



AGENDA REPORT

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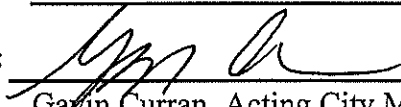
Meeting Date
April 9, 2024

**SUBJECT: CITIZENS' AUDIT REVIEW AND INVESTMENT ADVISORY COMMITTEE
REPORT ON THE RESULTS OF THE FISCAL YEAR 2021-22 AUDIT**

RECOMMENDATION: The Citizens' Audit Review and Investment Advisory Committee recommends that the City Council:

1. Receive and file the Citizens' Audit Review and Investment Advisory Committee Annual Report on the results of the audit for Fiscal Year 2021-22; and
2. Consider implementing the Committee's recommendations.

Appropriation: _____ **Fund Name:** _____

Submitted By: Citizens' Audit Review & Investment Advisory Committee **Approved:** 
Gavin Curran, Acting City Manager

SUMMARY OF THE MATTER

The Citizens' Audit Review and Investment Advisory Committee ("Committee") is pleased to present a report on the results of the Review of the City's Annual Comprehensive Financial Report (ACFR) for the Fiscal Year Ended June 30, 2022 ("Report").

DISCUSSION

In preparing the Report, the Committee reviewed the City's ACFR, Single Audit, Single Audit Corrective Action Plan, audit compliance letters, and auditor findings for the fiscal year ended June 30, 2022. The Committee met with staff to review the reports and letters and met with the auditors without city staff being present. In addition, the Committee formed a subcommittee which had additional discussions with city staff regarding the audit compliance letters.

The auditors expressed an "unmodified" opinion of the City's Fiscal Year 2021-22 financial statements, which is the highest level of assurance possible. In the Single Audit and audit compliance letters, the auditors identified deficiencies in internal controls that can be considered a significant deficiency or material weakness. The City accepted the auditor's recommendations, and the City's response to each finding is included on pages 206 through 209 of the Report (Attachment 1).

The Committee concurs with the recommendations made by the auditors in the Single Audit and audit compliance letters. While the audit findings have been addressed and staff have implemented the auditor's recommendations, the Committee would like to note that not all of the process improvements and staffing changes were implemented in time to avoid the expectation of some minor audit findings associated with the audit for the fiscal year ended June 30, 2023.

The Committee would like to thank the City for its efforts in keeping the citizens of Laguna Beach informed of the City's financial condition and hope the City Council and the residents of Laguna will benefit from

Citizens' Audit Review and Investment Advisory Committee Report on the Results of the FY 2021-22 Audit
April 9, 2024
Page 2 of 2

this Committee's work. We look forward to serving the interests of the community of Laguna Beach in the coming year.

FINANCIAL ANALYSIS

There is no financial impact in receiving the Citizens' Audit Review and Investment Advisory Committee Audit Report.

ATTACHMENTS

1. Committee Audit Summary Report (Pgs. 3-219)

Report Prepared By:

Julie Nemes, Dir. Finance and Technology

Coordinated With:

Citizens' Audit Review and Investment Advisory Committee

AUDIT SUMMARY REPORT

Meeting Date: March 4, 2024
Agency: City of Laguna Beach
Committee: Citizens' Audit Review and Investment Advisory Committee
Members: Glenn Gray – Chair, Gregory Mech, Jolie Eisner, Sasha Talebi
Title: Summary Report from Citizens' Audit Review and Investment Advisory Committee on the Results of the Fiscal Year 2021-22 Audit

Recommendation

The Citizens' Audit Review and Investment Advisory Committee (Committee) recommends that the City Council receive and file the Committee's annual report on the results of the Fiscal Year 2021-22 Audit and consider implementing the Committee's recommendations.

Background

As specified under "Qualifications of Appointed Public Member" in Resolution 22.074 of the City of Laguna Beach adopted September 20, 2022, this Committee is comprised of residents of the City of Laguna Beach, and the purpose of the Committee, as it relates to audit review functions, shall include, as specified in the adopted Resolution:

1. Participate in the selection of the City's external financial auditors
2. Review the results of the annual financial audit
3. Review the expenditures of the Measure LL Fund annually as part of reviewing the results of the annual financial audit
4. Review any internal control weaknesses and legal compliance issues identified in the course of the annual financial audit and provide any necessary recommendations to the City Council

The Committee provides independent review and oversight of the City's financial reporting processes, internal controls, and independent auditors. By effectively carrying out its functions and responsibilities, the Committee helps to ensure that staff properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management's practices, and that the independent auditors, through their own review, objectively assess the City's financial reporting practices. In fulfilling these duties, the Audit Committee met during calendar year 2023, on June 14, June 29, July 27, October 16, and December 4. This report addresses duties #2, #3, and #4 above.

For the fiscal year ended June 30, 2022, the audit reports include:

- Annual Comprehensive Financial Report (ACFR)
- Single Audit
- Single Audit Corrective Action Plan
- Report on Compliance and Other Matters and on Internal Controls

- Management Letter
- Statement on Auditing Standards No. 114 Report
- Agreed-Upon Procedures Applied to Appropriations Limit Calculation Letter
- Memo from Director of Finance and Technology Services to the City Council

Analysis

From an oversight standpoint, the Committee has been able to provide an independent review of the City's financial reporting processes and internal controls. Despite the material weaknesses and significant deficiencies noted below, which have all been addressed through filling open positions, additional training, and process improvements, the Committee finds the City's financial reporting processes and internal controls to be adequate.

In an effort to make the financial statements clearer and more understandable to readers, the ACFR includes a Letter of Transmittal and a Management Discussion and Analysis section that summarize and highlight the City's financial results. They are intended to be read in conjunction with the accompanying Basic Financial Statements in the ACFR.

The ACFR has been audited by an independent, certified, and licensed auditor. On July 27, the Committee received the auditor's opinion, annual financial reports, and associated audit letters. On October 16, the Committee met directly with the City's independent auditors to discuss the City's audit results. The Committee determined that the reports and related information were fairly presented, to the extent such a determination can be made solely on the basis of such conversations. The Committee also determined the reports were comprehensive and adequately disclosed the financial position and results of operations for the City.

In addition, the Committee received the audit compliance letters from the City's independent auditor. These letters identify any material weaknesses, significant deficiencies, and other matters that include new Government Accounting Standards Board (GASB) pronouncements that could impact financial reporting and operations taking effect in the next few years, and opportunities for strengthening internal controls and operating efficiency. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is less severe than a material weakness.

The following items were identified by the City's independent auditor:

Material Weakness in Internal Control

1. **Finding:** The City does not have sufficient procedures in place to ensure a proper year-end closing is completed in a timely manner.

Management Response: The Finance Division encountered an unexpected turnover in a critical position, resulting in a temporary hardship. This issue has been resolved. To prevent such occurrences in the future, management has taken proactive steps by hiring additional staff members

and implementing additional year-end closing procedures. These measures aim to ensure the timely and accurate recording of all transactions in the general ledger.

2. **Finding:** The City's internal controls did not allow for evidence of review of the SEFA or analysis of the accuracy of expenditure totals on the SEFA. This includes an analysis of the federal expenditures reported compared to the related federal revenues and grant agreements in effect for the year ended June 30, 2022.

Management Response: The Finance staff made an error in the initial preparation of the Schedule of Expenditures of Federal Awards (SEFA) provided to the auditors. Specifically, grants were reported based on the revenue received in that year, rather than the expenditures incurred. We recognize that this issue was corrected before final submittal of the SEFA. To prevent similar errors in the future, management is committed to providing training to the Finance staff on SEFA preparation, emphasizing the inclusion of only current year Federal expenditures on the schedule. Furthermore, we will implement a review process whereby the Director of Finance and Technology Services will thoroughly review the SEFA for accuracy prior to its submission for audit.

Significant Deficiency in Internal Control

3. **Finding:** The City does not have sufficient procedures in place to ensure timely documented review of the reconciliation of cash and investment balances, including timely posting of adjusting entries to the general ledger.

Management Response: In response to the audit finding, management acknowledges that the bank reconciliations for June 2022 were reviewed by management in July 2022; however, formal documentation of this review, including a final signature on the Bank Reconciliation, was completed in November 2022. To resolve this issue, management has implemented a new procedure requiring the immediate signing of the bank reconciliation upon completion of the review. This ensures that documentation of the bank reconciliations is promptly and consistently completed. Management acknowledges that the two reconciling items on the June 2022 bank reconciliation were not promptly recorded in the general ledger. The Finance staff diligently researched and resolved these items. To enhance this process that includes the timely posting of adjusting entries, management has implemented updated internal procedures. Under these revised procedures, Finance staff are now required to record bank reconciliation reconciling items in the period they are identified, ensuring timely and accurate recording of such items.

Significant Deficiency in Internal Control Over Compliance

4. **Finding:** The City prepared the Project and Expenditure Report and submitted it without retaining evidence that the report was reviewed and approved by a separate individual prior to submission.

Management Response: The City's Finance Manager was responsible for submitting the Project and Expenditure Report for the COVID-19 - Coronavirus State and Local Fiscal Recovery Funds award. Prior to submission, the report underwent a comprehensive review by the Assistant City Manager/CFO, which was documented through a calendar invitation between the Finance Manager and Assistant City Manager/CFO. Furthermore, to ensure transparency and accountability, the appropriation of COVID-19 - Coronavirus State and Local Fiscal Recovery Funds was presented to the City Council, and the funding was included in the FY 2021-22 City Adopted Budget. Additionally, multiple presentations were made during City Council meetings regarding the

appropriation and expenditure of these funds, which are public meetings. For future submission, management will formally document the review of the submission process with a signed memo from the Assistant City Manager/CFO and City Manager.

5. **Finding:** The City's procedures did not ensure the required written procedures were developed and implemented in accordance with the Uniform Guidance.

Management Response: The City of Laguna Beach's Administrative Policies already incorporate Special Procedures for Procurement for Federally Funded Projects and Purchases. These procedures ensure compliance with all relevant Federal requirements when the City expends Federal funds. To further enhance our compliance efforts, management will update the City's Administrative Policies to include additional procedures for determining the allowability of costs in accordance with the conditions of Federal Awards.

Management Letter Comment

6. **Recommendation:** That the City formally document the analyzation of the Deposits Payable and Accounts Receivable aging reports as part of the year end closing process.

Management Response: Formal documentation of the analyzation of the Deposits Payable and Accounts Receivable ageing reports has been included in the Finance Division's year end closing procedures.

Agreed-Upon Procedures Applied to Appropriations Limit Finding

7. **Finding:** The City used the incorrect per capita cost of living ratio and the incorrect population factor in its calculation of the adjustment factor. This caused a difference of \$695,000 between the auditor's calculation of \$68,620,737 and the City's calculation of \$67,925,727 for the fiscal year 2021-22 appropriations limit.

Management Response: The Finance Division corrected the error in June 2022 with the calculation and approval of the Fiscal Year 2022-23 Appropriations Limit.

Recommendations & Observations

This Committee concurs with the recommendations made by the auditors.

Conclusion

With respect to the reports, the Committee would like to draw attention to the following:

- The Independent Auditors have issued an unmodified opinion on the financial statements for the City's fiscal year ended June 30, 2022, which is the highest level of assurance possible.
- Finance Department: The professional work product put forward by the City's Finance staff is demonstrated by the Department receiving the Certificate of Achievement for Excellence in Financial Reporting award for the fiscal year ended June 30, 2022, representing the 8th consecutive year they received this recognition.

- All audit findings for the fiscal year ended June 30, 2022, have now been closed. Furthermore, we understand the process improvements and the staffing changes described in Management's response have been implemented by the Finance Department; however, they were not all implemented in time to avoid there being some minor findings expected in the audit findings associated with the audit of the fiscal year ended June 30, 2023.

The members of The Citizens' Audit Review and Investment Advisory Committee thank the City for its efforts in keeping the citizens of Laguna Beach informed of the financial condition of the City, and we hope the City Council and the residents of Laguna Beach will benefit from the work of this Committee. We also thank the City Council liaison Councilmember Sue Kempf, the City Treasurer, auditors from Eide Bailly LLP, and especially City Finance staff for their assistance in the production of this report. The committee members look forward to continuing to serve the interests of the community of Laguna Beach in the coming year.

Attachments

- A. Annual Comprehensive Financial Report (ACFR) (Pgs. 8-185)
- B. Single Audit (Pgs. 186-204)
- C. Single Audit Corrective Action Plan (Pgs. 205-209)
- D. Report on Compliance and Other Matter and on Internal Controls (Pgs. 188-193)
- E. Management Letter (Pg. 210)
- F. Statement on Auditing Standards No. 114 Report (Pgs. 211-215)
- G. Agreed-Upon Procedures Applied to Appropriations Limit Calculation Letter (Pgs. 216-217)
- H. Memo from Director of Finance and Technology Services to the City Council (Pgs. 218-219)

CITY OF LAGUNA BEACH, CALIFORNIA

ANNUAL COMPREHENSIVE FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2022

City Council:

Bob Whalen, Mayor
Sue Kempf, Mayor Pro Tem
George Weiss, Council Member
Alex Rounaghi, Council Member
Mark Orgill, Council Member

Laura Parisi, City Treasurer

Ann Marie McKay, City Clerk

Shohreh Dupuis, City Manager

**Prepared by:
Finance Division**

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Introductory Section

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May 25, 2023

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, 2022.

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 Eide Bailly 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, 2022, 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, 2022, 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 of Laguna Beach MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Laguna Beach, 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 roughly 23,000. The City is the home to the Pageant of the Masters and the Festival of the Arts. The City attracts more than six 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 for, among other things, 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. City Council members serve four-year staggered terms, with new members elected every two years. The mayor is elected by the City Council on an annual basis.

The City of Laguna Beach is a full-service city providing its residents and visitors with a full range of services including general governance; police, fire and marine safety protection; maintenance of streets, parks, beaches, the sewer system and parking facilities; design and building of new infrastructure; solid waste; transit operations; community development; recreational activities and cultural arts and events; and administrative services.

The budget serves as the foundation for the City's financial planning and control. All departments of the City are required to submit requests for appropriations to the City Manager the January preceding the end of the budget cycle. 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 City Council for review in May. The City 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, public works, and general administrative services). The City Council may amend the budget by a vote of a 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, and capital projects funds; therefore, the legal level of budgetary control is at the department level.

Within the General Fund, an available fund balance of at least 20% of appropriations has been established as a reserve for contingencies. Budget-to-actual comparisons are provided in this financial report for each governmental fund for which an appropriated 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.

The City's financial statements present the financial activity of the City of Laguna Beach (the primary government) and the Laguna Beach County Water District (a component unit of the City). The Water District is discretely presented in the City's financial statements because the City Council also serves as board of the Water District. Additional information about the Laguna Beach County Water District and the reporting entity can be found in Note 1 of the notes to the basic 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.

The City is in a good financial position as it started the Fiscal Year 2021-22, with positive net position and increasing revenues. The City's General Fund even had a surplus at year-end due to property tax, transient occupancy tax, and sales tax all exceeding revenue projections. Furthermore, property taxes are expected to increase moderately as the City experiences a continued demand in housing. This revenue source is stable for the City, and community development fees are also exceeding revenue projections due to the high level of building development and activity.

The City Council's strategic financial decisions in the past year have contributed to the City's favorable position to move past the pandemic. Looking forward, the City anticipates that the assessed property values, demand for lodging, and return of consumer spending will continue to drive the growth of property tax, transient occupancy tax, and sales tax. However, the City remains cautiously optimistic as the likelihood of a mild recession in 2023 is still possible.

Local economy. According to the UCLA Anderson Forecast, the national economy is forecasted to have strong growth through the fourth quarter of 2022. Heading into 2023, the Forecast predicts two scenarios: if the country does not go into a recession in 2023, economic growth is expected to slow in the first quarter of 2023 and be virtually non-existent in the second quarter of 2023, with the economy expected to pick up again in the final two quarters of 2023. If a recession occurs, it will be relatively brief, with consumer resilience as the key factor. Inflation is expected to ease through mid-2023.

For California, the UCLA Anderson Forecast suggests that the actions taken by the Federal Reserve to limit inflation will have a milder impact on California's economy. Higher interest rates may lead to a downturn in the California Housing Market. The employment picture in California remains in flux. The state's non-farm payroll jobs now exceed its February 2020 pre-pandemic level by 31,000 jobs, although many of the new jobs are in different sectors than those in which job loss was the most acute. Specifically, about 170,000 payroll jobs in leisure and hospitality and other service sectors have not returned.

The outlook for Orange County is similar. According to the December 2022 Chapman University Forecast, home prices are projected to drop by 7.3% in 2023 due to rising mortgage rates and home sales by 10.5%. Building permits are also projected to drop by 21%. Job growth is expected to grow only by 0.5% in 2023, with taxable sales to fall in 2023, after rising almost 18% in 2021-2022. Orange County has experienced economic challenges and uncertainties, but it remains resilient and continues to adapt to changing conditions.

Long-term financial planning. The City's budget serves as the foundation for the City of Laguna Beach financial planning and control and allows the City Council to prioritize City expenditures. Appropriations for operating expenditures shall be balanced in relation to current revenue sources. When significant uncertainty exists concerning revenue volatility or threatening/pending obligations, the City Council and City Manager reserve the right to impose any special fiscal control measures, including personnel hiring freezes, and other spending controls, whenever circumstances warrant. The City Council may authorize the use of contingency reserves (set at 20% of the General Fund Operating Budget) as set forth by City policy.

Over the next several years, Laguna Beach will be faced with balancing revenue growth against increasing operating costs, retirement costs and healthcare costs. That said, the City's fiscal conservatism has created a stable financial base. The City's fiscal discipline has allowed it to prepare a balanced budget, improve reserves, and take steps to mitigate increases in pension costs.

Summary of Current Year Accomplishments. The City is constantly undertaking many significant initiatives to address the priorities of the City Council and its residents. Progress has been achieved on several of the City Council's priorities, including: beginning the development of a Climate Adaptation and Action Plan; purchasing the County Library Building and extending the lease with Orange County for library services; purchasing of St. Catherine of Siena School located at 30516 Coast Highway to enhance services for the community, including recreation programming in the Gymnasium, relocating the Emergency Operations Center and Fire Administration offices, and providing additional spaces for community use; adding a Support Dog, "Cooper," to the new Peer Support Program to assist in employee wellness and community engagement; purchasing of three parcels located at 31796 Coast Highway to build a replacement fire station for Fire Station No. 4; acquiring two Marine Safety Rescue Vessels; implementing a comprehensive cost-of-services study for fee-based services; updating the Historic Preservation Program; installing a new Community Development Customer Queuing System; launching the Laguna Local on-demand microtransit service, using hybrid-electric vehicles, making significant investments in employees through wellness and other services to enhance and improve the employee experience; continuing improvements of City facilities and local infrastructure. These accomplishments demonstrate the City's commitment to progress and improving the lives of its residents.

The City also continues to monitor the economic recovery and the specter of a looming recession. The City has continued to maintain the General Fund reserves of 20% and continues to see improvement in all major revenue sources, such as property tax, sales tax, and transient occupancy tax.

Future Work Program Initiatives. A complete list of priorities was approved by City Council on February 21, 2023. Many of the City Council's major priorities, projects, and programs include:

- Community Fire Risk Assessment
- Construction of Fire Station 4
- Parking and Mobility Master Plan
- Development of Workforce Investment Initiatives
- Senior/Affordable Housing Programs
- Unfunded Pension Liability

Unfunded Pension Liability: One of the most significant challenges to the long-term fiscal stability of Laguna Beach is the unfunded pension obligations for City staff under the California Public Employees Retirement System (CalPERS). The City has consistently taken steps to mitigate increases in its pension cost using a combination of pay downs of its unfunded accrued liability (UAL), employee cost-sharing, and prepayments to CalPERS. Currently, the UAL for the City is \$51.2 million as of June 30, 2021 (the most recent information available). However, CalPERS reported investment losses of -6.1% in FY21-22 and is expected to increase the UAL. The The City Council understands the urgency of addressing this issue and continues to work with City staff to evaluate strategies in lowering the City's unfunded pension obligations.

Awards and Acknowledgements

Awards: The City has received the award for excellence in financial reporting for the past four years.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Laguna Beach for its comprehensive annual financial report for the fiscal year ended June 30, 2021. This was the sixth consecutive year that the government has achieved this prestigious award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate is valid for one year only. We believe our current comprehensive annual financial report continues to conform to the Certificate of Achievement program requirements and we are submitting it to GFOA to determine its edibility for another certificate.

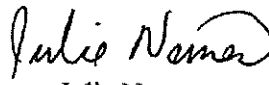
Acknowledgments: The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Division. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report.

Respectfully submitted,



Shohreh Dupuis
City Manager

Gavin Curran
Assistant City Manager/CFO

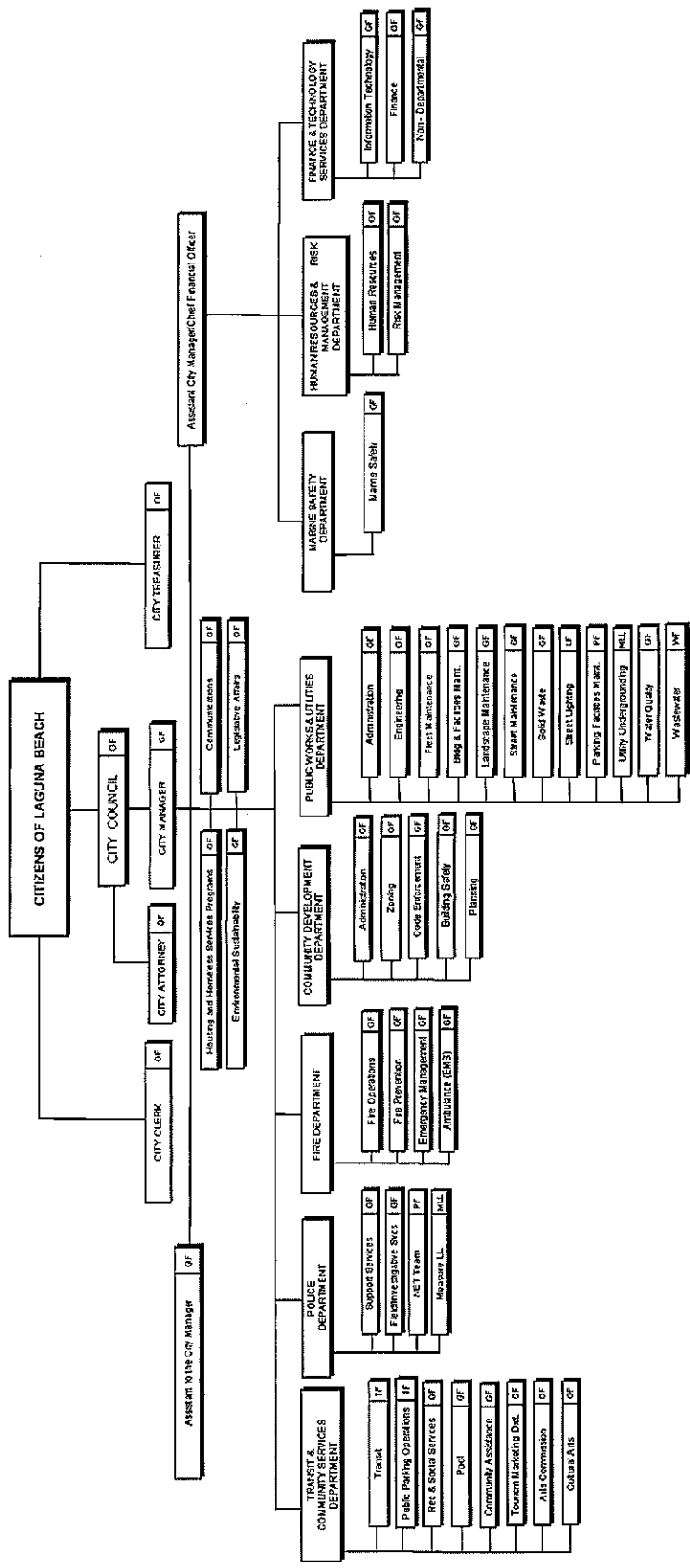


Julie Nemes
Director of Finance &
Technology Services



Shannon Espinoza
Finance Manager

City of Laguna Beach
Organizational Chart





Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**City of Laguna Beach
California**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2021

Christopher P. Morill

Executive Director/CEO

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Financial Section

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Independent Auditor's Report

To the Members of the City Council
City of Laguna Beach, California

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Laguna Beach, California, (City) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the Laguna Beach County Water District, which represent 100% of the assets, net position, and revenues of the aggregate discretely presented component unit as of June 30, 2022. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it related to the amounts included for the Laguna Beach County Water District are based solely on the report of the other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Adoption of New Accounting Standard

As discussed in Note 1 to the financial statements, the City has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended June 30, 2022. Accordingly, a restatement has been made to the governmental activities, business-type activities, general fund, and municipal transit fund fund balance/net position as of July 1, 2021, to restate beginning fund balance/net position. Our opinions are not modified with respect to this matter.

Correction of Error

As discussed in Note 17 to the financial statements, certain errors resulting in an understatement of amounts previously reported for revenues as of June 30, 2021, were discovered during the current year. Accordingly, a restatement has been made to the municipal transit fund balance and business-type activities net position as of June 30, 2021, to correct the error. Our opinions are not modified with respect to that matter.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of proportionate share of the net pension liability for the Safety Plan, schedule of changes in the net pension liability and related ratios for the Miscellaneous Plan, schedule of contributions for the Miscellaneous and Safety Plans, schedule of changes in total OPEB liability and related ratios, and budgetary comparison schedules for the General Fund and related notes, as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 have applied certain limited procedures to the required supplementary information in accordance GAAS, 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.

Supplementary 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 consolidating general fund financial statements, the individual general fund sub-fund budgetary comparison schedules, the major capital projects fund budgetary comparison schedule, and the combining and individual nonmajor fund financial statements and budgetary comparison schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 GAAS. In our opinion, the supplementary information identified above is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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.



Laguna Hills, California
May 25, 2023

Management's Discussion and Analysis

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MANAGEMENT’S DISCUSSION AND ANALYSIS

As management of the City of Laguna Beach (City), we offer readers of the City’s financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2022. Our intent is to assist the reader of these financial statements in better understanding the impact of financial decisions made by the City. This analysis will focus on the significant changes in an effort to explain the City’s overall financial condition. Please read it in conjunction with the accompanying transmittal letter at the front of this report, and the basic financial statements, which follow this section.

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 supplementary information that presents combining statements for the General Fund, 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 sewer service and 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 basic 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

	Fund Statements			
	<u>Government-wide 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 unit	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 custodian for someone else's resources
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Reconciliation to the balance sheet to the statement of net position • Statement of revenues, expenditures and changes in fund balances • Reconciliation of the statement of revenues, expenditures and changes to fund balances to the statement of activities 	<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 net position • Statement of changes in fiduciary net position
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, liabilities, and deferred inflows/outflows of resources, 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, liabilities, and deferred inflows and outflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All 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 plus deferred outflows of resources, and liabilities plus deferred inflows of resources – 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 and facilities, 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 these funds.

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 specific 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 a custodian for certain assets held for, and under the control of, other organizations and individuals. All the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. 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	
	(Restated)		(Restated)		(Restated)	
	2022	2021	2022	2021	2022	2021
Current and Other Assets	\$ 154.5	\$ 139.1	\$ 14.1	\$ 9.0	\$ 168.6	\$ 148.1
Capital Assets	298.0	297.2	50.9	50.7	348.9	347.9
Total Assets	<u>452.5</u>	<u>436.3</u>	<u>65.0</u>	<u>59.7</u>	<u>517.5</u>	<u>496.0</u>
Deferred Outflows of Resources	<u>17.2</u>	<u>15.8</u>	<u>0.7</u>	<u>0.8</u>	<u>17.9</u>	<u>16.6</u>
Long-Term Debt Outstanding	54.3	83.2	18.8	14.6	73.1	97.8
Other Liabilities	12.5	13.9	1.4	2.0	13.9	15.9
Total Liabilities	<u>66.8</u>	<u>97.1</u>	<u>20.2</u>	<u>16.6</u>	<u>87.0</u>	<u>113.7</u>
Deferred Inflows of Resources	<u>29.2</u>	<u>1.7</u>	<u>1.4</u>	<u>0.0</u>	<u>30.6</u>	<u>1.7</u>
Net Position						
Net Investment in						
Capital Assets	297.3	295.9	45.9	43.9	343.2	339.8
Restricted	17.0	19.0	-	-	17.0	19.0
Unrestricted	<u>59.4</u>	<u>38.4</u>	<u>(1.8)</u>	<u>-</u>	<u>57.6</u>	<u>38.4</u>
Total Net Position	<u>\$ 373.7</u>	<u>\$ 353.3</u>	<u>\$ 44.1</u>	<u>\$ 43.9</u>	<u>\$ 417.8</u>	<u>\$ 397.2</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 plus deferred outflows exceeded liabilities plus deferred inflows by approximately \$417.8 million as of June 30, 2022.

The largest portion of the City's net position, \$343.2 million (82.1%), is reflected in its investment in capital assets (e.g., land, street infrastructure, buildings, machinery, and equipment) less any related debt and capital related payables used to acquire those assets that are 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 and capital related payables, it should be noted that the resources needed to repay this debt will be provided from future revenues and the remaining 17.9% 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 \$17.0 million (4.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$57.6 million (13.8%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City reported 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 total net position was also positive, and there were no restrictions on net position.

The City's total net position increased by \$20.5 million during the current fiscal year. The net position of governmental activities increased by \$20.4 million and business-type activities had an increase of \$100 thousand.

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

Table 2
Changes in Net Position
(in thousands)

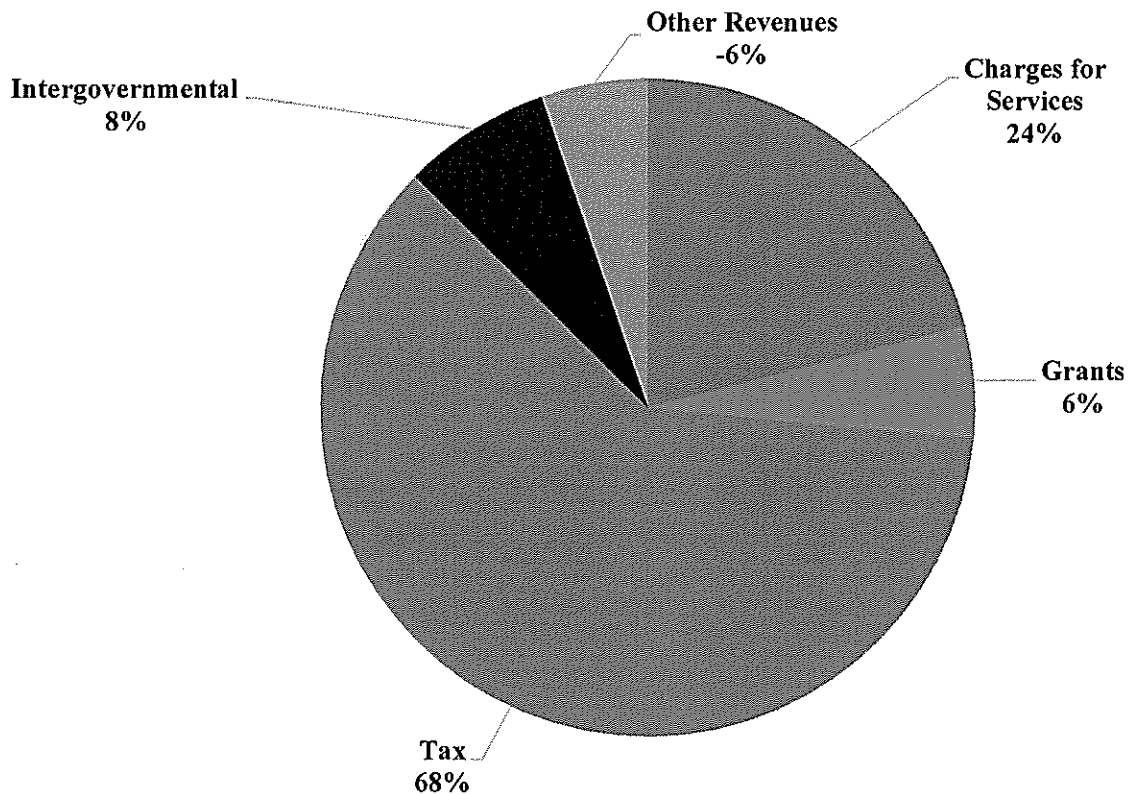
	Governmental Activities		Business-type Activities		Total	
	(Restated)		(Restated)		(Restated)	
	2022	2021	2022	2021	2022	2021
Revenues						
Program Revenues						
Charges for Services	\$23,883	\$20,253	\$9,765	\$9,048	\$33,648	\$29,301
Operating Grants/Contributions	6,155	4,870	3,155	1,247	9,310	6,117
Capital Grants/Contributions	6	2,737	-	-	6	2,737
General Revenues						
Taxes and special assessments	69,339	62,013	-	-	69,339	62,013
Intergovernmental	8,291	6,356	-	-	8,291	6,356
Investment income	(6,930)	162	28	32	(6,902)	194
Miscellaneous revenues	163	208	551	448	714	656
Gain (loss) on sale/disposal of capital assets	908	8	-	(147)	908	(139)
Total Revenues	101,815	96,607	13,499	10,628	115,314	107,235
Expenses:						
General government	6,670	8,821	-	-	6,670	8,821
Community development	6,949	6,528	-	-	6,949	6,528
Public safety	37,893	44,415	-	-	37,893	44,415
Public works	25,805	29,838	-	-	25,805	29,838
Recreation and social services	3,919	3,980	-	-	3,919	3,980
Interest and fiscal charges	5	-	-	-	5	-
Municipal transit	-	-	4,076	1,621	4,076	1,621
Sewer Service	-	-	9,480	8,911	9,480	8,911
Total Expenses	81,241	93,582	13,556	10,532	94,797	104,114
Increase (Decrease) in Net Position						
Before Transfers	20,574	3,025	(57)	96	20,517	3,121
Transfers	(185)	-	185	-	-	-
Increase (Decrease) in Net Position	20,389	3,025	128	96	20,517	3,121
Net Position-Beginning	353,308	350,283	43,924	43,828	397,232	394,111
Net Position-Ending	\$373,697	\$353,308	\$44,052	\$43,924	\$417,749	\$397,232

The City's total revenues were \$115.3 million while the total expenses were \$94.8 million. Property taxes were the City's largest revenue source at \$46.9 million (40.7% of total revenues and 46.1% of governmental revenues). Transient occupancy taxes at \$21.1 million (18.3% of total revenues and 20.7% of governmental revenues) and sales taxes, at \$8.0 million (6.9% of total revenues and 7.9% of governmental revenues) were the second largest revenue sources for the City this past year. Property taxes increased approximately 3.5% resulting from a steady increase in secured taxes driven by higher demand in housing and higher property values. The City's sales taxes increased by 32.5% and transient occupancy taxes (TOT) increased by 38.4% as the economy continued to recover from the pandemic.

