

**CITY OF LAGUNA BEACH, CALIFORNIA**

**Comprehensive Annual Financial Report**

**Year Ended June 30, 2012**

**CITY OF LAGUNA BEACH, CALIFORNIA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

City Council:

Jane Egly, Mayor  
Verna Rollinger, Mayor Pro Tem  
Kelly Boyd, Council Member  
Elizabeth Pearson, Council Member  
Toni Iseman, Council Member

Laura Parisi, City Treasurer

Martha Anderson, City Clerk

John Pietig, City Manager

**Prepared by:  
Finance Department**

**CITY OF LAGUNA BEACH, CALIFORNIA**

**Comprehensive Annual Financial Report**

**Year ended June 30, 2012**

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## **INTRODUCTORY SECTION**



December 30, 2012

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, 2012.

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 Varvrinek, Trine, Day & CO., LLP. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2012, 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 unqualified opinion that the City’s financial statements for the fiscal year ended June 30, 2012, were fairly presented in conformity with GAAP. The independent auditor’s report is presented as the first component of the financial section of this report.

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

### Profile of the Government

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

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

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

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

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

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

#### Factors Affecting Financial Condition

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

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

The national economy is improving. The economy continues to grow at a moderate pace, household spending is improving, and the housing market has shown some signs of improvement. Although the unemployment rate has declined below 8%, it still remains high. The prolonged elevated unemployment coupled with the looming "fiscal cliff" could jeopardize this tepid recovery.



In California, voters recently approved the Governor's tax initiative, Proposition 30, to increase income taxes on the top earners and sales taxes by a quarter-cent on the dollar to generate \$6 billion annually through fiscal year 2018-19. Despite those new taxes, the California Legislative Analyst's Office believes the state faces a short-term deficit of about \$1.9 billion.

While not immune to the effects of the recession, Laguna Beach continued to fare relatively well during the recession due in part to strong governance, disciplined fiscal decisions and strong underlying tax base. This year the City's property taxes remained stable. The City's sales taxes increased approximately 9% and transient occupancy taxes increased approximately 11% over the prior fiscal year.

**Long-term financial planning.** The City of Laguna Beach is in a better financial position than most cities in California. The City has reduced salary and benefit costs by \$920,000 over the last three years and done so without layoffs or significant reductions in services. The City Council has also established the required 10% fund balance reserve of \$4.8 million and an additional \$4 million Recession Smoothing Account to address future economic impacts.

Unfortunately, over the next several years, the City will continue to be presented with significant budget challenges. Along with many other local governments, Laguna Beach will be faced with balancing modest revenue growth against increasing operating costs, retirement costs and the unpredictable State actions.

During labor negotiations, the Fire and Police Association both agreed to a second tier retirement formula and members contributing more to their pension. The two-year Fire Association agreement is expected to save the City \$215,000 annually and the thirty-month agreement with the Police Association is expected to save the City \$130,000 annually.

Still, plans for capital improvements are underway for projects such as a new Lifeguard Headquarters (currently in progress), Burn Dump Restoration, Stair Replacement at Thalia Street beach, and Alta Vista Way Retaining Wall Replacement. The costs of the improvements are estimated at \$9.2 million. The City has funded these projects over the last several years; therefore, it is not necessary to borrow funds to cover project costs.

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

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

**Pension and other postemployment benefits.** The City contributes to the California Public Employees Retirement System, an agent multiple-employer public employee defined benefit pension plan for its employees. Each year, an independent actuary engaged by the pension plan calculates the amount of the

annual contribution that the City must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City fully funds each year's annual required contribution to the pension plan as determined by this funding policy.

On September 12, 2012, the Governor signed Assembly Bill 340, creating the Public Employees' Pension Reform Act (PEPRA). The new law creates a new benefit formula for new employees entering public agency employment for the first time on or after January 1, 2013. The exact cost savings related to PEPRA is unknown at this time, but in general these new employees will contribute 50% of their annual pension costs immediately following the expiration of the current memorandum of understandings between the City and its employees.

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

**Other factors affecting financial condition:** On December 24, 2010, the City Council of the City of Laguna Beach proclaimed the existence of a local emergency caused by a series of storms between December 17, 2010 and January 4, 2011 that resulted in flooding. These storms caused destruction and damage to public infrastructure, numerous businesses and homes. The cost of the emergency repair and permanent restoration to public facilities is approximately \$2.7 million.

On January 26, 2011 President Obama issued a major disaster declaration for the severe winter storms that occurred on December 17, 2010 through January 4, 2011. This declaration allowed for public assistance from Federal Emergency Management Agency (FEMA) and California Emergency Management Agency (CALEMA).

As of June 30, 2012, to help offset the cost of repairs, the City of Laguna Beach has received reimbursement from FEMA and CALEMA in the amount of \$714,000, insurance reimbursement of \$285,000, and \$306,000 from the Department of Transportation Federal Highway Administration.

