\$ 101,901	100%	\$ -
6/30/2012	21.252%	135,890	100%	-
6/30/2013	20.990%	135,936	100%	-

Annual Pension Cost (Miscellaneous)

Fiscal Year	Employer Contribution Rate	Employer Contribution	Percentage Contributed	Net Pension Obligated
6/30/2011	12.015%	\$ 1,388,118	100%	\$ -
6/30/2012	15.258%	1,753,211	100%	-
6/30/2013	15.514%	1,783,852	100%	-

CITY OF LAGUNA BEACH, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 16 – PENSION PLAN (DEFINED BENEFIT) (CONTINUED)

In 2010, the City made a payment to the California PERS pension system in the amount to pay off the City's side fund obligation associated with the City's pension plan. This payment created savings to the City with respect to future PERS contributions. This payment made by the General Fund of the City was financed by interfund borrowing by the General Fund from other funds of the City.

Pension Plan (Defined Contribution)

The City provides pension benefits for all of its part-time employees through an agent multiple employer defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are required to participate from the date of employment. The City requires the employee to contribute 3.75% of the 7.5% required by the Federal Government. The City's contribution for each employee and interest allocated to the employee's account are fully vested immediately.

The City's total payroll in fiscal year 2013 was \$25,176,410 and covered (part-time) payroll was \$2,240,396. Both the City and covered employees made the required 3.75% contributions amounting to \$84,015 from each source, or \$168,030 in total. Vested funds can be withdrawn upon termination or retirement from the City.

NOTE 17 – FUND DEFICITS

The following funds reported a deficit in fund balance as of June 30, 2013:

	<u>Deficit Balance</u>
Nonmajor Capital Projects Fund:	
Assessment Districts	\$ (148,095)

The deficit reported in the Assessment District Fund will be remedied as contributions from property owners are received.

NOTE 18 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures for the year ended June 30, 2013 exceeded appropriations in the following funds:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess Over Appropriations</u>
General Fund:			
City Treasurer	\$ 145,100	\$ 148,041 (1)	\$ (2,941)
Administrative Services	2,279,300	2,358,055 (2)	(78,755)

1. City Treasurer expenditures are in excess of appropriations due to higher than expected cost in the coin collection and counting services.
2. Administrative Services expenditures are in excess of appropriations due to the gas tax exchange program with the Orange County Transportation Authority. The expenditures are offset by transfers from the Gas Tax Fund

CITY OF LAGUNA BEACH, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 19 – SIGNIFICANT OPERATING LEASE FOR WHICH THE CITY IS LESSOR

For the period of October 1, 2001 through September 30, 2041, the City of Laguna Beach has leased to the Festival of Arts of Laguna Beach (an unrelated non-profit organization) parcels of land and related structures associated with the operation of certain community events relating to the arts. At all times throughout the term of this operating lease and at the termination of the lease, title to these assets remains with the City of Laguna Beach. The rental payment to be received by the City will be an amount equal to 3.5% of certain gross revenues relating to the use of the property without limitation (no maximum rental payment). In addition, the Festival of Arts of Laguna Beach will pay 6% of the gross revenues described above, which the City will deposit into a capital improvement fund. The money in the capital improvement fund is to be used solely for capital improvements to the premises being rented and debt associated with such improvements, and insurance premiums. All rentals are considered to be contingent upon the amount of gross revenues and the lease does not provide for minimum rental payments to be made to the City. The carrying amount of the land involved in this lease is \$405,040. The carrying amount of the structures and improvements being leased is \$1,022,667. These assets are recorded in the capital assets of the City of Laguna Beach. The land was originally donated to the City under the condition that if it is used for other than park and/or arts-related purposes, then title to the land would revert to the donor. Rental income associated with this lease has been recognized in the accompanying financial statements in the amount of \$243,839.

NOTE 20 – TRANSPORTATION DEVELOPMENT ACT

In accordance with the requirement of the Transportation Development Act, the following information is presented:

TDA 50% Limitation		
Total Operating Costs		\$ 2,148,717
Less: Depreciation		<u>(192,474)</u>
Net Operating Costs		1,956,243
50% Limitation		978,122
TDA Financial Need Limitation:		
Total Operating Costs		2,148,717
Depreciation	\$ (192,474)	
Passenger Revenues	(190,198)	
Taxi Voucher Program	(18,601)	
Park and Ride	<u>(117,923)</u>	<u>(519,196)</u>
Financial Need		<u>1,629,522</u>
Lesser of "Financial Need" or "50% Limitation"		<u><u>\$ 978,122</u></u>

CITY OF LAGUNA BEACH, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 21 – RELATED PARTIES

Housing Program to Enhance Emergency Response

In order to enhance the ability of key personnel to respond to emergency situations within the community, the City is providing assistance for those employees to reside in close proximity to their response area. The accompanying financial statements reflect the City's investment in five such properties in the amount of \$2,032,253 and two loans to these respective employees. The outstanding balance of the loans was \$563,935 and \$596,567, for fiscal years ending June 30, 2013 and 2012, respectively. The balance of the loans are reported in the Internal Service Funds Statement of Net Position.

NOTE 22 – GRANTS AND ALLOCATIONS

The City is a recipient of State and Federal grants, which are governed by laws and regulations established by the granting agencies. Costs charged to the respective grant programs are subject to review and adjustment by the granting agencies. Certain requests relating to this funding are pending approval by the funding agency. The amount of disallowed cost, if any, that might be associated with this funding cannot be reasonably estimated.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAGUNA BEACH
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances –
Budget and Actual
Year Ended June 30, 2013
(With Comparative Totals for Year Ended June 30, 2012)

	Budgeted Amounts		Actual	Variance with Final Budget Positive/ (Negative)	2012 Actual
	Original	Final			
Revenues:					
Taxes:					
Property taxes	\$ 25,806,000	\$ 25,932,000	\$ 26,361,342	\$ 429,342	\$ 25,386,272
Sales and use taxes	4,486,000	4,486,000	4,757,873	271,873	4,448,873
Transient lodging taxes	7,788,000	7,788,000	8,537,050	749,050	7,904,562
Franchise taxes	1,120,000	1,120,000	1,171,669	51,669	1,166,706
Business license taxes	820,000	820,000	872,652	52,652	843,338
Real property transfer taxes	200,000	200,000	720,559	520,559	387,393
Total Taxes	40,220,000	40,346,000	42,421,145	2,075,145	40,137,144
Licenses and permits:					
Construction permits	912,000	912,000	1,025,859	113,859	952,259
Other	21,000	21,000	26,182	5,182	23,625
Total Licenses and Permits	933,000	933,000	1,052,041	119,041	975,884
Fines and penalties					
Vehicle codes	1,185,000	1,185,000	1,291,596	106,596	1,218,127
Other	41,000	41,000	35,340	(5,660)	33,837
Total Fines and Penalties	1,226,000	1,226,000	1,326,936	100,936	1,251,964
Investment income					
Investment Interest	745,000	745,000	526,630	(218,370)	651,719
Unrealized gains/(losses)	-	-	(656,758)	(656,758)	-
Total Investment Income, net	745,000	745,000	(130,128)	(875,128)	651,719
Rental income	424,000	409,000	427,341	18,341	419,641
Intergovernmental	847,000	2,364,372	1,007,019	(1,357,353)	1,345,235
Charges for services:					
Sewer charges	6,485,000	6,485,000	6,588,390	103,390	6,308,982
Planning fees	930,000	930,000	1,152,907	222,907	1,046,109
Building department fees	225,000	225,000	293,883	68,883	228,358
Refuse service charges	1,996,000	1,996,000	2,027,799	31,799	2,011,192
Medical fees	105,000	105,000	94,279	(10,721)	101,010
Parks and recreation fees	2,828,000	2,828,000	3,129,885	301,885	2,976,517
Other	1,813,000	293,000	316,570	23,570	326,550
Total Charges for Services	14,382,000	12,862,000	13,603,713	741,713	12,998,718
Parking meters, lots and permits	4,855,000	4,855,000	5,384,197	529,197	4,276,533
Development tax:					
Building construction tax	180,000	180,000	433,526	253,526	183,704
Other					
Reimbursed expenditures	440,000	601,294	474,745	(126,549)	452,417
Other	21,000	69,515	110,303	40,788	79,066
Total Other	461,000	670,809	585,048	(85,761)	531,483
Total Revenues	64,273,000	64,591,181	66,110,838	1,519,657	62,772,025

See accompanying note to required supplementary information.

CITY OF LAGUNA BEACH
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances –
Budget and Actual
(Continued)

	Budgeted Amounts		Actual	Variance with Final Budget Positive/ (Negative)	2012 Actual
	Original	Final			
Expenditures:					
General government:					
City Council	\$ 63,700	\$ 68,700	\$ 59,001	\$ 9,699	\$ 56,372
City Manager	721,700	741,600	690,861	50,739	656,143
City Clerk	345,500	347,600	312,897	34,703	300,267
City Treasurer	145,100	145,100	148,041	(2,941)	142,983
City Attorney	585,000	890,500	445,229	445,271	481,484
Administrative services	2,116,200	2,279,300	2,358,055	(78,755)	2,447,986
Total General Government	3,977,200	4,472,800	4,014,084	458,716	4,085,235
Community development	3,882,700	4,003,000	3,751,468	251,532	3,600,452
Public safety:					
Police protection	12,675,600	14,574,928	12,579,832	1,995,096	12,326,411
Fire protection	9,220,300	9,385,500	8,577,994	807,506	8,940,908
Marine safety	2,393,400	2,487,700	2,304,153	183,547	2,283,588
Parking enforcement	906,300	906,300	874,948	31,352	879,291
Total Public Safety	25,195,600	27,354,428	24,336,927	3,017,501	24,430,198
Public works	11,197,200	12,279,800	10,704,288	1,575,512	10,335,823
Recreation and social services	4,302,100	4,824,500	4,216,980	607,520	4,034,299
Sewer service operating costs	4,132,900	4,151,033	3,950,183	200,850	4,062,448
Capital expenditures	7,321,800	27,079,993	8,106,168	18,973,825	8,155,078
Debt service:					
Principal	360,040	360,040	360,040	-	350,472
Interest and fiscal charges	132,460	132,460	132,459	1	142,158
Total Debt Service	492,500	492,500	492,499	1	492,630
Total Expenditures	60,502,000	84,658,054	59,572,597	25,085,457	59,196,163
Excess (deficiency) of revenues over (under) expenditures	3,771,000	(20,066,873)	6,538,241	26,605,114	3,575,862
Other financing sources (uses):					
Transfers in	810,000	810,000	509,731	(300,269)	687,270
Transfers out	(3,107,600)	(3,107,600)	(2,105,205)	1,002,395	(1,759,100)
Sale of land and equipment	3,000	3,000	254,582	251,582	12,109
Total Other Financing Sources (uses)	(2,294,600)	(2,294,600)	(1,340,892)	953,708	(1,059,721)
Net Change in Fund Balances	1,476,400	(22,361,473)	5,197,349	27,558,822	2,516,141
Fund balances, Beginning of Year	33,115,386	33,115,386	33,115,386	-	30,599,245
Fund Balances, End of Year	\$ 34,591,786	\$ 10,753,913	\$ 38,312,735	\$ 27,558,822	\$ 33,115,386

See accompanying note to required supplementary information.