Governmental activities. The governmental activities' increase in net position of \$20.4 million accounted for 99% of the total growth in net position for the City this past year. Revenues increased \$5.2 million compared to the prior year due to the easing of restrictions related to the pandemic and strong consumer spending. The largest increases in revenues came from TOT of \$5.8 million, \$2.9 million from community development fees, and sales taxes of \$1.9 million. Other revenue increases included \$1.8 million in parking and permit fees, and \$1.6 million in property tax.

The following graph depicts the major revenue sources of the City. It depicts very clearly the reliance on taxes (i.e., property, franchise, building, and transient occupancy taxes) 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% of the total cost of governmental activities. Charges for services offset 18% of the cost of providing these services.

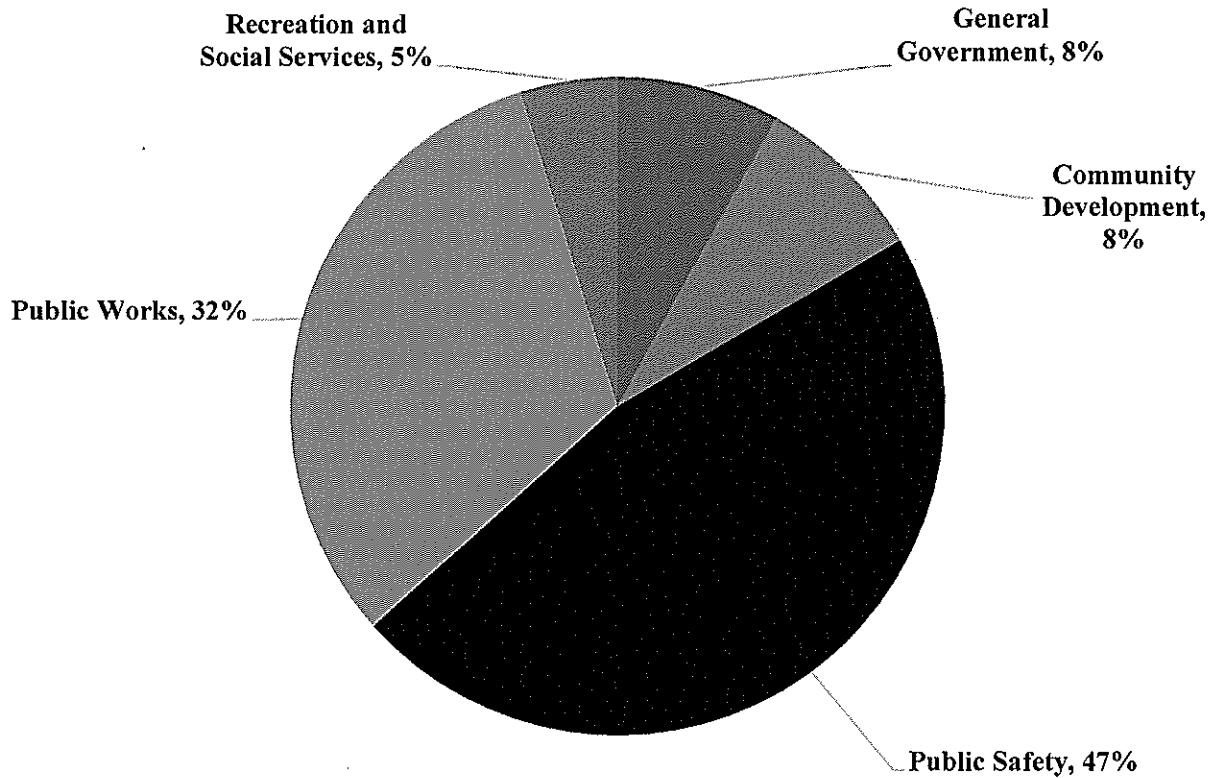
Community development expenditures were 9% of the total cost of governmental activities. Charges for services helped to offset 97% of the cost of these activities.

Public safety expenses comprised the largest component of governmental activities, approximately 47% of the total cost of governmental activities this past year. Charges for services, operating and capital grants, and contributions offset 13% of the cost of providing these services.

Public Works was the second largest governmental activity representing 32% of the total cost of governmental activities. Charges for services, operating and capital grants and contributions helped to offset 39% of the cost of these activities.

Recreation and social services expenditures were 5% of the total cost of governmental activities. Charges for services, operating and capital grants and contributions offset 100% of the cost of providing these services.

Expenses by Function – Governmental Activities



The governmental activities for each department, listed above, illustrates the net cost of each service. The net cost represents the extent to which governmental activities are subsidized by taxes and other general revenue for the City.

Business-type activities. Business-type activities of the City had an increase in net position of \$100 thousand. The expenses of the City's business-type activity, the municipal transit system and sewer services, included costs incurred for capitalized assets that were funded by charges for services and operating and capital grants.

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, 2022, the governmental funds reported combined ending fund balances of \$111.3 million, an increase of \$12.2 million in comparison with the prior year. The City has \$7.0 million (6.3%) in fund balance classified as nonspendable to indicate it cannot be readily converted to cash; \$13.0 million (11.7%) in restricted fund balance to indicate that it has an externally imposed restriction on the money may be spent; \$9.9 million (8.9%) in committed fund balance to indicate that the City Council committed how the money will be spent; \$56.7 million (50.9%) in assigned fund balance to indicate that the City Council has an assigned purpose or intent for how the money should be spent; and \$24.8 million (22.2%) in unassigned fund balance to indicate that it is the residual balance not otherwise restricted.

The fund balance of the City's General Fund increased by \$11.5 million during the fiscal year ending June 30, 2022. Reasons for changes in the revenues and expenditures of the City's General Fund from the prior year include:

- Revenues increased by \$3.9 million compared to the prior year due to a continued economic recovery from the pandemic and strong consumer spending. Of that amount, \$5.8 million was from an increase in transient occupancy taxes (TOT), \$2.9 million from community development fees, and sales taxes of \$1.9 million. Other revenue increases included \$1.8 million in parking and permit fees, \$1.6 million in property tax. The increases were partially offset by an unrealized loss in investments of \$7.7 million.
- Expenditures increased by \$4.4 million compared to the prior year due to the City's adding back services reduced during the pandemic.

The City's other major fund is the Assessment District Fund capital projects fund.

- The Assessment District Fund, a Capital Projects Fund, has a total fund balance of \$900 thousand which is used to account for assessment utility undergrounding projects which are funded by property owners of the assessment district. Revenues include contributions from property owners restricted for projects within the Assessment District and interest earned on such funds. The fund balance increased by \$9 thousand due to the close-out of assessment districts undergrounding projects.

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

The unrestricted net position of the Municipal Transit Fund and Sewer Service Fund at the end of the fiscal year amounted to a deficit of \$1.8 million. It is not uncommon to see a deficit in unrestricted net assets for a proprietary fund. This deficit is due to significant investment in capital assets that will be paid with future charges for services. 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 \$10 million, and significant items can be briefly summarized as follows:

- \$9.6 million increase for carryover appropriations, items appropriated in a prior fiscal year that have not yet been spent.
- \$450,000 for the CEQA certified Climate Action Plan.
- \$250 thousand for Community Development contract plan check services to address the increase in building and planning permit activity at the City.
- \$300 thousand toward the City’s Information Technology Master Plan.
- \$100 thousand for the Main Beach Management Plan to address security concerns at Main Beach.
- \$155 thousand to add additional positions in the Administrative Services Department.
- \$167 thousand to address costs related to the oil spill on October 1, 2021 near the City of Huntington Beach.

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

- Total revenues were \$700 thousand above final budgeted revenues. The favorable variance is primarily from the increased revenues in parks and recreation fees, transient occupancy taxes, and sales taxes which were partially offset by an unrealized loss in investments and have already been addressed in the discussion of the City’s governmental funds.
- Total expenditures were under the budgeted amount by \$12.7 million, mostly because of special programs, capital equipment, and capital projects not yet completed or deferred to next fiscal year. The remaining budget, or appropriation, for these programs is carried over to the next fiscal year.

These deviations did not significantly affect the City’s liquidity or ability to provide future government services due to the City’s strong General Fund reserves.

CAPITAL ASSETS

	Capital Assets - Net of Depreciation					
	Governmental Activities		Business-Type Activities		Total	
	2022	(Restated) 2021	2022	(Restated) 2021	2022	(Restated) 2021
Land	\$ 90,454,722	90,454,722	196,106	196,106	90,650,828	90,650,828
Buildings and Improvements	42,957,261	44,458,713	1,006,130	1,068,996	43,963,391	45,527,709
Office Equipment & Machinery	1,026,541	1,450,714	170,216	191,617	1,196,757	1,642,331
Furniture and Fixtures	2,073,998	1,974,297	32,238	34,959	2,106,236	2,009,256
Equipment Machinery & Tools	2,504,305	2,633,880	802,501	556,159	3,306,806	3,190,039
Sewer Plant and Lines	-	-	31,334,938	30,882,968	31,334,938	30,882,968
Capacity Rights	-	-	11,975,460	9,943,389	11,975,460	9,943,389
Automotive Equipment	3,235,271	3,497,330	1,757,143	2,093,591	4,992,414	5,590,921
Infrastructure	147,075,550	145,882,297	-	-	147,075,550	145,882,297
Rights of Leased Assets	730,062	267,594	879,137	1,172,182	1,609,199	1,439,776
Construction in Progress	7,961,513	6,555,474	2,729,096	3,263,220	10,690,609	9,818,694
Total	\$ 298,019,223	297,175,021	50,882,965	49,403,187	348,902,188	346,578,208

The major changes to the capital assets during the year ended June 30, 2022, were completion of the Temple Hill Pedestrian Improvement, Temple Hills Drive Resurfacing, and purchase of property for a future Fire Station. Unexpended construction commitments as of year-end are discussed in note 5 to the financial statements. Additional information on the City's capital assets can be found in note 4 to the financial statements.

LONG-TERM DEBT

	Long-Term Liabilities					
	Governmental Activities		Business-type Activities		Total	
	2022	(Restated) 2021	2022	(Restated) 2021	2022	(Restated) 2021
Lease Liabilities	\$ 766,519	267,594	888,047	1,172,182	1,654,566	1,439,776
Direct Borrowings	-	-	16,090,381	9,388,760	16,090,381	9,388,760
Total	\$ 766,519	267,594	16,978,428	9,388,760	17,744,947	10,828,536

The City's total debt increased by \$8.4 million (64%) during the current fiscal year. The outstanding debt is to help fund capital improvements to the City's sewer system. The increase in total debt is from the annual debt service payments made to the loan provider. Additional information on the City's long-term liabilities, including net pension liability, OPEB liability, compensated absences, and claims payable, can be found in notes 6, 9, 11, and 14 in 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 Administrative Services Department at the City of Laguna Beach, 505 Forest Avenue, Laguna Beach, California 92651.

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Basic Financial Statements

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City of Laguna Beach, California
Statement of Net Position
June 30, 2022

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit Water District
Assets				
Cash and investments	\$ 133,305,581	\$ 1,326,406	\$ 134,631,987	\$ 19,057,000
Receivables				
Taxes	9,138,536	230,077	9,368,613	78,113
Accounts	905,988	565,051	1,471,039	1,784,586
Interest	13,575	-	13,575	88,336
Intergovernmental	447,952	35,930	483,882	-
Bank installment agreement	-	12,010,394	12,010,394	-
Notes	679,148	-	679,148	-
Leases	914,108	-	914,108	5,284,300
Due from other funds	412,797	-	412,797	-
Prepays	6,831,330	-	6,831,330	200,751
Inventory	132,358	-	132,358	316,418
Computer loans to employees	-	-	-	2,825
Property for housing program	1,743,653	-	1,743,653	-
Capital Assets, Not Being Depreciated	98,416,235	2,925,202	101,341,437	6,032,432
Capital Assets, Being Depreciated	198,872,926	47,078,626	245,951,552	49,659,482
Right to use leased assets, net of accumulated amortization	730,062	879,137	1,609,199	-
Total assets	452,544,249	65,050,823	517,595,072	82,504,243
Deferred Outflows of Resources				
Deferred amounts related to pension plans	16,048,339	615,793	16,664,132	1,637,532
Deferred amounts related to OPEB	1,135,803	44,989	1,180,792	93,902
Total deferred outflows of resources	17,184,142	660,782	17,844,924	1,731,434
Liabilities				
Accounts payable	5,496,248	718,576	6,214,824	1,073,196
Accrued liabilities	2,828,442	-	2,828,442	130,030
Deposits	3,587,032	-	3,587,032	70,960
Unearned revenues	605,352	101,519	706,871	-
Interest payable	-	204,053	204,053	-
Due to other funds	-	412,797	412,797	-
Noncurrent liabilities				
Due within one year				
Other long-term liabilities	3,405,726	1,025,179	4,430,905	97,447
Lease liabilities	127,010	288,780	415,790	-
Due in more than one year				
Other long-term liabilities	9,589,662	15,182,629	24,772,291	292,340
Lease liabilities	639,509	599,267	1,238,776	-
Total OPEB liability	3,395,220	134,483	3,529,703	855,324
Net pension liability	37,154,717	1,554,110	38,708,827	3,912,523
Total liabilities	66,828,918	20,221,393	87,050,311	6,431,820
Deferred Inflows of Resources				
Deferred amounts related to leases	898,729	-	898,729	5,176,943
Deferred amounts related to pension plans	27,900,583	1,421,961	29,322,544	3,717,383
Deferred amounts related to OPEB plan	403,526	15,982	419,508	133,893
Total deferred inflows of resources	29,202,838	1,437,943	30,640,781	9,028,219
Net position				
Net investment in capital assets	297,252,704	45,914,932	343,167,636	55,463,632
Restricted for				
Capital projects	900,618	-	900,618	-
Parking in-lieu	980	-	980	-
Park in-lieu	133,490	-	133,490	-
Art in-lieu	284,138	-	284,138	-
Drainage	80,689	-	80,689	-
Housing in-lieu	880,929	-	880,929	-
Transportation infrastructure	1,117,657	-	1,117,657	-
Street lighting district	11,710,476	-	11,710,476	-
Street projects	1,875,996	-	1,875,996	-
Public safety	13,325	-	13,325	-
Unrestricted	59,445,633	(1,862,663)	57,582,970	13,312,006
Total net position	\$ 373,696,635	\$ 44,052,269	\$ 417,748,904	\$ 68,775,638

City of Laguna Beach, California
Statement of Activities
Year Ended June 30, 2022

Functions/Programs	Expenses	Program Revenues			Total Program Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government					
Governmental Activities					
General government	\$ 6,669,846	\$ 1,182,906	\$ 1,159,936	\$ -	\$ 2,342,842
Community development	6,949,308	6,740,911	388,656	-	7,129,567
Public safety	37,893,206	1,279,427	3,490,907	-	4,770,334
Public works	25,805,189	9,175,623	975,715	6,276	10,157,614
Recreation and social services	3,918,520	5,503,736	140,326	-	5,644,062
Interest on long term debt	5,104	-	-	-	-
Total governmental activities	81,241,173	23,882,603	6,155,540	6,276	30,044,419
Business-Type Activities					
Municipal transit	4,076,251	146,608	2,930,061	-	3,076,669
Sewer service	9,480,373	9,619,063	224,373	-	9,843,436
Total business-type activities	13,556,624	9,765,671	3,154,434	-	12,920,105
Total primary government	\$ 94,797,797	\$ 33,648,274	\$ 9,309,974	\$ 6,276	\$ 42,964,524
Component Unit					
Water district	\$ 16,875,243	\$ 11,811,510	\$ -	\$ 143,265	\$ 11,954,775

General Revenues

Taxes

Transient occupancy tax

Property tax

Franchise tax

Other

Intergovernmental

Intergovernmental revenue - sales tax and sales tax in-lieu

Investment income (loss), net

Gain on disposal of capital assets

Miscellaneous

Transfers

Total general revenues

Change in Net Position

Net Position, Beginning of Year, as restated

Net Position, End of Year

City of Laguna Beach, California
Statement of Activities (Continued)
Year Ended June 30, 2022

Net (Expense) Revenue and Changes in Net Position			
Governmental Activities	Primary Government		Component Unit
	Business-type Activities	Total	Water District
\$ (4,327,004)	\$ -	\$ (4,327,004)	\$ -
180,259	-	180,259	-
(33,122,872)	-	(33,122,872)	-
(15,647,575)	-	(15,647,575)	-
1,725,542	-	1,725,542	-
(5,104)	-	(5,104)	-
(51,196,754)	-	(51,196,754)	-
-	(999,582)	(999,582)	-
-	363,063	363,063	-
-	(636,519)	(636,519)	-
(51,196,754)	(636,519)	(51,833,273)	-
			(4,920,468)
21,111,332	-	21,111,332	-
46,925,672	-	46,925,672	3,600,366
1,205,275	-	1,205,275	-
96,609	-	96,609	-
310,655	-	310,655	-
7,980,085	-	7,980,085	-
(6,930,047)	27,690	(6,902,357)	(540,597)
907,836	-	907,836	494,695
162,840	551,209	714,049	180,632
(185,549)	185,549	-	-
71,584,708	764,448	72,349,156	3,735,096
20,387,954	127,929	20,515,883	(1,185,372)
353,308,681	43,924,340	397,233,021	69,961,010
<u>\$ 373,696,635</u>	<u>\$ 44,052,269</u>	<u>\$ 417,748,904</u>	<u>\$ 68,775,638</u>

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Major Governmental Funds

General Fund

The General fund is used to account for resources which are dedicated to governmental operations of the City, and not required to be accounted for in another fund.

Capital Projects Funds

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 major Capital Projects Fund:

Assessment Districts Funds - Assessment District Funds are used to account for assessment district utility undergrounding projects which are funded by property owners.

Non-Major Governmental Funds

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

City of Laguna Beach, California

Balance Sheet
 Governmental Funds
 June 30, 2022

	General	Capital Projects Assessment Districts	Non-major Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 95,637,023	981,557	\$ 10,169,615	\$ 106,788,195
Receivables			-	
Taxes	9,109,131	-	29,405	9,138,536
Accounts	746,263	-	92,499	838,762
Interest	13,575	-	-	13,575
Intergovernmental	324,544	-	123,408	447,952
Notes	345,142	-	-	345,142
Leases	914,108	-	-	914,108
Due from other funds	412,797	-	-	412,797
Prepays	4,443,153	-	2,388,177	6,831,330
Inventory	132,358	-	-	132,358
Total assets	\$ 112,078,094	\$ 981,557	\$ 12,803,104	\$ 125,862,755
Liabilities Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Account payable	\$ 4,998,678	11,424	\$ 245,298	\$ 5,255,400
Accrued liabilities	2,828,442	-	-	2,828,442
Deposits	3,517,517	69,515	-	3,587,032
Unearned revenue	-	-	605,352	605,352
Advances from other funds	1,394,660	-	-	1,394,660
Total liabilities	12,739,297	80,939	850,650	13,670,886
Deferred Inflows of Resources				
Leases	898,729	-	-	898,729
Total deferred inflows of resources	898,729	-	-	898,729
Fund Balances				
Nonspendable	4,575,511	-	2,388,177	6,963,688
Restricted	2,497,883	900,618	9,564,277	12,962,778
Committed	9,901,676	-	-	9,901,676
Assigned	56,695,495	-	-	56,695,495
Unassigned	24,769,503	-	-	24,769,503
Total fund balances	98,440,068	900,618	11,952,454	111,293,140
Total liabilities, deferred inflows of resources and fund balances	\$ 112,078,094	\$ 981,557	\$ 12,803,104	\$ 125,862,755

City of Laguna Beach, California
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
 Governmental Funds
 June 30, 2022

Fund Balance - Total Governmental Funds \$ 111,293,140

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets, net of depreciation, have not been included as financial resources in governmental fund activity. This amount does not include \$3,205,172 of internal service fund net capital assets.

Capital assets	441,825,232
Accumulated depreciation	(147,011,181)

The net pension liability applicable to City governmental activities is not due and payable in the current period and accordingly are not reported as fund liabilities. Deferred outflows of resources and deferred inflows of resources related to pensions are only reported in the statement of net position as the changes in these amounts effect only the government-wide statements for governmental activities:

Net pension liability	(37,154,717)
Deferred outflows of resources related to pension	16,048,339
Deferred inflows of resources related to pension	(27,900,583)

The OPEB liability applicable to City governmental activities is not due and payable in the current period and accordingly are not reported as fund liabilities. Deferred outflows of resources and deferred inflows of resources related to OPEB are only reported in the statement of net position as the changes in these amounts effect only the government-wide statements for governmental activities:

Total OPEB liability	(3,395,220)
Deferred outflows of resources related to OPEB	1,135,803
Deferred inflows of resources related to OPEB	(403,526)

Lease liabilities are not due and payable in the current period and therefore are not reported in governmental funds.	(766,519)
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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.	<u>20,025,867</u>
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Net Position of Governmental Activities	<u><u>\$ 373,696,635</u></u>
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City of Laguna Beach, California
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2022

	General	Capital Projects Assessment Districts	Non-major Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 75,884,083	\$ -	\$ 2,465,221	\$ 78,349,304
Licenses and permits	1,756,854	-	-	1,756,854
Fines and forfeitures	852,245	-	-	852,245
Investment income (loss), net	(6,923,934)	4,972	80,801	(6,838,161)
Rental	509,400	-	-	509,400
Intergovernmental	2,086,221	-	3,077,176	5,163,397
Charges for services	10,147,275	-	-	10,147,275
Parking meters, lots, and permits	9,248,571	-	-	9,248,571
Development tax	543,014	-	-	543,014
Use of Money and Property	1,000,000	-	-	1,000,000
Other	1,552,863	-	-	1,552,863
Total revenues	<u>96,656,592</u>	<u>4,972</u>	<u>5,623,198</u>	<u>102,284,762</u>
Expenditures				
Current				
General government	8,263,231	-	-	8,263,231
Community development	6,871,566	-	-	6,871,566
Public safety	40,650,348	-	-	40,650,348
Public works	18,824,827	-	795,000	19,619,827
Recreation and social services	3,296,584	-	-	3,296,584
Debt service				
Principal	60,518	-	-	60,518
Interest	5,104	-	-	5,104
Capital outlay	7,870,965	292,106	2,104,742	10,267,813
Total expenditures	<u>85,843,143</u>	<u>292,106</u>	<u>2,899,742</u>	<u>89,034,991</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>10,813,449</u>	<u>(287,134)</u>	<u>2,723,456</u>	<u>13,249,771</u>
Other Financing Sources (Uses)				
Transfers in	2,125,000	296,500	385,000	2,806,500
Transfers out	(1,448,484)	-	(2,421,500)	(3,869,984)
Total other financing sources (uses)	<u>676,516</u>	<u>296,500</u>	<u>(2,036,500)</u>	<u>(1,063,484)</u>
Net Changes in Fund Balances	11,489,965	9,366	686,956	12,186,287
Fund Balances, Beginning of Year, as restated	<u>86,950,103</u>	<u>891,252</u>	<u>11,265,498</u>	<u>99,106,853</u>
Fund Balances, End of Year	<u>\$ 98,440,068</u>	<u>\$ 900,618</u>	<u>\$ 11,952,454</u>	<u>\$ 111,293,140</u>

City of Laguna Beach, California
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances of Governmental Funds to the Statement of Activities
 Governmental Funds
 Year Ended June 30, 2022

Net change in fund balances - total governmental funds \$ 12,186,287

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 is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. This does not include internal service fund activity of \$447,161 in net additions and \$745,873 in depreciation expense:

Depreciation and amortization expense	(7,785,470)
Purchases of capital assets recorded in governmental funds	10,267,813
Expenditures classified in various functions are reclassified as capital additions	(1,376,082)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Pension expenditures reported in the governmental funds includes the annual required contributions and excess payments. In the statement of activities, pension expense includes the change in the net pension liability, and the related change in pension amounts for deferred outflows of resources and deferred inflows of resources.	7,225,856
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OPEB expenditures reported in the governmental funds includes the insurance premiums paid. In the statement of activities, OPEB expense includes the change in the total OPEB liability, and the related changes in OPEB amounts for deferred outflows or resources and deferred inflows of resources.	(173,710)
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Lease principal payments are reported as expenditures in the governmental funds, but are not reported as expenses in the statement of activities.	60,518
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The issuance of long-term debt provides current financial resources to governmental funds, but are not reported as revenues in the statement of activities. Lease proceeds	(559,443)
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Revenues related to prior years that are available in the current fiscal year are reported as revenue in the governmental funds. For government-wide reporting, revenue is recognized when earned, regardless of availability.	(530,678)
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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>1,072,863</u>
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Change in Net Position of Governmental Activities	<u><u>\$ 20,387,954</u></u>
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Major Enterprise Funds

The Enterprise Funds are used to report activity for which a fee is charged to external users for goods or services. In addition, activities are required to be reported as enterprise funds if the activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity.

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

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.

Sewer Service Fund - The fund is used to account for the operations of the City's sewer 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, California
Statement of Net Position
Proprietary Funds
June 30, 2022

	Business-Type Activities			Governmental
	Municipal Transit	Sewer Service	Total	Internal Service Funds
Assets				
Current Assets				
Cash and investments	\$ 1,326,406	\$ -	\$ 1,326,406	\$ 26,517,386
Receivables				
Taxes	108,207	121,870	230,077	-
Accounts	558,971	6,080	565,051	67,226
Intergovernmental	35,930	-	35,930	-
Total current assets	2,029,514	127,950	2,157,464	26,584,612
Noncurrent Assets				
Ibank installment agreement	-	12,010,394	12,010,394	-
Advances to other funds	-	-	-	1,394,660
Notes receivable	-	-	-	334,006
Property for housing program	-	-	-	1,743,653
Capital assets, not being depreciated	196,106	2,729,096	2,925,202	-
Capital assets, being depreciated	2,737,977	44,340,649	47,078,626	3,205,172
Right to use leased assets, net of accumulated amortization	879,137	-	879,137	-
Total noncurrent assets	3,813,220	59,080,139	62,893,359	6,677,491
Total assets	5,842,734	59,208,089	65,050,823	33,262,103
Deferred Outflows of Resources				
Deferred amounts related to pensions	89,990	525,803	615,793	-
Deferred amounts related to OPEB	3,897	41,092	44,989	-
Total deferred outflows of resources	93,887	566,895	660,782	-
Liabilities				
Current Liabilities				
Accounts payable	454,653	263,923	718,576	240,848
Interest payable	1,736	202,317	204,053	-
Unearned revenues	101,519	-	101,519	-
Due to other funds	-	412,797	412,797	-
Compensated absences, due within one year	5,172	18,313	23,485	985,780
Insurance claims payable, due within one year	-	-	-	2,419,946
Lease liabilities, due within one year	288,780	-	288,780	-
Ibank installment agreements, due within one year	-	1,001,694	1,001,694	-
Total current liabilities	851,860	1,899,044	2,750,904	3,646,574
Noncurrent Liabilities				
Compensated absences	20,690	73,253	93,943	3,943,120
Insurance claims payable	-	-	-	5,646,542
Lease liabilities	599,267	-	599,267	-
Ibank installment agreements	-	15,088,686	15,088,686	-
Total OPEB liability	11,649	122,834	134,483	-
Net pension liability	197,555	1,356,555	1,554,110	-
Total noncurrent liabilities	829,161	16,641,328	17,470,489	9,589,662
Total liabilities	1,681,021	18,540,372	20,221,393	13,236,236
Deferred Inflows of Resources				
Deferred amounts related to pensions	236,682	1,185,279	1,421,961	-
Deferred amounts related to OPEB	1,384	14,598	15,982	-
Total deferred inflows of resources	238,066	1,199,877	1,437,943	-
Net Position				
Net investment in capital assets	2,925,173	42,989,759	45,914,932	3,200,167
Unrestricted	1,092,361	(2,955,024)	(1,862,663)	16,825,700
Total net position	\$ 4,017,534	\$ 40,034,735	\$ 44,052,269	\$ 20,025,867

City of Laguna Beach, California
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2022

	Business-Type Activities			Governmental Activities
	Municipal Transit	Sewer Service	Total	Internal Service Funds
Operating Revenues				
Passenger revenues	\$ 146,608	\$ -	\$ 146,608	\$ -
Vehicle rental charges	-	-	-	1,826,769
Employee benefits charges	-	-	-	970,600
Insurance charges	-	-	-	11,043,230
Charges for service	-	9,619,063	9,619,063	-
Total operating revenues	<u>146,608</u>	<u>9,619,063</u>	<u>9,765,671</u>	<u>13,840,599</u>
Operating Expenses				
Personnel services	491,135	1,357,253	1,848,388	-
Contractual services	2,119,263	2,555,452	4,674,715	-
Materials and supplies	626,995	3,245,092	3,872,087	-
Administration	231,979	7,216	239,195	340,189
Employee benefits	-	-	-	1,548,536
Insurance claims and premiums	-	-	-	11,012,328
Depreciation and amortization	606,651	1,957,100	2,563,751	745,873
Total operating expenses	<u>4,076,023</u>	<u>9,122,113</u>	<u>13,198,136</u>	<u>13,646,926</u>
Operating Income (Loss)	(3,929,415)	496,950	(3,432,465)	193,673
Nonoperating Revenues (Expenses)				
Investment income	11,017	16,673	27,690	-
Intergovernmental	2,930,061	224,373	3,154,434	-
Interest expense	(228)	(358,260)	(358,488)	-
Gain on disposal of capital assets	-	-	-	1,255
Other revenue	-	551,209	551,209	-
Total nonoperating revenues (expenses)	<u>2,940,850</u>	<u>433,995</u>	<u>3,374,845</u>	<u>1,255</u>
Income (Loss) before Transfers and Contributed Capital	(988,565)	930,945	(57,620)	194,928
Transfers				
Transfers in	185,549	-	185,549	877,935
Total transfers	<u>185,549</u>	<u>-</u>	<u>185,549</u>	<u>877,935</u>
Contributed Capital from General Fund	-	-	-	-
Change in Net Position	(803,016)	930,945	127,929	1,072,863
Net Position (Deficit)				
Net position at beginning of year, as restated	4,820,550	39,103,790	43,924,340	18,953,004
Net Position (Deficit), End of Year	<u>\$ 4,017,534</u>	<u>\$ 40,034,735</u>	<u>\$ 44,052,269</u>	<u>\$ 20,025,867</u>