#### Acknowledgements

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

Respectfully submitted,



John Pietig  
City Manager



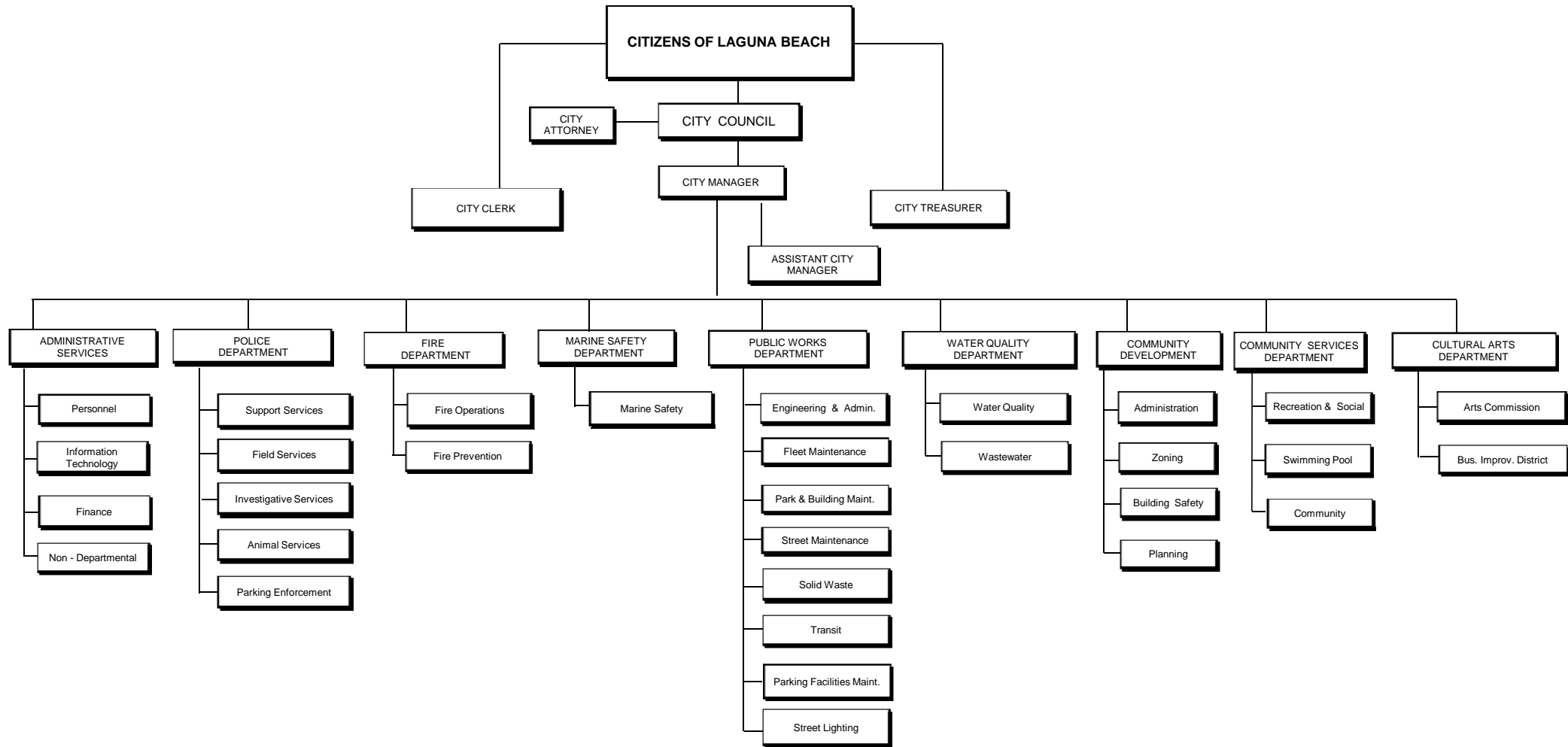
Gavin Curran  
Director of Finance and Information Technology



Nancy Pauley  
Finance Officer

# CITY OF LAGUNA BEACH

## Organizational Chart



**FINANCIAL SECTION**



## INDEPENDENT AUDITORS' REPORT

To the City Council  
City of Laguna Beach, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Laguna Beach, California (City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Laguna Beach County Water District, a discretely presented component unit of the City which represent 100 percent, 100 percent, and 100 percent, respectively, of the assets, net assets, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Laguna Beach County Water District, is based on the report of the other auditors. The prior year summarized comparative information has been derived from the financial statements of the City of Laguna Beach as of and for the year ended June 30, 2011, which were audited by other auditors whose report dated December 30, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Laguna Beach, California, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed at Note 23, the City has early implemented Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. In addition the City has posted various prior period adjustments for yearend accruals and the write off of the pension asset.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2012, on our consideration of the City of Laguna Beach, California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the schedule of funding progress on pages 3 through 12 and 60 through 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Laguna Beach, California's financial statements as a whole. The introductory section, combining nonmajor fund financial statements, budgetary comparison schedules, combining agency statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit the procedures performed as described previously, and the report of other auditors, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Vawter, Truitt, Day, Co., LLP*

Laguna Hills, California  
December 27, 2012

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following discussion and analysis of the financial performance of the City of Laguna Beach provides an overview of the City's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

### **Using the Accompanying Financial Statements**

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

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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



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

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

## **Reporting the City as a Whole**

The accompanying government-wide financial statements include two statements that present financial data for the City as a whole. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

## **Reporting the City's Major Funds**

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

- Governmental funds – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other current financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship or differences between governmental activities (reported in the Statement of Net Assets 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 Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities.