CITY OF LAGUNA BEACH
Major Special Revenue Fund
Disaster Contingency Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2013
(With Comparative Totals for Year Ended June 30, 2012)

	Budgeted Amounts		Actual	Variance with	2012
	Original	Budget		Final Budget	
				Positive/ (Negative)	
Revenues:					
Investment income	\$ 100,000	\$ 100,000	\$ 55,166	\$ (44,834)	\$ 71,665
Total Revenues	100,000	100,000	55,166	(44,834)	71,665
Net Change in Fund Balances	100,000	100,000	55,166	(44,834)	71,665
Fund Balances, Beginning of Year	5,929,533	5,929,533	5,929,533	-	5,857,868
Fund Balances, End of Year	<u>\$ 6,029,533</u>	<u>\$ 6,029,533</u>	<u>\$ 5,984,699</u>	<u>\$ (44,834)</u>	<u>\$ 5,929,533</u>

See accompanying note to required supplementary information.

CITY OF LAGUNA BEACH
Other Post-Employment Benefit Plan
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c)
6/30/2007	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2008	\$ -	\$ 1,047,047	\$ 1,047,047	0.0%	\$ 19,511,621	5.4%
6/30/2012	-	1,346,828	1,346,828	0.0%	20,159,361	6.7%

See accompanying note to required supplementary information.

CITY OF LAGUNA BEACH
Miscellaneous Retirement Plan - Normal
Schedule of Funding Progress

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liabilities (UL)	Funded Ratio	Annual Covered Payroll	UL As a % of Payroll
6/30/2009	\$ 65,314,574	\$ 54,570,966	\$ 10,743,608	83.6%	\$ 11,710,255	91.7%
6/30/2010	70,813,622	58,267,067	12,546,555	82.3%	12,411,910	101.1%
6/30/2011	76,911,997	62,585,557	14,326,440	81.4%	11,442,146	125.2%

See accompanying note to required supplementary information.

CITY OF LAGUNA BEACH

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2013**

NOTE 1 – BUDGETARY POLICY AND CONTROL

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year end, except for encumbered amounts and capital expenditures which are re-appropriated in the next year's budget until such time as the project is completed or terminated.

The City is required by ordinance to adopt an annual budget on or before June 30 for the ensuing fiscal year. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the various City departments. The City Council may amend the budget through a vote of a majority or super majority of the Council during the fiscal year. The City Manager may transfer funds from one object or purpose to another within the same department, excluding capital outlay. Actual expenditures may not exceed budgeted appropriations at the department level within the General Fund and at the fund level for special revenue, debt service, and capital projects funds; therefore, the legal level of budgetary control is at the department level.

Budget information is presented for the general and certain special revenue fund types. Budgeted revenue amounts represent the original budget modified by Council-authorized adjustments during the year which were contingent upon new or additional revenue sources. Budgeted expenditures amounts represent original appropriations adjusted for supplemental appropriations during the year. Supplemental appropriations include carryover appropriations from the prior year. Supplemental budgetary appropriations of \$24,156,054 were made in the General Fund.

SUPPLEMENTARY SCHEDULES

GENERAL FUND

The General Fund is used to account for financial resources applicable to the general government operations of the City of Laguna Beach, which are not required to be accounted for in another fund. This includes some operations that are budgeted as separate operating funds.

CITY OF LAGUNA BEACH
General Fund
Consolidating Balance Sheet by Sub-Fund
June 30, 2013
(With Comparative Totals for June 30, 2012)

ASSETS	<u>General</u>	<u>Sewer Service</u>	<u>Open Space</u>	<u>Capital Improvement</u>	<u>Parking Authority</u>
Cash and investments	\$ 17,444,456	\$ 2,188,650	\$ 210,825	\$ 16,927,649	\$ 8,140,138
Receivables:					
Taxes	1,093,042	73,739	-	70,970	-
Accounts	514,190	-	-	29,405	83,399
Interest	9,263	-	-	-	-
Intergovernmental	80,046	-	-	-	-
Notes	-	-	-	-	-
Due from other funds	106,747	-	-	-	-
Prepays	45,212	-	-	-	39,000
Inventory	45,004	-	-	-	-
Advances to other funds	-	-	-	-	1,215,500
Total Assets	<u>\$ 19,337,960</u>	<u>\$ 2,262,389</u>	<u>\$ 210,825</u>	<u>\$ 17,028,024</u>	<u>\$ 9,478,037</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 2,074,088	\$ 374,803	\$ -	\$ 838,107	\$ 167,490
Due to other government agencies	-	-	-	-	-
Deferred revenue	64,782	-	-	-	-
Advances from other funds	7,915,500	-	-	-	-
Total Liabilities	<u>10,054,370</u>	<u>374,803</u>	<u>-</u>	<u>838,107</u>	<u>167,490</u>
Fund balances:					
Nonspendable	90,216	-	-	-	1,254,500
Restricted	-	1,887,586	-	-	-
Committed	306,359	-	-	-	-
Assigned	1,600,000	-	210,825	16,189,917	8,056,047
Unassigned	7,287,015	-	-	-	-
Total Fund Balances	<u>9,283,590</u>	<u>1,887,586</u>	<u>210,825</u>	<u>16,189,917</u>	<u>9,310,547</u>
Total Liabilities and Fund Balances	<u>\$ 19,337,960</u>	<u>\$ 2,262,389</u>	<u>\$ 210,825</u>	<u>\$ 17,028,024</u>	<u>\$ 9,478,037</u>

Parking In-Lieu	Park In-Lieu	Art In-Lieu	Drainage	Housing In-Lieu	Eliminations (1)	Totals	
						2013	2012
\$ 111,206	\$ 276,519	\$ 149,655	\$ 58,473	\$ 518,313	\$ -	\$ 46,025,884	\$ 39,871,314
-	-	-	-	-	-	1,237,751	1,289,862
-	-	-	-	-	-	626,994	495,127
-	-	-	-	-	-	9,263	11,048
-	-	-	-	-	-	80,046	2,232
-	-	-	-	348,000	-	348,000	348,000
-	-	-	-	-	-	106,747	1,146,043
-	-	-	-	-	-	84,212	43,395
-	-	-	-	-	-	45,004	60,331
-	-	-	-	-	(1,215,500)	-	-
<u>\$ 111,206</u>	<u>\$ 276,519</u>	<u>\$ 149,655</u>	<u>\$ 58,473</u>	<u>\$ 866,313</u>	<u>\$ (1,215,500)</u>	<u>\$ 48,563,901</u>	<u>\$ 43,267,352</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,454,488	\$ 3,030,491
-	-	-	-	31,896	-	31,896	26,332
-	-	-	-	-	-	64,782	395,143
-	-	-	-	-	(1,215,500)	6,700,000	6,700,000
-	-	-	-	31,896	(1,215,500)	10,251,166	10,151,966
-	-	-	-	-	(1,215,500)	129,216	103,726
111,206	276,519	149,655	58,473	834,417	-	3,317,856	3,526,976
-	-	-	-	-	-	306,359	306,539
-	-	-	-	-	1,215,500	27,272,289	20,962,498
-	-	-	-	-	-	7,287,015	8,215,647
<u>111,206</u>	<u>276,519</u>	<u>149,655</u>	<u>58,473</u>	<u>834,417</u>	<u>-</u>	<u>38,312,735</u>	<u>33,115,386</u>
<u>\$ 111,206</u>	<u>\$ 276,519</u>	<u>\$ 149,655</u>	<u>\$ 58,473</u>	<u>\$ 866,313</u>	<u>\$ (1,215,500)</u>	<u>\$ 48,563,901</u>	<u>\$ 43,267,352</u>

(1) Advances within the group of funds that are consolidated together to form the general fund for purposes of the combined financial statements have been eliminated on this schedule.

CITY OF LAGUNA BEACH
General Fund
Consolidating Statement of Revenues, Expenditures and Changes in Fund Balances by Sub-Fund
Year Ended June 30, 2013

	General	Sewer Service	Open Space	Capital Improvement	Parking Authority
Revenues:					
Taxes	\$ 38,237,766	\$ -	\$ -	\$ 4,183,379	\$ -
Licenses and permits	1,052,041	-	-	-	-
Fines and penalties	13,800	-	-	1,313,136	-
Investment income, net of unrealized losses	(137,722)	-	-	-	-
Rental	427,341	-	-	-	-
Intergovernmental	831,569	16,272	-	159,178	-
Charges for services	7,013,153	6,588,390	-	2,170	-
Parking meters, lots and permits	2,797	-	-	-	5,381,400
Development tax	-	-	-	162,534	-
Other	511,109	62,764	-	11,175	-
Total Revenues	47,951,854	6,667,426	-	5,831,572	5,381,400
Expenditures:					
Current:					
General government	4,014,084	-	-	-	-
Community development	3,746,218	-	-	-	-
Public safety	23,461,979	-	-	-	874,948
Public works	9,515,952	-	-	-	1,188,336
Recreation and social services	4,199,759	-	-	-	-
Sewer service operating costs	-	3,950,183	-	-	-
Capital expenditures	680,165	2,881,231	403	4,330,987	213,382
Debt service:					
Principal	-	360,040	-	-	-
Interest and fiscal charges	-	132,459	-	-	-
Total Expenditures	45,618,157	7,323,913	403	4,330,987	2,276,666
Excess (deficiency) of revenues over (under) expenditures	2,333,697	(656,487)	(403)	1,500,585	3,104,734
Other financing sources (uses):					
Transfers in	1,255,056	-	4,675	60,000	-
Transfers out	(1,634,405)	-	-	(177,400)	(1,043,400)
Sale of land and equipment	3,330	-	-	-	-
Total Other Financing Sources (Uses)	(376,019)	-	4,675	(117,400)	(1,043,400)
Net Change in Fund Balances	1,957,678	(656,487)	4,272	1,383,185	2,061,334
Fund Balances, Beginning of Year	7,325,912	2,544,073	206,553	14,806,732	7,249,213
Fund Balances, End of Year	\$ 9,283,590	\$ 1,887,586	\$ 210,825	\$ 16,189,917	\$ 9,310,547