City of Laguna Beach, California
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2022

	Business-Type Activities			Governmental Activities
	Municipal Transit	Sewer Service	Total	Internal Service Funds
Operating Activities				
Cash received from Customers	\$ 146,608	\$ 9,634,398	\$ 9,781,006	\$ -
Cash received from User Departments	-	-	-	13,866,500
Cash payments to Suppliers for Goods and Services	(2,625,892)	(6,194,024)	(8,819,916)	(11,262,111)
Cash payments to Employees for Services	(582,989)	(1,779,970)	(2,362,959)	(999,535)
Cash received from Insurance and Settlements	-	551,209	551,209	-
Net Cash Provided by (used for)				
Operating Activities	<u>(3,062,273)</u>	<u>2,211,613</u>	<u>(850,660)</u>	<u>1,604,854</u>
Noncapital Financing Activities				
Cash received from Other Funds	185,549	412,797	598,346	877,935
Cash paid to Other Funds as an Advance	-	-	-	806,658
Cash received from grant proceeds	2,930,884	224,374	3,155,258	-
Cash received from Loan Receivable	-	891,748	891,748	-
Cash received related to Housing Program	-	-	-	20,747
Net Cash Provided by (used for)				
Noncapital Financing Activities	<u>3,116,433</u>	<u>1,528,919</u>	<u>4,645,352</u>	<u>1,705,340</u>
Capital and Related Financing Activities				
Purchase of Capital Assets	-	(4,043,530)	(4,043,530)	(483,814)
Proceeds from sale of Capital Assets	-	-	-	1,255
Cash paid for lease liabilities- principal portion	(284,135)	-	(284,135)	-
Cash paid for lease liabilities- interest portion	(24,993)	-	(24,993)	-
Principal paid on Long-term Debt	-	(798,380)	(798,380)	-
Interest paid on Long-term Debt	-	(299,806)	(299,806)	-
Net Cash Provided by (used for)				
Capital and Related Financing Activities	<u>(309,128)</u>	<u>(5,141,716)</u>	<u>(5,450,844)</u>	<u>(482,559)</u>
Investing Activities				
Interest received	11,017	16,673	27,690	-
Net Cash Provided by (used for)				
Investing Financing Activities	<u>11,017</u>	<u>16,673</u>	<u>27,690</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(243,951)</u>	<u>(1,384,511)</u>	<u>(1,628,462)</u>	<u>2,827,635</u>
Cash and Cash Equivalents, Beginning of Year	<u>1,570,357</u>	<u>1,384,511</u>	<u>2,954,868</u>	<u>23,689,751</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,326,406</u>	<u>\$ -</u>	<u>\$ 1,326,406</u>	<u>\$ 26,517,386</u>

City of Laguna Beach, California
Statement of Cash Flows (Continued)
Proprietary Funds
Year Ended June 30, 2022

	Business-Type Activities			Governmental Activities
	Municipal Transit	Sewer Service	Total	Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided by (used for) Operating Activities				
Operating income (loss)	\$ (3,929,415)	\$ 496,950	\$ (3,432,465)	\$ 193,673
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	606,651	1,957,100	2,563,751	745,873
Cash received from Insurance and Settlements	-	551,209	551,209	-
Changes in Assets and Deferred Outflows of Resources				
(Increase) decrease in Accounts Receivable	-	(6,080)	(6,080)	25,901
(Increase) decrease in Taxes receivable	-	21,415	21,415	-
(Increase) decrease in Deferred Outflows of Resources related to Pensions	18,353	91,764	110,117	-
(Increase) decrease in Deferred Outflows of Resources related to OPEB	10,478	25,389	35,867	-
Changes in Liabilities and Deferred Inflows of Resources				
Increase (decrease) in Accounts Payables and Accrued Liabilities	352,345	(386,264)	(33,919)	(56,549)
Increase (decrease) in Compensated Absences Payable	2,454	(11,394)	(8,940)	549,001
Increase (decrease) in Insurance Claims	-	-	-	146,955
Increase (decrease) in Total OPEB Liability	(29,344)	(67,182)	(96,526)	-
Increase (decrease) in Net Pension Liability	(329,189)	(1,645,943)	(1,975,132)	-
Increase (decrease) in Deferred Inflows of Resources related to Pensions	234,010	1,170,051	1,404,061	-
Increase (decrease) in Deferred Inflows of Resources related to OPEB	1,384	14,598	15,982	-
Net Cash Provided by (used for) Operating Activities	<u>\$ (3,062,273)</u>	<u>\$ 2,211,613</u>	<u>\$ (850,660)</u>	<u>\$ 1,604,854</u>
Non-Cash Investing, Capital, and Financing Activities				
Lease liability for the acquisition of a right to use assets	<u>\$ (1,515,463)</u>	<u>\$ -</u>	<u>\$ (1,515,463)</u>	<u>\$ -</u>

City of Laguna Beach, California
 Statement of Fiduciary Net Position
 Fiduciary Funds-Custodial Funds
 Year Ended June 30, 2022

	Custodial Funds
Assets	
Cash and investments	\$ 882,601
Investments with fiscal agent	385,596
Receivables	
Taxes	11,817
Total assets	1,280,014
Net Position	
Restricted for	
Individuals, organizations, and other governments	1,280,014
Total net position	\$ 1,280,014

City of Laguna Beach, California
 Statement of Changes in Fiduciary Net Position
 Fiduciary Funds-Custodial Funds
 Year Ended June 30, 2022

	Custodial Funds
Additions	
Special assessments	\$ 1,085,383
Investment income	5,576
Total additions	1,090,959
Deletions	
General and administrative	31,036
Debt service	1,041,694
Total deductions	1,072,730
Changes in Net Position	18,229
Net Position, Beginning of Year	1,261,785
Net Position, End of Year	\$ 1,280,014

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, and marine safety), 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 District's 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 City Council (District's Board of Directors) is considered to be financially accountable. There is no financial benefit or burden relationship between the City and the District, as the City does not have access to District resources, nor is the City legally obligated to assume debt of the District. Further management of the City does not have operating responsibilities for the District. Therefore, the District is presented as a discretely presented component unit.

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.

Government-Wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. The effect of interfund activity has been removed from these statements. 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, liabilities, and deferred inflows/outflows of resources 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 City also presents the Water District as a discretely presented component unit on the government-wide statements.

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 funds 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.

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 fund balance. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus.

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.

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. Premiums received on debt issuances are reported as *other financing sources* while discounts on debt issuance are reported as *other financing uses*. Amounts paid to reduce long-term indebtedness are reported as fund expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Proprietary and Fiduciary Funds

The City's enterprise 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 and fiduciary funds are presented using the economic resources measurement focus. This means that all assets, liabilities (whether current or noncurrent), and deferred inflows/outflows of resources 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. Nonoperating 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.

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.

Assessment Districts Capital Projects Fund - This fund is used to account for assessment district utility undergrounding projects which are funded by property owners of the assessment district. Revenues include contributions from property owners restricted for projects within the Assessment District and interest earned on such funds. The City has designated this fund as a major fund.

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

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. The City has designated this fund as a major fund.

Sewer Service Fund - This fund is used to account for the operations of the City's sewer services. All activities necessary to provide such service are accounted for in this fund.

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

Special Revenue Funds - The Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt services or capital projects.

Internal Service Funds - 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.

Custodial Fund – The Fiduciary fund is used to account for assets held by the City as an agent for improvement district bondholders and property owners.

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 within the restricted, committed, or assigned fund balance depending on the resources that have been identified to fund the applicable encumbrance. The total encumbrances outstanding as of June 30, 2022 were as follows:

General Fund	\$ 1,788,980
Assessment Districts Capital Projects Fund	41,700
Nonmajor Governmental Funds	<u>120,300</u>
 Total encumbrances	 <u>\$ 1,950,980</u>

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. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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. Lease Receivables

Lease receivables are recorded by the City as the present value of future lease payments expected to be received from the lessee during the lease term, reduced by any provision for estimated uncollectible amounts. Lease receivables are subsequently reduced over the life of the lease as cash is received in the applicable reporting period. The present value of future lease payments to be received are discounted based on the interest rate the City charges the lessee.

G. Advances to Other Funds

Long-term interfund advances are recorded as a receivable and as nonspendable fund balance by the advancing governmental fund, when reported in the General Fund or within restricted fund balance for other governmental funds.

H. 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.

I. Prepaids

Payments to vendors that reflect costs applicable to future accounting periods are recorded as prepaid items in both government-wide and fund financial statements and are recorded as expenditures during the periods benefited.

J. 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 they are held by an agent and their use is limited by applicable debt agreements. These funds are held in custodial funds only.

K. 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 acquisition value at the date of the contribution. Generally, capital asset purchases in excess of \$5,000 are capitalized if they have an expected useful life of three years or more.

Capital assets include public domain (infrastructure) 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 and the proprietary fund 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.

Right to use leased assets are recognized at the lease commencement date and represent the City's right to use an underlying asset for the lease term. Right to use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the leased asset into service. Right to use leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight line method.

The ranges of lives used for depreciation/amortization for each fixed asset class are as follows:

Asset	Years
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 20 years
Right to Use Asset	Shorter of useful life or lease term

L. 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.

M. 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 Municipal Transit and Sewer Service Enterprise Fund, and the Insurance and Employee Benefits Internal Service Fund. The majority of sick leave is paid out at a rate of one hour for every two hours banked and, therefore, is recorded at 50% of the total leave balance. Vacation accruals have no such limitations and are recorded at 100% of the total leave balance.

N. Lease Liabilities

Lease liabilities represent the City's obligation to make lease payments arising from leases. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present value of lease payments are discounted based on a borrowing rate determined by the City.

O. Net Position

Net position is the excess of all the City's assets and deferred outflows of resources over all its liabilities and deferred inflows of resources, regardless of fund. Net position is divided into three categories. These categories apply only to net position, which is determined only at the government-wide level, proprietary funds, and fiduciary funds and are described below.

Net Investment in Capital Assets - describes the portion of net position which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets and capital-related payables.

Restricted - describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter.

Unrestricted - describes the portion of net position which is not restricted as to use.

P. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the City's practice to consider restricted - net position to have been depleted before unrestricted - net position is applied, however it is at the Council's discretion.

Q. Fund Balances

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 prepaid amounts and inventory) or legally or contractually required to be maintained intact (such as endowments).

Spendable Fund Balances

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. Restrictions may effectively be changed or lifted only with the consent of resource providers.

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) restricted, committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the Council.

R. 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 (single fund, not combined General Fund) per the City's municipal code. However, the City Council has established a policy of a higher minimum reserve of 20%. Total expenditures were \$73,215,541 and the minimum reserve requirement was \$14,643,108. The City's General Fund (single fund, not combined) reported \$24,787,482 of unassigned fund balance as of June 30, 2022.

S. Grant 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.

T. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City has the following items that qualify for reporting in this category:

- Deferred outflows related to pensions equal to employer contributions made after the measurement date of the net pension liability.
- Deferred outflows related to pensions for differences between expected and actual experience, changes of assumptions, and differences between actual contributions and proportionate share of contributions and changes in proportion. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.
- Deferred outflows related to OPEB for differences between expected and actual experience and changes in assumptions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with retiree healthcare benefits through the plans.

In addition to liabilities, the statement of net position and governmental funds balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The City has the following item that qualifies for reporting in this category:

- Deferred inflows related to pensions for differences between expected and actual experience, changes of assumptions, and differences between actual contributions and proportionate share of contributions and changes in proportion. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.
- Deferred inflows related to pensions resulting from the net differences between projected and actual earnings on investments of the pension plans fiduciary net position. These amounts are amortized over 5 years.
- Deferred inflows related to OPEB for differences between expected and actual experience. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with retiree healthcare benefits through the plans.
- Deferred inflows related to leases where the City is the lessor, which may be reported in the governmental funds statement of net position. These amounts are recognized on a straight line basis over the term of the lease.

U. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's California Public Employees Retirement System (CalPERS) plans and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

V. New GASB Pronouncements

Implementation of GASB Statement No. 87

As of July 1, 2021, the City adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain right to use leased assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The standard also requires lessors to recognize a lease receivable and deferred inflow of resources. The effect of the implementation of the standard on beginning net position is disclosed in Note 17 and the additional disclosures required by the standard are include in Notes 4 and 10.

W. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Cash and Investments

Cash and Investments

Cash and investments of the primary government as of June 30, 2022 are classified in the accompanying financial statements as follows:

Statement of Net Position	
Cash and investments - Governmental Activities	\$ 133,305,581
Cash and investments - Business-type Activities	1,326,406
Statement of Fiduciary Assets and Liabilities	
Cash and investments	882,601
Investments with Fiscal Agent	<u>385,596</u>
 Total cash and investments	 <u>\$ 135,900,184</u>

Cash and investments as of June 30, 2022, consist of the following:

Cash on Hand (Petty Cash and Changed Funds)	\$ 5,600
Deposits with Financial Institutions	10,203,210
Cash Held by Bond Fiscal Agent	3,981
Investments	125,305,778
Investments Held by Bond Fiscal Agency	<u>381,615</u>
 Total cash and investments	 <u><u>135,900,184</u></u>

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.

Authorized Investment Type	Maximum Maturity*	Maximum Percentage Amount of Portfolio*	Maximum Investment In One Issuer*
Municipal Bonds**	5 years	25%	5%
U.S. Treasury Obligations	5 years	None	None
Federal Agency Securities	5 years	None	None
Banker's Acceptances	180 days	25%	None
Commercial Paper	270 days	25%	3%
Certificates of Deposit	5 years	25%	\$250,000
Medium-Term Corporate Notes	5 years	25%	3%
Bank Deposits	n/a	25%	None
Local Agency Investment Fund (LAIF)	n/a	None	\$75,000,000
Supranational Securities	5 years	5%	None

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

**Includes City of Laguna Beach debt/bonds and may be authorized by City Council in excess of five years.

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 directed by the City Treasurer.

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	Remaining Maturities (in Months)				Total
	12 months or less	13 to 24 Months	25 to 60 Months	More than 60 Months*	
Federal Agency Securities	\$ -	\$ 2,914,390	\$ 74,966,913	\$ -	\$ 77,881,303
Municipal Bonds	-	1,444,220	6,804,250	-	8,248,470
Local Agency Investment Fund	20,308,839	-	-	-	20,308,839
Medium-Term Notes	2,976,922	4,969,337	8,286,084	-	16,232,343
Supranational	-	-	1,816,830	-	1,816,830
City Bonds*	-	-	-	817,993	817,993
Held by Bond Fiscal Agent					
Local Agency Investment Fund	381,615	-	-	-	381,615
Total	\$ 23,667,376	\$ 9,327,947	\$ 91,874,077	\$ 817,993	125,687,393

*City Council has approved the investment in the debt/bonds of Assessment Districts 13- 6, 14-1, and 15-2 in the amount of \$817,993, which have maturities in excess of five years and are nonnegotiable.

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 Standard & Poor's (S&P) actual rating as of year-end for each investment type.

Investment Type	Total	Minimum Legal Rating	AAA	AA	A	Not Rated
Federal Agency Securities	\$ 77,881,303	N/A	\$ -	\$ 77,881,303	\$ -	\$ -
Municipal Bonds	8,248,470	A*	1,902,125	6,346,345	-	-
Local Agency Investment Fund	20,308,839	N/A	-	-	-	20,308,839
Medium-Term Notes	16,232,343	A	-	6,595,949	9,636,394	-
Supranational	1,816,830	AA	1,816,830	-	-	-
City Bonds*	817,993	N/A	-	-	-	817,993
Held by Bond Fiscal Agent						
Local Agency Investment Fund	381,615	N/A	-	-	-	381,615
Total	\$ 125,687,393		\$ 3,718,955	\$ 90,823,597	\$ 9,636,394	\$ 21,508,447

*City of Laguna Beach debt/bonds in the amount of \$817,993 are exempt from the minimum legal rating.

Concentration of Credit Risk

Concentration credit risk is the heightened risk of potential loss when investments are concentrated in one issuer. The investment policy of the City contains a 3% limitation on the amount that can be invested in any one issuer of Commercial Paper or Medium-Term Notes and a 5% limitation on the amount that can be invested in any one issuer of Municipal Bonds. The City has no investments in excess of these limitations.

Investments in any one issuer (other than external investment pools) that represent 5% or more of total City investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Amount</u>
Federal Home Loan Bank	Federal Agency Securities	\$ 48,242,233
Federal Home Loan Mortgage Corporation	Federal Agency Securities	12,874,110
Federal Farm Credit Bank	Federal Agency Securities	10,228,410

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.

The California Government Code and the City's Investment Policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: 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 fair 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. As of June 30, 2022, all of the City's funds are held in accordance with these provisions.

For investments identified herein as held by bond trustee, the City Treasurer 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 Agency Investment Fund (LAIF) that is regulated by 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 and is limited to the account balance. 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 Securities and Exchange Commission. Deposits and withdrawals to and from LAIF are made on the basis of \$1 and not at fair value. According, under the fair value hierarchy, the investment with LAIF is uncategorized.

Fair Value Measurements

The City categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the assets and liabilities through corroboration with market data (the market approach), and Level 3 inputs are significant unobservable inputs. Federal agency securities, municipal bonds, medium-term notes, and supranational, classified in Level 2 of the fair value hierarchy, are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The City has the following recurring fair value measurements as of June 30, 2022:

	Fair Value	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3
Investment Type (Subject to Hierarchy)				
Federal Agency Securities	\$ 77,881,303	\$ -	\$ 77,881,303	\$ -
Municipal Bonds	8,248,470	-	8,248,470	-
Medium-Term Notes	16,232,343	-	16,232,343	-
Supranational	1,816,830	-	1,816,830	-
City Bonds	817,993	-	-	817,993
	<u>104,996,939</u>	<u>\$ -</u>	<u>\$ 104,178,946</u>	<u>\$ 817,993</u>
Uncategorized (Not Subject to Hierarchy)				
Local Agency Investment Fund Held by Bond Fiscal Agent	20,308,839			
Local Agency Investment Fund	<u>381,615</u>			
	<u>\$ 125,687,393</u>			

Note 3 - Interfund Activity

Advances

Interfund balances at June 30, 2022, consisted of the following:

<u>Advances to Other Funds (Receivable)</u>	<u>Advances from Other Funds (Payable)</u>	<u>Amount</u>
Internal Service Fund	General Fund	\$ 694,660
Internal Service Fund	General Fund	700,000
		<u>\$ 1,394,660</u>

During 2010, the City authorized an interfund borrowing to fund the payoff 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 of 14 years at an interest rate of 2.75%. The amount paid in fiscal year 2021-2022 was principal of \$806,659 and interest of \$50,419 and was eliminated on the Statement of Activities. The principal payment schedule from the general fund is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2022 - 2023	\$ 829,123
2023 - 2024	565,337
Total	<u>\$ 1,394,460</u>

Due To/Due From

Due to other funds consists of a short term advance of \$412,797 from the General Fund to the Sewer Service Fund for year-end cash flow purposes until the Sewer Service Fund collects revenues to cover the deficit cash balance.

Transfers

Interfund transfers at June 30, 2022 consisted of the following:

<u>Transfer In</u>	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
General Fund	\$ -	\$ 2,125,000	\$ 2,125,000
Nonmajor Governmental Funds	385,000	-	385,000
Capital Projects Assessment Districts Fund	-	296,500	296,500
Municipal Transit Fund	185,549	-	185,549
Internal Service Funds	877,935	-	877,935
Total	<u>\$ 1,448,484</u>	<u>\$ 2,421,500</u>	<u>\$ 3,869,984</u>

Transfers were used to:

1. Transfer from the General Fund to the Housing Fund Special Revenue Nonmajor Fund in the amount of \$200,000 for investment in low income housing.
2. Transfer from the General Fund to the Gas Tax Special Revenue Nonmajor Fund in the amount of \$85,000 for capital projects.
3. Transfer from the General Fund to the Street Lighting District Special Revenue Nonmajor Fund in the amount of \$100,000 for capital projects.
4. Transfer from the General Fund to the Municipal Transit Fund in the amount of \$185,549 to cover the balance of operating and capital expenses not funded from grants or other revenues.
5. Transfer from the General Fund to the Internal Service Funds in the amount of \$577,935 to cover the side fund loan repayment and the increase in Compensated Absences and \$300,000 for the purchase of trolleys.
6. Transfer from the ARPA Special Revenue Nonmajor Fund in the amount of \$2,125,000 to cover public safety payroll costs.
7. Transfer from the Street Lighting Fund Special Revenue Nonmajor Fund to the Capital Projects Assessment Districts Fund in the amount of \$296,500 for expenditures related to the Fairview-La Brea Undergrounding Project.

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2022 was as follows:

	(Restated) Balance at July 01, 2021	Additions	Deletions/ Transfers	Balance at June 30, 2022
Governmental Activities				
Capital assets, not depreciated				
Land	\$ 90,454,722	\$ -	\$ -	\$ 90,454,722
Construction in progress	6,555,474	1,406,039	-	7,961,513
Total capital assets, not depreciated	97,010,196	1,406,039	-	98,416,235
Capital Assets, Being Depreciated				
Buildings and improvements	78,492,825	177,253	-	78,670,078
Office equipment and machinery	5,820,746	20,494	-	5,841,240
Furniture and fixtures	2,635,542	165,237	-	2,800,779
Equipment, machinery, and tools	6,971,458	320,862	-	7,292,320
Automotive equipment	9,438,590	483,814	(36,653)	9,885,751
Infrastructure	241,617,368	6,240,395	-	247,857,763
Total capital assets, being depreciated	344,976,529	7,408,055	(36,653)	352,347,931
Less Accumulated Depreciation for				
Buildings and improvements	(34,034,112)	(1,678,705)	-	(35,712,817)
Office equipment and machinery	(4,370,032)	(444,667)	-	(4,814,699)
Furniture and fixtures	(661,245)	(65,536)	-	(726,781)
Equipment, machinery, and tools	(4,337,578)	(450,437)	-	(4,788,015)
Automotive equipment	(5,941,260)	(745,873)	36,653	(6,650,480)
Infrastructure	(95,735,071)	(5,047,142)	-	(100,782,213)
Total accumulated depreciation	(145,079,298)	(8,432,360)	36,653	(153,475,005)
Total capital assets, being depreciated, net	199,897,231	(1,024,305)	-	198,872,926
Right to Use Leased Assets Being Amortized				
Right to use leased land	29,582	-	-	29,582
Right to use leased building	238,012	-	-	238,012
Right to use leased office equipment and machinery	-	69,753	-	69,753
Right to use leased automotive equipment	-	491,698	-	491,698
Total Right to Use Leased Assets Being Amortized	267,594	561,451	-	829,045
Less Accumulated Amortization for				
Right to use leased land	-	(10,431)	-	(10,431)
Right to use leased building	-	(31,374)	-	(31,374)
Right to use leased office equipment and machinery	-	(21,126)	-	(21,126)
Right to use leased automotive equipment	-	(36,052)	-	(36,052)
Total Accumulated Amortization	-	(98,983)	-	(98,983)
Total right to use leased assets, being amortized, net	267,594	462,468	-	730,062
Governmental Activities Capital Assets, net	\$ 297,175,021	\$ 844,202	\$ -	\$ 298,019,223

	(Restated) Balance at July 01, 2021	Additions	Deletions/ Transfers	Balance at June 30, 2022
<u>Municipal Transit Enterprise Fund</u>				
Capital assets, not depreciated				
Land	\$ 196,106	\$ -	\$ -	\$ 196,106
Total capital assets, not depreciated	196,106	-	-	196,106
Capital Assets, Being Depreciated				
Buildings and improvements	1,948,393	-	-	1,948,393
Furniture and fixtures	1,500	-	-	1,500
Equipment, machinery, and tools	247,029	-	-	247,029
Automotive equipment	3,598,399	-	-	3,598,399
Total capital assets, being depreciated	5,795,321	-	-	5,795,321
Less Accumulated Depreciation for				
Buildings and improvements	(879,397)	(62,867)	-	(942,264)
Equipment, machinery, and tools	(72,222)	(22,320)	-	(94,542)
Automotive equipment	(1,792,119)	(228,419)	-	(2,020,538)
Total accumulated depreciation	(2,743,738)	(313,606)	-	(3,057,344)
Total capital assets, being depreciated, net	3,051,583	(313,606)	-	2,737,977
Right to Use Leased Assets Being Amortized				
Right to use leased automotive equipment	1,172,182	-	-	1,172,182
Total Right to Use Leased Assets Being Amortized	1,172,182	-	-	1,172,182
Less Accumulated Amortization for				
Right to use leased automotive equipment	-	(293,045)	-	(293,045)
Total Accumulated Amortization	-	(293,045)	-	(293,045)
Total right to use leased assets, being amortized, net	1,172,182	(293,045)	-	879,137
Municipal Transit Enterprise Fund Capital Assets, net	\$ 4,419,871	\$ (606,651)	\$ -	\$ 3,813,220

	Balance at July 01, 2021	Additions	Deletions/ Transfers	Balance at June 30, 2022
<u>Sewer Service Enterprise Fund</u>				
Capital assets, not depreciated				
Construction in progress	\$ 3,263,220	\$ 523,707	\$ (1,057,831)	\$ 2,729,096
Total capital assets, not depreciated	3,263,220	523,707	(1,057,831)	2,729,096
Capital Assets, Being Depreciated				
Buildings and improvements	28,042	-	-	28,042
Office equipment and machinery	737,526	-	-	737,526
Furniture and fixtures	53,015	-	-	53,015
Equipment, machinery, and tools	772,220	318,559	-	1,090,779
Automotive equipment	1,515,511	-	-	1,515,511
Sewer plant and lines	55,274,044	1,509,891	-	56,783,935
Capacity rights	35,616,793	2,749,203	-	38,365,996
Total capital assets, being depreciated	93,997,151	4,577,653	-	98,574,804
Less Accumulated Depreciation for				
Buildings and improvements	(28,042)	-	-	(28,042)
Office equipment and machinery	(545,909)	(21,401)	-	(567,310)
Furniture and fixtures	(19,556)	(2,721)	-	(22,277)
Equipment, machinery, and tools	(390,868)	(49,897)	-	(440,765)
Automotive equipment	(1,228,200)	(108,029)	-	(1,336,229)
Sewer plan and lines	(24,391,076)	(1,057,920)	-	(25,448,996)
Capacity rights	(25,673,404)	(717,132)	-	(26,390,536)
Total accumulated depreciation	(52,277,055)	(1,957,100)	-	(54,234,155)
Total capital assets, being depreciated, net	41,720,096	2,620,553	-	44,340,649
Sewer Service Enterprise Fund Capital Assets, net	\$ 44,983,316	\$ 3,144,260	\$ (1,057,831)	\$ 47,069,745

	(Restated) Balance at July 01, 2021	Additions	Deletions/ Transfers	Balance at June 30, 2022
Total Business-Type Activities				
Capital assets, not depreciated				
Land	\$ 196,106	\$ -	\$ -	\$ 196,106
Construction in progress	3,263,220	523,707	(1,057,831)	2,729,096
Total capital assets, not depreciated	3,459,326	523,707	(1,057,831)	2,925,202
Capital Assets, Being Depreciated				
Buildings and improvements	1,976,435	-	-	1,976,435
Office equipment and machinery	737,526	-	-	737,526
Furniture and fixtures	54,515	-	-	54,515
Equipment, machinery, and tools	1,019,249	318,559	-	1,337,808
Automotive equipment	5,113,910	-	-	5,113,910
Sewer plant and lines	55,274,044	1,509,891	-	56,783,935
Capacity rights	35,616,793	2,749,203	-	38,365,996
Total capital assets being depreciated	99,792,472	4,577,653	-	104,370,125
Less Accumulated Depreciation for				
Buildings and improvements	(907,439)	(62,867)	-	(970,306)
Office equipment and machinery	(545,909)	(21,401)	-	(567,310)
Furniture and fixtures	(19,556)	(2,721)	-	(22,277)
Equipment, machinery, and tools	(463,090)	(72,217)	-	(535,307)
Automotive equipment	(3,020,319)	(336,448)	-	(3,356,767)
Sewer plant and lines	(24,391,076)	(1,057,920)	-	(25,448,996)
Capacity rights	(25,673,404)	(717,132)	-	(26,390,536)
Total accumulated depreciation	(55,020,793)	(2,270,706)	-	(57,291,499)
Total capital assets being depreciated, net	44,771,679	2,306,947	-	47,078,626
Right to Use Leased Assets Being Amortized				
Right to use leased automotive equipment	1,172,182	-	-	1,172,182
Total Right to Use Leased Assets Being Amortized	1,172,182	-	-	1,172,182
Less Accumulated Amortization for				
Right to use leased automotive equipment	-	(293,045)	-	(293,045)
Total Accumulated Amortization	-	(293,045)	-	(293,045)
Total right to use leased assets, being amortized, net	1,172,182	(293,045)	-	879,137
Business Type activities capital assets, net	\$ 49,403,187	\$ 2,537,609	\$ (1,057,831)	\$ 50,882,965

Depreciation and amortization expense was charged to the following functions of governmental activities in the statement of activities:

General Government	\$ 363,771
Community Development	91,331
Public Safety	1,144,414
Public Works	6,269,854
Recreation and Social Services	661,973
Total	\$ 8,531,343

Depreciation and amortization expense was charged to the following functions of business-type activities in the statement of activities:

Municipal Transit	\$ 606,651
Sewer Service	<u>1,957,100</u>
Total	<u>\$ 2,563,751</u>

Note 5 - Construction Commitments

As of June 30, 2022, contract commitments for major capital projects included the following:

Description	Project Contract	Expenditures to Date	Unexpended Balance
South Coast Highway Sidewalk Desing	\$ 1,960,000	\$ 1,784,984	\$ 175,016
Riddle Field Park Renovation	672,400	132,945	539,455
Jasmine St Storm Drain Design	2,342,800	2,255,681	87,119
Oriole Dr Storm Drain	100,000	22,718	77,282
Pearl Street Beach Access	1,831,775	1,809,973	21,802
Bluebird Cyn Ret Wall Install	1,710,700	257,310	1,453,390
Moss St Beach Access	1,338,800	159,282	1,179,518
Storm Drain-Bonita Way	100,000	53,680	46,320
Retaining Wall-Bluebird Cyn	207,500	192,571	14,929
Summit Dr Drain Construction	1,300,000	67,849	1,232,151
LCR Master Plan Utility Undergrounding	3,040,100	1,073,913	1,966,187
Alisos Av Storm Drain Construction	451,600	105,269	346,331
Anita Beach Stairs Replacement	700,000	122,753	577,247
Slope Repair-862 Summit Dr	523,000	478,914	44,086
Storm Drain-Bolsa Way/St. Ann's	1,042,500	93,892	948,608
Ramona Alley Dec Paving	427,000	258,086	168,914
Tenant Improv-City Bldg	600,000	565,680	34,320
Repl Lights Riddle/Irvine Bowl	80,000	40,874	39,126
Parks Rehabilitation-Moulton, Alta, Lang	3,536,900	1,785,214	1,751,686
Downtown Bike Racks	17,200	2,586	14,614
Main Beach Park Renovation	1,025,900	188,719	837,181
Citywide Storm Damage Slope St	200,000	18,994	181,006
Bluebird Cyn Rehab Project	510,000	196,190	313,810
DeWitt Property Habitat Restoration	625,000	621,031	3,969
Zone 2 Street Slurry Seal/Reha	1,602,800	893,467	709,333
Zone 3 Street Improvement Park/Thalia	250,000	36,805	213,195
Drainage Improvement- Treetop Lane	90,600	12,296	78,304
Citywide Guard Rail Repairs	150,000	102,527	47,473
Drainage-Bent St Improv	100,000	2,523	97,477
TOW, Hobo Cyn & HS Sidewalk	350,000	295,859	54,141
Zone 1 Street Slurry Seal/Rehab	471,400	166,157	305,243
Total	<u>\$ 27,357,975</u>	<u>\$ 13,798,742</u>	<u>\$ 13,559,233</u>

Note 6 - 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 PPO 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, including estimates for incurred but not reported (IBNR) loss, in this fund. An estimate for incurred but not reported claims for PPO 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 12 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 \$3,000,000 self-insured retention with a \$43,000,000 annual aggregate. The coverage for workers' compensation extends to a limit of \$2,000,000. Member cities' CIPA premiums are based on actuarial reports and underwriting estimates and are calculated based on the member cities' individual experience and exposure for a particular program. Members may be charged assessments if losses exceed the amount of premium collected.