## Reporting the City's Fiduciary Responsibilities

The City is an agent for certain assets held for, and under the control of, other organizations and individuals. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Assets. 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 assets follows:

Table 1  
Net Assets  
(in Millions)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 69.2	74.6	0.5	1.2	69.7	75.8
Capital Assets	329.2	327.3	2.8	3.0	332.0	330.3
Total Assets	<u>398.4</u>	<u>401.9</u>	<u>3.3</u>	<u>4.2</u>	<u>401.7</u>	<u>406.1</u>
Long-Term Debt Outstanding	11.1	11.6	0.1	-	11.2	11.6
Other Liabilities	6.7	6.5	-	0.8	6.7	7.3
Total Liabilities	<u>17.8</u>	<u>18.1</u>	<u>0.1</u>	<u>0.8</u>	<u>17.9</u>	<u>18.9</u>
Net Assets						
Invested in Capital Assets, Net of Debt	324.2	321.9	2.8	3.1	327.0	325.0
Restricted	5.9	5.2	-	-	5.9	5.2
Unrestricted	<u>50.5</u>	<u>56.7</u>	<u>0.4</u>	<u>0.3</u>	<u>50.9</u>	<u>57.0</u>
Total Net Assets	<u>\$ 380.6</u>	<u>383.8</u>	<u>3.2</u>	<u>3.4</u>	<u>383.8</u>	<u>387.2</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by approximately \$383.8 million as of June 30, 2012.

The largest portion of the City's net assets, \$327.0 million (85%) are reflected in its investment in capital assets (e.g., land, street infrastructure, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt will be provided from future revenues and the remaining 15% of the City's net assets, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the City's net assets of \$5.9 million (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$50.9 million (13%) may be used to meet the government's ongoing obligations to citizens and creditors.

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

The City's total net assets increased by \$5.9 million during the current fiscal year. The net assets of governmental activities increased by \$6.1 million and business-type activities had a decrease of \$198 thousand.

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

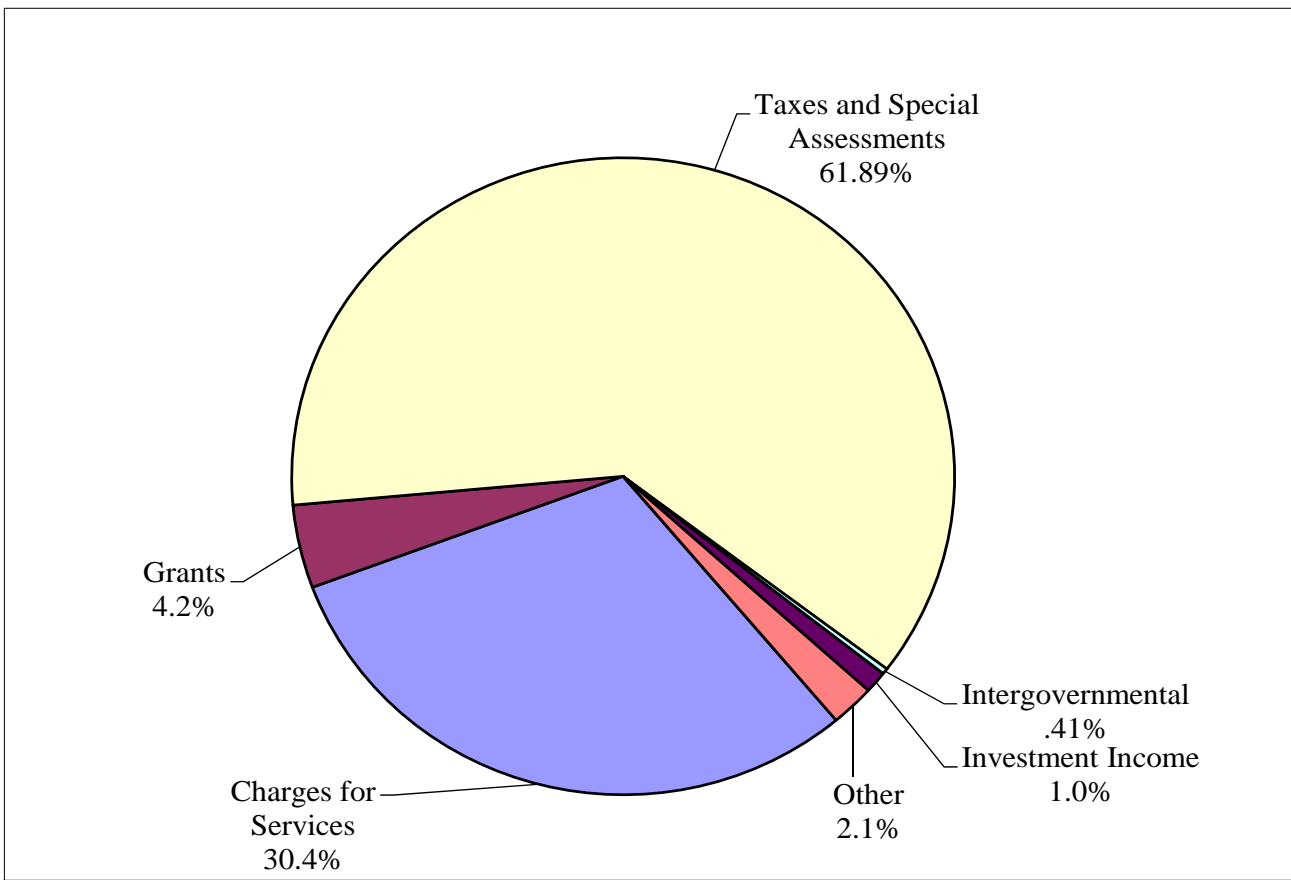
Table 2  
Changes in Net Assets  
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues						
Charges for Services	\$ 20,485	21,251	318	323	20,803	21,574
Operating Grants/Contributions	1,962	3,930	1,321	1,637	3,283	5,567
Capital Grants/Contributions	878	1,002	-	394	878	1,396
General Revenues						-
Taxes	41,574	41,345	-	-	41,574	41,345
Intergovernmental	201	123	-	-	201	123
Rental income	420	445	-	-	420	445
Investment income	740	1,028	4	2	744	1,030
Miscellaneous revenues	955	874	-	-	955	874
Gain (loss) on sale/disposal of capital assets	70	44			70	44
Total Revenues	<u>67,285</u>	<u>70,042</u>	<u>1,643</u>	<u>2,356</u>	<u>68,928</u>	<u>72,398</u>
Expenses:						
General Government	4,658	4,292	-	-	4,658	4,292
Community development	3,992	3,686	-	-	3,992	3,686
Public safety	26,937	26,365	-	-	26,937	26,365
Public works	13,914	14,337	-	-	13,914	14,337
Recreation and social services	5,004	4,677	-	-	5,004	4,677
Sewer service operating costs	6,064	5,700	-	-	6,064	5,700
Interest and fiscal charges	212	188	-	-	212	188
Municipal transit			2,232	2,450	2,232	2,450
Total Expenses	<u>60,781</u>	<u>59,245</u>	<u>2,232</u>	<u>2,450</u>	<u>63,013</u>	<u>61,695</u>
Increase (Decrease) in Net Assets Before Transfers	6,504	10,797	(589)	(94)	5,915	10,703
Transfers	<u>(391)</u>	<u>(824)</u>	<u>391</u>	<u>824</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Assets	6,113	9,973	(198)	730	5,915	10,703
Net Assets-Beginning, Restated	<u>374,552</u>	<u>373,897</u>	<u>3,405</u>	<u>2,675</u>	<u>377,957</u>	<u>376,572</u>
Net Assets-Ending	<u>\$ 380,665</u>	<u>383,870</u>	<u>3,207</u>	<u>3,405</u>	<u>383,872</u>	<u>387,275</u>