Parking In-Lieu	Park In-Lieu	Art In-Lieu	Drainage	Housing In-Lieu	Eliminations (1)	Totals	
						2013	2012
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 42,421,145	\$ 40,137,144
-	-	-	-	-	-	1,052,041	975,884
-	-	-	-	-	-	1,326,936	1,251,964
1,025	809	1,301	539	3,920	-	(130,128)	651,719
-	-	-	-	-	-	427,341	419,641
-	-	-	-	-	-	1,007,019	1,345,235
-	-	-	-	-	-	13,603,713	12,998,718
-	-	-	-	-	-	5,384,197	4,276,533
-	-	87,410	-	183,582	-	433,526	183,704
-	-	-	-	-	-	585,048	531,483
<u>1,025</u>	<u>809</u>	<u>88,711</u>	<u>539</u>	<u>187,502</u>	<u>-</u>	<u>66,110,838</u>	<u>62,772,025</u>
-	-	-	-	-	-	4,014,084	4,085,235
-	-	-	-	5,250	-	3,751,468	3,600,452
-	-	-	-	-	-	24,336,927	24,430,198
-	-	-	-	-	-	10,704,288	10,335,823
-	-	17,221	-	-	-	4,216,980	4,034,299
-	-	-	-	-	-	3,950,183	4,062,448
-	-	-	-	-	-	8,106,168	8,155,078
-	-	-	-	-	-	360,040	350,472
-	-	-	-	-	-	132,459	142,158
<u>-</u>	<u>-</u>	<u>17,221</u>	<u>-</u>	<u>5,250</u>	<u>-</u>	<u>59,572,597</u>	<u>59,196,163</u>
<u>1,025</u>	<u>809</u>	<u>71,490</u>	<u>539</u>	<u>182,252</u>	<u>-</u>	<u>6,538,241</u>	<u>3,575,862</u>
-	-	-	-	-	(810,000)	509,731	687,270
-	-	(60,000)	-	-	810,000	(2,105,205)	(1,759,100)
-	251,252	-	-	-	-	254,582	12,109
<u>-</u>	<u>251,252</u>	<u>(60,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,340,892)</u>	<u>(1,059,721)</u>
<u>1,025</u>	<u>252,061</u>	<u>11,490</u>	<u>539</u>	<u>182,252</u>	<u>-</u>	<u>5,197,349</u>	<u>2,516,141</u>
<u>110,181</u>	<u>24,458</u>	<u>138,165</u>	<u>57,934</u>	<u>652,165</u>	<u>-</u>	<u>33,115,386</u>	<u>30,599,245</u>
<u>\$ 111,206</u>	<u>\$ 276,519</u>	<u>\$ 149,655</u>	<u>\$ 58,473</u>	<u>\$ 834,417</u>	<u>\$ -</u>	<u>\$ 38,312,735</u>	<u>\$ 33,115,386</u>

(1) Transfers within the group of funds that are consolidated together to form the general fund for purposes of the financial statements have been eliminated on this schedule.

NONMAJOR FUNDS

SPECIAL REVENUE

Special revenue funds are used to account for specific revenues (other than expendable trusts and major capital projects) and the related expenditures which are legally required to be accounted for in a separate fund.

The City of Laguna Beach has the following non-major Special Revenue Funds:

Gas Tax Fund

This fund is used to account for the restricted gasoline tax revenues and Measure M2 sales taxes which are used for maintenance and improvements of City streets.

Street Lighting District Fund

This fund is used to account for restricted revenue and expenditures associated with maintenance and use of the City's street lighting system.

Asset Forfeiture Fund

This fund is used to account for restricted money received under federal and state programs distributing property confiscated from illegal activities.

December Storms 2010 Fund

This fund is used to account for costs incurred for emergency repairs and permanent restoration related to storms that occurred in December 2010. Funding sources for this fund are from the Federal Emergency Management Agency, the California Emergency Management Agency, the Federal Highway Administration, insurance reimbursements, and the General Fund.

DEBT SERVICE FUND

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest.

The City of Laguna Beach has the following non-major Debt Service Fund:

General Obligations Bonds

The fund is used to account for the resources and payment of general obligation bond principal and interest from a general obligation ad valorem tax levy.

CAPITAL PROJECTS FUND

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

The City of Laguna Beach has the following non-major Capital Projects Fund:

Assessment Districts

This fund is used to account for assessment district utility undergrounding projects which are funded by property owners.

CITY OF LAGUNA BEACH
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2013
(With Comparative Totals for June 30, 2012)

	Special Revenue			
	Gas Tax	Street Lighting District	Asset Forfeiture	December Storms 2010
ASSETS				
Cash and investments	\$ 1,411,260	\$ 2,134,924	\$ 158,455	\$ 308,922
Receivables:				
Taxes	-	13,456	-	-
Accounts	42,088	-	-	-
Intergovernmental	64,133	-	-	-
Prepays	-	987,123	-	-
Advances to other funds	-	2,190,000	-	-
Property held for investment	-	354,444	-	-
Total Assets	<u>\$ 1,517,481</u>	<u>\$ 5,679,947</u>	<u>\$ 158,455</u>	<u>\$ 308,922</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 6,590	\$ 16,439	\$ 21,309	\$ 43,705
Due to other funds	-	-	-	-
Deposits	-	-	-	-
Advances from other funds	690,000	-	-	-
Total Liabilities	<u>696,590</u>	<u>16,439</u>	<u>21,309</u>	<u>43,705</u>
Fund balances (deficit):				
Nonspendable	-	3,531,567	-	-
Restricted	820,891	2,131,941	137,146	-
Assigned	-	-	-	265,217
Unassigned	-	-	-	-
Total Fund Balances	<u>820,891</u>	<u>5,663,508</u>	<u>137,146</u>	<u>265,217</u>
Total Liabilities and Fund Balances	<u>\$ 1,517,481</u>	<u>\$ 5,679,947</u>	<u>\$ 158,455</u>	<u>\$ 308,922</u>

<u>Debt Service</u> General Obligation Bonds	<u>Capital Projects</u> Assessment Districts	<u>Totals - Non-major Governmental Funds</u>	
		<u>2013</u>	<u>2012</u>
\$ -	\$ -	\$ 4,013,561	\$ 2,558,081
-	-	13,456	18,784
-	-	42,088	540,839
-	-	64,133	59,864
-	-	987,123	791,384
-	-	2,190,000	2,500,000
-	-	354,444	354,444
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,664,805</u>	<u>\$ 6,823,396</u>
\$ -	\$ 30,848	\$ 118,891	\$ 194,992
-	106,747	106,747	1,146,043
-	10,500	10,500	-
-	-	690,000	1,010,000
<u>-</u>	<u>148,095</u>	<u>926,138</u>	<u>2,351,035</u>
-	-	3,531,567	791,384
-	-	3,089,978	4,455,622
-	(148,095)	265,217	-
-	(148,095)	(148,095)	(774,645)
-	(148,095)	6,738,667	4,472,361
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,664,805</u>	<u>\$ 6,823,396</u>

CITY OF LAGUNA BEACH
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2013
(With Comparative Totals for Year Ended June 30, 2012)

	Special Revenue Fund			
	Gas Tax	Street Lighting District	Asset Forfeiture	December Storms 2010
Revenues:				
Taxes	\$ 357,880	\$ 1,150,147	\$ -	\$ -
Fines and penalties	-	-	15,025	-
Investment income	-	-	2,184	-
Intergovernmental	1,107,547	6,589	-	331
Other	50,000	7,849	-	-
Total Revenues	<u>1,515,427</u>	<u>1,164,585</u>	<u>17,209</u>	<u>331</u>
Expenditures:				
Current:				
General government	-	-	-	-
Public works	-	253,758	-	-
Capital expenditures	59,094	-	123,704	146,180
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	<u>59,094</u>	<u>253,758</u>	<u>123,704</u>	<u>146,180</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,456,333</u>	<u>910,827</u>	<u>(106,495)</u>	<u>(145,849)</u>
Other financing sources (uses):				
Transfers in	-	-	-	1,060,000
Transfers out	(505,056)	(20,000)	-	-
Bond proceeds - Transfer in	-	-	-	-
Total Other Financing Sources (Uses)	<u>(505,056)</u>	<u>(20,000)</u>	<u>-</u>	<u>1,060,000</u>
Net Change in Fund Balances	951,277	890,827	(106,495)	914,151
Fund Balances (Deficit), Beginning of Year	<u>(130,386)</u>	<u>4,772,681</u>	<u>243,641</u>	<u>(648,934)</u>
Fund Balances (Deficit), End of Year	<u>\$ 820,891</u>	<u>\$ 5,663,508</u>	<u>\$ 137,146</u>	<u>\$ 265,217</u>

(1) Transfers within the group of funds that are consolidated together to form the non-major funds for purposes of the combined financial statements have been eliminated on this schedule.

<u>Debt Service</u>	<u>Capital Projects</u>		<u>Totals - Non-major Governmental Funds</u>	
<u>General</u>	<u>Assessment</u>	<u>Eliminations</u>	<u>2013</u>	<u>2012</u>
<u>Obligation</u>	<u>Districts</u>	<u>(1)</u>		
<u>Bonds</u>				
\$ -	\$ -	\$ -	\$ 1,508,027	\$ 1,516,589
-	-	-	15,025	31,734
-	2,762	-	4,946	16,244
-	-	-	1,114,467	2,124,270
-	10,024	-	67,873	369,332
-	12,786	-	2,710,338	4,058,169
-	-	-	-	1,000
-	-	-	253,758	335,226
-	538,965	-	867,943	2,590,491
-	-	-	-	1,565,000
-	-	-	-	39,125
-	538,965	-	1,121,701	4,530,842
-	(526,179)	-	1,588,637	(472,673)
-	147,400	(20,000)	1,187,400	300,000
(4,675)	-	20,000	(509,731)	(687,270)
-	-	-	-	459,263
(4,675)	147,400	-	677,669	71,993
(4,675)	(378,779)	-	2,266,306	(400,680)
4,675	230,684	-	4,472,361	4,873,041
\$ -	\$ (148,095)	\$ -	\$ 6,738,667	\$ 4,472,361

CITY OF LAGUNA BEACH
Nonmajor Special Revenue Funds
Gas Tax Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
Year Ended June 30, 2013
(With Comparative Totals for Year Ended June 30, 2012)

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)	2012 Actual
Revenues:				
Taxes	\$ 360,000	\$ 357,880	\$ (2,120)	\$ 356,302
Investment income	-	-	-	645
Intergovernmental	661,000	1,107,547	446,547	1,228,409
Other	50,000	50,000	-	61,125
Total Revenues	<u>1,071,000</u>	<u>1,515,427</u>	<u>444,427</u>	<u>1,646,481</u>
Expenditures:				
Capital expenditures	<u>1,695,600</u>	<u>59,094</u>	<u>1,636,506</u>	<u>24,445</u>
Total Expenditures	<u>1,695,600</u>	<u>59,094</u>	<u>1,636,506</u>	<u>24,445</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(624,600)</u>	<u>1,456,333</u>	<u>2,080,933</u>	<u>1,622,036</u>
Other financing sources (uses):				
Transfers out	<u>-</u>	<u>(505,056)</u>	<u>(505,056)</u>	<u>(511,752)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>(505,056)</u>	<u>(505,056)</u>	<u>(511,752)</u>
Net Change in Fund Balances	(624,600)	951,277	1,575,877	1,110,284
Fund Balances (Deficit), Beginning of Year	<u>(130,386)</u>	<u>(130,386)</u>	<u>-</u>	<u>(1,240,670)</u>
Fund Balances (Deficit), End of Year	<u>\$ (754,986)</u>	<u>\$ 820,891</u>	<u>\$ 1,575,877</u>	<u>\$ (130,386)</u>