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 \$8,066,488 is reported in the Insurance and Employee Benefits Internal Service Fund, at June 30, 2022. Changes in the Insurance and Employee Benefits Internal Service Fund's claims liability amounts in fiscal years 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Beginning of Year Liability	\$ 7,919,533	\$ 7,594,061
Current Year Claims as Changes in Estimates	2,761,893	2,769,393
Claims Payments	<u>(2,614,938)</u>	<u>(2,443,921)</u>
Insurance Claims Payable	<u>\$ 8,066,488</u>	<u>\$ 7,919,533</u>

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 7 - 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 and 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. As of June 30, 2022, special assessment debt outstanding was:

<u>District</u>	<u>Principal Outstanding June 30, 2022</u>
AD 09-1	\$ 3,060,000
RAD 12-1	290,000
AD 13-1	315,688
AD 13-6	160,000
RAD 14-3	297,929
AD 15-2	108,000
AD 14-1	<u>550,000</u>
Total	<u>\$ 4,781,617</u>

Note 8 - Other Employee Benefits

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 makes no contributions to the plan and 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, 2022, the deferred compensation assets are not reflected in the City's financial statement.

Defined Contribution Plan

The City has established a defined contribution plan administered through a private administrator known as Public Agency Retirement System ("PARS") for all of its part-time employees, pursuant to the requirements of section 11332 of the Social Security Act. All part-time employees are eligible to participate from the date of employment. Federal legislation requires contributions of at least 7.5% to a retirement plan, and the City matches the employees' contributions of 3.75%. The City's contributions for each employee are fully vested immediately. For the year ended June 30, 2022, the City's covered payroll for employees participating in the plan was \$2,308,959. Employees made contributions of \$86,586 (3.75% of current covered payroll), which was matched by the employer in the same amount. Assets of the plan totaled \$1,156,256 at June 30, 2022.

Note 9 - 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, 2022:

	Restated Balance at July 01, 2021	Additions	Deletions/ Transfers	Balance at June 30, 2022	Due Within One Year	Due in More Than One Year
Governmental Activities						
Lease Liabilities	\$ 267,594	\$ 559,443	\$ (60,518)	\$ 766,519	\$ 127,010	\$ 639,509
Compensated Absences	4,379,899	3,545,493	(2,996,492)	4,928,900	985,780	3,943,120
Insurance Claims Payable	7,919,533	2,761,893	(2,614,938)	8,066,488	2,419,946	5,646,542
Total Governmental Activities	\$ 12,567,026	\$ 6,866,829	\$ (5,671,948)	\$ 13,761,907	\$ 3,532,736	\$ 10,229,171
Business-Type Activities						
Municipal Transit Fund						
Lease Liabilities	\$ 1,172,182	\$ -	\$ (284,135)	888,047	\$ 288,780	\$ 599,267
Compensated Absences	23,408	9,549	(7,095)	25,862	5,172	20,690
Total Municipal Transit Fund	1,195,590	9,549	(291,230)	913,909	293,952	619,957
Sewer Service Fund						
Compensated Absences	102,960	139,541	(150,935)	91,566	18,313	73,253
Direct Borrowings						
I-Bank Installment Agreement	1,414,326	-	(458,803)	955,523	471,328	484,195
I-Bank Installment Agreement	3,688,316	-	(163,834)	3,524,482	169,405	3,355,077
I-Bank Installment Agreement	4,286,118	-	(175,742)	4,110,376	181,807	3,928,569
I-Bank Installment Agreement	-	7,500,000	-	7,500,000	179,154	7,320,846
Total Sewer Service Fund	9,491,720	7,639,541	(949,314)	16,181,947	1,020,007	15,161,940
Total Business-Type Activities	\$ 10,687,310	\$ 7,649,090	\$ (1,240,544)	\$ 17,095,856	\$ 1,313,959	\$ 15,781,897

For long-term liabilities, such as insurance claims payable and compensated absences, the general fund, municipal transit enterprise fund, sewer service enterprise fund, and internal service funds have been used in prior years to liquidate such amounts. A description of the City's lease activity is described in Note 10.

I-Bank Installment Sale Agreement

The City entered into a 20-year loan on June 1, 2004 from the 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, for the City's Sewer Line Reconstruction, Line and Manhole Rehabilitation Project. The loan is secured by revenues generated by the Sewer Service Fund and bears interest at a rate of 2.73% per annum. Repayment of the loan is payable solely from Sewer Service user charges. The revenues are pledged for the total debt service until the year 2033. As of June 30, 2022, 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, 2022, the outstanding principal amount was \$955,523. Total revenue available from the Sewer Service Fund for debt service is \$9,619,063 and total debt service, including interest, was \$491,151.

The annual payment amounts required to retire the Sales Agreement as of June 30, 2022 are as follows:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2023	\$ 471,328	\$ 19,652	\$ 490,980
2024	484,195	6,609	490,804
Total	<u>\$ 955,523</u>	<u>\$ 26,261</u>	<u>\$ 981,784</u>

The City entered into a 20-year loan on June 1, 2018 from the I-Bank Installment Sale Agreement with the California Infrastructure and Economic Development Bank (CIEDB). The maximum loan amount is \$4,000,000 and will be utilized for the City's Sewer System Collection and Treatment Facility Rehabilitation and Replacements Project. The loan is secured by revenues generated by the Sewer Service Fund and bears interest at a rate of 3.40% per annum, including amounts that have not yet been disbursed. Additionally, there is an annual fee due on August 1 of each year equal to 0.30% of the outstanding principal. Repayment of the loan is payable solely from Sewer Service user charges. The revenues are pledged for the total debt service until the year 2038. As of June 30, 2022, \$2,531,194 of the loan proceeds were disbursed under the loan agreement, and accordingly, a receivable in the amount of \$1,468,806 is recorded in the Sewer Service Enterprise Fund. Interest is due semiannually on February 1 and August 1 and principal is due annually on August 1, which commenced on August 1, 2019.

The City is not permitted prepay all or a portion of the outstanding principal until June 1, 2028, which is ten years after the effective date. After the 10-year period, the prepayment amount is 102%, 101%, and 100% for the tenth year, eleventh year, and remaining years, respectively.

As of June 30, 2022, the outstanding principal amount was \$3,524,482. Total revenue available from the Sewer Service Fund for debt service is \$9,619,063 and total debt service, including interest, was \$286,452.

The annual payment amounts required to retire the Sales Agreement as of June 30, 2022 are as follows:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2023	\$ 169,405	\$ 116,952	\$ 286,357
2024	175,164	111,094	286,258
2025	181,120	105,037	286,157
2026	187,278	98,774	286,052
2027	193,645	92,299	285,944
2028-2032	1,071,578	356,281	1,427,859
2033-2037	1,266,566	158,085	1,424,651
2038-2039	279,726	4,755	284,481
Total	<u>\$ 3,524,482</u>	<u>\$ 1,043,277</u>	<u>\$ 4,567,759</u>

The City entered into a 20-year loan on June 5, 2019 from the I-Bank Installment Sale Agreement with the California Infrastructure and Economic Development Bank (CIEDB). The maximum loan amount is \$4,456,000 and will be utilized for the City's Coastal Treatment Plant Facility Improvements Project. The loan is secured by revenues generated by the Sewer Service Fund and bears interest at a rate of 3.45% per annum, including amounts that have not yet been disbursed. Additionally, there is an annual fee due on August 1 of each year equal to 0.30% of the outstanding principal. Repayment of the loan is payable solely from Sewer Service user charges. The revenues are pledged for the total debt service until the year 2039. As of June 30, 2022, \$1,414,412 of the loan proceeds were disbursed under the loan agreement, and accordingly, a receivable in the amount of \$3,041,588 is recorded in the Sewer Service Enterprise Fund. Interest is due semiannually on February 1 and August 1 and principal is due annually on August 1, which commenced on August 1, 2020.

The City is not permitted prepay all or a portion of the outstanding principal until June 5, 2029, which is ten years after the effective date. After the 10-year period, the prepayment amount is 102%, 101%, and 100% for the 10th year, 11th year, and remaining years, respectively.

As of June 30, 2022, the outstanding principal amount was \$4,110,376. Total revenue available from the Sewer Service Fund for debt service is \$9,619,063 and total debt service, including interest, was \$320,582.

The annual payment amounts required to retire the Sales Agreement as of June 30, 2022 are as follows:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2023	\$ 181,807	\$ 138,672	\$ 320,479
2024	188,079	132,291	320,370
2025	194,568	125,691	320,259
2026	201,280	118,862	320,142
2027	208,224	111,798	320,022
2028-2032	1,153,964	444,202	1,598,166
2033-2037	1,367,241	227,246	1,594,487
2038-2039	615,213	21,406	636,619
Total	\$ 4,110,376	\$ 1,320,168	\$ 5,430,544

The City entered into a 30-year loan on June 1, 2022 from the I-Bank Installment Sale Agreement with the California Infrastructure and Economic Development Bank (CIEDB). The maximum loan amount is \$7,500,000 and will be utilized for the South Orange County Wastewater Authority Coastal Treatment Plant upgrades. The loan is secured by revenues generated by the Sewer Service Fund and bears interest at a rate of 2.20% per annum, including amounts that have not yet been disbursed. Additionally, there is an annual fee due on August 1 of each year equal to 0.30% of the outstanding principal. Repayment of the loan is payable solely from Sewer Service user charges. The revenues are pledged for the total debt service until the year 2051. As of June 30, 2022, none of the loan proceeds were disbursed under the loan agreement. Interest is due semiannually on February 1 and August 1 and principal is due annually on August 1, which will commence on August 1, 2022.

The City is not permitted prepay all or a portion of the outstanding principal until June 1, 2032, which is ten years after the effective date.

As of June 30, 2022, the outstanding principal amount was \$7,500,000. Total revenue available from the Sewer Service Fund for debt service is \$9,619,063.

The annual payment amounts required to retire the Sales Agreement as of June 30, 2022 are as follows:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2023	\$ 179,154	\$ 104,821	\$ 283,975
2024	183,095	159,045	342,139
2025	187,123	154,972	342,095
2026	191,240	150,810	342,050
2027	195,447	146,557	342,004
2028-2032	1,043,656	665,632	1,709,287
2033-2037	1,163,622	544,346	1,707,968
2038-2042	1,297,377	409,119	1,706,496
2043-2047	1,446,508	258,348	1,704,856
2048-2052	1,612,780	90,247	1,703,027
Total	<u>\$ 7,500,000</u>	<u>\$ 2,683,897</u>	<u>\$ 10,183,897</u>

Note 10 - Leases

Lessee Activities

As of June 30, 2022, the City had entered into various lease agreements as the lessee for the use of land, a building, various automotive equipment, and equipment, for terms ranging from four to seven years. The City is required to make principal and interest payments through February 2029. The lease agreements have interest rates of 2.46% based on the City's estimated incremental borrowing rate at the inception of the lease. As of June 30, 2022, the net right to use asset balance is \$1,609,199 and the value of the lease liability outstanding is \$1,654,566. The current year amortization and interest expense associated with the right to use asset was \$392,028 and \$38,428.

Remaining principal and interest payments on the leases are as follows:

Government Activities

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2023	\$ 127,010	\$ 17,367	\$ 144,377
2024	129,801	14,207	144,008
2025	101,452	11,309	112,761
2026	102,480	8,795	111,275
2027	105,560	6,207	111,767
2028-2029	200,216	4,524	204,740
Total	<u>\$ 766,519</u>	<u>\$ 62,409</u>	<u>\$ 828,928</u>

Business Activities

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2023	\$ 288,780	\$ 18,047	\$ 306,827
2024	295,939	10,875	306,814
2025	303,328	3,470	306,798
Total	<u>\$ 888,047</u>	<u>\$ 32,392</u>	<u>\$ 920,439</u>

Lessor Activities

The City has accrued a receivable for four land leases. The remaining receivable for these leases was \$914,108 for the year ended June 30, 2022. Deferred inflows related to these leases were \$898,729 as of June 30, 2022. Interest revenue recognized on these leases was \$26,461 for the year ended June 30, 2022. Principal receipts of \$139,297 were recognized during the fiscal year. The interest rate on the leases was 2.46%. Final receipt is expected in fiscal year 2049.

Note 11 - Other Postemployment Benefit Plan

Plan Description

The City administers a single-employer defined benefit plan which provides medical and dental insurance benefits to eligible retirees and their dependents in accordance with various labor agreements. The City does not pay any of the cost of retiree health benefits; however, eligible retirees and their dependents are permitted to participate in the City's medical insurance plan until eligible for Medicare, typically at age 65. Once eligible, coverage under the City plan ceases. The medical plans consist of two Cigna options (HMO and PPO) and the dental benefits are provided through DeltaCare HMO and a self-insured Delta Dental PPO.

Employees who have completed at least three years of service with the City and have coverage immediately prior to retirement are eligible to retire and participate in the City's healthcare plans by paying premiums identical to those charged for the City's active employees. For employees hired on or after July 1, 2013 (January 1, 2014 for Police), the three year service requirement has been increased to ten years. Spouses and eligible dependent children of retirees may also be covered at the retiree's expense. All of the City's Memoranda of Understanding (MOU) specify the ability to elect self-paid retiree medical coverage, and this benefit has been extended to self-paid dental coverage as well.

While the City does not directly contribute toward the cost of premiums for retirees, the ability to obtain coverage at an active employee rate constitutes a significant economic benefit to the retirees, called an "implicit subsidy" under GASB 75. The inclusion of the retirees increases the City's overall health insurance rates.

The benefits and contribution requirements of the City and plan members are established and may be amended by City Council. The City has not established an irrevocable trust for the purpose of holding assets accumulated for plan benefits and funds the plan on a pay-as-you-go basis (i.e., as medical insurance premiums become due). For fiscal year 2021-2022, age-adjusted premium benefits paid by the City totaled \$340,693.

Employees Covered

As of the June 30, 2022 measurement date, membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	64
Active employees	<u>270</u>
Total	<u><u>334</u></u>

Total OPEB Liability

The City's total OPEB liability of \$3,529,703 was measured as of June 30, 2022, was determined by an actuarial valuation as of July 1, 2020 rolled forward to June 30, 2022 using standard update procedures, and is included in the government-wide financial statements as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Deferred Outflows - OPEB	<u>\$ 1,135,803</u>	<u>\$ 44,989</u>	<u>\$ 1,180,792</u>
Total OPEB Liability	<u>\$ 3,395,220</u>	<u>\$ 134,483</u>	<u>\$ 3,529,703</u>
Deferred Inflows - OPEB	<u>\$ 403,526</u>	<u>\$ 15,982</u>	<u>\$ 419,508</u>

The general fund, municipal transit enterprise fund, and sewer service enterprise fund have been used in prior years to liquidate the total OPEB liability.

Actuarial Assumptions and Other Inputs

The total OPEB liability as of the July 1, 2020, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	July 1, 2020
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	3.69%
Inflation	2.75%
Projected Salary Increases	3.00%
Healthcare Cost Trend Rates	5.20% for 2022 through 2049; 5.00% for 2050 through 2064; and 4.00% for 2065 and later years
Mortality	(1)

(1) Mortality rates were based on the CalPERS mortality rates, in the most recent experience study, for miscellaneous and safety participants. The actuarial assumptions used in the July 1, 2020 valuation were based on a review of plan experience during the period July 1, 2018 to June 30, 2020.

The discount rate utilized is based on whether the plan assets are projected to be sufficient to make future payments. Since there are no plan assets held in trust, the discount rate was based on a high-quality 20-year tax-exempt general obligation municipal bond yield or index rate. "High quality" is defined as being rated AA or higher (or an equivalent rating). The municipal bond rate utilized was 3.69% and was determined using the Fidelity AA Municipal Bond 20-Year High Grade rate index as of June 30, 2022.

Changes in Total OPEB Liability

The change in the total OPEB liability were as follows:

	<u>Increase (Decrease) Total OPEB Liability</u>
Balance at June 30, 2021 (Measurement Date)	\$ 4,061,442
Changes in the year:	
Service Cost	212,278
Interest on the Total OPEB Liability	78,800
Changes in Assumptions	(482,124)
Benefit Payments	(340,693)
Net changes	<u>(531,739)</u>
Balance at June 30, 2022 (Measurement Date)	<u>\$ 3,529,703</u>

Change of Assumptions

The discount rate was raised from 1.92% to 3.69% and the inflation rate remained the same at 3.00% from June 30, 2021, to June 30, 2022, respectively. The healthcare trend rate for the June 30, 2020, was 5.80% for 2020 decreasing by decrements of 0.10% annually until the final rate of 5.00% in 2028 and later years. The healthcare trend rate for the June 30, 2022, was 5.20% for 2022 through 2049; 5.00% for 2050 through 2064 and 4.00% for 2065 and later years.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, calculated using the discount rate for the Plan, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower or one-percentage point higher than the current rate:

	One Percent Decrease (2.69%)	Discount Rate (3.69%)	One Percent Increase (4.69%)
Total OPEB Liability	\$ 3,791,178	\$ 3,529,703	\$ 3,294,495

Sensitivity of the Total OPEB Liability to Changes in Medical Trend Rates

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using medical trend rates that are one- percentage point lower or one-percentage point higher:

	One Percent Decrease (4.20%) Decreasing to 3.00%)	Healthcare Cost Trend Rates (5.20%) Decreasing to 4.00%)	One Percent Increase (6.20%) Decreasing to 5.00%)
Total OPEB Liability	\$ 3,193,192	\$ 3,529,703	\$ 3,921,134

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2022, the City recognized OPEB expense of \$469,728. At June 30, 2022, the City reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 578,804	\$ -
Changes in Assumptions	601,988	419,508
Total	\$ 1,180,792	\$ 419,508

The above amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30:</u>	<u>Amount</u>
2023	\$ 178,651
2024	178,651
2025	178,651
2026	160,222
2027	73,324
Thereafter	(8,215)

Note 12 - Fund Balances

Fund balances are classified as follows:

	General Fund*	Major Fund Assessment Districts Capital Projects Fund	Nonmajor Governmental Funds	Total
Fund Balances				
Nonspendable				
Inventory	\$ 132,358	\$ -	\$ -	\$ 132,358
Prepays	4,443,153	-	2,388,177	6,831,330
Total nonspendable	4,575,511	-	2,388,177	6,963,688
Restricted				
Parking In-Lieu	980	-	-	980
Park In-Lieu	133,490	-	-	133,490
Art In-Lieu	284,138	-	-	284,138
Drainage	80,689	-	-	80,689
Housing In-Lieu	880,929	-	-	880,929
Transportation Infrastructure	1,117,657	-	-	1,117,657
Street Lighting District	-	-	7,474,956	7,474,956
Gas Tax	-	-	1,875,996	1,875,996
Public Safety	-	-	13,325	13,325
Housing Fund	-	-	200,000	200,000
Assessment District Improvements	-	900,618	-	900,618
Total restricted	2,497,883	900,618	9,564,277	12,962,778
Committed				
Solid Waste	50,860	-	-	50,860
Measure LL	3,122,100	-	-	3,122,100
Repair of Public Facilities and Natural Disaster	6,728,716	-	-	6,728,716
Total Committed	9,901,676	-	-	9,901,676
Assigned				
General Government	1,091,750	-	-	1,091,750
Public Safety	188,900	-	-	188,900
Public Works	75,700	-	-	75,700
Open Space	648,057	-	-	648,057
Parking Authority	12,437,173	-	-	12,437,173
Capital Projects	42,253,915	-	-	42,253,915
Total assigned	56,695,495	-	-	56,695,495
Unassigned⁺	24,769,503	-	-	24,769,503
Total fund balances	<u>\$ 98,440,068</u>	<u>\$ 900,618</u>	<u>\$ 11,952,454</u>	<u>\$ 111,293,140</u>

* For financial statement reporting the City has included the following sub-funds in the General Fund: General Fund, Parking in lieu, Park in lieu, Art in lieu, Drainage, Housing in lieu, Transportation Infrastructure, Deposits, Disaster Contingency, Open Space, Parking Authority, Capital Improvement, and Measure LL.

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

Note 13 - 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.

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, 2022, (the most recent information available), SOCWA had total assets and deferred outflows of resources of \$177,026,285 total liabilities and deferred inflows or resources of \$29,455,702, and total net position of \$147,570,583. A separate financial report may be obtained from the South Orange County Wastewater Authority, 34156 Del Obispo Street, Dana Point, California 92629.

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 \$2,364,580 and \$2,749,203 for its share of operating and capital costs, respectively, during the fiscal year.

Working in partnership with SOCWA, in prior years the City expanded capacity in certain treatment plants and constructed a pumping station. The City's participation in these projects has been capitalized through sewer plant and lines and capacity rights in the City's sewer funds.

During the fiscal year, the City paid out a claim against the City in the amount of \$490,000 for damage to a single family residence due to sewer backup and spill of a City sewer line. The City paid its self-retention limit under its pollution insurance policy and the handling of the case has been assumed by that insurance carrier who will pay for any additional liabilities above the self-retention limit. There is no risk of future liability to the City in this case.

Note 14 - Defined Benefit Pension Plans

The City of Laguna Beach participates in the California Public Employees Retirement System (CalPERS), a pension plan available to all qualified employees. The Safety Plan is a cost-sharing multiple employer defined benefit pension plan. The Miscellaneous Plan is an agent multiple employer defined benefit pension plan. A summary of pension amounts for the City's plans at June 30, 2022 is presented below:

	Safety Plan	Miscellaneous Plan	Total
Deferred Outflows - Pensions	\$ 12,210,912	\$ 4,453,220	\$ 16,664,132
Net Pension Liability	(24,774,703)	(13,934,124)	(38,708,827)
Deferred Inflows - Pensions	(17,578,854)	(11,743,690)	(29,322,544)
Pension Expense	1,952,488	430,599	2,383,087

Pension amounts are reported in the financial statements as follows:

	Governmental Activities	Business-Type Activities	Total
Deferred Outflows - Pensions	\$ 16,048,339	\$ 615,793	\$ 16,664,132
Net Pension Liability	(37,154,717)	(1,554,110)	(38,708,827)
Deferred Inflows - Pensions	(27,900,583)	(1,421,961)	(29,322,544)
Pension Expense	1,922,133	460,954	2,383,087

General Information about the Pension Plans

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the City's Safety (Police, Fire, and Lifeguard) Employee Pension Plan (Safety Plan), a cost sharing multiple employer defined benefit pension plan, or the City's Miscellaneous Plan, an agent multiple employer defined benefit pension plan, both administered by CalPERS. The CalPERS Safety Plan consists of safety pools (referred to as "risk pools"), which are comprised of individual employer safety rate plans. The risk pools are included within the Public Employees' Retirement Fund C (PERF C). For the Miscellaneous Plan, CalPERS acts as a common investment and administrative agent for its participating member employers, and are included within Public Employees' Retirement Fund A (PERF A). Benefit provisions under the Plans are established by state statute and may be amended by City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information. These reports can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 to 62 with statutorily reduced benefits. For employees hired into a plan with the 1.5% at 65 formula, eligibility for service retirement is age 55 with at least five years of services. PEPRAs miscellaneous members become eligible for service retirement upon attainment of age 52 with at least five years of service. All members are eligible for nonduty disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit or the Optional Settlement 2W Death Benefit. Safety members can receive a special death benefit if the member dies while actively employed and the death is job-related. Fire members may receive the alternate death benefit in lieu of the Basic Death Benefit or the 1957 Survivor Benefit if the member dies while actively employed and has at least 20 years of total CalPERS service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Public Employee's Pension Reform Act of 2013 (PEPRA) requires new benefits and member contributions for new members as defined by PEPRA, that are hired after January 1, 2013. These PEPRA members in pooled plans are reflected in the new Miscellaneous and Safety risk pools created by the CalPERS Board in response to the passage of PEPRA, beginning with the June 30, 2013, risk-pool valuations.

The Plans' provisions and benefits in effect at the measurement date June 30, 2021, are summarized as follows:

	Safety - Police		
	Tier 1	Tier 2	Tier 3
Formula	3.0% @ 50	3.0% @ 55	2.7% @ 57
Benefit Vesting Schedule	5 years service	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life	monthly for life
Retirement Age	50	55	57
Monthly Benefits, as a % of Eligible Compensation	3.0%	3.0%	2.7%
Required Employee Contribution Rates	9%	9%	13.000%
Required Employer Contribution Rates			
Normal Cost Rate	23.710%	21.790%	13.130%
Payment of Unfunded Liability	\$ 1,655,079	\$ 4,971	\$ 5,387
Employer Portion of Normal Cost	706,160	180,681	382,530
Total Contributions	\$ 2,361,239	\$ 185,652	\$ 387,917

	Safety - Fire		
	Tier 1	Tier 2	Tier 3
Formula	3.0% @ 50	3.0% @ 55	2.7% @ 57
Benefit Vesting Schedule	5 years service	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life	monthly for life
Retirement Age	50	55	57
Monthly Benefits, as a % of Eligible Compensation	3.0%	3.0%	2.7%
Required Employee Contribution Rates	9%	9%	13.000%
Required Employer Contribution Rates			
Normal Cost Rate	23.710%	21.790%	13.130%
Payment of Unfunded Liability	\$ 1,352,792	\$ 9,900	\$ 4,220
Employer Portion of Normal Cost	772,486	211,278	184,641
Total Contributions	\$ 2,125,278	\$ 221,178	\$ 188,861

	Safety - Lifeguard		
	Tier 1	Tier 2	Tier 3
Formula	3.0% @ 55	N/A	2.7% @ 57
Benefit Vesting Schedule	5 years service	N/A	5 years service
Benefit Payments	monthly for life	N/A	monthly for life
Retirement Age	55	N/A	57
Monthly Benefits, as a % of Eligible Compensation	3.0%	N/A	2.7%
Required Employee Contribution Rates	9%	N/A	13.000%
Required Employer Contribution Rates		N/A	
Normal Cost Rate	21.790%	N/A	13.130%
Payment of Unfunded Liability	\$ 140,181	N/A	\$ 1,721
Employer Portion of Normal Cost	105,414	N/A	80,578
Total Contributions	\$ 245,595	\$ -	\$ 82,299

	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 3</u>
Applies to:	Police Safety employees hired on or before April 2, 2012, Fire Safety employees hired on or before October 3, 2011, and Lifeguard Safety employees hired before January 1, 2013	Police Safety employees hired on or before April 2, 2012, Fire Safety employees hired on or before October 3, 2011, (or laterals from other CalPERS agencies who meet certain requirements)	New CalPERS covered employees hired after January 1, 2013 (mandated by AB 340, the Public Employees Pension Reform Act (PEPRA))

	<u>Miscellaneous</u>	
	<u>Prior to January 1, 2013</u>	<u>On or After January 1, 2013</u>
Hire Date		
Formula	2.5% @ 55	2.5% @ 62
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life
Retirement Age	55	62
Monthly Benefits, as a % of Eligible Compensation	2.5%	2.5%
Required Employee Contribution Rates	8%	7.25%
Required Employer Contribution Rates		
Normal Cost Rate	11.310%	7.250%
Payment of Unfunded Liability	\$ 2,465,950	\$ -
Employer Portion of Normal Cost	1,056,797	749,250
 Total Contributions	 \$ 3,522,747	 \$ 749,250

Employees Covered

As of the June 30, 2021, measurement date, the following employees were covered by the benefit term for the Miscellaneous Plan:

	<u>Miscellaneous</u>
Inactive Employees or Beneficiaries	
Currently Receiving Benefits	251
Inactive Employees Entitled to but not yet Receiving Benefits	191
Active Employees	168
 Total	 610

Contributions

Section 20814(c) of the California Public Employees’ Retirement law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in rate. The total plan contributions are determined through CalPERS’ annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rates of employees. City contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions.

Contributions to the pension plans totaled \$5,798,019 for the Safety Plan and \$4,271,997 for the Miscellaneous Plan, including contributions by Safety Plans as follows, for the year ended June 30, 2022:

	Police	Safety Fire	Lifeguard	Total
Contributions - Employer	<u>\$ 2,934,808</u>	<u>\$ 2,535,317</u>	<u>\$ 327,894</u>	<u>\$ 5,798,019</u>

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

Proportionate Share of Net Pension Liability - Safety Plan

As of June 30, 2022, the City reported a net pension liability for its proportionate share of the collective net pension liability of the Safety Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Safety Plan	<u>\$ 24,774,703</u>

The City’s net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2021, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020, rolled forward to June 30, 2021, using standard update procedures. The City’s proportionate share of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The City’s proportionate share of the net pension liability for each Plan as of the measurement date ended June 30, 2020, and 2021, was as follows:

	Safety
Proportion - June 30, 2020	0.65263%
Proportion - June 30, 2021	0.70594%
Change - Increase (Decrease)	<u>0.05331%</u>

Actuarial Assumptions

The total pension liability was based on the following actuarial assumptions:

	Safety		
	Police	Fire	Lifeguard
Valuation Date	June 30, 2020	June 30, 2020	June 30, 2020
Measurement Date	June 30, 2021	June 30, 2021	June 30, 2021
Actuarial Cost Method	Entity-Age Normal Cost Method		
Actuarial Assumptions			
Discount Rate	7.15%	7.15%	7.15%
Inflation	2.50%	2.50%	2.50%
Salary Increases	(1)	(1)	(1)
Mortality Rate Table	(2)	(2)	(2)
Post Retirement Benefit Increase	(3)	(3)	(3)

- (1) Varies by entry age and services
- (2) The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates includes 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.
- (3) The less of contract COLA or 2.5% until Purchasing Power Protection of Allowance Floor on purchasing power applies, 2.50% thereafter.

	Miscellaneous
Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Actuarial Cost Method	Entity-Age Normal Cost Method
Actuarial Assumptions	
Discount Rate	7.15%
Inflation	2.50%
Projected Salary Increases	(1)
Mortality Rate Table	(2)
Post Retirement Benefit Increase	(3)

- (1) Varies by entry age and services
- (2) The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates includes 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.
- (3) The less of contract COLA or 2.5% until Purchasing Power Protection of Allowance Floor on purchasing power applies, 2.50% thereafter.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The expected real rates of return by asset class are as follows:

<u>Asset Class (a)</u>	<u>Assumed Asset Allocation</u>	<u>Real Rate of Return 1 - 10 Years (b)</u>	<u>Real Rate of Return 11+ years (c)</u>
Public Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	<u>100.00%</u>		

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability - Miscellaneous Plan

The City's net pension liability for the Miscellaneous Plan was measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Miscellaneous Plan was measured as of June 30, 2021, using an annual actuarial valuation as of June 30, 2020, rolled forward to June 30, 2021, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown under the section Actuarial Assumptions within this note.