The City's total revenues were \$68.9 million while the total expenditures were \$63.0 million. Property taxes were the City's largest revenue source at \$26.6 million (38.6% of total revenues and 39.5% of governmental revenues). Transient lodging taxes at \$7.9 million (11.4% of total revenues and 11.7% governmental revenues) and sales tax also at \$4.4 million (6.3% of total revenues and 6.5% of governmental revenues) were the second largest revenue sources for the City this past year. Property taxes have been remained stable. The City's sales taxes increased approximately 9% and transient lodging taxes have increased approximately 11% over prior fiscal year.

**Governmental activities.** The governmental activities' increase in net assets of \$6.1 million accounted for 100% of the total growth in net assets for the City this past year. The following graph depicts the major revenue sources of the City. It depicts very clearly the reliance on taxes and special assessments to fund governmental activities.

### Revenues by Source – Governmental Activities



General government expenses (including City Council, City Manager, City Attorney, City Clerk, City Treasurer and Administrative Services) were 7.66% of the total cost of governmental activities. Charges for services offset 22% of the cost of providing these services.

Community development expenditures were 6.5% of the total cost of governmental activities and charges for services offset 55% of the cost of providing these services.

Public safety expenses comprised the largest component of governmental activities in terms of cost 44.32% this past year. Charges for services, operating and capital grants and contributions offset 7% of the cost of providing these services.

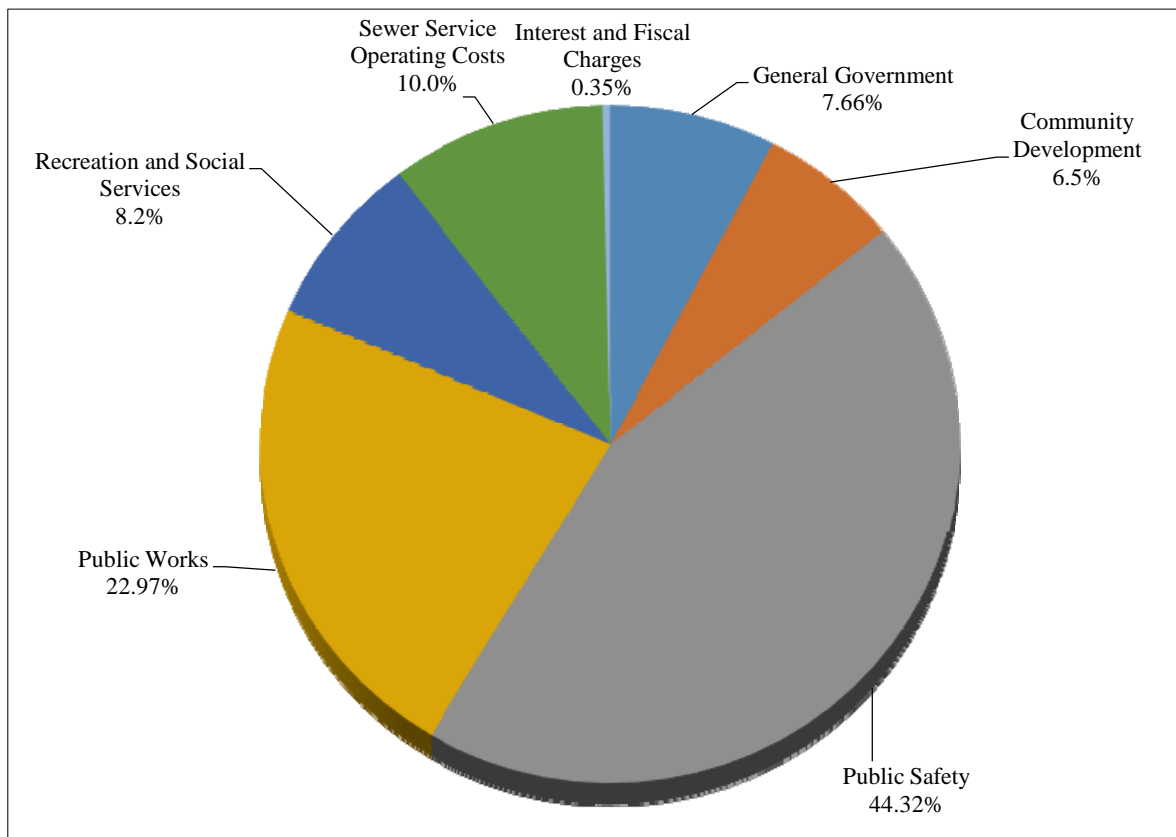
Public Works was the second largest governmental activity representing 22.97% of the total cost of governmental activities. Charges for services and operating grants and contributions helped to offset 45% of the cost of these activities.