CITY OF LAGUNA BEACH
Nonmajor Special Revenue Funds
Street Lighting District Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
Year Ended June 30, 2013
(With Comparative Totals for Year Ended June 30, 2012)

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)	2012 Actual
Revenues:				
Taxes	\$ 1,069,500	\$ 1,150,147	\$ 80,647	\$ 1,110,920
Intergovernmental	6,700	6,589	(111)	6,672
Other	7,500	7,849	349	344
Total Revenues	<u>1,083,700</u>	<u>1,164,585</u>	<u>80,885</u>	<u>1,117,936</u>
Expenditures:				
Current:				
Public works	1,262,600	253,758	1,008,842	335,226
Capital expenditures	-	-	-	3,817
Total Expenditures	<u>1,262,600</u>	<u>253,758</u>	<u>1,008,842</u>	<u>339,043</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(178,900)</u>	<u>910,827</u>	<u>1,089,727</u>	<u>778,893</u>
Other financing sources (uses):				
Transfers out	<u>(20,000)</u>	<u>(20,000)</u>	<u>-</u>	<u>(23,270)</u>
Net Change in Fund Balances	<u>(198,900)</u>	<u>890,827</u>	<u>1,089,727</u>	<u>755,623</u>
Fund Balances, Beginning of Year	<u>4,772,681</u>	<u>4,772,681</u>	<u>-</u>	<u>4,017,058</u>
Fund Balances, End of Year	<u>\$ 4,573,781</u>	<u>\$ 5,663,508</u>	<u>\$ 1,089,727</u>	<u>\$ 4,772,681</u>

CITY OF LAGUNA BEACH
Nonmajor Special Revenue Funds
Asset Forfeiture Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
Year Ended June 30, 2013
(With Comparative Totals for Year Ended June 30, 2012)

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)	2012 Actual
Revenues:				
Fines and penalties	\$ -	\$ 15,025	\$ 15,025	\$ 31,734
Investment income	-	2,184	2,184	2,903
Total Revenues	-	17,209	17,209	34,637
Expenditures:				
Capital expenditures	173,610	123,704	49,906	-
Total Expenditures	173,610	123,704	49,906	-
Net Change in Fund Balances	(173,610)	(106,495)	67,115	34,637
Fund Balances, Beginning of Year	243,641	243,641	-	209,004
Fund Balances, End of Year	\$ 70,031	\$ 137,146	\$ 67,115	\$ 243,641

CITY OF LAGUNA BEACH
Nonmajor Special Revenue Funds
December Storms 2010
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
Year Ended June 30, 2013
(With Comparative Totals for Year Ended June 30, 2012)

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)	2012 Actual
Revenues:				
Intergovernmental	\$ -	\$ 331	\$ 331	\$ 889,155
Other	1,020,000	-	(1,020,000)	170,848
Total Revenues	<u>1,020,000</u>	<u>331</u>	<u>(1,019,669)</u>	<u>1,060,003</u>
Expenditures:				
Capital expenditures	465,300	146,180	319,120	1,064,919
Total Expenditures	<u>465,300</u>	<u>146,180</u>	<u>319,120</u>	<u>1,064,919</u>
Excess (deficiency) of revenues over (under) expenditures	554,700	(145,849)	(700,549)	(4,916)
Other financing sources (uses):				
Transfers in	1,060,000	1,060,000	-	300,000
Total Other Financing Sources (Uses)	<u>1,060,000</u>	<u>1,060,000</u>	<u>-</u>	<u>300,000</u>
Net change in fund balances	1,614,700	914,151	(700,549)	295,084
Fund Balances (Deficit), Beginning of Year	<u>(648,934)</u>	<u>(648,934)</u>	<u>-</u>	<u>(944,018)</u>
Fund Balances (Deficit), End of Year	<u>\$ 965,766</u>	<u>\$ 265,217</u>	<u>\$ (700,549)</u>	<u>\$ (648,934)</u>

CITY OF LAGUNA BEACH
Nonmajor Debt Service Fund
General Obligation Bonds
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
Year Ended June 30, 2013
(With Comparative Totals for Year Ended June 30, 2012)

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)	2012 Actual
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ 49,367
Investment income	-	-	-	3,110
Intergovernmental	-	-	-	34
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,511</u>
Expenditures:				
Current:				
General government	-	-	-	1,000
Debt service:				
Principal	-	-	-	1,565,000
Interest and fiscal charges	-	-	-	39,125
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,605,125</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	-	(1,552,614)
Other financing sources (uses):				
Transfers out	-	(4,675)	(4,675)	(175,518)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(4,675)</u>	<u>(4,675)</u>	<u>(175,518)</u>
Net Change in Fund Balances	-	(4,675)	(4,675)	(1,728,132)
Fund Balances, Beginning of Year	<u>4,675</u>	<u>4,675</u>	<u>-</u>	<u>1,732,807</u>
Fund Balances, End of Year	<u>\$ 4,675</u>	<u>\$ -</u>	<u>\$ (4,675)</u>	<u>\$ 4,675</u>

CITY OF LAGUNA BEACH
Nonmajor Capital Projects Fund
Assessment Districts
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
Year Ended June 30, 2013
(With Comparative Totals for Year Ended June 30, 2012)

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)	2012 Actual
Revenues:				
Investment income	\$ -	\$ 2,762	\$ 2,762	\$ 9,586
Other	-	10,024	10,024	137,015
Total Revenues	<u>-</u>	<u>12,786</u>	<u>12,786</u>	<u>146,601</u>
Expenditures:				
Capital expenditures	610,000	538,965	71,035	1,497,310
Total Expenditures	<u>610,000</u>	<u>538,965</u>	<u>71,035</u>	<u>1,497,310</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(610,000)</u>	<u>(526,179)</u>	<u>83,821</u>	<u>(1,350,709)</u>
Other financing sources:				
Transfers in	147,500	147,400	(100)	23,270
Bond Proceeds - Transfer In	-	-	-	459,263
Total Other Financing Sources	<u>147,500</u>	<u>147,400</u>	<u>(100)</u>	<u>482,533</u>
Net Change in Fund Balances	<u>(462,500)</u>	<u>(378,779)</u>	<u>83,721</u>	<u>(868,176)</u>
Fund Balances, Beginning of Year	<u>230,684</u>	<u>230,684</u>	<u>-</u>	<u>1,098,860</u>
Fund Balances (Deficit), End of Year	<u><u>\$ (231,816)</u></u>	<u><u>\$ (148,095)</u></u>	<u><u>\$ 83,721</u></u>	<u><u>\$ 230,684</u></u>

INTERNAL SERVICES FUNDS

Insurance and Employee Benefits Fund

This fund is used to account for the cost of providing employee benefits and various forms of insurance (general liability, workers' compensation, and all other forms of employee group insurance) provided to the various City departments.

Vehicle Replacement Fund

This fund was created to acquire vehicles and other significant equipment for rental to the operating departments.

CITY OF LAGUNA BEACH
Internal Service Funds
Combining Statement of Net Position
June 30, 2013
(With Comparative Totals for June 30, 2012)

	Insurance and Employee Benefits	Vehicle Replacement	Totals	
			2013	2012
ASSETS				
Current assets:				
Cash and investments	\$ 7,639,678	\$ 4,458,033	\$ 12,097,711	\$ 11,926,439
Receivables:				
Accounts	32,747	-	32,747	8,951
Total Current Assets	<u>7,672,425</u>	<u>4,458,033</u>	<u>12,130,458</u>	<u>11,935,390</u>
Noncurrent assets:				
Advances to other funds	4,500,000	700,000	5,200,000	5,210,000
Notes receivable	427,144	136,791	563,935	596,567
Property held for investment	1,356,153	321,656	1,677,809	1,677,809
Capital assets, not being depreciated	-	7,218	7,218	-
Capital assets, net of depreciation	-	2,683,583	2,683,583	3,057,458
Total Noncurrent Assets	<u>6,283,297</u>	<u>3,849,248</u>	<u>10,132,545</u>	<u>10,541,834</u>
Total Assets	<u>13,955,722</u>	<u>8,307,281</u>	<u>22,263,003</u>	<u>22,477,224</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	207,194	10,379	217,573	540,744
Compensated absences due within one year	872,971	-	872,971	830,750
Insurance claims payable due within one year	1,185,784	-	1,185,784	1,239,182
Total Current Liabilities	<u>2,265,949</u>	<u>10,379</u>	<u>2,276,328</u>	<u>2,610,676</u>
Non-current liabilities:				
Compensated absences	3,491,886	-	3,491,886	3,323,004
Insurance claims payable	2,766,828	-	2,766,828	2,891,424
Net OPEB liability	253,536	-	253,536	218,696
Total Non-Current Liabilities	<u>6,512,250</u>	<u>-</u>	<u>6,512,250</u>	<u>6,433,124</u>
Total Liabilities	<u>8,778,199</u>	<u>10,379</u>	<u>8,788,578</u>	<u>9,043,800</u>
NET POSITION				
Net Position				
Net investment in capital assets	-	2,690,801	2,690,801	3,057,458
Unrestricted	5,177,523	5,606,101	10,783,624	10,375,966
Total Net Position	<u>\$ 5,177,523</u>	<u>\$ 8,296,902</u>	<u>\$ 13,474,425</u>	<u>\$ 13,433,424</u>

CITY OF LAGUNA BEACH
Internal Service Funds
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Year Ended June 30, 2013
(With Comparative Totals for Year Ended June 30, 2012)