The total Net Pension Liability for the City's Miscellaneous Plan, using the measurement date of June 30, 2021, was \$13,934,124. The changes in the Net Pension Liability for the Miscellaneous Plan follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2020 (Measurement Date)	\$ 128,786,101	\$ 98,392,545	\$ 30,393,556
Changes in the Year			
Service Cost	2,826,929	-	2,826,929
Interest on the Total Pension Liability	9,006,005	-	9,006,005
Differences Between Actual and Expected Experience	(1,051,010)	-	(1,051,010)
Net Plan to Plan Resource Movement	-	154	(154)
Contribution - Employer	-	3,905,728	(3,905,728)
Contribution - Employee	-	1,165,079	(1,165,079)
Net Investment Income	-	22,268,683	(22,268,683)
Administrative Expenses	-	(98,288)	98,288
Benefit Payments, Including Refunds of Employee Contributions	(6,380,886)	(6,380,886)	-
Net Changes	<u>4,401,038</u>	<u>20,860,470</u>	<u>(16,459,432)</u>
Balance at June 30, 2021 (Measurement Date)	<u>\$ 133,187,139</u>	<u>\$ 119,253,015</u>	<u>\$ 13,934,124</u>

Pension Expense and Deferred Outflows and Inflows of Resources

Safety Plan

For the year ended June 30, 2022, the City recognized pension expense of \$1,952,488 for the Safety Plan. At June 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for the Safety Plan:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension Contributions Subsequent to Measurement Date	\$ 5,798,019	\$ -
Differences between Actual Contributions and Proportionate Share of Contributions and Changes in Proportions	-	(2,833,144)
Changes in Employer's Proportion	2,180,156	-
Net Differences between Projected and Actual Earnings on Plan Investments	-	(14,745,710)
Changes in Assumptions		
Differences between Expected and Actual Experience	<u>4,232,737</u>	<u>-</u>
Total	<u>\$ 12,210,912</u>	<u>\$ (17,578,854)</u>

The amount of \$5,798,019, reported as deferred outflows of resources related to contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Differences between projected and actual investment earnings are amortized on a five-year straight-line basis and all other amounts are amortized over the expected average remaining service lives of all members that are provided with benefits. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ending June 30:</u>	<u>Amount</u>
2023	\$ (1,760,018)
2024	(2,258,867)
2025	(3,089,263)
2026	(4,057,814)
2027	-
Thereafter	-

Miscellaneous Plan

For the year ended June 30, 2022, the City recognized pension expense of \$430,599 for the Miscellaneous Plan. At June 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for the Miscellaneous Plan:

Miscellaneous Plan

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension Contributions Subsequent to Measurement Date	\$ 4,271,997	\$ -
Differences between Expected and Actual Experience	181,223	(688,593)
Net Differences between Projected and Actual Earnings on Plan Investments	<u>-</u>	<u>(11,055,097)</u>
Total	<u>\$ 4,453,220</u>	<u>\$ (11,743,690)</u>

The amount of \$4,271,997, reported as deferred outflows of resources related to contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Differences between projected and actual investment earnings are amortized on a five-year straight-line basis and all other amounts are amortized over the expected average remaining service lives of all members that are provided with benefits. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ending June 30:</u>	<u>Amount</u>
2023	\$ (2,971,027)
2024	(2,881,881)
2025	(2,650,947)
2026	(3,058,611)
2027	-
Thereafter	-

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City for each Plan, calculated using the discount rate for each Plan, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one-percentage point lower or one- percentage point higher than the current rate:

	<u>One Percent Decrease (6.15%)</u>	<u>Current Discount Rate (7.15%)</u>	<u>One Percent Increase (8.15%)</u>
Safety Plan's Proportionate Share of Collective Net Pension Liability	\$ 48,635,860	\$ 24,774,703	\$ 5,175,710
Miscellaneous Plan's Net Pension Liability	30,648,441	13,934,124	40,834

Pension Plan Fiduciary Net Position

Detailed information about each pension plans' fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan

At June 30, 2022, the City had no outstanding amount of contributions to the Safety or Miscellaneous pension plans required for the year ended June 30, 2022.

Note 15 - Transportation Development Act

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

TDA 50% Limitation

Total Operating Costs		\$ 4,076,023
Less: Depreciation		<u>(606,651)</u>
Net Operating Costs		3,469,372
50% Limitation		1,734,686

TDA Financial Need Limitation

Total Operating Costs		4,076,023
Depreciation	\$ (606,651)	
Project "V" Grant	(577,073)	
Park and Ride	<u>(112,350)</u>	<u>(1,296,074)</u>
Financial Need		<u>2,779,949</u>

Lesser of "Financial Need" or "50% Limitation" \$ 1,734,686

TDA Allocation	1,836,205
Under (Over) Allocation	(101,519)

For the year ended June 30, 2022, the City recognized \$1,836,205 of revenues pursuant to the TDA requirements. This amount, along with \$1,195,375 of other grant revenues, is reflected within Intergovernmental revenues in the Municipal Transit Enterprise Fund.

Note 16 - 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 provides assistance for those employees to reside in close proximity to their response area. The accompanying financial statements reflect the City’s purchase of two such properties in the amount of \$944,500 and one loan to an employee. The outstanding balance of the loan was \$334,006, for the year ended June 30, 2022. The balance of the loan is reported as part of Notes Receivables in the Vehicle Replacement Internal Service Fund.

Note 17 - Adoption of New Standard and Correction of Error

As of July 1, 2021, the City adopted GASB Statement No. 87, *Leases*. The implementation of the standard established a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The standard also requires lessors to recognize a lease receivable and deferred inflow of resources. Beginning net position/fund balance was restated to retroactively adopt the provisions of GASB Statement No. 87.

Additionally, a restatement was made to the Municipal Transit Fund to increase beginning net position for fiscal year 2021 revenues that were recorded in fiscal year 2022.

	Governmental Activities	Business-Type Activities	Municipal Transit Fund	General Fund
Net Position/Fund Balance at July 1, 2021, as previously reported	\$ 353,308,681	\$ 43,600,065	\$ 4,496,275	\$ 86,950,103
Recognition of revenues improperly reported	-	471,551	471,551	-
Recognition of right to use leased asset	267,594	1,172,182	1,172,182	-
Recognition of lease receivable	1,291,776	-	-	1,291,776
Recognition of lease liability	(267,594)	(1,172,182)	(1,172,182)	-
Recognition of deferred inflows of resources- leases	(1,291,776)	-	-	(1,291,776)
Net write off of previously reported capital lease	-	(147,276)	(147,276)	-
Net Position/Fund Balance, as restated	<u>\$ 353,308,681</u>	<u>\$ 43,924,340</u>	<u>\$ 4,820,550</u>	<u>\$ 86,950,103</u>

Note 18 - Subsequent Events

Library:

Under a 1970 agreement with the County of Orange, the City of Laguna Beach had the option to purchase the Laguna Beach Library at 363 Glenneyre Street for \$4,290,000. On August 1, 2022, the City exercised this option and entered into a Purchase and Sale Agreement with the County. As part of the agreement, the County will continue to operate the library rent-free for 25 years under a Lease Agreement. Additionally, the City will use the \$4,290,000 toward capital improvements at the library as needed. The City's ownership of the Property and its related responsibilities will be reflected in the Fiscal Year 2022-23 Annual Comprehensive Finance Report.

Purchase of South Laguna Beach:

On December 15, 2022, the City of Laguna Beach and the County of Orange signed a Cooperative Transfer Agreement, which transferred ownership, maintenance, and operational responsibilities of identified coastal properties in South Laguna Beach to the City. The transfer included parcels, easements, leases, licenses, permits, and memorandum of understandings. In recognition that the City will now assume long-term capital, maintenance, and operational costs of the properties and services, the County compensated the City with a total of \$22 million. The City's ownership of the properties and their related responsibilities will be included in the Fiscal Year 2022-23 Annual Comprehensive Finance Report.

Laguna Beach Financing Authority:

On August 16, 2022, the Laguna Beach City Council approved the acquisition of 30516 Coast Highway, Laguna Beach, California, for \$23 million, including an additional \$500,000 for property improvements. Escrow on the properties closed on December 28, 2022, and the City has taken ownership of the properties. The facility is now known as the Laguna Beach Community and Recreation Center. Of the purchase amount, \$12 million was financed through \$10 million of available funds and \$2 million from the American Rescue Plan Act. The remaining \$11.5 million was obtained through a lease financing arrangement with Truist Bank via the Laguna Beach Finance Authority. The lease includes a 20-year term at an interest rate of 3.95% and an annual debt service of approximately \$872,000. The financing can be prepaid after five years without penalty. The amount financed is \$11,660,000, which includes \$11.5 million for the property purchase and \$160,000 in related transaction fees. The details of the financing plan will be reported in the Fiscal Year 2022-23 Annual Comprehensive Finance Report.

On May 18, 2023, the City of Laguna Beach issued \$1,420,000 in Limited Obligation Improvement Bonds ("Bonds") for Underground Utility Assessment District No. 2013.2 (Diamond Street). The Bonds are being issued pursuant to provisions of the Improvement Bond Act of 1915 (Division 10 of the California Streets and Highways Code) by the City of Laguna Beach. The Bonds are limited obligation bonds issued to pay among other things the cost of utility undergrounding, the cost of removal of all, or any part of existing overhead electrical and communication (telephone and cable television) facilities and the replacement thereof with underground electrical and communication facilities within the City of Laguna Beach Underground Utility Assessment District No. 2013.2 (Diamond Street). The construction or the public improvements will be undertaken as provided by the Municipal Improvement Act of 1913 (Division 12 of the California Streets and Highways Code) (the "1913 Act"). The Bonds are payable over 25 years from unpaid assessments levied on parcels in the district. The Bonds are not a debt or liability of the City. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the Bonds, or the interest or any premium thereon, and no Bond owners may compel the exercise of taxing power of the City of the forfeiture of any of its property.

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Required Supplementary Information

City of Laguna Beach, California
Schedule of Proportionate Share of the Net Pension Liability – Safety Plan
Last Ten Years*
Years Ended June 30,

Fiscal Year Ended	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Measurement Period	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Plan's Proportion of the Net Pension Liability	0.70594%	0.65263%	0.62871%	0.6522%
Plan's Proportionate Share of the Net Pension Liability	\$ 24,774,703	\$ 43,480,563	\$ 39,247,379	\$ 36,684,879
Plan's Covered Payroll	\$ 12,449,028	\$ 12,906,341	\$ 12,246,434	\$ 11,419,674
Plan's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	199.01%	336.89%	320.48%	321.24%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	77.73%	74.43%	75.26%	75.26%

Notes to Schedule

From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administration expense.

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:

The discount rate was reduced from 7.65% to 7.15%.

* - Fiscal year 2015 was the 1st year of implementation; therefore, only eight years are shown.

City of Laguna Beach, California
Schedule of Proportionate Share of the Net Pension Liability – Safety Plan (Continued)
Last Ten Years*
Years Ended June 30,

Fiscal Year Ended	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Measurement Period	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Plan's Proportion of the Net Pension Liability	0.62430%	0.64676%	0.64916%	0.61018%
Plan's Proportionate Share of the Net Pension Liability	\$ 37,303,403	\$ 33,497,317	\$ 26,748,099	\$ 22,887,604
Plan's Covered Payroll	\$ 10,671,505	\$ 9,912,852	\$ 9,480,126	\$ 9,282,035
Plan's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	349.56%	337.92%	282.15%	246.58%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	73.31%	74.06%	78.40%	79.82%

Notes to Schedule

From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administration expense.

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:

The discount rate was reduced from 7.65% to 7.15%.

* - Fiscal year 2015 was the 1st year of implementation; therefore, only eight years are shown.

City of Laguna Beach, California
Schedule of Contributions – Safety Plan
Last Ten Years*
Years Ended June 30, 2022

	2022	2021	2020	2019
Contractually Required Contribution (Actuarily Determined)	\$ 5,798,019	\$ 5,338,630	\$ 5,013,694	\$ 4,386,904
Contributions in Relation to the Actuarily Determined Contributions	(5,798,019)	(5,338,630)	(5,013,694)	(5,107,904)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ (721,000)
Covered Payroll	\$ 13,769,103	\$ 12,449,028	\$ 12,906,341	\$ 12,246,434
Contributions as a Percentage of Covered Payroll	42.03%	42.88%	38.85%	41.71%

Notes to Schedule

Valuation Date	6/30/2019	6/30/2018	6/30/2017	6/30/2016
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**Methods and Assumptions Used to
Determined Contribution Rates:**

Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age
Amortization Method	(1)	(1)	(1)	(1)
Asset Valuation Method	Fair Value	Fair Value	Fair Value	Fair Value
Inflation	2.500%	2.500%	2.625%	2.750%
Salary Increase	(2)	(2)	(2)	(2)
Investment Rate of Return	7.00% (3)	7.00% (3)	7.25% (3)	7.375% (3)
Retirement Age	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)

- (1) Level percentage of payroll, closed
- (2) Depending on age, service, and type of employment
- (3) Net of pension plan investment expense, including inflation
- (4) 50 years (3%@50), 55 years (3%@55), and 57 years (2.7%@57)
- (5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

* - Fiscal year 2015 was the first year of implementation; therefore, only eight years are shown.

City of Laguna Beach, California
Schedule of Contributions – Safety Plan (Continued)
Last Ten Years*
Years Ended June 30, 2022

	2018	2017	2016	2015
Contractually Required Contribution (Actuarially Determined)	\$ 3,597,721	\$ 3,244,259	\$ 1,575,636	\$ 3,597,721
Contributions in Relation to the Actuarially Determined Contributions	<u>(4,639,721)</u>	<u>(4,445,511)</u>	<u>(4,132,300)</u>	<u>(4,639,721)</u>
Contribution Deficiency (Excess)	<u>\$ (1,042,000)</u>	<u>\$ (1,201,252)</u>	<u>\$ (2,556,664)</u>	<u>\$ (1,042,000)</u>
Covered Payroll	\$ 11,419,674	\$ 10,671,505	\$ 9,912,852	\$ 11,419,674
Contributions as a Percentage of Covered Payroll	40.63%	41.66%	41.69%	40.63%

Notes to Schedule

Valuation Date	6/30/2015	6/30/2014	6/30/2013	6/30/2012
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**Methods and Assumptions Used to
Determined Contribution Rates:**

Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age
Amortization Method	(1)	(1)	(1)	(1)
Asset Valuation Method	Fair Value	Fair Value	Fair Value	Fair Value
Inflation	2.750%	2.750%	2.750%	2.750%
Salary Increase	(2)	(2)	(2)	(2)
Investment Rate of Return	7.50% (3)	7.50% (3)	7.50% (3)	7.50% (3)
Retirement Age	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)

- (1) Level percentage of payroll, closed
- (2) Depending on age, service, and type of employment
- (3) Net of pension plan investment expense, including inflation
- (4) 50 years (3%@50), 55 years (3%@55), and 57 years (2.7%@57)
- (5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

* - Fiscal year 2015 was the first year of implementation; therefore, only eight years are shown.

City of Laguna Beach, California
Schedule of Changes in the Net Pension Liability and Related Ratios – Miscellaneous Plan
Last Ten Years*
Years Ended June 30, 2022

Fiscal Year Ended	2022	2021	2020	2019
Measurement Period	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Total Pension Liability				
Service Cost	\$ 2,826,929	\$ 2,691,515	\$ 2,730,589	\$ 2,510,806
Interest on Total Pension Liability	9,006,005	8,699,994	8,297,037	7,862,058
Differences between Actual and Expected Experience	(1,051,010)	376,773	1,028,702	118,415
Changes in Assumptions	-	-	-	(690,837)
Benefit Payments, including Refunds of Employee Contributions	(6,380,886)	(5,875,794)	(5,622,361)	(5,233,328)
Net Change in Total Pension Liability	4,401,038	5,892,488	6,433,967	4,567,114
Total Pension Liability, Beginning of Year	128,786,101	122,893,613	116,459,646	111,892,532
Total Pension Liability, End of Year (a)	\$ 133,187,139	\$ 128,786,101	\$ 122,893,613	\$ 116,459,646
Plan Fiduciary Net Position				
Contributions - Employer	\$ 3,905,728	\$ 3,565,155	\$ 3,916,164	\$ 3,774,012
Contributions - Employee	1,165,079	1,135,925	1,259,992	1,091,222
Net Investment Income	22,268,683	4,696,099	5,900,000	7,082,777
Administrative Expenses	(98,288)	(133,934)	(63,743)	(376,408)
Net Plan to Plan Resource Movement	154	-	-	-
Benefit Payments	(6,380,886)	(5,875,794)	(5,622,361)	(5,233,328)
Net Change in Plan Fiduciary Net Position	20,860,470	3,387,451	5,390,052	6,338,275
Plan Fiduciary Net Position, Beginning of Year	98,392,545	95,005,094	89,615,042	83,276,767
Plan Fiduciary Net Position, End of Year (b)	\$ 119,253,015	\$ 98,392,545	\$ 95,005,094	\$ 89,615,042
Net Pension Liability, Ending (a) - (b)	\$ 13,934,124	\$ 30,393,556	\$ 27,888,519	\$ 26,844,604
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.54%	76.40%	77.31%	76.95%
Covered Payroll	\$ 14,762,620	\$ 14,862,746	\$ 14,419,732	\$ 12,884,604
Net Pension Liability as a Percentage of Covered Payroll	94.39%	204.49%	193.41%	76.95%

Notes to Schedule

Benefit Changes: There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:

There were no changes in assumptions.

From fiscal year June 30, 2018 to June 30, 2022:

There were no significant changes in assumptions.

* - Fiscal year 2015 was the 1st year of implementation; therefore, only eight years are shown.

City of Laguna Beach, California
Schedule of Changes in the Net Pension Liability and Related Ratios – Miscellaneous Plan (Continued)
Last Ten Years*
Years Ended June 30, 2022

Fiscal Year Ended	2018	2017	2016	2015
Measurement Period	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Total Pension Liability				
Service Cost	\$ 2,418,551	\$ 2,020,384	\$ 1,936,830	\$ 2,113,319
Interest on Total Pension Liability	7,557,389	7,292,385	6,979,652	6,610,117
Differences between Actual and Expected Experience	(323,188)	(439,090)	61,932	-
Changes in Assumptions	6,050,977	-	(1,636,454)	-
Benefit Payments, including Refunds of Employee Contributions	<u>(5,143,766)</u>	<u>(4,590,588)</u>	<u>(4,271,862)</u>	<u>(3,644,602)</u>
Net Change in Total Pension Liability	10,559,963	4,283,091	3,070,098	5,078,834
Total Pension Liability, Beginning of Year	<u>101,332,569</u>	<u>97,049,478</u>	<u>93,979,380</u>	<u>88,900,546</u>
Total Pension Liability, End of Year (a)	<u>\$ 111,892,532</u>	<u>\$ 101,332,569</u>	<u>\$ 97,049,478</u>	<u>\$ 93,979,380</u>
Plan Fiduciary Net Position				
Contributions - Employer	\$ 3,865,941	\$ 3,733,571	\$ 3,457,700	\$ 2,011,915
Contributions - Employee	1,011,086	1,051,923	943,694	1,240,843
Net Investment Income	8,459,926	405,106	1,666,511	11,013,027
Administrative Expenses	(111,020)	(45,489)	(84,037)	(83,334)
Benefit Payments	<u>(5,143,766)</u>	<u>(4,590,588)</u>	<u>(4,271,862)</u>	<u>(3,644,602)</u>
Net Change in Plan Fiduciary Net Position	8,082,167	554,523	1,712,006	10,537,849
Plan Fiduciary Net Position, Beginning of Year	<u>75,194,600</u>	<u>74,640,077</u>	<u>72,928,071</u>	<u>62,390,222</u>
Plan Fiduciary Net Position, End of Year (b)	<u>\$ 83,276,767</u>	<u>\$ 75,194,600</u>	<u>\$ 74,640,077</u>	<u>\$ 72,928,071</u>
Net Pension Liability, Ending (a) - (b)	<u>\$ 28,615,765</u>	<u>\$ 26,137,969</u>	<u>\$ 22,409,401</u>	<u>\$ 21,051,309</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.43%	74.21%	76.91%	77.60%
Covered Payroll	\$ 13,297,509	\$ 12,379,800	\$ 11,499,996	\$ 12,031,399
Net Pension Liability as a Percentage of Covered Payroll	215.20%	211.13%	194.86%	174.97%

Notes to Schedule

Benefit Changes: There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:

There were no changes in assumptions.

From fiscal year June 30, 2018 to June 30, 2021:

There were no significant changes in assumptions.

* - Fiscal year 2015 was the 1st year of implementation; therefore, only eight years are shown.

City of Laguna Beach, California
Schedule of Contributions – Miscellaneous Plan
Last Ten Years*
Years Ended June 30, 2022

	2022	2021	2020	2019
Contractually Required Contribution (Actuarily Determined)	\$ 4,271,997	\$ 3,905,847	\$ 3,565,431	\$ 3,217,470
Contributions in Relation to the Actuarily Determined Contributions	<u>(4,271,997)</u>	<u>(3,905,847)</u>	<u>(3,565,431)</u>	<u>(3,907,470)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (690,000)</u>
Covered Payroll	\$ 15,473,063	\$ 14,762,620	\$ 14,862,746	\$ 14,419,732
Contributions as a Percentage of Covered Payroll	25.24%	26.46%	23.99%	27.10%

Notes to Schedule

Valuation Date	6/30/2019	6/30/2018	6/30/2017	6/30/2016
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**Methods and Assumptions Used to
Determined Contribution Rates:**

Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age
Amortization Method	(1)	(1)	(1)	(1)
Asset Valuation Method	Fair Value	Fair Value	Fair Value	Fair Value
Inflation	2.500%	2.500%	2.625%	2.750%
Salary Increase	(2)	(2)	(2)	(2)
Investment Rate of Return	7.00% (3)	7.00% (3)	7.25% (3)	7.375% (3)
Retirement Age	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)

- (1) Level percentage of payroll, closed
- (2) Depending on age, service, and type of employment
- (3) Net of pension plan investment expense, including inflation
- (4) 50 years (3%@50), 55 years (3%@55), and 57 years (2.7%@57)
- (5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

* - Fiscal year 2015 was the first year of implementation; therefore, only eight years are shown.

City of Laguna Beach, California
Schedule of Contributions – Miscellaneous Plan (Continued)
Last Ten Years*
Years Ended June 30, 2022

	2018	2017	2016	2015
Contractually Required Contribution (Actuarily Determined)	\$ 2,767,304	\$ 2,665,941	\$ 2,337,304	\$ 2,057,700
Contributions in Relation to the Actuarily Determined Contributions	<u>(3,767,304)</u>	<u>(3,865,941)</u>	<u>(3,737,304)</u>	<u>(3,457,700)</u>
Contribution Deficiency (Excess)	<u>\$ (1,000,000)</u>	<u>\$ (1,200,000)</u>	<u>\$ (1,400,000)</u>	<u>\$ (1,400,000)</u>
Covered Payroll	\$ 12,558,017	\$ 13,297,509	\$ 12,379,800	\$ 11,499,996
Contributions as a Percentage of Covered Payroll	30.00%	29.07%	30.19%	30.07%

Notes to Schedule

Valuation Date	6/30/2015	6/30/2014	6/30/2013	6/30/2012
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**Methods and Assumptions Used to
Determined Contribution Rates:**

Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age
Amortization Method	(1)	(1)	(1)	(1)
Asset Valuation Method	Fair Value	Fair Value	Fair Value	15 Year Smooth Fair Value Metho
Inflation	2.750%	2.750%	2.750%	2.750%
Salary Increase	(2)	(2)	(2)	(2)
Investment Rate of Return	7.50% (3)	7.50% (3)	7.50% (3)	7.50% (3)
Retirement Age	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)

- (1) Level percentage of payroll, closed
- (2) Depending on age, service, and type of employment
- (3) Net of pension plan investment expense, including inflation
- (4) 50 years (3%@50), 55 years (3%@55), and 57 years (2.7%@57)
- (5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

* - Fiscal year 2015 was the first year of implementation; therefore, only eight years are shown.

City of Laguna Beach, California
Schedule of Changes in the Total OPEB Liability and Related Ratios – Other Post Employment Benefit Plan
Last Ten Years*
Years Ended June 30, 2022

Fiscal Year Ended	2022	2021	2020	2019	2018
Measurement Period	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018
Total OPEB Liability					
Service Cost	\$ 212,278	\$ 189,348	\$ 132,120	\$ 121,627	\$ 72,904
Interest on Total Pension Liability	78,800	97,113	91,200	93,555	72,208
Changes in Assumptions	-	539,085	197,388	169,739	-
Differenced between Expected and Actual Experience	(482,124)	418,569	-	549,200	-
Benefit Payments, including Refunds of Employee Contributions	(340,693)	(305,136)	(158,527)	(133,701)	(158,500)
Net Change in Total OPEB Liability	(531,739)	938,979	262,181	800,420	(13,388)
Total OPEB Liability, Beginning of Year	4,061,442	3,122,463	2,860,282	2,059,862	2,073,250
Total OPEB Liability, End of Year (a)	\$ 3,529,703	\$ 4,061,442	\$ 3,122,463	\$ 2,860,282	\$ 2,059,862
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	0.00%	0.00%	0.00%	0.00%	0.00%
Covered Payroll	\$ 30,734,420	\$ 30,826,492	\$ 32,214,300	\$ 31,151,981	\$ 29,131,464
Net Pension Liability as a Percentage of Covered Payroll	11.48%	13.18%	9.69%	9.18%	7.07%

Notes to Schedule

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

June 30, 2018 to June 30, 2019:

The discount rate was lowered from 3.32% to 3.13% from June 30, 2018 to June 30, 2019. The inflation rate was lowered from 4.00% to 3.00% from June 30, 2018 to June 30, 2019. The healthcare trend rate for June 30, 2018 was 6% decreasing to 5% in 2017 and later years. The healthcare trend rate for the June 30, 2019 was 5.9% for 2019 decreasing by decrements of 0.10% annually until the final rate of 5.00% in 2028 and later years.

June 30, 2019 to June 30, 2020:

The discount rate was lowered from 3.13% to 2.45% from June 30, 2019 to June 30, 2020.

June 30, 2020 to June 30, 2021:

The discount rate was lowered from 2.45% to 1.92% from June 30, 2020 to June 30, 2021. The inflation rate was lowered from 3.00% to 2.75% from June 30, 2020 to June 30, 2021. The healthcare trend rate for the June 30, 2020 was 5.80% for 2020 decreasing by decrements of 0.10% annually until the final rate of 5.00% in 2018 and later years. The healthcare trend rate for the June 30, 2021 was 5.20% for 2021 through 2049; 5.00% for 2050 through 2064 and 4.00% for 2065 and later years.

June 30, 2021 to June 30, 2022:

The discount rate was raised from 1.92% to 3.69% from June 30, 2021 to June 30, 2022.

* - Fiscal year 2018 was the 1st year of implementation; therefore, only five years are shown.

City of Laguna Beach, California
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual –
General Fund
Year Ended June 30, 2022

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 43,173,500	43,408,500	43,703,645	\$ 295,145
Sales and use taxes	5,571,000	5,571,000	7,450,153	1,879,153
Transient lodging taxes	7,350,000	7,350,000	10,251,301	2,901,301
Franchise taxes	1,160,000	1,160,000	1,205,275	45,275
Business license taxes	945,000	945,000	1,126,940	181,940
Total taxes	58,199,500	58,434,500	63,737,314	5,302,814
Licenses and Permits				
Construction Permits	1,289,000	1,537,600	1,733,359	195,759
Other	31,000	31,000	23,495	(7,505)
Total License and Permits	1,320,000	1,568,600	1,756,854	188,254
Fines and Penalties	16,000	16,000	10,354	(5,646)
Investment Income, net	1,500,000	1,450,000	(7,037,124)	(8,487,124)
Rental	407,000	407,000	509,400	102,400
Intergovernmental	3,136,600	1,125,600	2,036,221	910,621
Charges for Services				
Planning and zoning fees	1,612,000	1,612,000	1,866,466	254,466
Building department fees	327,000	327,000	438,647	111,647
Refuse service charges	2,365,000	2,584,000	2,594,070	10,070
Medical fees	106,000	106,000	15,738	(90,262)
Parks and recreation fees	2,702,500	2,800,500	4,737,664	1,937,164
Other	435,000	425,000	491,385	66,385
Total charges for services	7,547,500	7,854,500	10,143,970	2,289,470
Parking Meters, Lots, and Permits	-	500	246	(254)
Development tax	-	1,000,000	376,802	(623,198)
Other				
Reimbursed expenditures	477,000	222,000	122,317	(99,683)
Miscellaneous	44,500	202,300	1,319,069	1,116,769
Total other	521,500	424,300	1,441,386	1,017,086
Total revenues	72,648,100	72,281,000	72,975,423	694,423

City of Laguna Beach, California
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual –
General Fund (Continued)
Year Ended June 30, 2022

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Expenditures				
Current				
General government				
City Council	\$ 150,800	\$ 132,600	\$ 96,384	36,216
City Manager	1,082,000	1,186,400	1,056,783	129,617
City Clerk	436,400	432,000	406,478	25,522
City Treasurer	182,900	182,900	176,681	6,219
City Attorney	800,000	900,000	712,255	187,745
Administrative Services	6,746,800	10,170,750	5,814,650	4,356,100
Total general government	9,398,900	13,004,650	8,263,231	4,741,419
Community Development	6,857,800	7,476,237	6,860,685	615,552
Public Safety				
Police Protection	22,338,800	21,594,714	19,451,022	2,143,692
Fire Protection	15,235,200	19,239,075	15,342,219	3,896,856
Marine Safety	4,516,800	3,696,600	3,660,227	36,373
Total public safety	42,090,800	44,530,389	38,453,468	6,076,921
Public Works	15,852,300	16,885,500	15,341,249	1,544,251
Recreation and Social Services	1,150,500	2,460,900	3,296,584	(835,684)
Debt Service				
Principal	-	-	50,613	(50,613)
Interest	-	-	4,508	(4,508)
Capital Outlay	1,164,900	1,550,700	945,203	605,497
Total expenditures	76,515,200	85,908,376	73,215,541	12,692,835
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,867,100)	(13,627,376)	(240,118)	13,387,258
Other Financing Sources (Uses)				
Transfers in	-	6,160,000	6,160,000	-
Transfers out	(325,000)	(5,950,000)	(6,527,935)	(577,935)
Total other financing sources (uses)	(325,000)	210,000	(367,935)	(577,935)
Net Changes in Fund Balance	(4,192,100)	(13,417,376)	(608,053)	12,809,323
Fund Balance, Beginning of Year	29,603,674	29,603,674	29,603,674	-
Fund Balance, End of Year	\$ 25,411,574	\$ 16,186,298	\$ 28,995,621	\$ 12,809,323

City of Laguna Beach, California
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual –
General Fund (Continued)
Year Ended June 30, 2022

The following schedule shows the Schedule of Revenues, Expenditures and Changes in Fund Balance reconciliation between the budgetary basis and GAAP basis for the General Fund.

	<u>General Fund</u>
Revenues and Other Financing Sources	
Revenues from Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	\$ 72,975,423
Revenues of the funds below are not inflows of budgetary resources in the General Fund's legally adopted budget, but are revenues of the General Fund for financial reporting purposes:	
Measure LL Fund	3,532,435
Capital Improvement Fund	9,673,748
Parking Authority Fund	9,248,325
Parking In-Lieu Fund	10
Park In-Lieu Fund	56,978
Art In-Lieu Fund	77,260
Drainage Fund	804
Housing In-Lieu Fund	3,831
Transportation Infrastructure Fund	1,020,329
Deposits Fund	380
Disaster Contingency Fund	67,069
Total revenues from the financial statements	\$ 96,656,592
Transfer In from Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual	\$ 6,160,000
Transfer In of the funds below are not inflows of budgetary resources in the General Fund and General Fund Sub-Funds for financial reporting purposes:	
Open Space Fund	300,000
Capital Improvement Fund	6,350,000
Elimination of Transfers In within General Fund in accordance with GASB 54 Consolidation	(10,685,000)
Total transfer in from financial statements	\$ 2,125,000

City of Laguna Beach, California
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual –
General Fund (Continued)
Year Ended June 30, 2022

	<u>General Fund</u>
Expenditures and Other Financing Uses	
Expenditures from Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	\$ 73,215,541
Expenditures of the funds below are not outflows of budgetary resources in the General Fund's legally adopted budget, but are expenditures of the General Fund for financial reporting purposes:	
Measure LL Fund	1,804,057
Open Space Fund	24,271
Capital Improvement Fund	6,691,835
Parking Authority Fund	3,952,931
Park In-Lieu Fund	116,599
Housing In-Lieu Fund	30,500
Deposits Fund	7,409
Total revenues from the financial statements	\$ 85,843,143
Transfer Out from Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	\$ (6,527,935)
Transfers Out of the funds below are not outflows of budgetary resources in the General Fund and General Fund Sub-Funds for financial reporting purposes:	
Measure LL Fund	(500,000)
Capital Improvement Fund	(50,000)
Parking Authority Fund	(2,055,549)
Parking In-Lieu Fund	(500,000)
Transportation Infrastructure Fund	(2,500,000)
Elimination of Transfers Out within General Fund in accordance with GASB 54 Consolidation	10,685,000
Total transfers out from financial statements	\$ (1,448,484)

Note 1 - Budget Information

Budgets are adopted on a basis consistent with generally accepted accounting principles. Biennial appropriated budgets are adopted for the general, special revenue, and capital projects funds except for the Asset Forfeiture, COVID-19, and Housing Nonmajor Special Revenue Funds and the following General Fund sub-funds: Parking In-Lieu, Park In-Lieu, Drainage, and Deposits. 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 to adopt a biennial budget on or before June 30 of odd numbered calendar years. 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 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, and capital projects funds; therefore, the legal level of budgetary control is at the department level for the General Fund and the fund level for special revenue and capital projects funds.

Budget information is presented for the general and certain special revenue and capital project 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 expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year. Supplemental appropriations include carryover appropriations from the prior year. Supplemental budgetary appropriations of \$11,308,524 were made in the General Fund.