Recreation and social services expenditures were 8.2% of the total cost of governmental activities. Charges for services, operating grants and contributions offset 61% of the cost of providing these services.

Sewer service operating costs were 10% of the total cost of governmental activities. Charges for services, operating and capital grants and contributions offset 100% of expenses including costs incurred for capitalized assets.

Interest and fiscal charges on long term debt costs were .35% of the total cost of governmental activities with all costs offset by general tax revenues.

### Expenses by Function – Governmental Activities



- **Business-type activities.** Business-type activities of the City had a decrease in net assets of \$198 thousand. The expenses of the City’s business-type activity, the municipal transit system, including costs incurred for capitalized assets were funded by charges for services and operating and capital grants. The majority of the decrease in net assets consisted of a decrease in operating grants and contributions in fiscal year 2011-12.

## **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, 2012, the governmental funds reported combined ending fund balances of \$43.5 million, an increase of \$2.1 million in comparison with the prior year. The City has \$895 thousand (2.1%) in fund balance classified as nonspendable to indicate it cannot be readily converted to cash; \$13.9 million (31.9%) in restricted fund balance to indicate that it has an externally imposed restriction on the money may be spent; \$306 thousand (1%) in committed fund balance to indicate that the City Council committed how the money will be spent; \$20.9 million (48%) in assigned fund balance to indicate that the City Council has an assigned purpose or intent for how the money should be spent; and \$7.4 million (17%) 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 \$2.5 million during the fiscal year ending June 30, 2012, which was a smaller increase compared to the previous fiscal years. Reasons for significant changes in the revenues and expenditures of the City's General Fund from the prior year is as follows:

- Overall, revenues decreased \$2.2 million over the prior fiscal year. This was due to expected decreases in the City's biennial parking permit program revenue and grant revenues.
- Overall expenditures increased \$774 thousand compared to the prior year. This was due to expected increases in special programs and capital items.

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

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

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

Unrestricted net assets of the Municipal Transit Fund at the end of the fiscal year amounted to \$372 thousand. The total decrease in net assets for the fund was \$199 thousand. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

## **GENERAL FUND BUDGET**

Differences between the original budget and the final amended budget of the General Fund totaled \$20.8 million and major items can be briefly summarized as follows:

- \$18.6 million increase in the budget for prior year carry over appropriations.
- \$725 thousand increase for capital equipment additions and replacement.
- \$1 million increase for the burn-dump restoration project.

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

- Total revenues were \$345 thousand above final budgeted revenues for the year ended June 30, 2012. The favorable variance includes increases in, sales and use taxes, transient lodging taxes, and parks and recreation fees. Grant revenues of \$1.9 million was budgeted in fiscal year 2011-2012 but is not expected to be received until fiscal year 2012-2013.
- Total expenditures were under the budgeted amount by \$21.9 million, mostly as a result of capital projects not yet completed or deferred to next fiscal year. The remaining budget for these capital projects is included with the carry over appropriations. No City departments exceeded their approved operating budgeted amounts. Administrative Services expenditures were over the approved budget, but this is due to the gas tax exchange program with the Orange County Transportation Authority. The expenditures are offset by an operating transfer from the Gas Tax Fund.

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

	Capital Assets - Net of Depreciation					
	Governmental		Business-Type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Land	\$ 80,603,754	80,278,754	196,106	196,106	80,799,860	80,474,860
Buildings and Improvements	30,793,642	30,904,327	1,635,548	1,697,894	32,429,190	32,602,221
Office Equipment & Machinery	1,672,678	1,538,558	3,991	4,970	1,676,669	1,543,528
Furniture and Fixtures	1,307,233	1,276,846	-	-	1,307,233	1,276,846
Equipment Machinery & Tools	1,137,105	1,046,667	-	-	1,137,105	1,046,667
Sewer Plant and Lines	37,936,819	38,915,344	-	-	37,936,819	38,915,344
Automotive Equipment	3,072,890	2,507,260	998,906	1,134,532	4,071,796	3,641,792
Infrastructure	164,422,267	164,504,081	-	-	164,422,267	164,504,081
Construction in Progress	8,311,555	6,376,136	-	-	8,311,555	6,376,136
<b>Total</b>	<b>\$ 329,257,943</b>	<b>327,347,973</b>	<b>2,834,551</b>	<b>3,033,502</b>	<b>332,092,494</b>	<b>330,381,475</b>

The major change to the capital assets during the year ended June 30, 2012 were the purchase of a new Fire Engine and an Aquatic Truck, new Energov software for the Community Development department, Circle Way Storm Drain rehabilitation and city infrastructure. Unexpended construction commitments as of year-end are discussed in note 6 to the financial statements. Additional information on the City's capital assets can be found in the notes to the financial statements.