	Insurance and Employee Benefits	Vehicle Replacement	Totals	
			2013	2012
Operating revenues:				
Vehicle rentals	\$ -	\$ 1,107,704	\$ 1,107,704	\$ 1,104,700
Employee benefits charges	790,300	-	790,300	759,800
Insurance charges	5,944,293	-	5,944,293	5,674,517
Total Operating Revenues	<u>6,734,593</u>	<u>1,107,704</u>	<u>7,842,297</u>	<u>7,539,017</u>
Operating expenses:				
Administration	120,537	-	120,537	144,160
Employee benefits	964,708	-	964,708	915,026
Insurance claims and premiums	6,657,711	-	6,657,711	5,937,581
Depreciation	-	649,861	649,861	553,461
Total Operating Expenses	<u>7,742,956</u>	<u>649,861</u>	<u>8,392,817</u>	<u>7,550,228</u>
Operating Income (Loss)	<u>(1,008,363)</u>	<u>457,843</u>	<u>(550,520)</u>	<u>(11,211)</u>
Nonoperating revenues (expenses):				
Gain (loss) on disposal of capital assets	-	17,116	17,116	58,098
Total Nonoperating Revenues (Expenses)	<u>-</u>	<u>17,116</u>	<u>17,116</u>	<u>58,098</u>
Income (Loss) Before Transfers	<u>(1,008,363)</u>	<u>474,959</u>	<u>(533,404)</u>	<u>46,887</u>
Transfers:				
Transfers in	574,405	-	574,405	1,067,800
Total Transfers	<u>574,405</u>	<u>-</u>	<u>574,405</u>	<u>1,067,800</u>
Change in Net Position	<u>(433,958)</u>	<u>474,959</u>	<u>41,001</u>	<u>1,114,687</u>
Net Position at Beginning of Year	<u>5,611,481</u>	<u>7,821,943</u>	<u>13,433,424</u>	<u>12,318,737</u>
Net Position at End of Year	<u>\$ 5,177,523</u>	<u>\$ 8,296,902</u>	<u>\$ 13,474,425</u>	<u>\$ 13,433,424</u>

CITY OF LAGUNA BEACH
Internal Service Funds
Combining Statement of Cash Flows
Year Ended June 30, 2013
(With Comparative Totals for Year Ended June 30, 2012)

	Insurance and Employee Benefits	Vehicle Replacement	Totals	
			2013	2012
Cash flows from operating activities:				
Cash received from user departments	\$ 6,701,846	\$ 1,116,655	\$ 7,818,501	\$ 7,530,066
Cash payments to suppliers for goods and services	(6,707,121)	(326,349)	(7,033,470)	(5,510,273)
Cash payments to employees for services	(964,708)	-	(964,708)	(915,026)
Net cash provided by (used for) operating activities	<u>(969,983)</u>	<u>790,306</u>	<u>(179,677)</u>	<u>1,104,767</u>
Cash flows from noncapital financing activities:				
Cash received from other funds	574,405	-	574,405	1,067,800
Cash received for payment on advance to other funds	-	10,000	10,000	990,000
Repayments received on notes receivable	14,466	18,166	32,632	39,104
Net cash provided by (used for) noncapital financing activities	<u>588,871</u>	<u>28,166</u>	<u>617,037</u>	<u>2,096,904</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	-	(283,204)	(283,204)	(1,076,820)
Proceeds from sale of capital assets	-	17,116	17,116	58,098
Net cash provided by (used for) capital and related financing activities	<u>-</u>	<u>(266,088)</u>	<u>(266,088)</u>	<u>(1,018,722)</u>
Net increase (decrease) in cash and cash equivalents	(381,112)	552,384	171,272	2,182,949
Cash and cash equivalents at beginning of year	<u>8,020,790</u>	<u>3,905,649</u>	<u>11,926,439</u>	<u>9,743,490</u>
Cash and cash equivalents at end of year	<u>\$ 7,639,678</u>	<u>\$ 4,458,033</u>	<u>\$ 12,097,711</u>	<u>\$ 11,926,439</u>

(Continued)

CITY OF LAGUNA BEACH
Internal Service Funds
Combining Statement of Cash Flows
Year Ended June 30, 2013
(With Comparative Totals for Year Ended June 30, 2013)
(Continued)

	Insurance and Employee Benefits	Vehicle Replacement	Totals	
			2013	2012
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (1,008,363)	\$ 457,843	\$ (550,520)	\$ (11,211)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	-	649,861	649,861	553,461
Gain (loss) on disposal of capital assets	-	-	-	-
(Increase) decrease in accounts receivable	(32,747)	8,951	(23,796)	(8,951)
(Increase) decrease in prepaids	-	-	-	266,823
Increase (decrease) in accounts payable and accrued liabilities	3,178	(326,349)	(323,171)	460,199
Increase (decrease) in compensated absences payable	211,103	-	211,103	355,020
Increase (decrease) in Net OPEB liability	34,840	-	34,840	50,005
Increase (decrease) in insurance claims payable	(177,994)	-	(177,994)	(560,579)
Net cash provided by (used for) operating activities	<u>\$ (969,983)</u>	<u>\$ 790,306</u>	<u>\$ (179,677)</u>	<u>\$ 1,104,767</u>

Noncash capital, financing, and investing activities

There were no noncash capital, financing, or investing activities during the year ended June 30, 2013.

AGENCY FUNDS

1911 Act Bonds Fund

The City Treasurer of the City of Laguna Beach acts as the agent for the bondholders. The City Treasurer receives the monies for assessments and disburses the monies collected to the bondholders.

1915 Act Bonds Fund

This fund was created to account for the debt service and reserves required by the bond indentures related to undergrounding and infrastructure improvements associated with various assessment districts.

Deposits Fund

The purpose of this fund is to account for deposits placed by developers and individuals for performance bonds or safe keeping.

CITY OF LAGUNA BEACH
Agency Funds
Combining Statement of Fiduciary Assets and Liabilities
June 30, 2013
(With Comparative Totals for June 30, 2012)

	1911 Act	1915 Act	Deposits	Totals	
	Bonds	Bonds		2013	2012
ASSETS					
Cash and investments	\$ 12,980	\$ 885,991	\$ 2,295,761	\$ 3,194,732	\$ 2,694,241
Investments with fiscal agent	-	596,859	-	596,859	685,337
Receivables:					
Taxes	-	15,675	-	15,675	18,878
Accounts	-	-	4,235	4,235	4,235
Intergovernmental	-	-	7,254	7,254	7,058
Total Assets	<u>\$ 12,980</u>	<u>\$ 1,498,525</u>	<u>\$ 2,307,250</u>	<u>\$ 3,818,755</u>	<u>\$ 3,409,749</u>
LIABILITIES					
Accounts payable and accrued liabilities	\$ -	\$ 500	\$ 33,510	\$ 34,010	\$ 148,544
Deposits	-	-	2,273,740	2,273,740	1,800,615
Due to bondholders	12,980	1,498,025	-	1,511,005	1,460,590
Total Liabilities	<u>\$ 12,980</u>	<u>\$ 1,498,525</u>	<u>\$ 2,307,250</u>	<u>\$ 3,818,755</u>	<u>\$ 3,409,749</u>

CITY OF LAGUNA BEACH
Agency Funds
Combining Statement of Changes in Fiduciary Assets and Liabilities
Year Ended June 30, 2013

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>
<u>1911 Act Bonds</u>				
<u>Assets</u>				
Cash and Investments	\$ 12,980	\$ 12,980	\$ 12,980	\$ 12,980
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -
Due to bondholders	12,980	12,980	12,980	12,980
Total Liabilities	<u>\$ 12,980</u>	<u>\$ 12,980</u>	<u>\$ 12,980</u>	<u>\$ 12,980</u>
<u>1915 Act Bonds</u>				
<u>Assets</u>				
Cash and investments	\$ 743,395	\$ 885,991	\$ 743,395	\$ 885,991
Investments with fiscal agent	685,337	596,859	685,337	596,859
Receivables:				
Taxes	18,878	15,675	18,878	15,675
Total Assets	<u>\$ 1,447,610</u>	<u>\$ 1,498,525</u>	<u>\$ 1,447,610</u>	<u>\$ 1,498,525</u>
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ -	\$ 500	\$ -	\$ 500
Due to bondholders	1,447,610	1,498,025	1,447,610	1,498,025
Total Liabilities	<u>\$ 1,447,610</u>	<u>\$ 1,498,525</u>	<u>\$ 1,447,610</u>	<u>\$ 1,498,525</u>
<u>Deposits</u>				
<u>Assets</u>				
Cash and investments	\$ 1,937,866	\$ 2,295,761	\$ 1,937,866	\$ 2,295,761
Receivables:				
Accounts	4,235	4,235	4,235	4,235
Intergovernmental	7,058	7,254	7,058	7,254
Total Assets	<u>\$ 1,949,159</u>	<u>\$ 2,307,250</u>	<u>\$ 1,949,159</u>	<u>\$ 2,307,250</u>
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 148,544	\$ 33,510	\$ 148,544	\$ 33,510
Deposits	1,800,615	2,273,740	1,800,615	2,273,740
Total Liabilities	<u>\$ 1,949,159</u>	<u>\$ 2,307,250</u>	<u>\$ 1,949,159</u>	<u>\$ 2,307,250</u>
TOTALS				
<u>Assets</u>				
Cash and investments	\$ 2,694,241	\$ 3,194,732	\$ 2,694,241	\$ 3,194,732
Investments with fiscal agent	685,337	596,859	685,337	596,859
Receivables:				
Taxes	18,878	15,675	18,878	15,675
Accounts	4,235	4,235	4,235	4,235
Intergovernmental	7,058	7,254	7,058	7,254
Total Assets	<u>\$ 3,409,749</u>	<u>\$ 3,818,755</u>	<u>\$ 3,409,749</u>	<u>\$ 3,818,755</u>
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 148,544	\$ 34,010	\$ 148,544	\$ 34,010
Deposits	1,800,615	2,273,740	1,800,615	2,273,740
Due to bondholders	1,460,590	1,511,005	1,460,590	1,511,005
Total Liabilities	<u>\$ 3,409,749</u>	<u>\$ 3,818,755</u>	<u>\$ 3,409,749</u>	<u>\$ 3,818,755</u>

STATISTICAL SECTION

City of Laguna Beach
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Years			
	2004	2005	2006	2007
Governmental activities:				
Net investment in capital assets (1)	\$ 100,630,789	\$ 105,408,336	\$ 124,111,940	\$ 285,605,573
Restricted	8,324,762	9,726,623	10,449,060	11,766,456
Unrestricted	23,439,204	31,968,151	34,239,450	43,592,259
Total governmental activities	\$ 132,394,755	\$ 147,103,110	\$ 168,800,450	\$ 340,964,288
Business-type activities:				
Net investment in capital assets (1)	1,773,060	\$ 1,498,938	\$ 1,720,568	\$ 2,702,993
Unrestricted	23,051	714,920	265,839	505,975
Total business type activities	1,796,111	\$ 2,213,858	\$ 1,986,407	\$ 3,208,968
Primary Government:				
Net investment in capital assets (1)	\$ 102,403,849	\$ 106,907,274	\$ 125,832,508	\$ 288,308,566
Restricted	8,324,762	9,726,623	10,449,060	11,766,456
Unrestricted	23,462,255	32,683,071	34,505,289	44,098,234
Total business type activities	\$ 134,190,866	\$ 149,316,968	\$ 170,786,857	\$ 344,173,256

Data Source: City Records

(1) These were reported as Invested in capital assets, net of related debt in fiscal years 2004 - 2012