The General fund expenditures exceeded appropriations for the year ended June 30, 2022 as follows:

	Final Budget	Actual Amounts	Variance
Recreation and Social Services	\$ 2,460,900	\$ 3,296,584	\$ (835,684)
Debt Service			
Principal	-	50,613	(50,613)
Interest	-	4,508	(4,508)

The following funds had expenditures in excess of appropriations for the year ended June 30, 2022 as follows:

	Final Budget	Actual Amounts	Variance
Measure LL			
Public Works	\$ 696,800	\$ 824,210	\$ (127,410)
Parking Authority Fund			
Debt Service			
Principal	-	9,905	(9,905)
Interest	-	596	(596)

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Supplementary Information

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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, California
 General Fund- Consolidating Balance Sheet by Sub-Fund
 June 30, 2022

	General	Measure LL	Open Space	Capital Improvement	Parking Authority	Parking In-Lieu	Park In-Lieu
Assets							
Cash and investments	\$ 26,432,663	\$ 2,227,754	\$ 648,057	\$ 41,125,602	\$ 12,669,594	\$ 980	\$ 133,490
Receivables							
Taxes	6,310,461	940,568	-	1,858,102	-	-	-
Accounts	664,745	-	-	56,527	24,991	-	-
Interest	13,575	-	-	-	-	-	-
Intergovernmental	324,544	-	-	-	-	-	-
Notes and loans	-	-	-	-	-	-	-
Leases	914,108	-	-	-	-	-	-
Due from other funds	412,797	-	-	-	-	-	-
Prepays	2,668,571	1,765,249	-	-	9,333	-	-
Inventory	132,358	-	-	-	-	-	-
Total assets	\$ 37,873,822	\$ 4,933,571	\$ 648,057	\$ 43,040,231	\$ 12,703,918	\$ 980	\$ 133,490
Liabilities, Deferred Inflows of Resources and Fund Balances							
Liabilities							
Accounts payable	\$ 3,692,028	\$ 46,222	\$ -	\$ 786,316	\$ 257,412	\$ -	\$ -
Accrued liabilities	2,828,442	-	-	-	-	-	-
Deposits	64,342	-	-	-	-	-	-
Advances to other funds	1,394,660	-	-	-	-	-	-
Total liabilities	7,979,472	46,222	-	786,316	257,412	-	-
Deferred Inflows of Resources							
Leases	898,729	-	-	-	-	-	-
Fund Balances							
Nonspendable	2,800,929	1,765,249	-	-	9,333	-	-
Restricted	-	-	-	-	-	980	133,490
Committed	50,860	3,122,100	-	-	-	-	-
Assigned	1,356,350	-	648,057	42,253,915	12,437,173	-	-
Unassigned	24,787,482	-	-	-	-	-	-
Total fund balances (deficit)	28,995,621	4,887,349	648,057	42,253,915	12,446,506	980	133,490
Total liabilities, deferred inflows of resources and fund balances	\$ 37,873,822	\$ 4,933,571	\$ 648,057	\$ 43,040,231	\$ 12,703,918	\$ 980	\$ 133,490

City of Laguna Beach, California
 General Fund- Consolidating Balance Sheet by Sub-Fund (Continued)
 June 30, 2022

	Art In-Lieu	Drainage	Housing In-Lieu	Transportation Infrastructure	Deposits	Disaster Contingency	Total
Assets							
Cash and investments	\$ 284,138	\$ 80,689	\$ 555,663	\$ 1,117,657	\$ 3,632,020	\$ 6,728,716	\$ 95,637,023
Receivables							
Taxes	-	-	-	-	-	-	9,109,131
Accounts	-	-	-	-	-	-	746,263
Interest	-	-	-	-	-	-	13,575
Intergovernmental	-	-	-	-	-	-	324,544
Notes and loans	-	-	345,142	-	-	-	345,142
Leases	-	-	-	-	-	-	914,108
Due from other funds	-	-	-	-	-	-	412,797
Prepays	-	-	-	-	-	-	4,443,153
Inventory	-	-	-	-	-	-	132,358
Total assets	\$ 284,138	\$ 80,689	\$ 900,805	\$ 1,117,657	\$ 3,632,020	\$ 6,728,716	\$112,078,094
Liabilities, Deferred Inflows of Resources and Fund Balances							
Liabilities							
Accounts payable	\$ -	\$ -	\$ 19,876	\$ -	\$ 196,824	\$ -	\$ 4,998,678
Accrued liabilities	-	-	-	-	-	-	2,828,442
Deposits	-	-	-	-	3,453,175	-	3,517,517
Advances to other funds	-	-	-	-	-	-	1,394,660
Total liabilities	-	-	19,876	-	3,649,999	-	12,739,297
Deferred Inflows of Resources							
Leases	-	-	-	-	-	-	898,729
Fund Balances							
Nonspendable	-	-	-	-	-	-	4,575,511
Restricted	284,138	80,689	880,929	1,117,657	-	-	2,497,883
Committed	-	-	-	-	-	6,728,716	9,901,676
Assigned	-	-	-	-	-	-	56,695,495
Unassigned	-	-	-	-	(17,979)	-	24,769,503
Total fund balances (deficit)	284,138	80,689	880,929	1,117,657	(17,979)	6,728,716	98,440,068
Total liabilities, deferred inflows of resources and fund balances	\$ 284,138	\$ 80,689	\$ 900,805	\$ 1,117,657	\$ 3,632,020	\$ 6,728,716	\$112,078,094

City of Laguna Beach, California
 General Fund- Consolidating Schedule of Revenues, Expenditures, and Changes
 in Fund Balance Sheet by Sub-Fund
 June 30, 2022

	General	Measure LL	Open Space	Capital Improvement	Parking Authority	Parking In-Lieu	Park In-Lieu
Revenues							
Taxes	\$ 63,737,314	\$ 3,521,499	\$ -	8,625,270	\$ -	\$ -	\$ -
Licenses and permits	1,756,854	-	-	-	-	-	-
Fines and penalties	10,354	-	-	841,891	-	-	-
Investment income, net	(7,037,124)	10,936	-	708	-	10	6,978
Rental	509,400	-	-	-	-	-	-
Intergovernmental	2,036,221	-	-	-	-	-	50,000
Charges for services	10,143,970	-	-	2,925	-	-	-
Parking, meters, lots, and permits	246	-	-	-	9,248,325	-	-
Development tax	376,802	-	-	94,043	-	-	-
Use of money and property	-	-	-	-	-	-	-
Other	1,441,386	-	-	108,911	-	-	-
Total revenues	72,975,423	3,532,435	-	9,673,748	9,248,325	10	56,978
Expenditures							
Current							
General government	8,263,231	-	-	-	-	-	-
Community development	6,860,685	-	-	-	-	-	-
Public safety	38,453,468	959,604	-	-	1,236,742	-	-
Public works	15,341,249	824,210	-	196,784	2,445,984	-	16,600
Recreation and social services	3,296,584	-	-	-	-	-	-
Debt service							
Principal	50,613	-	-	-	9,905	-	-
Interest	4,508	-	-	-	596	-	-
Capital outlay	945,203	20,243	24,271	6,495,051	259,704	-	99,999
Total expenditures	73,215,541	1,804,057	24,271	6,691,835	3,952,931	-	116,599
Excess (Deficiency) of Revenues Over (Under) Expenditures	(240,118)	1,728,378	(24,271)	2,981,913	5,295,394	10	(59,621)
Other Financing Sources (Uses)							
Transfers in	6,160,000	-	300,000	6,350,000	-	-	-
Transfers out	(6,527,935)	(500,000)	-	(50,000)	(2,055,549)	-	(500,000)
Total other financing sources (uses)	(367,935)	(500,000)	300,000	6,300,000	(2,055,549)	-	(500,000)
Net Change in Fund Balances	(608,053)	1,228,378	275,729	9,281,913	3,239,845	10	(559,621)
Fund Balances (Deficit), Beginning of Year, as restated	29,603,674	3,658,971	372,328	32,972,002	9,206,661	970	693,111
Fund Balances (Deficit), End of Year	\$ 28,995,621	\$ 4,887,349	\$ 648,057	\$ 42,253,915	\$ 12,446,506	\$ 980	\$ 133,490

City of Laguna Beach, California
 General Fund- Consolidating Schedule of Revenues, Expenditures, and Changes
 in Fund Balance Sheet by Sub-Fund (Continued)
 June 30, 2022

	Art In-Lieu	Drainage	Housing In-Lieu	Transportation Infrastructure	Deposits	Disaster Contingency	Eliminations (1)	Total
Revenues								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 75,884,083
Licenses and permits	-	-	-	-	-	-	-	1,756,854
Fines and penalties	-	-	-	-	-	-	-	852,245
Investment income, net	2,525	804	3,831	20,329	-	67,069	-	(6,923,934)
Rental	-	-	-	-	-	-	-	509,400
Intergovernmental	-	-	-	-	-	-	-	2,086,221
Charges for services	-	-	-	-	380	-	-	10,147,275
Parking, meters, lots, and permits	-	-	-	-	-	-	-	9,248,571
Development tax	72,169	-	-	-	-	-	-	543,014
Use of money and property	-	-	-	1,000,000	-	-	-	1,000,000
Other	2,566	-	-	-	-	-	-	1,552,863
Total revenues	77,260	804	3,831	1,020,329	380	67,069	-	96,656,592
Expenditures								
Current								
General government	-	-	-	-	-	-	-	8,263,231
Community development	-	-	4,006	-	6,875	-	-	6,871,566
Public safety	-	-	-	-	534	-	-	40,650,348
Public works	-	-	-	-	-	-	-	18,824,827
Recreation and social services	-	-	-	-	-	-	-	3,296,584
Debt service								
Principal	-	-	-	-	-	-	-	60,518
Interest	-	-	-	-	-	-	-	5,104
Capital outlay	-	-	26,494	-	-	-	-	7,870,965
Total expenditures	-	-	30,500	-	7,409	-	-	85,843,143
Excess (Deficiency) of Revenues Over (Under) Expenditures	77,260	804	(26,669)	1,020,329	(7,029)	67,069	-	10,813,449
Other Financing Sources (Uses)								
Transfers in	-	-	-	-	-	-	(10,685,000)	2,125,000
Transfers out	-	-	-	(2,500,000)	-	-	10,685,000	(1,448,484)
Total other financing sources (uses)	-	-	-	(2,500,000)	-	-	-	676,516
Net Change in Fund Balances	77,260	804	(26,669)	(1,479,671)	(7,029)	67,069	-	11,489,965
Fund Balances (Deficit), Beginning of Year, as restated	206,878	79,885	907,598	2,597,328	(10,950)	6,661,647	-	86,950,103
Fund Balances (Deficit), End of Year	\$ 284,138	\$ 80,689	\$ 880,929	\$ 1,117,657	\$ (17,979)	\$ 6,728,716	\$ -	\$ 98,440,068

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

City of Laguna Beach, California
 General Fund Sub-Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
 Measure LL Fund
 Year Ended June 30, 2022

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)
Revenues			
Taxes	\$ 2,236,000	\$ 3,521,499	\$ 1,285,499
Investment income, net	-	10,936	10,936
Total revenues	<u>2,236,000</u>	<u>3,532,435</u>	<u>1,296,435</u>
Expenditures			
Current			
Public safety	1,311,800	959,604	352,196
Public works	696,800	824,210	(127,410)
Capital outlay	<u>245,000</u>	<u>20,243</u>	<u>224,757</u>
Total expenditures	<u>2,253,600</u>	<u>1,804,057</u>	<u>449,543</u>
Excess of Revenues Over Expenditures	<u>(17,600)</u>	<u>1,728,378</u>	<u>1,745,978</u>
Other Financing Sources (Uses)			
Transfers out	<u>(500,000)</u>	<u>(500,000)</u>	<u>-</u>
Net Change in Fund Balance	(517,600)	1,228,378	1,745,978
Fund Balance, Beginning of Year	<u>3,658,971</u>	<u>3,658,971</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 3,141,371</u>	<u>\$ 4,887,349</u>	<u>\$ 1,745,978</u>

City of Laguna Beach, California
 General Fund Sub-Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
 Open Space Fund
 Year Ended June 30, 2022

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
Expenditures			
Capital outlay	94,000	24,271	69,729
Total expenditures	<u>94,000</u>	<u>24,271</u>	<u>69,729</u>
Excess of Revenues Over Expenditures	<u>(94,000)</u>	<u>(24,271)</u>	<u>69,729</u>
Other Financing Sources (Uses)			
Transfers in	<u>-</u>	<u>300,000</u>	<u>300,000</u>
Net Change in Fund Balance	(94,000)	275,729	369,729
Fund Balance, Beginning of Year	<u>372,328</u>	<u>372,328</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 278,328</u>	<u>\$ 648,057</u>	<u>\$ 369,729</u>

City of Laguna Beach, California
 General Fund Sub-Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
 Capital Improvement Fund
 Year Ended June 30, 2022

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)
Revenues			
Taxes	\$ 4,835,000	\$ 8,625,270	\$ 3,790,270
Fines and penalties	898,000	841,891	(56,109)
Investment income, net	-	708	708
Development tax	-	94,043	94,043
Charges for services	1,000	2,925	1,925
Other	-	108,911	108,911
Total revenues	<u>5,734,000</u>	<u>9,673,748</u>	<u>3,939,748</u>
Expenditures			
Current			
Public works	5,952,500	196,784	5,755,716
Capital outlay	<u>29,451,108</u>	<u>6,495,051</u>	<u>22,956,057</u>
Total expenditures	<u>35,403,608</u>	<u>6,691,835</u>	<u>28,711,773</u>
Excess of Revenues Over Expenditures	<u>(29,669,608)</u>	<u>2,981,913</u>	<u>32,651,521</u>
Other Financing Sources (Uses)			
Transfers in	6,350,000	6,350,000	-
Transfers out	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>6,300,000</u>	<u>6,300,000</u>	<u>\$ -</u>
Net Change in Fund Balance	(23,369,608)	9,281,913	32,651,521
Fund Balance, Beginning of Year	<u>32,972,002</u>	<u>32,972,002</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 9,602,394</u>	<u>\$ 42,253,915</u>	<u>\$ 32,651,521</u>

City of Laguna Beach, California
 General Fund Sub-Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
 Parking Authority Fund
 Year Ended June 30, 2022

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)
Revenues			
Parking meters, lots, and permits	\$ 8,162,000	\$ 9,248,325	\$ 1,086,325
Expenditures			
Current			
Public safety	1,336,500	1,236,742	99,758
Public works	2,533,500	2,445,984	87,516
Debt service			
Principal	-	9,905	(9,905)
Interest	-	596	(596)
Capital outlay	2,627,300	259,704	2,367,596
Total expenditures	6,497,300	3,952,931	2,544,369
Excess of Revenues Over Expenditures	1,664,700	5,295,394	3,630,694
Other Financing Sources (Uses)			
Transfers out	2,083,549	(2,055,549)	(4,139,098)
Net Change in Fund Balance	3,748,249	3,239,845	(508,404)
Fund Balance, Beginning of Year	9,206,661	9,206,661	-
Fund Balance, End of Year	\$ 12,954,910	\$ 12,446,506	\$ (508,404)

City of Laguna Beach, California
 General Fund Sub-Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
 Art In-Lieu Fund
 Year Ended June 30, 2022

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)
Revenues			
Investment income, net	\$ -	\$ 2,525	\$ 2,525
Development tax	-	72,169	72,169
Other	-	2,566	2,566
Total revenues	<u>-</u>	<u>77,260</u>	<u>77,260</u>
Expenditures			
Current			
Recreation and social services	<u>114,753</u>	<u>-</u>	<u>114,753</u>
Excess of Revenues Over Expenditures	<u>(114,753)</u>	<u>77,260</u>	<u>192,013</u>
Net Change in Fund Balance	(114,753)	77,260	192,013
Fund Balance, Beginning of Year	<u>206,878</u>	<u>206,878</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 92,125</u>	<u>\$ 284,138</u>	<u>\$ 192,013</u>

City of Laguna Beach, California
 General Fund Sub-Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
 Housing In-Lieu Fund
 Year Ended June 30, 2022

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)
Revenues			
Investment income, net	\$ -	\$ 3,831	\$ 3,831
Expenditures			
Current			
Community Development	10,000	4,006	5,994
Capital outlay	90,200	26,494	63,706
Total expenditures	100,200	30,500	69,700
Excess of Revenues Over Expenditures	(100,200)	(26,669)	73,531
Net Change in Fund Balance	(100,200)	(26,669)	73,531
Fund Balance, Beginning of Year	907,598	907,598	-
Fund Balance, End of Year	\$ 807,398	\$ 880,929	\$ 73,531

City of Laguna Beach, California
 General Fund Sub-Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
 Transportation Infrastructure Fund
 Year Ended June 30, 2022

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)
Revenues			
Investment income, net	\$ 1,000	\$ 20,329	\$ 19,329
Use of money and property	1,000,000	1,000,000	-
Total revenues	<u>1,001,000</u>	<u>1,020,329</u>	<u>19,329</u>
Excess of Revenues Over Expenditures	<u>1,001,000</u>	<u>1,020,329</u>	<u>19,329</u>
Other Financing Sources (Uses)			
Transfers out	<u>(2,500,000)</u>	<u>(2,500,000)</u>	<u>-</u>
Net Change in Fund Balance	(1,499,000)	(1,479,671)	19,329
Fund Balance, Beginning of Year	<u>2,597,328</u>	<u>2,597,328</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 1,098,328</u>	<u>\$ 1,117,657</u>	<u>\$ 19,329</u>

City of Laguna Beach, California
 General Fund Sub-Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
 Disaster Contingency Fund
 Year Ended June 30, 2022

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive/ (Negative)
Revenues			
Investment income, net	<u>\$ 100,000</u>	<u>\$ 67,069</u>	<u>\$ (32,931)</u>
Net Change in Fund Balance	100,000	67,069	(32,931)
Fund Balance, Beginning of Year	<u>6,661,647</u>	<u>6,661,647</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 6,761,647</u>	<u>\$ 6,728,716</u>	<u>\$ (32,931)</u>

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 Capital Project Fund:

Assessment District

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

City of Laguna Beach, California
Major Capital Projects Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
Assessment Districts Fund
Year Ended June 30, 2022

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)
Revenues			
Investment income, net	\$ -	\$ 4,972	\$ 4,972
Expenditures			
Current			
Capital outlay	1,369,000	292,106	1,076,894
Excess of Revenues Over Expenditures	(1,369,000)	(287,134)	1,081,866
Other Financing Sources (Uses)			
Transfer in	296,500	296,500	-
Net Change in Fund Balance	(1,072,500)	9,366	1,081,866
Fund Balance, Beginning of Year	891,252	891,252	-
Fund Balance, End of Year	\$ (181,248)	\$ 900,618	\$ 1,081,866

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt services or capital projects.

The City of Laguna Beach has the following nonmajor 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.

COVID-19 Fund

This fund is used to account for the restricted revenue received from FEMA, state CARES Act, and County CARES Act for the response to COVID-19.

Housing Fund

This fund is used to account for revenue and expenditures committed to affordable housing programs.

City of Laguna Beach, California
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2022

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Gas Tax	Street Lighting District	Asset Forfeiture	COVID-19	Housing Fund	
Assets						
Cash and investments	\$ 1,741,873	\$ 7,609,065	\$ 13,325	\$ 605,352	\$ 200,000	\$ 10,169,615
Receivables						
Taxes	-	29,405	-	-	-	29,405
Accounts	92,499	-	-	-	-	92,499
Intergovernmental	123,408	-	-	-	-	123,408
Prepays	-	2,388,177	-	-	-	2,388,177
Total assets	\$ 1,957,780	\$ 10,026,647	\$ 13,325	\$ 605,352	\$ 200,000	\$ 12,803,104
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 81,784	\$ 163,514	\$ -	\$ -	\$ -	\$ 245,298
Unearned revenues	-	-	-	605,352	-	605,352
Total liabilities	81,784	163,514	-	605,352	-	850,650
Fund Balances						
Nonspendable	-	2,388,177	-	-	-	2,388,177
Restricted	1,875,996	7,474,956	13,325	-	200,000	9,564,277
Total fund balances	1,875,996	9,863,133	13,325	-	200,000	11,952,454
Total liabilities and fund balances	\$ 1,957,780	\$ 10,026,647	\$ 13,325	\$ 605,352	\$ 200,000	\$ 12,803,104

City of Laguna Beach, California
Combining Statement of Revenues, Expenditure and Changes in Fund Balances
Non-Major Governmental Funds
June 30, 2022

	Special Revenue Funds				Housing Fund	Total Nonmajor Governmental Funds
	Gas Tax	Street Lighting District	Asset Forfeiture	COVID-19		
Revenues						
Taxes	\$ 529,932	\$ 1,935,289	\$ -	\$ -	\$ -	\$ 2,465,221
Investment income, net	19,754	60,956	91	-	-	80,801
Intergovernmental	944,046	3,926	4,204	2,125,000	-	3,077,176
Total revenues	<u>1,493,732</u>	<u>2,000,171</u>	<u>4,295</u>	<u>2,125,000</u>	<u>-</u>	<u>5,623,198</u>
Expenditures						
Current						
Public works	-	795,000	-	-	-	795,000
Capital outlay	1,636,905	467,837	-	-	-	2,104,742
Total expenditures	<u>1,636,905</u>	<u>1,262,837</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,899,742</u>
Excess of Revenues Over Expenditures	<u>(143,173)</u>	<u>737,334</u>	<u>4,295</u>	<u>2,125,000</u>	<u>-</u>	<u>2,723,456</u>
Other Financing Sources (Uses)						
Transfers in	85,000	100,000	-	-	200,000	385,000
Transfers out	-	(296,500)	-	(2,125,000)	-	(2,421,500)
Total other financing sources (uses)	<u>85,000</u>	<u>(196,500)</u>	<u>-</u>	<u>(2,125,000)</u>	<u>200,000</u>	<u>(2,036,500)</u>
Net Change in Fund Balance	(58,173)	540,834	4,295	-	200,000	686,956
Fund Balance, Beginning of Year	<u>1,934,169</u>	<u>9,322,299</u>	<u>9,030</u>	<u>-</u>	<u>-</u>	<u>11,265,498</u>
Fund Balance, End of Year	<u>\$ 1,875,996</u>	<u>\$ 9,863,133</u>	<u>\$ 13,325</u>	<u>\$ -</u>	<u>\$ 200,000</u>	<u>\$11,952,454</u>

City of Laguna Beach, California
 Non-Major Special Revenue Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
 Gas Tax Fund
 Year Ended June 30, 2022

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)
Revenues			
Taxes	\$ 385,000	\$ 529,932	\$ 144,932
Investment income, net	10,000	19,754	9,754
Intergovernmental	1,053,000	944,046	(108,954)
Total revenues	<u>1,448,000</u>	<u>1,493,732</u>	<u>45,732</u>
Expenditures			
Capital outlay	<u>2,668,200</u>	<u>1,636,905</u>	<u>1,031,295</u>
Excess of Revenues Over Expenditures	<u>(1,220,200)</u>	<u>(143,173)</u>	<u>1,077,027</u>
Other Financing Sources (Uses)			
Transfers in	<u>85,000</u>	<u>85,000</u>	<u>-</u>
Net Change in Fund Balance	(1,135,200)	(58,173)	1,077,027
Fund Balance, Beginning of Year	<u>1,934,169</u>	<u>1,934,169</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 798,969</u>	<u>\$ 1,875,996</u>	<u>\$ 1,077,027</u>

City of Laguna Beach, California
Non-Major Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
Street Lighting District Fund
Year Ended June 30, 2022

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)
Revenues			
Taxes	\$ 1,945,000	\$ 1,935,289	\$ (9,711)
Investment income, net	-	60,956	60,956
Intergovernmental	6,000	3,926	(2,074)
Total revenues	<u>1,951,000</u>	<u>2,000,171</u>	<u>49,171</u>
Expenditures			
Current			
Public works	771,800	795,000	(23,200)
Capital outlay	5,261,400	467,837	4,793,563
Total expenditures	<u>6,033,200</u>	<u>1,262,837</u>	<u>4,770,363</u>
Excess of Revenues Over Expenditures	<u>(4,082,200)</u>	<u>737,334</u>	<u>4,819,534</u>
Other Financing Sources (Uses)			
Transfers in	100,000	100,000	-
Transfers out	-	(296,500)	(296,500)
Total other financing sources (uses)	<u>100,000</u>	<u>(196,500)</u>	<u>(296,500)</u>
Net Change in Fund Balance	(3,982,200)	540,834	4,523,034
Fund Balance, Beginning of Year	<u>9,322,299</u>	<u>9,322,299</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 5,340,099</u>	<u>\$ 9,863,133</u>	<u>\$ 4,523,034</u>

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.

The City of Laguna Beach has the following Internal Service 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, California
Combining Statement of Net Position
Internal Service Funds
June 30, 2022

	Insurance and Employee Benefits	Vehicle Replacement	Totals
Assets			
Current assets			
Cash and investments	\$ 12,673,398	\$ 13,843,988	\$ 26,517,386
Receivables			
Accounts	67,226	-	67,226
Total current assets	12,740,624	13,843,988	26,584,612
Noncurrent assets			
Advances to other funds	694,660	700,000	1,394,660
Notes receivable	-	334,006	334,006
Property for housing program	1,743,653	-	1,743,653
Capital assets, net of depreciation	-	3,205,172	3,205,172
Total noncurrent assets	2,438,313	4,239,178	6,677,491
Total assets	15,178,937	18,083,166	33,262,103
Liabilities			
Current liabilities			
Accounts payable	235,843	5,005	\$ 240,848
Compensated absences, due within one year	985,780	-	985,780
Insurance claims payable, due within on year	2,419,946	-	2,419,946
Total current liabilities	3,641,569	5,005	3,646,574
Non-Current Liabilities			
Compensated absences	3,943,120	-	3,943,120
Insurance claims payable	5,646,542	-	5,646,542
Total non-current liabilities	9,589,662	-	9,589,662
Total liabilities	13,231,231	5,005	13,236,236
Net Position			
Net investment in capital assets	-	3,200,167	3,200,167
Unrestricted	1,947,706	14,877,994	16,825,700
Total net position	\$ 1,947,706	\$ 18,078,161	\$ 20,025,867

City of Laguna Beach, California
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Internal Service Funds
Year Ended June 30, 2022

	Insurance and Employee Benefits	Vehicle Replacement	Total
Operating Revenues			
Vehicle rental charges	\$ -	1,826,769	\$ 1,826,769
Employee benefit charges	970,600	-	970,600
Insurance charges	11,043,230	-	11,043,230
Total operating revenues	<u>12,013,830</u>	<u>1,826,769</u>	<u>13,840,599</u>
Operating Expenses			
Administration	340,189	-	340,189
Employee benefits	1,548,536	-	1,548,536
Insurance claims and premiums	11,012,328	-	11,012,328
Depreciation	-	745,873	745,873
Total operating expenses	<u>12,901,053</u>	<u>745,873</u>	<u>13,646,926</u>
Operating Income (Loss)	<u>(887,223)</u>	<u>1,080,896</u>	<u>193,673</u>
Nonoperating Revenues			
Gain on disposal of capital assets	-	1,255	1,255
Total nonoperating revenues	<u>-</u>	<u>1,255</u>	<u>1,255</u>
Transfers:			
Transfers in	577,935	300,000	877,935
Total transfers	<u>577,935</u>	<u>300,000</u>	<u>877,935</u>
Change in Net Position	(309,288)	1,382,151	1,072,863
Net Position, Beginning of Year	<u>2,256,994</u>	<u>16,696,010</u>	<u>18,953,004</u>
Net Position, End of Year	<u>\$ 1,947,706</u>	<u>\$ 18,078,161</u>	<u>\$ 20,025,867</u>

City of Laguna Beach, California
Combining Statement of Cash Flows
Internal Service Funds
Year Ended June 30, 2022

	Insurance and Employee Benefits	Vehicle Replacement	Total
Operating Activities			
Cash received from user departments	\$ 12,039,731	\$ 1,826,769	\$ 13,866,500
Cash payments to suppliers for goods and services	(11,246,736)	(15,375)	(11,262,111)
Cash payments to employees for services	(999,535)	-	(999,535)
Net Cash Provided by (used for) Operating Activities	<u>(206,540)</u>	<u>1,811,394</u>	<u>1,604,854</u>
Non-Capital Financing Activities			
Cash received from other funds	577,935	300,000	877,935
Cash paid to other funds as an advance	806,658	-	806,658
Cash received related to housing program	-	20,747	20,747
Net Cash Provided by (used for) Noncapital Financing Activities	<u>1,384,593</u>	<u>320,747</u>	<u>1,705,340</u>
Capital and Related Financing Activities			
Purchase of capital assets	-	(483,814)	(483,814)
Proceeds from sale of capital assets	-	1,255	1,255
Net Cash Provided by (used for) Capital and Related Financing Activities	<u>-</u>	<u>(482,559)</u>	<u>(482,559)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,178,053	1,649,582	2,827,635
Cash and Cash Equivalents at Beginning of Year	<u>11,495,345</u>	<u>12,194,406</u>	<u>23,689,751</u>
Cash and Cash Equivalents at End of Year	<u>\$ 12,673,398</u>	<u>\$ 13,843,988</u>	<u>26,517,386</u>
Reconciliation of operating income to net cash provided by (used for) operating activities			
Operating income (loss)	\$ (887,223)	\$ 1,080,896	\$ 193,673
Adjustments to reconcile operating income (loss) net cash provided by (used for) operating activities:			
Depreciation	-	745,873	745,873
Changes in Operating Assets and Liabilities			-
Accounts receivable	25,901	-	25,901
Accounts payable and accrued liabilities	(41,174)	(15,375)	(56,549)
Compensated absences payable	549,001	-	549,001
Insurance claims payable	146,955	-	146,955
Net Cash Capital Provided (Used by) Operating Activities	<u>\$ (206,540)</u>	<u>\$ 1,811,394</u>	<u>\$ 1,604,854</u>

Statistical Section

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FINANCIAL TRENDS

This section of the City of Laguna Beach's Comprehensive Annual Financial Report (CAFR) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. The statistical information presented herein is un-audited.

The following schedules contain trend information illustrating how the City's financial performance and well-being has changed over time:

- Net Position by Component
- Changes in Net Position
- Fund Balances of Governmental Funds
- Changes in Fund Balance of Governmental Funds

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive annual financial reports and underlying accounting records for the relevant year.