LONG-TERM DEBT

	Long-Term Liabilities					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2011	2010	2011	2010
General Obligation Bonds	\$ -	1,565,000	-	-	-	1,565,000
Installment Agreement	5,032,020	5,382,492	-	-	5,032,020	5,382,492
Net OPEB Liability	218,696	168,691			218,696	168,691
<b>Total</b>	<b>\$ 5,250,716</b>	<b>7,116,183</b>	<b>-</b>	<b>-</b>	<b>5,250,716</b>	<b>7,116,183</b>

The City's total debt decreased by \$1.9 million (26.2%) during the current fiscal year. The General Obligation bonds were paid in full in September 2011. Additional information on the City's long-term debt can be found in the notes to the accompanying financial statements.

Contacting the City's Financial Management

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

**BASIC FINANCIAL STATEMENTS**

**CITY OF LAGUNA BEACH**  
**Statement of Net Assets**  
**June 30, 2012**  
**(With Comparative Totals for June 30, 2011)**

	Primary Government				Component Unit
	Governmental	Business-type	Totals		Water
	Activities	Activities	2012	2011	District
<b>ASSETS</b>					
Cash and investments (note 2)	\$ 60,285,367	\$ 88,109	\$ 60,373,476	\$ 56,081,386	\$ 11,870,047
Receivables:					
Taxes	3,851,340	-	3,851,340	3,307,586	52,629
Accounts	1,044,917	351,240	1,396,157	119,847	1,384,357
Interest	11,048	-	11,048	19,418	63,500
Intergovernmental	121,964	-	121,964	2,908,125	-
Notes	944,567	-	944,567	983,671	7,066,774
Prepays	834,779	33,364	868,143	10,318,003	100,891
Inventory	60,331	-	60,331	47,085	113,691
Computer loans to employees	-	-	-	-	9,941
Property held for investment	2,032,253	-	2,032,253	2,032,253	-
Capital assets, not being depreciated (note 5)	88,915,309	196,106	89,111,415	86,850,996	3,506,342
Capital assets, net of depreciation (note 5)	240,342,634	2,638,445	242,981,079	243,530,479	42,709,239
Total Assets	<u>398,444,509</u>	<u>3,307,264</u>	<u>401,751,773</u>	<u>406,198,849</u>	<u>66,877,411</u>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	3,766,227	81,286	3,847,513	2,494,367	820,907
Interest payable	56,610	-	56,610	26,083	-
Due to other government agencies	26,332	-	26,332	19,077	-
Unearned revenue	395,143	-	395,143	754,365	-
Noncurrent liabilities (note 11):					
Due within one year	2,429,972	-	2,429,972	4,067,803	-
Due in more than one year	11,105,104	18,975	11,124,079	11,561,515	692,839
Total Liabilities	<u>17,779,388</u>	<u>100,261</u>	<u>17,879,649</u>	<u>18,923,210</u>	<u>1,513,746</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	324,225,923	2,834,551	327,060,474	324,998,983	46,215,581
Restricted for:					
Capital projects	5,626,146	-	5,626,146	4,987,073	-
Other purposes	243,641	-	243,641	209,004	-
Unrestricted	50,569,411	372,452	50,941,863	57,080,579	19,148,084
Total Net Assets	<u>\$ 380,665,121</u>	<u>\$ 3,207,003</u>	<u>\$ 383,872,124</u>	<u>\$ 387,275,639</u>	<u>\$ 65,363,665</u>

See accompanying notes to basic financial statements.

**CITY OF LAGUNA BEACH**  
**Statement of Activities**  
**Year Ended June 30, 2012**  
**(With Comparative Totals for Year Ended June 30, 2011)**

	Program Revenues				Total Program Revenues
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 4,658,171	\$ 882,761	\$ -	\$ -	\$ 882,761
Community development	3,991,867	2,195,031	-	-	2,195,031
Public safety	26,937,061	1,752,556	484,048	-	2,236,604
Public works	13,913,687	6,295,258	1,352,211	427,104	8,074,573
Recreation and social services	5,004,329	3,050,630	7,228	-	3,057,858
Sewer service operating costs	6,063,835	6,308,982	118,243	451,278	6,878,503
Interest and fiscal charges	211,810	-	-	-	-
Total Governmental Activities	<u>60,780,760</u>	<u>20,485,218</u>	<u>1,961,730</u>	<u>878,382</u>	<u>23,325,330</u>
Business-type activities:					
Municipal transit	2,233,496	318,205	1,321,121	-	1,639,326
Total Business-type Activities	<u>2,233,496</u>	<u>318,205</u>	<u>1,321,121</u>	<u>-</u>	<u>1,639,326</u>
Total Primary Government	<u>\$ 63,014,256</u>	<u>\$ 20,803,423</u>	<u>\$ 3,282,851</u>	<u>\$ 878,382</u>	<u>\$ 24,964,656</u>
Component units:					
Water District	\$ 10,711,601	\$ 8,461,044	\$ -	\$ -	\$ 8,461,044
Total Component Units	<u>\$ 10,711,601</u>	<u>\$ 8,461,044</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,461,044</u>

General revenues:  
 Taxes  
 Intergovernmental  
 Rental income  
 Investment income  
 Gain on disposal of capital assets  
 Miscellaneous  
 Transfers (note 14)  
 Total General Revenues and Transfers  
 Change in net assets  
 Net Assets at Beginning of Year (restated)  
 Net Assets at End of Year

See accompanying notes to basic financial statements.