Fiscal Years

2008	2009	2010	2011	2012	2013
\$ 305,837,234	\$ 318,076,672	\$ 315,618,279	\$ 321,965,481	\$ 324,225,923	\$ 328,944,217
10,754,223	10,806,358	12,512,277	5,196,077	5,869,787	6,407,834
41,777,890	40,877,799	43,085,546	56,708,144	50,569,411	58,025,700
<u>\$ 358,369,347</u>	<u>\$ 369,760,829</u>	<u>\$ 371,216,102</u>	<u>\$ 383,869,702</u>	<u>\$ 380,665,121</u>	<u>\$ 393,377,751</u>
\$ 3,056,319	\$ 2,706,697	\$ 2,620,625	\$ 3,033,502	\$ 2,834,551	\$ 2,642,078
465,194	464,012	55,182	372,435	372,452	390,457
<u>\$ 3,521,513</u>	<u>\$ 3,170,709</u>	<u>\$ 2,675,807</u>	<u>\$ 3,405,937</u>	<u>\$ 3,207,003</u>	<u>\$ 3,032,535</u>
\$ 308,893,553	\$ 320,783,369	\$ 318,238,904	\$ 324,998,983	\$ 327,060,474	\$ 331,586,295
10,754,223	10,806,358	12,512,277	5,196,077	5,869,787	6,407,834
42,243,084	41,341,811	43,140,728	57,080,579	50,941,863	58,416,157
<u>\$ 361,890,860</u>	<u>\$ 372,931,538</u>	<u>\$ 373,891,909</u>	<u>\$ 387,275,639</u>	<u>\$ 383,872,124</u>	<u>\$ 396,410,286</u>

City of Laguna Beach
Changes in Net Position
Last Ten Years
(accrual basis of accounting)

	Fiscal Years			
	2004	2005	2006	2007
Expenses:				
Governmental activities:				
General government	\$ 2,904,607	\$ 4,294,820	\$ 3,921,931	\$ 4,043,977
Community development	2,355,274	2,382,329	2,668,812	2,955,670
Public Safety	16,049,217	18,193,401	18,864,927	21,480,996
Public Works	13,172,223	11,063,217	21,427,184	13,372,777
Recreation and social services	2,851,119	3,164,928	3,415,130	3,609,896
Sewer service operating costs	3,147,888	3,924,249	3,484,183	4,561,407
Interest on long-term debt	968,961	518,189	521,755	511,304
Total governmental activities expenses	<u>41,449,289</u>	<u>43,541,133</u>	<u>54,303,922</u>	<u>50,536,027</u>
Business-type activities:				
Municipal transit	\$ 1,453,091	\$ 1,677,468	\$ 1,664,811	\$ 1,857,979
Total business-type activities expenses	<u>\$ 1,453,091</u>	<u>\$ 1,677,468</u>	<u>\$ 1,664,811</u>	<u>\$ 1,857,979</u>
Total primary government expenses	<u>\$ 42,902,380</u>	<u>\$ 45,218,601</u>	<u>\$ 55,968,733</u>	<u>\$ 52,394,006</u>
Program revenues:				
Governmental activities:				
Charges for Services:				
General Government	\$ 895,538	\$ 954,161	\$ 985,885	\$ 1,097,636
Community development	2,317,751	2,680,048	2,775,360	2,811,790
Public safety	1,685,647	1,877,297	2,050,919	2,010,319
Public works	4,410,512	5,523,490	4,893,227	6,113,731
Recreation and social services	1,204,292	1,145,857	1,217,894	1,405,718
Sewer service operating costs	4,997,882	5,091,637	5,328,527	5,497,631
Operating Grants and Contributions:	2,445,247	2,804,549	3,716,412	5,017,124
Capital Grants and Contributions:	909,854	2,453,596	14,298,137	15,865,514
Total governmental activities program revenues	<u>\$ 18,866,723</u>	<u>\$ 22,530,635</u>	<u>\$ 35,266,361</u>	<u>\$ 39,819,463</u>
Business-type activities:				
Charges for Services:				
Municipal Transit	\$ 184,466	\$ 223,662	\$ 325,015	\$ 339,842
Operating Grants and Contributions:	1,085,797	1,201,453	881,047	1,221,042
Capital Grants and Contributions:	526,303	450,000	57,912	1,223,950
Total business-type activities program revenues	<u>\$ 1,796,566</u>	<u>\$ 1,875,115</u>	<u>\$ 1,263,974</u>	<u>\$ 2,784,834</u>
Total primary government program revenues	<u>\$ 20,663,289</u>	<u>\$ 24,405,750</u>	<u>\$ 36,530,335</u>	<u>\$ 42,604,297</u>
Net revenues (expenses):				
Governmental activities	\$ (22,582,566)	\$ (21,010,498)	\$ (19,037,561)	\$ (10,716,564)
Business-type activities	343,475	197,647	(400,837)	926,855
Total net revenues (expenses)	<u>\$ (22,239,091)</u>	<u>\$ (20,812,851)</u>	<u>\$ (19,438,398)</u>	<u>\$ (9,789,709)</u>

Data Source: City Records

Fiscal Years					
2008	2009	2010	2011	2012	2013
\$ 4,326,076	\$ 4,375,200	\$ 4,252,146	\$ 4,291,832	\$ 4,658,171	\$ 4,763,294
3,422,556	3,768,607	3,614,799	3,686,004	3,991,867	3,826,827
23,133,907	25,697,805	25,351,962	26,364,923	26,937,061	24,694,999
22,374,310	18,182,514	20,707,700	14,336,928	13,913,687	12,424,715
3,839,208	4,147,762	4,268,774	4,676,679	5,004,329	4,797,756
4,682,498	5,850,403	5,673,965	5,700,769	6,063,835	5,519,819
408,619	368,191	290,473	187,964	211,810	129,382
62,187,174	62,390,482	64,159,819	59,245,099	60,780,760	56,156,792
\$ 2,183,550	\$ 2,318,378	\$ 2,458,706	\$ 2,450,265	\$ 2,233,496	\$ 2,148,718
\$ 2,183,550	\$ 2,318,378	\$ 2,458,706	\$ 2,450,265	\$ 2,233,496	\$ 2,148,718
\$ 64,370,724	\$ 64,708,860	\$ 66,618,525	\$ 61,695,364	\$ 63,014,256	\$ 58,305,510
\$ 1,031,632	\$ 1,073,481	\$ 945,403	\$ 890,306	\$ 882,761	\$ 906,051
2,635,214	2,587,192	2,523,559	2,246,036	2,195,031	2,731,302
2,400,367	2,257,248	2,111,769	1,725,333	1,752,556	1,797,519
5,329,796	6,563,355	6,081,042	6,994,344	6,295,258	7,428,761
1,499,601	1,448,611	2,776,127	3,311,914	3,050,630	3,200,792
5,654,840	5,766,575	5,949,922	6,082,856	6,308,982	6,588,390
6,159,388	5,445,042	3,192,109	3,930,216	1,961,730	2,024,308
7,300,066	1,083,774	75,751	1,002,303	878,382	131,497
\$ 32,010,904	\$ 26,225,278	\$ 23,655,682	\$ 26,183,308	\$ 23,325,330	\$ 24,808,620
\$ 348,146	\$ 323,660	\$ 313,847	\$ 323,428	\$ 318,205	\$ 326,723
951,510	1,019,877	1,155,687	1,637,397	1,321,121	1,304,127
862,200	9,496	-	393,174	-	-
\$ 2,161,856	\$ 1,353,033	\$ 1,469,534	\$ 2,353,999	\$ 1,639,326	\$ 1,630,850
\$ 34,172,760	\$ 27,578,311	\$ 25,125,216	\$ 28,537,307	\$ 24,964,656	\$ 26,439,470
\$ (30,176,270)	\$ (36,165,204)	\$ (40,504,137)	\$ (33,061,791)	\$ (37,455,430)	\$ (31,348,172)
(21,694)	(965,345)	(989,172)	(96,266)	(594,170)	(517,868)
\$ (30,197,964)	\$ (37,130,549)	\$ (41,493,309)	\$ (33,158,057)	\$ (38,049,600)	\$ (31,866,040)

City of Laguna Beach
Changes in Net Position (Continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Years			
	2004	2005	2006	2007
General Revenues and other changes in net assets:				
Governmental activities:				
Taxes:				
Property taxes	\$ 16,295,123	\$ 19,355,411	\$ 21,284,138	\$ 23,447,241
Sales Tax	3,757,472	3,153,636	3,623,610	3,924,620
Sales tax in-lieu	-	910,621	918,602	1,112,853
Transient occupancy taxes	6,770,614	7,251,883	7,900,582	8,661,017
Other taxes	3,425,828	3,197,487	5,144,450	5,823,284
Motor vehicle license fees, unrestricted	1,073,809	266,988	171,850	144,395
Investment Income	866,479	790,686	952,890	1,646,417
Other general revenue	1,450,806	987,200	912,165	1,042,577
Gain on sale of assets	37,459	25,041	-	595,802
Transfers	-	(220,100)	(173,386)	(272,174)
Total governmental activities	<u>\$ 33,677,590</u>	<u>\$ 35,718,853</u>	<u>\$ 40,734,901</u>	<u>\$ 46,126,032</u>
Business-type activities				
Investment Income	\$ -	\$ -	\$ -	\$ 19,532
Other general revenue	-	-	-	4,000
Gain or loss on sale of assets	-	-	-	-
Transfers	-	220,100	173,386	272,174
Total Business-type activities	<u>\$ -</u>	<u>\$ 220,100</u>	<u>\$ 173,386</u>	<u>\$ 295,706</u>
Total Primary government	<u>\$ -</u>	<u>\$ 35,938,953</u>	<u>\$ 40,908,287</u>	<u>\$ 46,421,738</u>
Changes in net position (1):				
Governmental activities	\$ 11,095,024	\$ 14,708,355	\$ 21,697,340	\$ 35,409,468
Business-type activities	343,475	417,747	(227,451)	1,222,561
Total primary government	<u>\$ 11,438,499</u>	<u>\$ 15,126,102</u>	<u>\$ 21,469,889</u>	<u>\$ 36,632,029</u>