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

	Fiscal Years			
	2013	2014	2015	2016
Governmental activities:				
Net investment in capital assets	\$ 328,944,217	\$ 299,392,486	\$ 301,705,857	\$ 299,735,000
Restricted	4,421,951	7,223,908	9,559,633	15,943,397
Unrestricted	<u>60,011,983</u>	<u>57,924,594</u>	<u>16,937,401</u>	<u>27,254,391</u>
Total governmental activities	<u>\$ 393,378,151</u>	<u>\$ 364,540,988</u>	<u>\$ 328,202,891</u>	<u>\$ 342,932,788</u>
Business-type activities:				
Net investment in capital assets	\$ 2,642,078	\$ 43,758,305	\$ 42,452,562	\$ 45,461,137
Unrestricted	<u>408,379</u>	<u>3,173,301</u>	<u>3,197,284</u>	<u>2,377,065</u>
Total business type activities	<u>\$ 3,050,457</u>	<u>\$ 46,931,606</u>	<u>\$ 45,649,846</u>	<u>\$ 47,838,202</u>
Primary Government:				
Net investment in capital assets	\$ 331,586,295	\$ 343,150,791	\$ 344,158,419	\$ 345,196,137
Restricted	4,421,951	7,223,908	9,559,633	15,943,397
Unrestricted	<u>60,420,362</u>	<u>61,097,895</u>	<u>20,134,685</u>	<u>29,631,456</u>
Total business type activities	<u>\$ 396,428,608</u>	<u>\$ 411,472,594</u>	<u>\$ 373,852,737</u>	<u>\$ 390,770,990</u>

Data Source: City Records

Fiscal Years

2017	2018	2019	2020	2021	2022
\$ 279,232,956	\$ 295,985,393	\$ 298,698,689	\$ 300,791,758	\$ 295,876,139	\$ 297,252,704
12,576,083	12,897,272	15,221,830	17,340,349	19,030,697	16,998,298
35,076,956	35,892,931	39,877,633	32,188,810	38,401,845	59,445,633
<u>\$ 326,885,995</u>	<u>\$ 344,775,596</u>	<u>\$ 353,798,152</u>	<u>\$ 350,320,917</u>	<u>\$ 353,308,681</u>	<u>\$ 373,696,635</u>
\$ 39,751,055	\$ 41,056,246	\$ 41,503,006	\$ 42,514,260	\$ 43,975,072	\$ 45,914,932
1,312,520	133,248	1,846,897	1,313,632	(375,007)	(1,862,663)
<u>\$ 41,063,575</u>	<u>\$ 41,189,494</u>	<u>\$ 43,349,903</u>	<u>\$ 43,827,892</u>	<u>\$ 43,600,065</u>	<u>\$ 44,052,269</u>
\$ 318,984,011	337,041,639	340,201,695	343,306,018	339,851,211	343,167,636
12,576,083	12,897,272	15,221,830	17,340,349	19,030,697	16,998,298
36,389,476	36,026,179	41,724,530	33,502,442	38,026,838	57,582,970
<u>\$ 367,949,570</u>	<u>\$ 385,965,090</u>	<u>\$ 397,148,055</u>	<u>\$ 394,148,809</u>	<u>\$ 396,908,746</u>	<u>\$ 417,748,904</u>

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

	Fiscal Years			
	2013	2014	2015	2016
Expenses:				
Governmental activities:				
General government	\$ 4,773,294	\$ 3,252,176	\$ 4,011,666	\$ 4,961,384
Community development	3,826,827	4,103,329	4,286,769	5,098,251
Public Safety	24,694,999	25,755,201	26,606,083	31,639,192
Public Works	12,424,315	16,320,422	18,085,062	20,779,294
Recreation and social services	4,787,756	5,173,507	6,022,747	5,481,466
Sewer service operating costs	5,519,819	-	-	-
Interest on long-term debt	129,382	-	-	-
Total governmental activities expenses	56,156,392	54,604,635	59,012,326	67,959,587
Business-type activities:				
Municipal transit	2,148,718	2,333,048	2,434,172	2,976,677
Sewer Service	-	5,636,354	7,569,442	5,963,003
Total business-type activities expenses	2,148,718	7,969,402	10,003,614	8,939,680
Total primary government expenses	\$ 58,305,110	\$ 62,574,037	\$ 69,015,940	\$ 76,899,267
Program revenues:				
Governmental activities:				
Charges for Services:				
General Government	\$ 906,051	\$ 981,002	\$ 1,015,049	\$ 1,002,599
Community development	2,731,302	3,204,521	3,167,128	3,773,050
Public safety	1,797,519	1,591,619	1,989,290	1,679,812
Public works	7,428,761	7,343,113	9,314,702	8,622,598
Recreation and social services	3,200,792	3,305,296	3,979,198	3,641,643
Sewer service operating costs	6,588,390	-	-	-
Operating Grants and Contributions:	2,024,308	1,971,819	2,764,891	1,849,916
Capital Grants and Contributions:	131,497	1,596,735	433,681	8,212,560
Total governmental activities program revenues	24,808,620	19,994,105	22,663,939	28,782,178
Business-type activities:				
Charges for Services:				
Municipal Transit	326,723	346,288	319,134	313,458
Sewer service	-	6,814,418	7,093,423	7,400,257
Operating Grants and Contributions:	1,322,049	1,765,639	2,302,614	2,332,192
Capital Grants and Contributions:	-	851,923	555,307	-
Total business-type activities program revenues	1,648,772	9,778,268	10,270,478	10,045,907
Total primary government program revenues	26,457,392	29,772,373	32,934,417	38,828,085
Net revenues (expenses):				
Governmental activities	(31,347,772)	(34,610,530)	(36,348,387)	(39,177,409)
Business-type activities	(499,946)	1,808,866	266,864	1,106,227
Total net revenues (expenses)	\$ (31,847,718)	\$ (32,801,664)	\$ (36,081,523)	\$ (38,071,182)

Data Source: City Records

Fiscal Years					
2017	2018	2019	2020	2021	2022
\$ 6,155,221	\$ 5,999,777	\$ 6,835,988	\$ 6,733,936	\$ 8,820,634	\$ 6,669,846
5,066,791	5,638,445	6,112,595	6,724,466	6,528,400	6,949,308
31,929,625	34,698,566	38,130,078	42,331,532	44,415,494	37,893,206
26,449,618	25,566,306	24,793,130	25,733,663	29,837,540	25,805,189
5,461,800	5,838,148	5,984,453	6,173,404	3,979,828	3,918,520
-	-	-	-	-	-
-	-	-	-	-	5,104.00
<u>75,063,055</u>	<u>77,741,242</u>	<u>81,856,244</u>	<u>87,697,001</u>	<u>93,581,896</u>	<u>81,241,173</u>
3,137,062	3,703,612	3,576,268	3,752,088	1,620,696	4,076,251
6,720,112	8,381,044	8,542,329	8,785,885	8,911,039	9,480,373
<u>9,857,174</u>	<u>12,084,656</u>	<u>12,118,597</u>	<u>12,537,973</u>	<u>10,531,735</u>	<u>13,556,624</u>
<u>\$ 84,920,229</u>	<u>\$ 89,825,898</u>	<u>\$ 93,974,841</u>	<u>\$ 100,234,974</u>	<u>\$ 104,113,631</u>	<u>\$ 94,797,797</u>
\$ 1,104,868	\$ 1,095,550	\$ 1,239,001	\$ 1,161,133	\$ 1,271,664	\$ 1,182,906
4,033,486	3,620,227	3,622,776	3,000,391	3,807,099	6,740,911
1,448,493	1,643,406	1,591,639	1,503,156	1,401,587	1,279,427
9,936,897	9,169,286	10,179,675	8,035,749	10,137,266	9,175,623
3,559,566	4,544,920	4,265,798	3,375,378	3,635,895	5,503,736
-	-	-	-	-	-
1,823,585	2,154,138	2,092,295	2,688,591	4,869,731	6,155,540
4,894,568	14,384,725	519,193	571,667	2,736,838	6,276
<u>26,801,463</u>	<u>36,612,252</u>	<u>23,510,377</u>	<u>20,336,065</u>	<u>27,860,080</u>	<u>30,044,419</u>
302,683	288,339	265,158	253,977	10,669	146,608
7,699,521	8,050,631	8,388,932	8,626,052	9,037,083	9,619,063
1,711,517	2,579,238	2,587,941	2,649,540	776,116	3,154,434
-	-	-	-	-	-
<u>9,713,721</u>	<u>10,918,208</u>	<u>11,242,031</u>	<u>11,529,569</u>	<u>9,823,868</u>	<u>12,920,105</u>
<u>36,515,184</u>	<u>47,530,460</u>	<u>34,752,408</u>	<u>31,865,634</u>	<u>37,683,948</u>	<u>42,964,524</u>
(48,261,592)	(41,128,990)	(58,345,867)	(67,360,936)	(65,721,816)	(51,196,754)
(143,453)	(1,166,448)	(876,566)	(1,008,404)	(707,867)	(636,519)
<u>\$ (48,405,045)</u>	<u>\$ (42,295,438)</u>	<u>\$ (59,222,433)</u>	<u>\$ (68,369,340)</u>	<u>\$ (66,429,683)</u>	<u>\$ (51,833,273)</u>

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

	Fiscal Years			
	2013	2014	2015	2016
General Revenues and other changes in net position:				
Governmental activities:				
Taxes:				
Property taxes	\$ 27,498,818	\$ 29,051,006	\$ 30,945,911	\$ 34,100,038
Sales Tax	3,989,812	4,230,239	4,602,679	5,345,953
Sales tax in-lieu	1,125,941	1,185,284	1,201,956	1,029,002
Transient occupancy taxes	8,537,050	9,366,183	9,872,378	10,754,654
Other taxes	2,086,233	2,147,742	2,233,271	1,372,912
Motor vehicle license fees, unrestricted	-	-	-	-
Investment Income	(70,016)	1,160,595	708,579	1,259,063
Other general revenue	964,666	1,002,476	1,172,011	1,059,699
Gain on sale of assets	271,698	198,439	75,928	31,283
Transfers	(343,400)	(915,389)	(1,350,691)	(1,045,298)
Total governmental activities	<u>\$ 44,060,802</u>	<u>\$ 47,426,575</u>	<u>\$ 49,462,022</u>	<u>\$ 53,907,306</u>
Business-type activities				
Investment Income	\$ -	\$ 3,819	\$ 25,464	\$ 36,734
Other general revenue	-	25,103	4,650	97
Gain or loss on sale of assets	-	-	(6,537)	-
Transfers	343,400	915,389	1,350,691	1,045,298
Total Business-type activities	<u>\$ 343,400</u>	<u>\$ 944,311</u>	<u>\$ 1,374,268</u>	<u>\$ 1,082,129</u>
Total Primary government	<u>\$ 44,404,202</u>	<u>\$ 48,370,886</u>	<u>\$ 50,836,290</u>	<u>\$ 54,989,435</u>
Changes in net position				
Governmental activities	\$ 12,713,030	\$ 12,816,045	\$ 13,113,635	\$ 14,729,897
Business-type activities	(156,546)	2,753,177	1,641,132	2,188,356
Total primary government	<u>\$ 12,556,484</u>	<u>\$ 15,569,222</u>	<u>\$ 14,754,767</u>	<u>\$ 16,918,253</u>

Data Source: City Records

Fiscal Years

2017	2018	2019	2020	2021	2022
\$ 36,391,079	\$ 38,727,313	\$ 40,678,746	\$ 42,385,283	\$ 45,319,666	\$ 46,925,672
6,000,084	6,124,970	6,581,928	5,583,948	6,023,953	7,980,085
-	-	-	-	-	-
12,670,071	14,708,047	14,649,273	11,939,790	15,252,045	21,111,332
1,418,582	1,360,102	1,316,999	1,315,766	1,440,672	1,301,884
-	-	-	-	-	-
35,817	308,576	3,841,077	3,146,238	162,840	(6,930,047)
964,459	576,925	798,075	497,166	539,907	473,495
338,126	126,977	99,675	50,024	7,980	907,836
(1,449,674)	(1,303,635)	(597,350)	(1,034,514)	-	(185,549)
<u>\$ 56,368,544</u>	<u>\$ 60,629,275</u>	<u>\$ 67,368,423</u>	<u>\$ 63,883,701</u>	<u>\$ 68,747,063</u>	<u>\$ 71,584,708</u>
\$ 18,087	\$ 17,193	\$ 14,099	\$ 218,267	\$ 32,221	\$ 27,690
21,895	74,577	2,413,672	41,933	447,819	551,209
-	15,138	11,854	191,679	-	-
1,449,674	1,303,635	597,350	1,034,514	-	185,549
<u>\$ 1,489,656</u>	<u>\$ 1,410,543</u>	<u>\$ 3,036,975</u>	<u>\$ 1,486,393</u>	<u>\$ 480,040</u>	<u>\$ 764,448</u>
<u>\$ 57,858,200</u>	<u>\$ 62,039,818</u>	<u>\$ 70,405,398</u>	<u>\$ 65,370,094</u>	<u>\$ 69,227,103</u>	<u>\$ 72,349,156</u>
\$ 8,106,952	\$ 19,500,285	\$ 9,022,556	\$ (3,477,235)	\$ 3,025,247	\$ 20,387,954
1,346,203	244,095	2,160,409	477,989	(227,827)	127,929
<u>\$ 9,453,155</u>	<u>\$ 19,744,380</u>	<u>\$ 11,182,965</u>	<u>\$ (2,999,246)</u>	<u>\$ 2,797,420</u>	<u>\$ 20,515,883</u>

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

	Fiscal Years			
	2013	2014	2015	2016
General Fund:				
Reserved	\$ -	\$ -	\$ -	\$ -
Unreserved	-	-	-	-
Nonspendable	129,616	146,990	115,089	115,607
Restricted	3,317,856	2,958,295	3,073,396	2,566,305
Committed	306,359	334,525	363,278	350,106
Assigned	27,272,289	23,734,527	29,467,522	36,008,155
Unassigned	6,781,959	13,420,963	16,308,063	18,240,858
Total general fund	<u>\$ 37,808,079</u>	<u>\$ 40,595,300</u>	<u>\$ 49,327,348</u>	<u>\$ 57,281,031</u>
All other governmental funds:				
Reserved	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:				
Special revenue funds	-	-	-	-
Capital project funds	-	-	-	-
Nonspendable	3,531,567	2,190,000	-	-
Restricted	3,595,034	4,265,613	6,486,737	13,377,092
Committed	5,984,699	6,034,556	6,089,679	6,153,059
Assigned	265,217	-	-	-
Unassigned	(148,095)	(531,502)	(521,922)	-
Total all other governmental funds	<u>\$ 13,228,422</u>	<u>\$ 11,958,667</u>	<u>\$ 12,054,494</u>	<u>\$ 19,530,151</u>

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

Fiscal Years

2017	2018	2019	2020	2021	2022
\$ -	\$ -	\$ -	\$ -	\$ -	
-	-	-	-	-	
51,539	1,490,158	2,496,535	4,271,059	4,234,245	4,575,511
2,176,142	1,681,766	2,052,731	2,036,770	4,485,770	2,497,883
192,825	885,622	1,008,990	881,350	8,125,178	9,901,676
40,163,871	38,308,560	36,410,273	38,537,450	43,909,845	56,695,495
20,942,863	21,282,064	27,530,330	23,406,015	26,195,065	24,769,503
<u>\$ 63,527,240</u>	<u>\$ 63,648,170</u>	<u>\$ 69,498,859</u>	<u>\$ 69,132,644</u>	<u>\$ 86,950,103</u>	<u>\$ 98,440,068</u>
\$ -	\$ -	\$ -	\$ -	\$ -	
-	-	-	-	-	
-	-	-	-	-	
-	598,904	2,330,719	2,388,177	2,388,177	2,388,177
10,399,151	10,616,602	10,838,380	10,527,225	9,768,573	10,464,895
6,209,559	6,320,696	6,440,498	6,571,876	-	
-	-	-	-	-	
-	-	-	(275,872)	-	
<u>\$ 16,608,710</u>	<u>\$ 17,536,202</u>	<u>\$ 19,609,597</u>	<u>\$ 19,211,406</u>	<u>\$ 12,156,750</u>	<u>\$ 12,853,072</u>

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

	Fiscal Years			
	2013	2014	2015	2016
Revenues:				
Taxes and special assessments	\$ 43,929,172	\$ 46,861,756	\$ 49,740,077	\$ 53,422,115
License and permits	1,052,041	1,292,248	1,257,275	1,500,393
Fines and penalties	1,341,961	1,179,799	1,161,445	1,168,255
Investment income	(70,016)	1,159,549	715,521	1,256,302
Rental income	427,341	500,642	484,579	481,114
Intergovernmental	2,121,486	3,363,671	2,817,867	2,118,995
Charges for services	13,603,713	7,509,075	8,153,319	8,177,621
Parking meters, lots and permits	5,384,197	5,308,051	7,400,349	6,739,529
Development tax	433,526	254,370	271,927	185,949
Contributions from property owners	-	-	-	7,281,713
Other	652,921	802,838	1,556,022	957,974
Total Revenue	\$ 68,876,342	\$ 68,231,999	\$ 73,558,381	\$ 83,289,960
Expenditures				
Current:				
General government	\$ 4,014,084	\$ 3,701,265	\$ 4,598,623	\$ 5,330,478
Community development	3,751,468	4,034,924	4,445,514	5,041,256
Public Safety	24,336,927	25,170,727	27,014,412	30,647,342
Public works	10,958,046	12,292,930	11,867,474	12,839,368
Recreation and social services	4,216,980	4,581,842	4,902,441	4,889,196
Sewer service operating costs	3,950,183	-	-	-
Capital outlay	8,974,111	15,782,365	10,735,900	7,172,705
Debt service:				
Principal	360,040	-	-	-
Interest and fiscal charges	132,459	-	-	-
Total Expenditures	\$ 60,694,298	\$ 65,564,053	\$ 63,564,364	\$ 65,920,345
Excess (deficiency) of revenues over (under) expenditures	\$ 8,182,044	\$ 2,667,946	\$ 9,994,017	\$ 17,369,615
Other financing sources (uses):				
Transfer In	\$ 1,697,131	\$ 419,760	\$ 1,050,000	\$ 120,000
Transfer Out	(2,614,936)	(1,869,144)	(2,223,400)	(2,071,298)
Issuance of bond	-	-	-	-
Issuance of loan	-	-	-	-
Advance payments of PERS obligation	-	-	-	-
Sales of land and equipment	254,582	168,676	7,258	11,023
Total other financing sources (uses)	(663,223)	(1,280,708)	(1,166,142)	(1,940,275)
Net change in fund balances	\$ 7,518,821	\$ 1,387,238	\$ 8,827,875	\$ 15,429,340
Debt service as a percentage of noncapital expenditures	1.0%	0.0%	0.0%	0.0%

Data Source: City Records

Fiscal Years

2017	2018	2019	2020	2021	2022
\$ 57,209,543	\$ 61,759,702	\$ 64,132,553	\$ 61,825,816	\$ 69,133,106	\$ 78,349,304
1,580,348	1,563,386	1,401,562	1,192,344	1,468,109	1,756,854
1,001,556	1,056,801	959,270	937,560	963,325	852,245
35,817	302,357	3,840,142	3,346,784	285,554	(6,838,161)
463,868	457,540	425,517	448,319	224,649	509,400
1,785,855	2,508,832	2,781,991	2,617,533	7,461,982	5,163,397
8,508,729	8,711,740	8,648,899	7,375,023	8,610,465	10,147,275
7,857,684	6,994,805	8,065,075	5,908,986	7,695,559	9,248,571
310,117	178,875	263,291	153,783	210,061	543,014
167,566	32,723	30,000	522,848	-	-
644,607	618,968	844,320	491,842	415,662	2,552,863
<u>\$ 79,565,690</u>	<u>\$ 84,185,729</u>	<u>\$ 91,392,620</u>	<u>\$ 84,820,838</u>	<u>\$ 96,468,472</u>	<u>\$ 102,284,762</u>

\$ 5,851,668	\$ 5,795,153	\$ 6,425,030	\$ 6,129,597	\$ 8,423,726	\$ 8,263,231
5,065,752	5,598,168	5,884,065	6,245,015	6,343,820	6,871,566
30,351,932	34,592,292	35,904,287	37,746,979	40,198,725	40,650,348
14,049,840	16,005,447	16,154,021	15,804,282	18,559,030	19,619,827
4,770,513	5,305,605	5,309,727	5,376,302	3,295,223	3,296,584
-	-	-	-	-	-
13,495,671	13,351,622	12,387,251	12,869,915	8,107,131	10,267,813
-	-	-	-	-	60,518
-	-	-	-	-	5,104
<u>\$ 73,585,376</u>	<u>\$ 80,648,287</u>	<u>\$ 82,064,381</u>	<u>\$ 84,172,090</u>	<u>\$ 84,927,655</u>	<u>\$ 89,034,991</u>

\$ 5,980,314	\$ 3,537,442	\$ 9,328,239	\$ 648,748	\$ 11,540,817	\$ 13,249,771
\$ 1,744,140	\$ 2,113,000	\$ 1,659,158	\$ 1,123,500	\$ 1,173,500	\$ 2,806,500
(4,989,570)	(4,602,020)	(3,063,313)	(2,536,654)	(1,914,031)	(3,869,984)
584,993	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
4,891	-	-	-	-	-
<u>(2,655,546)</u>	<u>(2,489,020)</u>	<u>(1,404,155)</u>	<u>(1,413,154)</u>	<u>(740,531)</u>	<u>(1,063,484)</u>
<u>\$ 3,324,768</u>	<u>\$ 1,048,422</u>	<u>\$ 7,924,084</u>	<u>\$ (764,406)</u>	<u>\$ 10,800,286</u>	<u>\$ 12,186,287</u>

0.0% 0.0% 0.0% 0.0% 0.0% 0.1%

REVENUE CAPACITY

This section of the City of Laguna Beach's Comprehensive Annual Financial Report (CAFR) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. The statistical information presented herein is un-audited.

The following schedules present factors affecting the City's ability to generate its own revenue and its most significant local revenue source, the property tax:

- Assessed Value and Estimated Actual Value of Taxable Property
- Direct and Overlapping Property Tax Rates
- Principal Property Tax Payers
- Property Tax Levies and Collections

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive annual financial reports and underlying accounting records for the relevant year.

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
2013	10,595,888,864	85,133,532	10,681,022,396	1.000%
2014	11,089,216,359	91,985,376	11,181,201,735	1.000%
2015	11,785,221,890	110,449,645	11,895,671,535	1.619%
2016	12,610,347,675	90,557,688	12,700,905,363	1.518%
2017	13,479,921,599	102,361,950	13,582,283,549	1.647%
2018	14,298,272,576	111,731,729	14,410,004,305	1.607%
2019	15,137,859,516	118,829,430	15,256,688,946	1.450%
2020	15,826,807,669	134,563,131	15,961,370,800	1.343%
2021	16,616,689,613	98,129,952	16,714,819,565	1.407%
2022	17,247,579,495	108,116,223	17,355,695,718	1.574%

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: 2013-14 and prior, Prior Published CAFR

2014-15 Orange County Assessor and MuniServices, LLC

(1.) Estimated Actual Value is derived from a series of calculations comparing median assessed values from 1940 to current median sale prices.

Based on these calculations a multiplier value was extrapolated and applied to current assessed values.

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

	Fiscal Years			
	2013	2014	2015	2016
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	-	-	-	-
Unified School District Bonds	0.1694	0.0157	0.0146	0.0140
South Coast Water District	0.0082	0.0079	0.0072	0.0067
Metro Water District	0.0035	0.0035	0.0035	0.0035
Total Direct and overlapping Rate	<u>\$ 1.18110</u>	<u>\$ 1.02704</u>	<u>\$ 1.02530</u>	<u>\$ 1.02411</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: County Auditor/Controller data, MuniServices, LLC / Avenu Insights & Analytics
Source: 2013-14 and prior, previously published CAFR Reports
Rates are not adjusted for ERAF
TRA 005-015 is represented.

Fiscal Years					
2017	2018	2019	2020	2021	2022
\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
-	-	-	-	-	-
0.0137	0.0129	0.0129	0.0127	0.0101	0.0102
0.0021	-	-	-	-	-
0.0035	0.0035	0.0035	0.0035	0.0035	0.0035
<u>\$ 1.01928</u>	<u>\$ 1.01637</u>	<u>\$ 1.01635</u>	<u>\$ 1.01616</u>	<u>\$ 1.01362</u>	<u>\$ 1.01368</u>

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

Taxpayer	2022			2013		
	Taxable Assessed	Rank	Percent of Total	Taxable Assessed	Rank	Percent of Total
	Value		City Taxable Assessed Value	Value		City Taxable Assessed Value
Andy Bang LLC	303,555,212	1	1.75%			
ICRE Laguna Club LLC	137,804,392	2	0.79%			
Hometown Laguna Terrace LLC	63,468,712	3	0.37%			
E W Merritt Farms Hotel Laguna	63,430,267	4	0.37%			
HCI Laguna Owner L P	61,211,091	5	0.35%			
Aliso Creek Center LLC	58,196,732	6	0.34%			
Warpinski Sally Trust	53,263,073	7	0.31%			
Laguna Cove LLC	49,214,076	8	0.28%			
Gross Jeffrey	37,407,115	9	0.22%			
Iconicviews Company LLC	37,372,777	10	0.22%			
Laguna Beach Luxury Hotel				175,287,682	1	1.64%
Club Laguna Partnership				46,202,000	2	0.43%
Sullivan Kenneth J III				36,937,199	3	0.35%
Mission Hospital Regional				30,935,926	4	0.29%
Nevills Neil D				30,100,092	5	0.28%
Daichendt Gary J				23,446,430	6	0.22%
Residential Property Investment				23,440,969	7	0.22%
Bank, JP Morgan Chase				22,547,512	8	0.21%
Emerald Financial LLC				20,809,433	9	0.19%
Aliso Creek Properties LLC				20,443,794	10	0.19%
	<u>\$ 864,923,447</u>		<u>4.98%</u>	<u>\$ 430,151,037</u>		<u>4.03%</u>

Source: Orange County Assessor data, MuniServices, LLC

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
2013	23,537,933	23,164,514	98.41%	373,417	23,537,931	100%
2014	24,298,820	23,997,150	98.76%	301,670	24,298,820	100%
2015	25,875,981	25,580,108	98.86%	295,873	25,875,981	100%
2016	27,900,487	27,711,235	99.32%	189,252	27,900,487	100%
2017	30,033,469	29,609,936	98.59%	423,533	30,033,469	100%
2018	31,851,921	31,494,680	98.88%	357,241	31,851,921	100%
2019	33,892,536	33,355,336	98.41%	537,200	33,892,536	100%
2020	35,447,181	34,968,629	98.65%	478,553	35,447,181	100%
2021	37,292,568	36,921,667	99.01%	370,901	37,292,568	100%
2022	38,556,080	38,038,658	98.66%	517,422	38,556,080	100%

*Source: Orange County Auditor Controller's Office, MuniServices, LLC
2014-15 and Prior Years Previous CAFR Reports*

DEBT CAPACITY

This section of the City of Laguna Beach's Comprehensive Annual Financial Report (CAFR) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. The statistical information presented herein is un-audited.

The following schedules exhibit the City's levels of outstanding debt over time, to help readers assess the affordability of the current level of outstanding debt, and the City's ability to issue additional debt:

- Ratios of Outstanding Debt by Type
- Direct and Overlapping Debt
- Pledged Revenue Coverage
- Legal Debt Margin Information

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive annual financial reports and underlying accounting records for the relevant year.

CITY OF LAGUNA BEACH
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year Ended June 30	Governmental Activities			Total Governmental Activities	Business-type Activities		Percentage of Personal Income	Debt per Capita
	General Obligation Bonds	I-Bank Installment Agreement	Capital Leases		I-Bank Installment Agreement	Primary Government		
2013	-	4,671,980	-	4,671,980	-	4,671,980	0.26%	201
2014	-	-	-	-	4,302,111	4,302,111	0.24%	185
2015	-	-	-	-	3,922,145	3,922,145	0.22%	168
2016	-	-	-	-	3,531,805	3,531,805	0.19%	150
2017	-	-	-	-	3,130,810	3,130,810	0.16%	133
2018	-	-	-	-	6,718,867	6,718,867	0.32%	288
2019	-	-	-	-	10,751,678	10,751,678	0.53%	460
2020	-	-	-	-	10,163,699	10,163,699	0.50%	455
2021	-	-	-	-	9,388,760	9,388,760	0.39%	417
2022	-	-	766,519	-	16,090,380	16,856,899	0.70%	749

Data Source: City Records

CITY OF LAGUNA BEACH
Direct and Overlapping Debt
June 30, 2022

CITY OF LAGUNA BEACH

2020-21 Assessed Valuation: \$ 16,834,395,462

	Total Debt <u>6/30/2022</u>	% Applicable (1)	City's share of <u>Debt 6/30/22</u>
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
Metropolitan Water District	\$20,175,000	0.513%	\$103,498
Capistrano Unified School District School Facilities Improvement District No. 1	11,051,444	0.009	995
Laguna Beach Unified School District	14,035,000	72.831	10,221,831
City of Laguna Beach 1915 Act Bonds	4,761,618	100	4,781,618
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			\$15,107,942
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>			
Orange County General Fund Obligations	\$376,780,000	2.553%	\$9,619,193
Orange County Pension Obligation Bonds	521,784,000	2.553	11,321,146
Orange County Board of Education Certificates of Participation	11,620,000	2.553	296,659
Capistrano Unified School District Certificates of Participation	23,295,000	0.006	1,398
City of Laguna Beach	0	100	0
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$21,238,396
TOTAL DIRECT DEBT			\$0
TOTAL OVERLAPPING DEBT			\$38,346,338
COMBINED TOTAL DEBT			\$38,346,338 (2)

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2021-22 Assessed Valuation:

Total Overlapping Tax and Assessment Debt	9.00%
Total Direct Debt	0.00%
Combined Total Debt	22.00%

Source: California Municipal Statistics, Inc.

CITY OF LAGUNA BEACH
Pledged-Revenue Coverage
Last Ten Fiscal Years

Fiscal Year Ended June 30	I-Bank Installment Agreement			Debt Service		Coverage
	Operating Revenues	Less Operating Expenses	Net Available Revenue	Principal	Interest	
2013	6,667,426	3,950,183	2,717,243	360,040	132,459	551.73%
2014	6,814,418	4,329,460	2,484,958	369,869	122,496	504.70%
2015	7,093,423	4,219,617	2,873,806	379,966	112,261	583.84%
2016	7,400,257	4,467,494	2,932,763	390,339	101,746	595.99%
2017	7,699,521	4,888,192	2,811,329	400,996	90,945	571.48%
2018	8,050,631	6,644,252	1,406,379	411,943	79,848	285.97%
2019	8,388,932	6,315,367	2,073,565	423,189	157,227	357.25%
2020	8,955,639	6,637,186	2,318,454	587,979	190,133	297.96%
2021	9,530,242	6,509,854	3,020,387	774,940	422,250	252.29%
2022	10,411,318	7,523,271	2,888,047	949,315	358,260	220.87%

Data Source: City Records

CITY OF LAGUNA BEACH
 Legal Debt Margin
 Last Ten Fiscal Years

	Fiscal Years			
	2013	2014	2015	2016
Assessed valuation	10,681,022,396	11,181,201,735	11,895,671,535	12,700,905,363
Conversion percentage	25%	25%	25%	25%
Adjusted assessed valuation	2,670,255,599	2,795,300,434	2,973,917,884	3,175,226,341
Debt limit percentage	15%	15%	15%	15%
Debt limit	400,538,340	419,295,065	446,087,683	476,283,951
Total net debt applicable to limit: General obligation bonds	-	-	-	-
Legal debt margin	<u>\$ 400,538,340</u>	<u>\$ 419,295,065</u>	<u>\$ 446,087,683</u>	<u>\$ 476,283,951</u>
Total debt applicable to the limit as a percentage of debt limit	0.0%	0.0%	0.0%	0.0%

Note:

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.

Data Source: Orange County Assessor data, MuniServices, LLC

Fiscal Years					
2017	2018	2019	2020	2021	2022
13,582,283,549	14,410,004,305	15,256,688,946	15,961,370,800	98,129,952	16,714,819,565
25%	25%	25%	25%	25%	25%
3,395,570,887	3,602,501,076	3,814,172,237	3,990,342,700	24,532,488	4,178,704,891
15%	15%	15%	15%	15%	15%
509,335,633	540,375,161	572,125,835	598,551,405	3,679,873	626,805,734
-	-	-	-	-	-
<u>\$ 509,335,633</u>	<u>\$ 540,375,161</u>	<u>\$ 572,125,835</u>	<u>\$ 598,551,405</u>	<u>\$ 3,679,873</u>	<u>\$ 626,805,734</u>
0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

DEMOGRAPHIC AND ECONOMIC INFORMATION

This section of the City of Laguna Beach's Comprehensive Annual Financial Report (CAFR) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. The statistical information presented herein is un-audited.

The following schedules depict demographic and economic indicators to assist the reader in understanding the socio-economic, environment in which the City's financial activities take place:

- Demographic and Economic Statistics
- Principal Employers

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive annual financial reports and underlying accounting records for the relevant year.

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

Fiscal Year	Population	Personal Income (in thousands)	Per Capita Income	Unemployment Rates
2013	23,225	1,802,399	77,606	3.6%
2014	<i>Not available</i>	<i>Not available</i>	75,460	<i>Not available</i>
2015	23,355	1,805,342	77,300	3.1%
2016	23,617	1,904,729	80,651	3.4%
2017	23,505	1,986,939	84,533	3.0%
2018	23,309	2,095,738	89,911	3.0%
2019	23,358	2,215,201,245	94,837	2.2%
2020	22,343	2,203,830,404	98,636	12.0%
2021	22,495	2,394,973,815	106,467	6.8%
2022	22,706	2,776,722,871	122,290	2.1%

Source: MuniServices, LLC / an Avenu Insights & Analytics Company, U.S. Census Bureau, 2010 American Community Survey 2013-14 and prior, previously published CAFR.

The California Department of Finance demographics estimates now incorporate 2010 Census counts as the benchmark

1.) Population Projections are provided by the California Department of Finance Projections

2.) Income Data is provided by the U.S. Census Bureau, 2010 American Community Survey

3.) Median Age reflects the U.S. Census data estimation table

4.) Student Enrollment reflects the total number of students enrolled in the Laguna Beach Unified School District.