Net (Expense) Revenue and Changes in Net Assets				
Primary Government				Component Unit
Governmental Activities	Business-type Activities	Totals		Water District
		2012	2011	
\$ (3,775,410)	\$ -	\$ (3,775,410)	\$ (3,401,526)	\$ -
(1,796,836)	-	(1,796,836)	(1,439,968)	-
(24,700,457)	-	(24,700,457)	(24,098,414)	-
(5,839,114)	-	(5,839,114)	(3,148,235)	-
(1,946,471)	-	(1,946,471)	(1,357,537)	-
814,668	-	814,668	571,853	-
(211,810)	-	(211,810)	(187,964)	-
<u>(37,455,430)</u>	<u>-</u>	<u>(37,455,430)</u>	<u>(33,061,791)</u>	<u>-</u>
-	(594,170)	(594,170)	(96,266)	-
-	(594,170)	(594,170)	(96,266)	-
<u>(37,455,430)</u>	<u>(594,170)</u>	<u>(38,049,600)</u>	<u>(33,158,057)</u>	<u>-</u>
				<u>(2,250,557)</u>
				<u>(2,250,557)</u>
41,574,026	-	41,574,026	41,345,111	2,097,470
201,458	-	201,458	122,551	-
419,641	-	419,641	445,491	-
739,632	3,936	743,568	1,031,286	671,395
70,207	-	70,207	43,879	-
954,954	-	954,954	874,012	75,000
(391,300)	391,300	-	-	-
<u>43,568,618</u>	<u>395,236</u>	<u>43,963,854</u>	<u>43,862,330</u>	<u>2,843,865</u>
6,113,188	(198,934)	5,914,254	10,704,273	593,308
<u>374,551,933</u>	<u>3,405,937</u>	<u>377,957,870</u>	<u>376,571,366</u>	<u>64,770,357</u>
<u>\$ 380,665,121</u>	<u>\$ 3,207,003</u>	<u>\$ 383,872,124</u>	<u>\$ 387,275,639</u>	<u>\$ 65,363,665</u>

## **GOVERNMENTAL FUNDS**

### **MAJOR GOVERNMENTAL FUNDS**

#### **GENERAL FUND**

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

#### **SPECIAL REVENUE FUNDS**

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

#### **DISASTER CONTINGENCY FUND**

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

### **NONMAJOR GOVERNMENTAL FUNDS**

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

**CITY OF LAGUNA BEACH**  
**Governmental Fund Types**  
**Balance Sheet**  
**June 30, 2012**  
**(With Comparative Totals for June 30, 2011)**

	<u>General</u>	<u>Special Revenue Disaster Contingency</u>	<u>Nonmajor Governmental Funds</u>
<b>ASSETS</b>			
Cash and investments	\$ 39,871,314	\$ 5,929,533	\$ 2,558,081
Receivables:			
Taxes	1,289,862	-	18,784
Accounts	495,127	-	540,839
Interest	11,048	-	
Intergovernmental	2,232	-	59,864
Notes	348,000	-	-
Due from other funds (note 4)	1,146,043	-	-
Prepays	43,395	-	791,384
Inventory	60,331	-	-
Advances to other funds (note 4)	-	-	2,500,000
Property held for investment	-	-	354,444
	<u>\$ 43,267,352</u>	<u>\$ 5,929,533</u>	<u>\$ 6,823,396</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 3,030,491	\$ -	\$ 194,992
Due to other funds (note 4)	-	-	1,146,043
Due to other government agencies	26,332	-	-
Deferred revenue	395,143	-	-
Advances from other funds (note 4)	6,700,000	-	1,010,000
	<u>10,151,966</u>	<u>-</u>	<u>2,351,035</u>
Fund balances (deficit) (note 13):			
Nonspendable	103,726	-	791,384
Restricted	3,526,976	5,929,533	4,455,622
Committed	306,539	-	-
Assigned	20,962,498	-	-
Unassigned	8,215,647	-	(774,645)
	<u>33,115,386</u>	<u>5,929,533</u>	<u>4,472,361</u>
Total Fund Balances	<u>\$ 43,267,352</u>	<u>\$ 5,929,533</u>	<u>\$ 6,823,396</u>
Total Liabilities and Fund Balances	<u>\$ 43,267,352</u>	<u>\$ 5,929,533</u>	<u>\$ 6,823,396</u>

See accompanying notes to basic financial statements.

Totals	
<u>2012</u>	<u>2011</u>
\$ 48,358,928	\$ 45,515,120
1,308,646	1,035,223
1,035,966	117,342
11,048	19,418
62,096	2,761,951
348,000	348,000
1,146,043	1,110,022
834,779	841,761
60,331	47,085
2,500,000	3,860,000
354,444	354,444
<u>\$ 56,020,281</u>	<u>\$ 56,010,366</u>
\$ 3,225,483	\$ 2,308,610
1,146,043	1,110,022
26,332	19,077
395,143	1,023,157
7,710,000	10,060,000
<u>12,503,001</u>	<u>14,520,866</u>
895,110	2,248,846
13,912,131	10,998,316
306,539	6,092,856
20,962,498	19,511,838
7,441,002	2,637,644
<u>43,517,280</u>	<u>41,489,500</u>
<u>\$ 56,020,281</u>	<u>\$ 56,010,366</u>



**CITY OF LAGUNA BEACH**  
**Governmental Funds**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**To the Statement of Net Assets**  
**June 30, 2012**

Fund balances of governmental funds	\$ 43,517,280
Amounts reported for governmental activities in the Statement of Net Assets are difference because:	
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.	
Capital assets	432,115,289
Accumulated depreciation	(105,914,804)
Long term debt from the General Long Term Debt that have not been included in the governmental fund activity.	
Loan payable	(5,032,020)
Accrued interest payable for the current portion of interest due on debt service has not been reported in the governmental funds.	
	(56,610)
Receivable amounts that were earned in the audit period but not collected within the availability period have not been reported in the governmental funds.	
	2,602,562
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 Assets.	
	13,433,424
Net Assets of Governmental Activities	\$ 380,665,121

See accompanying notes to basic financial statements.