Data Source: City Records

(1) Net position was reported as net asset in fiscal years 2004 - 2012

Fiscal Years

2008	2009	2010	2011	2012	2013
\$ 25,525,587	\$ 26,973,472	\$ 27,766,596	\$ 27,799,676	26,553,228	27,498,818
4,074,094	3,427,084	3,206,617	3,356,309	3,825,793	4,283,412
1,149,419	1,163,049	697,446	948,251	979,382	1,125,941
8,741,413	7,856,964	6,759,353	7,073,251	7,904,562	8,537,050
6,638,617	5,759,315	1,816,278	2,167,624	2,311,061	1,792,633
111,385	85,458	74,043	115,763	-	-
1,952,936	1,768,663	1,332,412	1,028,790	739,632	(70,016)
551,766	754,080	775,565	1,365,120	1,576,053	964,666
302,575	(60,087)	-	5,050	70,207	271,698
(386,000)	(602,000)	(468,900)	(823,900)	(391,300)	(343,400)
<u>\$ 48,661,792</u>	<u>\$ 47,125,998</u>	<u>\$ 41,959,410</u>	<u>\$ 43,035,934</u>	<u>\$ 43,568,618</u>	<u>\$ 44,060,802</u>
\$ 13,197	\$ 10,377	\$ 19,065	\$ 2,496	\$ 3,936	\$ -
4,000	1,764	4,003	-	-	-
-	-	2,302	-	-	-
386,000	602,400	468,900	823,900	391,300	343,400
<u>\$ 403,197</u>	<u>\$ 614,541</u>	<u>\$ 494,270</u>	<u>\$ 826,396</u>	<u>\$ 395,236</u>	<u>\$ 343,400</u>
<u>\$ 49,064,989</u>	<u>\$ 47,740,539</u>	<u>\$ 42,453,680</u>	<u>\$ 43,862,330</u>	<u>\$ 43,963,854</u>	<u>\$ 44,404,202</u>
\$ 18,485,522	\$ 10,960,794	\$ 1,455,273	\$ 9,974,143	\$ 6,113,188	\$ 12,712,630
381,503	(350,804)	(494,902)	730,130	(198,934)	(156,546)
<u>\$ 18,867,025</u>	<u>\$ 10,609,990</u>	<u>\$ 960,371</u>	<u>\$ 10,704,273</u>	<u>\$ 5,914,254</u>	<u>\$ 12,556,084</u>

City of Laguna Beach
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Years			
	2004	2005	2006	2007
General Fund:				
Reserved	\$ 1,837,552	\$ 4,347,426	\$ 12,084,685	\$ 16,453,679
Unreserved	15,167,130	18,969,420	21,154,238	24,117,352
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total general fund	<u>17,004,682</u>	<u>23,316,846</u>	<u>33,238,923</u>	<u>40,571,031</u>
All other governmental funds				
Reserved	3,776,687	4,394,865	3,830,101	2,806,815
Unreserved, reported in:				
Special revenue funds	1,813,192	2,382,224	(4,531,715)	(11,095,737)
Capital project funds	2,147,864	2,101,113	2,681,454	4,427,423
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total all other governmental funds	<u>\$ 7,737,743</u>	<u>\$ 8,878,202</u>	<u>\$ 1,979,840</u>	<u>\$ (3,861,499)</u>

Data Source: City Records
The City implemented GASB 54 in Fiscal Year 2010-2011

Fiscal Years					
2008	2009	2010	2011	2012	2013
\$ 8,211,027	\$ 5,858,971	\$ 3,056,277	\$ -	\$ -	\$ -
27,071,427	28,418,761	22,743,525	-	-	-
-	-	-	1,457,462	103,726	129,216
-	-	-	4,731,971	3,526,976	3,317,856
-	-	-	234,988	306,539	306,359
-	-	-	19,511,838	20,962,498	27,272,289
-	-	-	4,822,332	8,215,647	7,287,015
<u>35,282,454</u>	<u>34,277,732</u>	<u>25,799,802</u>	<u>30,758,591</u>	<u>33,115,386</u>	<u>38,312,735</u>
2,473,864	4,788,422	5,235,110	-	-	-
2,678,698	2,939,618	5,511,826	-	-	-
5,565,582	2,990,803	1,269,168	-	-	-
-	-	-	791,384	791,384	3,531,567
-	-	-	6,266,345	10,385,155	3,089,978
-	-	-	5,857,868	-	5,984,699
-	-	-	-	-	265,217
-	-	-	(2,184,688)	(774,645)	(148,095)
<u>\$ 10,718,144</u>	<u>\$ 10,718,843</u>	<u>\$ 12,016,104</u>	<u>\$ 10,730,909</u>	<u>\$ 10,401,894</u>	<u>\$ 12,723,366</u>

City of Laguna Beach
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Years			
	2004	2005	2006	2007
Revenues:				
Taxes and special assessments	\$ 27,674,519	\$ 33,632,030	\$ 37,249,362	\$ 41,980,491
License and permits	998,849	1,189,531	1,264,362	1,096,008
Fines and penalties	1,284,874	1,529,719	1,598,359	1,476,739
Investment income	960,226	932,572	1,277,408	1,836,734
Rental income	403,376	450,735	448,309	369,318
Intergovernmental	3,577,569	2,924,122	9,989,976	11,713,427
Charges for services	10,871,092	11,282,059	11,566,496	12,316,932
Parking meters, lots and permits	2,805,707	3,862,436	3,225,562	4,334,250
Development tax	372,123	356,855	386,146	276,472
Contributions from property owners	358,686	578,739	-	-
Other	677,375	547,486	806,114	1,938,787
Total Revenue	<u>\$ 49,984,396</u>	<u>\$ 57,286,284</u>	<u>\$ 67,812,094</u>	<u>\$ 77,339,158</u>
Expenditures				
Current:				
General government	\$ 2,930,520	\$ 4,181,073	\$ 3,758,978	\$ 3,361,299
Community development	2,490,925	2,416,040	2,703,135	3,041,255
Public Safety	16,758,061	18,641,992	19,267,767	22,092,500
Public works	8,426,182	8,584,263	9,089,003	9,202,763
Recreation and social services	3,039,009	3,230,652	3,486,067	4,437,225
Sewer service operating costs	2,848,097	3,389,582	2,928,237	3,348,521
Capital expenditures	10,216,779	6,865,535	23,870,902	36,404,842
Debt service:				
Principal	9,286,834	1,660,000	1,730,000	2,101,314
Interest and fiscal charges	992,687	543,296	468,513	542,389
Total Expenditures	<u>\$ 56,989,094</u>	<u>\$ 49,512,433</u>	<u>\$ 67,302,602</u>	<u>\$ 84,532,108</u>
Excess (deficiency) of revenues over (under) expenditures	\$ (7,004,698)	\$ 7,773,851	\$ 509,492	\$ (7,192,950)
Other financing sources (uses):				
Transfer In	\$ 2,397,537	\$ 1,557,042	\$ 2,905,040	\$ 3,000,810
Transfer Out	(1,809,812)	(3,581,690)	(2,651,632)	(3,346,660)
Issuance of bond	-	1,627,140	524,543	2,269,830
Issuance of loan	-	69,357	1,632,928	2,071,567
Advance payments of PERS obligation	-	-	-	-
Developer loan	-	-	-	-
Sales of land and equipment	3,991	6,923	4,344	4,788,172
Total other financing sources (uses)	<u>591,716</u>	<u>(321,228)</u>	<u>2,415,223</u>	<u>8,783,719</u>
Net change in fund balances	<u>\$ (6,412,982)</u>	<u>\$ 7,452,623</u>	<u>\$ 2,924,715</u>	<u>\$ 1,590,769</u>
Debt service as a percentage of noncapital expenditures	28.2%	5.4%	5.3%	5.8%

Data Source: City Records

Fiscal Years

2008	2009	2010	2011	2012	2013
\$ 45,061,416	\$ 44,868,922	\$ 40,986,641	\$ 41,678,318	\$ 41,653,733	\$ 43,929,172
1,024,172	1,141,821	924,040	990,966	975,884	1,052,041
1,968,877	1,807,176	1,483,462	1,274,270	1,283,698	1,341,961
2,172,846	1,907,979	1,361,432	1,064,467	739,628	(70,016)
354,560	387,562	420,678	445,491	419,641	427,341
24,866,373	4,892,173	3,228,921	3,978,327	3,469,505	2,121,486
12,649,555	12,444,053	12,693,018	13,056,488	12,987,838	13,603,713
3,406,195	4,715,786	4,080,151	4,891,228	4,276,533	5,384,197
152,469	6,441	39,804	680,391	183,704	433,526
-	-	-	-	-	-
2,556,833	2,238,673	1,047,961	1,372,893	900,815	652,921
<u>\$ 94,213,296</u>	<u>\$ 74,410,586</u>	<u>\$ 66,266,108</u>	<u>\$ 69,432,839</u>	<u>\$ 66,890,979</u>	<u>\$ 68,876,342</u>

\$ 4,047,877	\$ 3,977,543	\$ 3,901,637	\$ 3,991,706	\$ 4,071,235	\$ 4,014,084
3,399,926	3,636,575	3,482,651	3,531,828	3,600,452	3,751,468
23,078,430	25,048,032	24,681,583	24,676,244	24,419,318	24,336,927
10,501,163	11,049,821	11,070,780	10,097,113	10,671,049	10,958,046
3,865,406	4,006,552	4,196,800	4,003,836	4,049,299	4,216,980
3,620,729	3,886,559	4,093,162	4,009,715	4,062,448	3,950,183
33,322,037	24,039,610	9,377,939	11,060,240	10,745,569	8,974,111
2,199,676	1,655,800	1,425,000	1,490,000	1,915,472	360,040
441,432	717,756	697,523	625,428	181,283	132,459
<u>\$ 84,476,676</u>	<u>\$ 78,018,248</u>	<u>\$ 62,927,075</u>	<u>\$ 63,486,110</u>	<u>\$ 63,716,125</u>	<u>\$ 60,694,298</u>

\$ 9,736,620 \$ (3,607,662) \$ 3,339,033 \$ 5,946,729 \$ 3,174,854 \$ 8,182,044

\$ 1,857,367	\$ 1,499,569	\$ 6,087,140	\$ 538,742	\$ 987,270	\$ 1,697,131
(2,465,695)	(2,101,969)	(6,803,929)	(2,816,927)	(2,446,370)	(2,614,936)
584,539	-	-	-	-	-
534,000	2,586,128	152,486	-	459,263	-
-	-	(9,956,355)	-	-	-
-	-	-	-	-	-
302,572	7,223	956	5,050	12,109	254,582
812,783	1,990,951	(10,519,702)	(2,273,135)	(987,728)	(663,223)
<u>\$ 10,549,403</u>	<u>\$ (1,616,711)</u>	<u>\$ (7,180,669)</u>	<u>\$ 3,673,594</u>	<u>\$ 2,187,126</u>	<u>\$ 7,518,821</u>

5.4%

4.6%

4.1%

4.2%

4.1%

1.0%

CITY OF LAGUNA BEACH
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year Ended June 30	Secured	Unsecured	Taxable Assessed Value	Total Direct Tax Rate
2004	5,945,977,936	91,846,719	6,037,824,655	0.146%
2005	6,670,751,744	156,881,531	6,827,633,275	0.146%
2006	7,462,406,353	89,524,835	7,551,931,188	0.146%
2007	8,209,054,191	92,955,130	8,302,009,321	0.146%
2008	9,035,861,459	87,362,786	9,123,224,245	0.146%
2009	9,647,441,774	103,225,460	9,750,667,234	0.146%
2010	10,043,507,598	100,187,357	10,143,694,955	0.146%
2011	10,215,663,906	119,808,679	10,335,472,585	0.200%
2012	10,367,538,945	100,795,035	10,468,333,980	0.200%
2013	10,595,888,864	85,133,532	10,681,022,396	0.200%

NOTE:

In 1978 the voters of the State of California passed Proposition 13 which limited the property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only re-assessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: Orange County Auditor Controller's Office

CITY OF LAGUNA BEACH
Direct and Overlapping Property Tax Rates (1)
(Rate per \$100 of assessed value)
Last Ten Fiscal Years

	Fiscal Years			
	2004	2005	2006	2007
City Direct Rates:				
City basic rate	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Total City Direct Rate	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Overlapping Rates:				
City of Laguna Beach Bonds	0.0223	0.0197	0.0179	0.0179
Unified School District Bonds	0.0202	0.0190	0.0172	0.0172
South Coast Water District	0.0108	0.0098	0.0090	0.0090
Metro Water District	0.0058	0.0052	0.0047	0.0047
Orange County	-	-	-	-
Total Direct Rate	<u>\$ 1.05909</u>	<u>\$ 1.05370</u>	<u>\$ 1.04883</u>	<u>\$ 1.04883</u>

NOTE:

- (1) Tax rates are for tax rate area 05-015. This area encompasses a majority of the total areas of the City. There are a total of 48 tax rate areas in the City with tax rates from 1.03979 to 1.04883
- (2) In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of other debt obligations.