5.) Unemployment Data is provided by the EDD's Bureau of Labor Statistics Department

CITY OF LAGUNA BEACH
Principal Employers
Current Year and Seven Years Ago

Business Name	2021-22		2013-14	
	Number of Employees	Percent of Total Employment (%)	Number of Employees	Percent of Total Employment (%)
Montage Laguna Beach Hotel**	688	5.64%	780	4.76%
Laguna Beach School District	351	2.88%	300	1.83%
Mission Hospital, Laguna Beach (1)	340	2.79%	565	3.45%
City of Laguna Beach***	290.7	2.38%	250	1.52%
Surf & Sand Resort**	255	2.09%	306	1.87%
Laguna College of Art & Design**	221	1.81%	225	1.37%
Las Brisas Restaurant**	164	1.34%	150	0.91%
Pacific Edge Hotel** (2)	115	0.94%	230	1.40%
Anneliese Schools	102	0.84%		
Mozambique Restaurant**	100	0.82%	130	0.79%
Whole Foods Market			86	0.52%
Total Top 10 Employers	2,627	21.53%	3,022	18.43%
Total City Labor Force (3)	12,200		16,400	

Source: MuniServices, LLC /Avenu Insights & Analytics
Source: 2014, previously published ACFR. Historical data unavailable.
Results based on direct correspondence with city's local businesses.
**Includes full and part time
***Includes full time only
(1) Laguna Beach campus only.
(2) Count includes both Hotel & Restaurants.
(3) Total City Labor Force provided by EDD Labor Force Data.

OPERATING INFORMATION

This section of the City of Laguna Beach's Comprehensive Annual Financial Report (CAFR) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. The statistical information presented herein is un-audited.

The following schedules present information on the City's operations and resources including service and infrastructure data to facilitate the readers understanding of how financial statement information relates to the services the City provides and the activities it performs:

- Full Time City Employees by Functions
- Operating Indicators by Function
- Capital Asset Statistics by Function

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive annual financial reports and underlying accounting records for the relevant year.

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

Function	Fiscal Years				
	2012	2013	2014	2015	2016
General Government	17.63	17.63	17.63	17.63	18.73
Public Safety	132.50	132.50	132.60	135.00	136.00
Public Works	51.00	50.00	51.00	51.00	54.60
Community Development	26.50	26.50	27.00	28.00	30.00
Recreational and Cultural ⁽¹⁾	7.75	7.75	7.75	7.75	6.00
Water Quality	15.00	15.00	15.00	15.00	15.00
Total	<u>250.38</u>	<u>249.38</u>	<u>250.98</u>	<u>254.38</u>	<u>260.33</u>

Note:

(1) Full time positions in Recreational were transferred to Public Works and Marine Safety

Data Source: City Records

Fiscal Years					
2017	2018	2019	2020	2021	2022
18.73	20.23	20.23	22.68	22.68	25.68
136.00	149.00	150.00	150.00	151.00	150.00
54.60	57.00	57.00	58.00	60.00	59.00
30.00	32.00	32.00	35.00	33.00	37.00
6.00	6.00	6.00	7.00	2.00	2.00
15.00	15.00	15.00	16.00	17.00	17.00
<u>260.33</u>	<u>279.23</u>	<u>280.23</u>	<u>288.68</u>	<u>285.68</u>	<u>290.68</u>

CITY OF LAGUNA BEACH
 Operating Indicators
 Last Ten Fiscal Years

	Fiscal Years			
	2013	2014	2015	2016
Police				
Custodial Arrests	2,176	1,694	2,093	2,125
Traffic Violations	6,138	5,300	5,923	3,794
Parking Violations	40,050	34,004	36,685	34,017
Fire Protection:				
Number of Calls Answered	3,311	3,375	3,447	N/A
Number of Inspections	1,650	1,021	1,384	N/A
Water Quality:				
Number of Service Connections	8,504	8,504	8,504	8,504
Daily Average Treatment in MGD (million gallons per day)	2	2	2	2
Maximum daily capacity of treatment plant in MGD	4	4	4	4

(1) Drops in numbers are directly attributed to the Covid closures beginning on March 17, 2020.

Data Source: City Records

N/A - Not currently available.

Fiscal Years					
2017	2018	2019	2020	2021	2022
2,113	2,102	2,133	1,710	1,236	1,111
3,372	6,716	4,153	3,463	3,018	2,776
30,557	26,275	28,989	24,675	27,667	22,250
3,562	3,325	3,554	3,712	3,713	3,821
982	1,155	1,587	562	1,842	1,375
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			
	2013	2014	2015	2016
Police				
Stations	1	1	1	1
Fire:				
Fire Stations	4	4	4	4
Public Works				
Streets (miles)	93	93	93	93
Streetlights	1,241	1,241	1,241	1,241
Culture and Recreation				
Community Centers	3	3	3	3
Parks	17	17	17	17
Park Acreage	47	47	47	47
Tennis Courts	12	12	12	12
Water Quality				
Miles of sanitary sewers	95.00	95.00	95.00	95.00
Miles of storm drains	78.00	78.00	78.00	78.00

Data Source: City Records

Fiscal Years					
2017	2018	2019	2020	2021	2022
1	1	1	1	1	1
4	4	4	4	4	4
93	93	93	93	93	93
1,241	1,241	1,241	1,241	1,241	1,241
3	3	3	3	3	3
17	17	17	17	17	17
47	47	47	47	47	47
12	12	12	12	12	12
95.00	95.00	95.00	95.00	95.00	95.00
78.00	78.00	78.00	78.00	78.00	78.00



Federal Awards Reports in Accordance
with the Uniform Guidance
June 30, 2022

City of Laguna Beach, California

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 1

Independent Auditor’s Report on Compliance for the Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance..... 3

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Members of the City Council
City of Laguna Beach, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Laguna Beach, (City), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 25, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-003 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2022-002 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Laguna Hills, California
May 25, 2023



CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

To the Members of the City Council
City of Laguna Beach, California

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the City of Laguna Beach's (City) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal program for the year ended June 30, 2022. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an other instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2022-005. Our opinion on the major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-004 and 2022-005 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated May 25, 2023, which contained unmodified opinions on those financial statements. Our report included emphasis of matter paragraphs describing the City's adoption of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended June 30, 2022. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Eide Bailly LLP

Laguna Hills, California
June 13, 2023

City of Laguna Beach, California
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Housing and Urban Development			
<i>Direct:</i>			
CDBG Entitlement Grants Cluster:			
Community Development Block Grants/Entitlement Grants	14.218	N/A	<u>\$ 140,326</u>
Subtotal CDBG Entitlement Grants Cluster			<u>140,326</u>
Total U.S. Department of Housing and Urban Development			<u>140,326</u>
U.S. Department of Housing Security			
<i>Direct:</i>			
Homeland Security Grant Program	97.067	N/A	<u>\$ 47,021</u>
Total U.S. Department of Housing Security			<u>47,021</u>
U.S. Department of the Treasury			
<i>Direct:</i>			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds (CSLFRF), SLFRF	21.027	N/A	<u>\$ 2,125,000</u>
Total U.S. Department of the Treasury			<u>2,125,000</u>
Total Federal Financial Assistance			<u>\$ 2,312,347</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the City under programs of the federal government for the year ended June 30, 2022. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the modified-accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

The City has not elected to use the 10% de minimis cost rate.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516	Yes

Identification of major programs

Name of Federal Program	Federal Financial Assistance Listing
COVID-19 Coronavirus State and Local Fiscal Recovery Funds (CSLFRF), SLFRF	21.027
Dollar threshold used to distinguish between type A and type B programs	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

2022-001 **Reporting and Closing**
Type of Finding: Material Weakness

Criteria:

In order to fairly present the Annual Comprehensive Financial Report (ACFR) in accordance with accounting principles generally accepted in the United States of America, management must perform a year-end closing process to accumulate, reconcile, and summarize information for inclusion in the trial balance and financial report. The year-end closing process should include a review of all balances.

Condition:

We noted the following during our audit:

- Within the General Fund, interest of \$50,419 was double booked.
- Within the General Fund, cash was not reconciled properly and an adjustment of \$19,030 was booked.
- Within the Municipal Transit Fund, the beginning fund balance was restated by \$471,551 to account for revenue booked in fiscal year 2022, that related to fiscal year 2021.
- Within the Municipal Transit Fund, revenue was adjusted by \$101,519 to reclassify to unearned revenues related to the Transportation Development Act.
- Within the Sewer Service Fund, the I-Bank 4 Loan receivable and related payable in the amount of \$7,500,000 was not recorded.
- A reversal of \$605,352 of funds transferred from the COVID-19 Special Revenue Fund to the General Fund, as related expenditures had not yet been incurred. Further, a reclassification was made from revenues to unearned revenues for the same \$605,352, to account for grant funding that was received but not yet earned as of June 30.
- Within the Internal Services Fund, \$188,985 adjustment to beginning net position to reconcile to prior year financial statements.
- Adjustments were made by the City, due to audit inquiry, for the Advances from other Funds in the Internal Services Funds for \$805,339.

Context:

The condition noted above was identified during testing over various account balances.

Effect:

Due to the above condition, material adjustments were necessary to fairly state the financial statements.

Cause:

The City does not have sufficient procedures in place to ensure a proper year-end closing is completed timely.

Recommendation:

We recommend the City implement year-end closing processes in order to ensure the financials are materially fairly stated and completed timely.

Views of Responsible Official:

Management agrees. See separately issued Corrective Action Plan.

2022-002

Bank Reconciliations

Type of Finding: Significant Deficiency

Criteria:

In order to ensure accurate financial reporting, management should perform timely reconciliations of all bank account balances to the City's general ledger.

Condition:

During our audit, we noted the June 2022 bank reconciliations were documented as reviewed by management in November 2022. Additionally, we noted reconciling items documented as part of the June 2022 reconciliation were not properly recorded to the City's general ledger.

Context:

The condition noted above was identified during testing over cash and investment balances.

Effect:

Untimely review of monthly bank reconciliations can cause inaccurate financial reporting that is not detected timely.

Cause:

The City does not have sufficient procedures in place to ensure timely documented review of the reconciliation of cash and investment balances, including timely posting of adjusting entries to the general ledger.

Recommendation:

We recommend the City implement additional processes in order to ensure cash and investment bank reconciliations have a timely documented review, and any related adjustments are made the general ledger timely.

Views of Responsible Official:

Management agrees. See separately issued Corrective Action Plan.

2022-003

Schedule of Expenditures of Federal Awards (SEFA) Preparation

Type of Finding: Material Weakness

Criteria:

Title 2 CFR Section 200.303(a) of the *Uniform Guidance* requires all non-federal entities establish and maintain effective internal control over federal awards to provide reasonable assurance that the non-federal entity is managing the federal award in compliance with the federal statutes, regulations, and the terms and conditions of the federal award. Management is responsible for the preparation and fair presentation of the Schedule of Expenditures of Federal Awards (SEFA).

Condition:

During the audit, it was noted the preparation of the SEFA lacked evidence of review. Additionally, a misstatement was identified totaling \$605,352 that required adjustment to the major program expenditure total on the SEFA. Additionally, two other reductions to the SEFA were identified, reducing SEFA expenditures by \$279,458 and \$68,343, due to incorrectly including expenditures on the SEFA.

Context:

The condition was noted during our procedures related to internal controls over the SEFA.

Effect:

The SEFA lacked evidence of review and adjustments were necessary to fairly present the SEFA.

Cause:

The City's internal controls did not allow for evidence of review of the SEFA or analysis of the accuracy of expenditure totals on the SEFA. This includes an analysis of the federal expenditures reported compared to the related federal revenues and grant agreements in effect for the year ended June 30, 2022.

Recommendation:

We recommend the City establish procedures to ensure evidence of review exists over the SEFA, and to reconcile the expenditures reported to related grant, revenue and expenditure detail, as needed.

Views of Responsible Officials:

Management agrees. See separately issued Corrective Action Plan.

Section III – Federal Award Findings and Questioned Costs

2022-004 **Program:** COVID-19 - Coronavirus State and Local Fiscal Recovery Funds
Financial Assistance Listing Number: 21.027
Federal Agency: U.S. Department of Treasury
Award Year: 2021/22
Grant Number: N/A

Compliance Requirement: Reporting
Type of Finding: Significant Deficiency in Internal Control

Criteria:

2 CFR Section 200.303(a), Internal Controls, states that the non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. The City must submit an annual *Project and Expenditure Report* for this program.

Condition:

While the City prepared and had adequate supporting documentation for the *Project and Expenditure Report*, there was no documented evidence of review or approval prior to submission.

Cause:

The City prepared the *Project and Expenditure Report* and submitted without retaining evidence that the report was reviewed and approved by a separate individual prior to submission.

Effect:

Documentation was not available to support the review of the report prior to submission.

Questioned Costs:

None

Context/Sampling:

The entire population of one *Project and Expenditure Report* submitted during the year was selected for testing.

Repeat Finding from Prior Year:

No

Recommendation:

We recommend the City enhance internal controls to ensure supporting documentation, including evidence of review, is retained for the *Project and Expenditure Report*.

Views of Responsible Official:

Management agrees. See separately issued Corrective Action Plan.

2022-005

Program: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds

Financial Assistance Listing Number: 21.027

Federal Agency: U.S. Department of Treasury

Award Year: 2021/22

Grant Number: N/A

Compliance Requirement: Allowable Costs/Cost Principles

Type of Finding: Significant Deficiency in Internal Control and Instance of Noncompliance

Criteria:

Title 2 CFR Section 200.302(b)(7) of the *Uniform Guidance* requires all non-Federal entities establish written procedures to implement the requirements for determining the allowability of costs in accordance with *Subpart E – Cost Principles* and the conditions of the Federal award.

Condition:

The City has not established written procedures for determining allowability of costs in accordance with *Subpart E – Cost Principles* or the conditions of the Federal award.

Cause:

The City's procedures did not ensure the required written procedures were developed and implemented in accordance with the *Uniform Guidance*.

Effect:

The City has not complied with Title 2 CFR Section 200.302(b)(7) regarding establishing written procedures for determining the allowability of costs.

Questioned Costs:

None reported.

Context:

The condition noted above was identified during our procedures related to allowable costs.

Repeat Finding from Prior Year:

No

Recommendation:

We recommend the City establish policies and formalize written procedures related to allowable costs in accordance with *Subpart E – Cost Principles*.

Views of Responsible Official:

Management agrees. See separately issued Corrective Action Plan.

Financial Statement Findings

None reported.

Federal Award Findings

None reported.



City of Laguna Beach

Corrective Action Plan

Year ended June 30, 2022

Compiled by: Gavin Curran, Assistant City Manager/CFO

City of Laguna Beach

Corrective Action Plan

Year ended June 30, 2022

I. FINANCIAL STATEMENT FINDINGS

2022-001 Reporting and Closing
Type of Finding: Material Weakness

Cause:

The City does not have sufficient procedures in place to ensure a proper year-end closing is completed timely.

Recommendation:

We recommend the City implement year-end closing processes in order to ensure the financials are materially fairly stated and completed timely.

Management Response and Corrective Action:

The Finance Division encountered an unexpected turnover in a critical position, resulting in a temporary hardship. This issue has been resolved. To prevent such occurrences in the future, management has taken proactive steps by hiring additional staff members and implementing additional year-end closing procedures. These measures aim to ensure the timely and accurate recording of all transactions in the general ledger.

Name of Responsible Official:

Julie Nemes
Director of Finance and Technology Services

Implementation Date:

June 2023

2022-002 Bank Reconciliations
Type of Finding: Significant Deficiency

Cause:

The City does not have sufficient procedures in place to ensure timely documented review of the reconciliation of cash and investment balances, including timely posting of adjusting entries to the general ledger.

Recommendation:

We recommend the City implement additional processes in order to ensure cash and investment bank reconciliations have a timely documented review, and any related adjustments are made the general ledger timely.

Management Response and Corrective Action:

In response to the audit finding, management acknowledges that the bank reconciliations for June 2022 were reviewed by management in July 2022; however, formal documentation of this review, including a final signature on the Bank Reconciliation, was completed in November 2022. To resolve this issue, management has implemented a new procedure requiring the immediate signing

of the bank reconciliation upon completion of the review. This ensures that documentation of the bank reconciliations is promptly and consistently completed.

Management acknowledges that the two reconciling items on the June 2022 bank reconciliation were not promptly recorded in the general ledger. The Finance staff diligently researched and resolved these items. To enhance this process that includes the timely posting of adjusting entries, management has implemented updated internal procedures. Under these revised procedures, Finance staff are now required to record bank reconciliation reconciling items in the period they are identified, ensuring timely and accurate recording of such items.

Name of Responsible Official:

Julie Nemes
Director of Finance and Technology Services

Implementation Date:

June 2023

2022-003

Schedule of Expenditures of Federal Awards (SEFA) Preparation

Type of Finding: Material Weakness

Cause:

The City's internal controls did not allow for evidence of review of the SEFA or analysis of the accuracy of expenditure totals on the SEFA. This includes an analysis of the federal expenditures reported compared to the related federal revenues and grant agreements in effect for the year ended June 30, 2022.

Recommendation:

We recommend the City establish procedures to ensure evidence of review exists over the SEFA, and to reconcile the expenditures reported to related grant, revenue and expenditure detail, as needed.

Management Response and Corrective Action:

The Finance staff made an error in the initial preparation of the Schedule of Expenditures of Federal Awards (SEFA) provided to the auditors. Specifically, grants were reported based on the revenue received in that year, rather than the expenditures incurred. We recognize that this issue was corrected before final submittal of the SEFA.

To prevent similar errors in the future, management is committed to providing training to the Finance staff on SEFA preparation, emphasizing the inclusion of only current year Federal expenditures on the schedule. Furthermore, we will implement a review process whereby the Director of Finance and Technology Services will thoroughly review the SEFA for accuracy prior to its submission for audit.

Name of Responsible Official:

Julie Nemes
Director of Finance and Technology Services

Implementation Date:

June 2023

II. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2022-004 *Program:* COVID-19 - Coronavirus State and Local Fiscal Recovery Funds
Financial Assistance Listing Number: 21.027
Federal Agency: U.S. Department of Treasury
Award Year: 2021/22
Grant Number: N/A

Compliance Requirement: Reporting
Type of Finding: Significant Deficiency in Internal Control

Cause:

The City prepared the *Project and Expenditure Report* and submitted without retaining evidence that the report was reviewed and approved by a separate individual prior to submission.

Recommendation:

We recommend the City enhance internal controls to ensure supporting documentation, including evidence of review, is retained for the *Project and Expenditure Report*.

Management Response and Corrective Action:

The City's Finance Manager was responsible for submitting the Project and Expenditure Report for the COVID-19 - Coronavirus State and Local Fiscal Recovery Funds award. Prior to submission, the report underwent a comprehensive review by the Assistant City Manager/CFO, which was documented through a calendar invitation between the Finance Manager and Assistant City Manager/CFO.

Furthermore, to ensure transparency and accountability, the appropriation of COVID-19 - Coronavirus State and Local Fiscal Recovery Funds was presented to the City Council, and the funding was included in the FY 2021-22 City Adopted Budget. Additionally, multiple presentations were made during City Council meetings regarding the appropriation and expenditure of these funds, which are public meetings.

For future submission, management will formally document the review of the submission process with a signed memo from the Assistant City Manager/CFO and City Manager.

Name of Responsible Official:

Julie Nemes
Director of Finance and Technology Services

Implementation Date:

June 2023

2022-005 *Program:* COVID-19 - Coronavirus State and Local Fiscal Recovery Funds
Financial Assistance Listing Number: 21.027
Federal Agency: U.S. Department of Treasury
Award Year: 2021/22
Grant Number: N/A

Compliance Requirement: Allowable Costs/Cost Principles
Type of Finding: Significant Deficiency in Internal Control and Instance of Noncompliance

Cause:

The City's procedures did not ensure the required written procedures were developed and implemented in accordance with the *Uniform Guidance*.

Recommendation:

We recommend the City establish policies and formalize written procedures related to allowable costs in accordance with *Subpart E – Cost Principles*.

Management Response and Corrective Action:

The City of Laguna Beach's Administrative Policies already incorporate Special Procedures for Procurement for Federally Funded Projects and Purchases. These procedures ensure compliance with all relevant Federal requirements when the City expends Federal funds. To further enhance our compliance efforts, management will update the City's Administrative Policies to include additional procedures for determining the allowability of costs in accordance with the conditions of Federal Awards.

Name of Responsible Official:

Julie Nemes
Director of Finance and Technology Services

Implementation Date:

June 2023



CPAs & BUSINESS ADVISORS

May 25, 2023

City of Laguna Beach
Laguna Beach, California

In planning and performing our audit of the 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 the City of Laguna Beach (City) as of and for the year ended June 30, 2022 in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

We identified certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated May 25, 2023 on the financial statements of the City. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. Our comment is summarized as follows:

We recommend the City formally document the analyzation of the Deposits Payable and Accounts Receivable aging reports as part of the year end closing process.

We believe that the implementation of these recommendations will provide the City with a stronger system of internal control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you at your convenience.

This communication is intended solely for the information and use of management, and is not intended to be and should not be used by anyone other than these specified parties.

Laguna Hills, California
May 25, 2023



CPAs & BUSINESS ADVISORS

May 25, 2023

To the Members of the City Council
City of Laguna Beach, California

We have audited the financial statements of the City of Laguna Beach, California (City) as of and for the year ended June 30, 2022, and have issued our report thereon dated May 25, 2023 and June 13, 2023.

We did not audit the financial statements of the Laguna Beach County Water District, which is included as a discretely presented component unit in the City's financial statements. Those statements were audited by other auditors as stated in our report on the City's basic financial statements. This communication does not include the results of the audit of the Laguna Beach County Water District.

Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards* and our Compliance Audit under the Uniform Guidance

As communicated in our letter dated July 28, 2022, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America and to express an opinion on whether the City complied with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs. Our audit of the financial statements and major program compliance does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Our responsibility, as prescribed by professional standards as it relates to the audit of the City's major federal program compliance, is to express an opinion on the compliance for each of City's major federal programs based on our audit of the types of compliance requirements referred to above. An audit of major program compliance includes consideration of internal control over compliance with the types of compliance requirements referred to above as a basis for designing audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, as a part of our major program compliance audit, we considered internal control over compliance for these purposes and not to provide any assurance on the effectiveness of the City's internal control over compliance.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal controls during our audit in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated May 23, 2023. We have also provided our comments regarding compliance with the types of compliance requirements referred to above and internal controls over compliance during our audit in our Independent Auditor's Report on Compliance with Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance dated June 13, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements. As described in Note 1 to the financial statements, the City changed accounting policies related to accounting for leases to adopt the provisions of GASB Statement No. 87, *Leases*. Accordingly, the accounting change has been retrospectively applied to the financial statements beginning July 1, 2021, as shown in Note 17. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

- Net pension and total other postemployment benefits (OPEB) liabilities, disclosures, related deferred inflows/outflows of resources, and pension/OPEB expense are based on actuarial valuations which include assumptions adopted by Calpers and the City.
- Claims liabilities are based on claims reserves estimated by the City's Third Party Administrators (TPAs), as well as the application of an Incurred But Not Reported (IBNR) factor.

We evaluated the key factors and assumptions used to develop these estimates and determined that they were reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City's financial statements relate to:

- Note 6 to the financial statements discloses the City's claims liabilities balances, including key assumptions related to those balances.
- OPEB liabilities in Note 11 are sensitive to the underlying actuarial assumptions used, including, but not limited to, the investment rate of return, discount rate, and healthcare cost trend rate. As disclosed in Note 11, a 1% increase or decrease in the discount rate or healthcare trend rate has a significant effect on the City's total OPEB liabilities.
- Pension liabilities in Note 14 are sensitive to the underlying actuarial assumptions used, including, but not limited to, the investment rate of return and discount rate. As disclosed in Note 14, a 1% increase or decrease in the discount rate has a material effect on the City's pension liabilities.
- As disclosed in Note 18, the City entered into material transactions after year end. The activity of these transactions is not yet reflected in the financial statements, but are material to the City.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

The following misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

- Within the General Fund, interest of \$50,419 was double booked. As result, an entry to reverse interest earned and related side-fund loan (interfund) activity was recorded.
- Within the General Fund, cash was not reconciled properly and an adjustment of \$19,030 was booked to increase cash and record related revenues.
- Within the Municipal Transit Fund, the beginning fund balance was restated by \$471,551 to account for revenue booked in fiscal year 2022, that related to fiscal year 2021.
- Within the Municipal Transit Fund, revenue was adjusted by \$101,519 to reclassify to unearned revenues related to the Transportation Development Act.
- Within the Sewer Service Fund, the I-Bank 4 Loan receivable and related payable in the amount of \$7,500,000 was not recorded. As such, entry was posted to correctly report balances at June 30, 2022.
- A reversal of \$605,352 of funds transferred from the COVID-19 Special Revenue Fund to the General Fund, as related expenditures had not yet been incurred. Further, a reclassification was made from revenues to unearned revenues for the same \$605,352. This same adjustment was required on the Schedule of Expenditures of Federal Awards (SEFA) to reduce program 21.027 expenditures.

- Within the Internal Services Fund, \$188,985 adjustment to beginning net position to reconcile to prior year financial statements.
- During audit, questions were raised regarding the City Advances. As a result, adjustments were made by the City, including a \$805,339 reduction of Advances to/from other Funds in the Internal Service Funds.
- Additional adjustments to reduce program expenditures by \$279,458 and \$68,343 were required on the SEFA to properly report only federal expenditures as of June 30, 2022.

There were no uncorrected misstatements identified as a result of our audit procedures.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. As described in Note 1 to the financial statements, due to the adoption of GASB Statement 87, Leases, the City restated opening balances as of July 1, 2021. We have included an emphasis of matter in our report regarding this restatement.

As described in Note 17 to the financial statements, certain errors resulting in an understatement of amounts previously reported for revenues as of June 30, 2021, were discovered during the current year. Accordingly, a restatement has been made to the municipal transit fund balance and business-type activities net position to correct this error. We have included an emphasis of matter in our report regarding this restatement.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated May 25, 2023 and updated letter June 13, 2023.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

Other Information Included in Annual Reports

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the City's annual reports, does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

However, in accordance with such standards, we have read the information and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Existence of a Material Misstatement that Affects the Financial Statements of a Prior Period in Which There Was a Predecessor Auditor

We have identified the existence of a material misstatement that affects the prior period financial statements on which the predecessor auditor had previously reported without modification.

As described in Note 17 to the financial statements, certain errors resulting in an understatement of amounts previously reported for revenues as of June 30, 2021, were discovered during the current year. Accordingly, a restatement has been made to the municipal transit fund balance and business-type activities net position to correct this error. We have included an emphasis of matter in our report regarding this restatement.

Group Audits

The City's financial statements include the financial activity of the Laguna Beach County Water District, a discretely presented component unit, which was audited by others as described previously. For the purposes of our audit, we did not consider the Laguna Beach County Water District to be a significant component of the City's financial statements. The financial statements of the Laguna Beach County Water District were audited by other auditors. Our audit included obtaining an understanding of the Laguna Beach County Water District and its environment, sufficient to assess the risks of material misstatement of the financial activity of the component unit and completion of further audit procedures.

This report is intended solely for the information and use of the City Council, and management of the City and is not intended to be, and should not be, used by anyone other than these specified parties.



Laguna Hills, California



CPAs & BUSINESS ADVISORS

Independent Accountant's Report

Honorable Mayor and
Members of the City Council
City of Laguna Beach, California

We have performed the procedures enumerated below, on the Appropriations Limit Calculation of City of Laguna Beach, California (City) prepared in accordance with Article XIII-B of the California Constitution for the fiscal year ended June 30, 2022. The City's management is responsible for the Appropriations Limit Calculation.

The City has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of evaluating the Appropriations Limit Calculation for the fiscal year ended June 30, 2022, and we will report on findings based on the procedures performed. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and the associated findings are as follows:

1. We obtained the completed worksheet setting forth the calculations necessary to establish the City's appropriations limit and compared the limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of the City Council. We also compared the population and inflation options included in the aforementioned worksheet to those that were selected by a recorded vote of the City Council.

Finding: During the performance of this procedure, we identified an exception in which the City had used the incorrect capita cost of living ratio and the incorrect population factor in its calculation of the adjustment factor.

2. We added last year's limit to the annual adjustment amount and compared the resulting amount to the 2021-2022 appropriations limit.

Finding: Due to the incorrect capita cost of living ratio, where City used 1.0373 instead of 1.0573, and incorrect population factor, where the City used 1.0004 but should have used 0.9916, we identified a difference of \$695,010 between our calculation of \$68,620,737 and the City's calculation of \$67,925,727.

3. We agreed the prior year appropriations limit to the prior year appropriations limit adopted by the City Council.

Finding: No exceptions were found as a result of this procedure.

We were engaged by the City to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the City's Appropriations Limit Calculation for the fiscal year ended June 30, 2022. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the audit committees and managements of the City and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Laguna Hills, California
May 25, 2023



City of Laguna Beach
MEMORANDUM

Date: July 24, 2023
To: City Council
From: Julie Nemes, Director of Finance and Technology Services *JN*
Via: Shohreh Dupuis, City Manager
Subject: Annual Comprehensive Financial Report, Single Audit, and Audit Compliance Letters

Dear City Council Members,

I am writing to transmit the Annual Comprehensive Financial Report (ACFR) and Single Audit for the year ended June 30, 2022, along with the following four required audit letters:

1. Report on Compliance and Other Matters and on Internal Controls ("GAS" Letters)
2. Management Letter
3. Statement on Auditing Standards (SAS) No. 114 Report
4. Agreed-Upon Procedures Applied to Appropriations Limit Calculation (GANN Limit) Letter

These letters contain insights and findings from the audit process. The auditor has outlined recommendations for possible improvements, which the Finance Team is already in the process of implementing. The Finance Team will also ensure that this information is presented to the Citizens' Audit Review and Investment Advisory Committee at their next meeting.

ANNUAL COMPREHENSIVE FINANCIAL REPORT

The annual financial statements of the City of Laguna Beach (City) for the year ended June 30, 2022, have undergone a thorough audit by Eide Bailly LLP, and they comply with Generally Accepted Accounting Principles (GAAP), receiving an unmodified opinion.

SINGLE AUDIT

The Single Audit Act mandates an annual audit of non-Federal entities that expend \$750,000 or more of Federal Financial Assistance in a fiscal year. The Single Audit is intended to ensure an organization is using its federal funds correctly and is complying with federal guidelines. This year the Single Audit was required because the City spent approximately \$2.1 million in America Rescue Plan Act, Coronavirus State and Local Fiscal Recovery Funds. Eide Bailly audited the City's compliance for this major federal program for the year ended June 30, 2022, in accordance with the U.S. Office of Management and Budget *Compliance Supplement*, and issued an unmodified opinion.

REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROLS

Eide Bailly issued two letters as part of the annual financial audit and Single Audit Act for the major federal program. The first letter focused on internal controls over financial reporting and compliance, while the

second dealt with compliance matters related to the federal program. The audit identified findings on internal controls, which were addressed in a "Corrective Action Plan" included in the Single Audit Report.

The Finance Team has already made significant progress in implementing the Corrective Action Plan. Actions taken include having supervisors sign bank reconciliations promptly, posting bank reconciling items to the general ledger within 30 days, providing training for Finance staff, documenting review processes before submissions, and enhancing the Administrative Policy on allowable costs for Federal Awards.

MANAGEMENT LETTER

Statement on Auditing Standards No. 115 requires the auditors to communicate in writing material weaknesses and significant deficiencies in internal control that are identified during the audit process. The auditors are also given the option to report other matters of internal control (i.e., "control deficiencies" or "best practices") either verbally or in writing. Eide Bailly decided to issue their recommendation(s) in writing in the City's management letter.

This management letter requested the City document the analyzation of the Deposit Payable and Accounts Receivable aging reports as part of the closing process. Finance staff has included the preparation of this document in its year-end procedures.

STATEMENT ON AUDITING STANDARDS (SAS) NO. 114 REPORT

The purpose of this letter is to directly communicate with the City Council regarding important matters that you should be aware of as part of your oversight responsibility for the financial reporting process.

This document addresses several key items, including the division of responsibilities between the auditor and those charged with governance. Additionally, it covers any new accounting policies that were adopted and provides information on the specific accounting estimates that were used in preparing the financial statements. Furthermore, the letter includes details of any audit adjustments (uncorrected and corrected misstatement) that were required to be made. As noted in the letter, all were no uncorrected misstatements at the conclusion of the audit.

AGREED-UPON PROCEDURES APPLIED TO APPROPRIATIONS LIMIT CALCULATION

This report outlines the auditors' required procedures for the City's annual Appropriations Limit Calculation (GANN Limit). The auditors reviewed the Fiscal Year 2021-22 limit and adjustment factors adopted by the City Council through a resolution. The Finance Team identified a \$695,000 error in the FY 2021-22 calculation, which is noted in the letter. The Finance Team promptly corrected the error in June 2022, with the calculation and approval of the Fiscal Year 2022-23 GANN Limit.

CC: Gavin Curran, Assistant City Manager/CFO
Citizens' Audit Review Committee