Source: Orange County Auditor Controller's Office

Fiscal Years					
2008	2009	2010	2011	2012	2013
\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
0.0162	0.0152	0.0137	0.0119	-	-
0.0172	0.0154	0.0168	0.1580	0.1601	0.1694
0.0096	0.0093	0.0092	0.0091	0.0082	0.0082
0.0045	0.0043	0.0043	0.0037	0.0037	0.0035
-	-	-	-	-	-
<u>\$ 1.04756</u>	<u>\$ 1.04421</u>	<u>\$ 1.04406</u>	<u>\$ 1.18267</u>	<u>\$ 1.17200</u>	<u>\$ 1.18110</u>

CITY OF LAGUNA BEACH
Principal Property Tax Payers
Current Year and Nine Years Ago

Taxpayer	2013			2004		
	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value
Laguna Beach Luxury Hotel	\$ 172,786,871	1	1.62%			
ICRE Laguna Club LLC	46,116,891	2	0.43%			
2495 Riviera LP	32,943,532	3	0.31%			
Mission Hospital Regional Medical Cnt	30,935,926	4	0.29%			
Serenita, LLC	30,757,348	5	0.29%			
Nevills Neil D Trust	30,100,092	6	0.28%			
Bank JP Morgan Chase Trust	23,922,512	7	0.22%			
Gary J. Daichendt Trust	23,453,430	8	0.22%			
Residential Property Investment LLC	23,440,969	9	0.22%			
David W. Wilson Trust	20,960,283	10	0.20%			
Five Star Resort LLC				137,713,209	1	2.28%
Club Laguna Partnership				39,950,887	2	0.66%
Laguna Hotels				19,937,087	3	0.33%
Gary J. Daichendt Trust				19,436,568	4	0.32%
Cox Communications				13,752,053	5	0.23%
Laguna Sands				12,476,400	6	0.21%
Nariman Yousefi				12,340,941	7	0.20%
Philiip J. Carroll				12,154,484	8	0.20%
Ted Tomasek Trust				12,117,600	9	0.20%
Von's Companies Inc				11,999,313	10	0.20%
	<u>\$ 435,417,854</u>		<u>2.46%</u>	<u>\$ 291,878,542</u>		<u>4.83%</u>

Source: HdL Coren & Cone

CITY OF LAGUNA BEACH
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collections within the Fiscal Year of Levy		Collection in Subsequent Years	Total Collection to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2004	14,215,094	14,006,384	98.53%	208,710	14,215,094	100%
2005	16,207,471	16,492,734	101.76%	285,263	16,777,997	104%
2006	18,222,850	17,817,435	97.78%	405,415	18,222,850	100%
2007	19,684,235	18,984,179	96.44%	700,056	19,684,235	100%
2008	21,536,874	20,677,967	96.01%	858,906	21,536,873	100%
2009	22,533,278	21,703,512	96.32%	829,766	22,533,278	100%
2010	20,988,144	20,435,935	97.37%	552,209	20,988,144	100%
2011	23,406,343	22,993,852	98.24%	412,491	23,406,343	100%
2012	23,537,933	23,164,514	98.41%	373,417	23,537,931	100%
2013	24,298,820	23,997,150	98.76%	301,670	24,298,820	100%

Source: Orange County Auditor Controller's Office

CITY OF LAGUNA BEACH
 Legal Debt Margin
 Last Ten Fiscal Years

	Fiscal Years			
	2004	2005	2006	2007
Assessed valuation	6,037,824,655	6,827,633,275	7,551,931,188	8,302,009,321
Conversion percentage	25%	25%	25%	25%
Adjusted assessed valuation	1,509,456,164	1,706,908,319	1,887,982,797	2,075,502,330
Debt limit percentage	15%	15%	15%	15%
Debt limit	226,418,425	256,036,248	283,197,420	311,325,350
Total net debt applicable to limit: General obligation bonds	<u>11,346,297</u>	<u>10,138,813</u>	<u>8,913,977</u>	<u>7,600,937</u>
Legal debt margin	<u>\$ 215,072,128</u>	<u>\$ 245,897,435</u>	<u>\$ 274,283,443</u>	<u>\$ 303,724,413</u>
Total debt applicable to the limit as a percentage of debt limit	5.0%	4.0%	3.1%	2.4%

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the state.

Note:

Data Source: City Records

Fiscal Years					
2008	2009	2010	2011	2012	2013
9,123,224,245	9,750,667,234	10,143,694,955	10,335,472,585	10,367,538,945	10,681,022,396
25%	25%	25%	25%	25%	25%
2,280,806,061	2,437,666,809	2,535,923,739	2,583,868,146	2,591,884,736	2,670,255,599
15%	15%	15%	15%	15%	15%
342,120,909	365,650,021	380,388,561	387,580,222	388,782,710	400,538,340
6,330,853	7,150,000	5,840,000	4,480,000	1,565,000	-
<u>\$ 335,790,056</u>	<u>\$ 358,500,021</u>	<u>\$ 374,548,561</u>	<u>\$ 383,100,222</u>	<u>\$ 387,217,710</u>	<u>\$ 400,538,340</u>
1.9%	2.0%	1.5%	1.2%	0.4%	0.0%

CITY OF LAGUNA BEACH
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population	Personal Income (in thousands)	Per Capita Income	Unemployment Rates
2003	24,572	\$ 1,451,529	\$ 59,072	3.5%
2004	24,755	\$ 1,520,498	\$ 61,422	3.1%
2005	24,844	\$ 1,582,252	\$ 63,687	2.7%
2006	24,879	\$ 1,668,235	\$ 67,054	2.5%
2007	24,921	\$ 1,726,808	\$ 69,291	2.8%
2008	24,998	\$ 1,745,071	\$ 69,808	3.8%
2009	25,175	\$ 1,716,641	\$ 68,188	6.6%
2010	25,354	\$ 1,917,193	\$ 75,617	7.1%
2011	22,966	\$ 1,914,147	\$ 83,347	6.4%
2012	23,105	\$ 1,860,923	\$ 80,542	4.1%
2013	-	\$ -	\$ -	0.0%

* 2013 data not available

CITY OF LAGUNA BEACH
 Full-time City Employees by Function
 Last Ten Fiscal Years

Function	Fiscal Years			
	2004	2005	2006	2007
General Government	17.63	17.63	18.03	18.03
Public Safety	131.00	131.75	132.00	133.00
Public Works	54.00	56.00	56.00	56.00
Community Development	23.60	24.00	24.00	26.00
Recreational and Cultural	7.50	7.50	7.50	7.50
Water Quality	15.00	15.00	15.00	15.00
Total	<u>248.73</u>	<u>251.88</u>	<u>252.53</u>	<u>255.53</u>

Data Source: City Records

Fiscal Years					
2008	2009	2010	2011	2012	2013
18.03	18.03	18.03	18.03	17.63	17.63
135.00	134.00	134.00	132.60	132.50	132.50
56.00	57.00	55.00	54.00	51.00	50.00
26.00	29.00	28.00	27.00	26.50	26.50
7.50	7.65	7.65	7.75	7.75	7.75
15.00	15.00	15.00	15.00	15.00	15.00
<u>257.53</u>	<u>260.68</u>	<u>257.68</u>	<u>254.38</u>	<u>250.38</u>	<u>249.38</u>

CITY OF LAGUNA BEACH
 Operating Indicators
 Last Ten Fiscal Years

	Fiscal Years			
	2004	2005	2006	2007
Police				
Custodial Arrests	3,358	1,997	1,823	N/A
Traffic Violations	579	9,934	7,089	N/A
Parking Violations	38,335	38,149	43,653	39,659
Fire Protection:				
Number of Calls Answered	2,432	2,454	2,446	N/A
Number of Inspections	709	709	714	N/A
Water Quality:				
Number of Service Connections	8,504	8,504	8,504	8,504
Daily Average Treatment in gallons	2	2	2	2
Maximum daily capacity of treatment plant in gallons	4	4	4	4

Data Source: City Records

N/A - Not currently available.

Fiscal Years					
2008	2009	2010	2011	2012	2013
1,337	1,296	1,411	2,163	1,527	2,176
3,718	7,292	6,624	7,176	5,855	6,138
53,863	48,148	39,108	35,688	38,553	40,050
N/A	N/A	N/A	N/A	3,413	3,311
N/A	N/A	N/A	N/A	806	1,650
8,504	8,504	8,504	8,504	8,504	8,504
2	2	2	2	2	2
4	4	4	4	4	4

CITY OF LAGUNA BEACH
 Capital Asset Statistics by Function
 Last Ten Fiscal Years

	Fiscal Years				
	2004	2005	2006	2007	2008
Police					
Stations	1	1	1	1	1
Fire:					
Fire Stations	4	4	4	4	4
Public Works					
Streets (miles)	93	93	93	93	93
Streetlights	1,241	1,241	1,241	1,241	1,241
Culture and Recreation					
Community Centers	3	3	3	3	3
Parks	17	17	17	17	17
Park Acreage	47	47	47	47	47
Tennis Courts	12	12	12	12	12
Water Quality					
Miles of sanitary sewers	95.00	95.00	95.00	95.00	95.00
Miles of storm drains	78.00	78.00	78.00	78.00	78.00

Data Source: City Records

Fiscal Years				
2009	2010	2011	2012	2013
1	1	1	1	1
4	4	4	4	4
93	93	93	93	93
1,241	1,241	1,241	1,241	1,241
3	3	3	3	3
17	17	17	17	17
47	47	47	47	47
12	12	12	12	12
95.00	95.00	95.00	95.00	95.00
78.00	78.00	78.00	78.00	78.00