**CITY OF LAGUNA BEACH**  
**Governmental Fund Types**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Year Ended June 30, 2012**  
**(With Comparative Totals for Year Ended June 30, 2011)**

	General	Special Revenue Disaster Contingency	Nonmajor Governmental Funds
<b>Revenues:</b>			
Taxes	\$ 40,137,144	\$ -	\$ 1,516,589
Licenses and permits	975,884	-	-
Fines and penalties	1,251,964	-	31,734
Investment income	651,719	71,665	16,244
Rental	419,641	-	-
Intergovernmental	1,345,235	-	2,124,270
Charges for services	12,987,838	-	-
Parking meters, lots and permits	4,276,533	-	-
Development tax	183,704	-	-
Other	531,483	-	369,332
Total Revenues	<u>62,761,145</u>	<u>71,665</u>	<u>4,058,169</u>
<b>Expenditures:</b>			
<b>Current:</b>			
General government	4,070,235	-	1,000
Community development	3,600,452	-	-
Public safety	24,419,318	-	-
Public works	10,335,823	-	335,226
Recreation and social services	4,049,299	-	-
Sewer service operating costs	4,062,448	-	-
Capital expenditures	8,155,078	-	2,590,491
<b>Debt service:</b>			
Principal	350,472	-	1,565,000
Interest and fiscal charges	142,158	-	39,125
Total Expenditures	<u>59,185,283</u>	<u>-</u>	<u>4,530,842</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,575,862</u>	<u>71,665</u>	<u>(472,673)</u>
<b>Other financing sources (uses):</b>			
Transfers in (note 14)	687,270	-	300,000
Transfers out (note 14)	(1,759,100)	-	(687,270)
Bond proceeds	-	-	459,263
Sale of land and equipment	12,109	-	-
Total Other Financing Sources (Uses)	<u>(1,059,721)</u>	<u>-</u>	<u>71,993</u>
Net Change in Fund Balances	2,516,141	71,665	(400,680)
Fund Balances, Beginning of Year (restated)	<u>30,599,245</u>	<u>5,857,868</u>	<u>4,873,041</u>
Fund Balances, End of Year	<u>\$ 33,115,386</u>	<u>\$ 5,929,533</u>	<u>\$ 4,472,361</u>

See accompanying notes to basic financial statements.

Totals	
2012	2011
\$ 41,653,733	\$ 41,678,318
975,884	990,966
1,283,698	1,274,270
739,628	1,064,467
419,641	445,491
3,469,505	3,978,327
12,987,838	13,056,488
4,276,533	4,891,228
183,704	680,391
900,815	1,372,893
66,890,979	69,432,839
4,071,235	3,991,706
3,600,452	3,531,828
24,419,318	24,676,244
10,671,049	10,097,113
4,049,299	4,003,836
4,062,448	4,009,715
10,745,569	11,060,240
1,915,472	1,490,000
181,283	625,428
63,716,125	63,486,110
3,174,854	5,946,729
987,270	538,742
(2,446,370)	(2,816,927)
459,263	-
12,109	5,050
(987,728)	(2,273,135)
2,187,126	3,673,594
41,330,154	37,815,906
\$ 43,517,280	\$ 41,489,500

**CITY OF LAGUNA BEACH**  
**Governmental Funds**  
**Reconciliation of the Statement of Revenues, Expenditures,**  
**And Changes in Fund Balances of Governmental Funds**  
**To the Statement of Activities**  
**Year Ended June 30, 2012**

Net change in fund balances - total governmental funds	\$ 2,187,126
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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 expenses. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	\$ 6,281,707
Depreciation expense	(5,220,076)

Net effect of donated capital assets	325,000
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Repayment of debt service principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	1,915,472
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Accrued interest for debt service. This is the net change in accrued interest for the current period.	(30,527)
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Receivable amounts that were earned in the audit period but not collected within the availability period were reported in the governmental funds.	(460,201)
---	-----------

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 Assets.	1,114,687
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Change in net assets of governmental activities	\$ <u><u>6,113,188</u></u>
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See accompanying notes to basic financial statements.

## **PROPRIETARY FUNDS**

### **MAJOR ENTERPRISE FUNDS**

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

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

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

### **INTERNAL SERVICE FUNDS**

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

**CITY OF LAGUNA BEACH**  
**Proprietary Funds**  
**Statement of Net Assets**  
**June 30, 2012**  
**(With Comparative Totals for June 30, 2011)**

	Business Type Activity	Governmental Activities	Totals	
	Municipal Transit	Internal Service Funds	2012	2011
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 88,109	\$ 11,926,439	\$ 12,014,548	\$ 10,566,266
Receivables:				
Accounts	351,240	8,951	360,191	2,505
Intergovernmental	-	-	-	146,174
Taxes	-	-	-	153,638
Prepays	33,364	-	33,364	317,819
Total Current Assets	<u>472,713</u>	<u>11,935,390</u>	<u>12,408,103</u>	<u>11,186,402</u>
Noncurrent assets:				
Advances to other funds (note 4)	-	5,210,000	5,210,000	6,200,000
Notes receivable	-	596,567	596,567	635,671
Property held for investment	-	1,677,809	1,677,809	1,677,809
Capital assets, not being depreciated	196,106	-	196,106	196,106
Capital assets, net of depreciation	<u>2,638,445</u>	<u>3,057,458</u>	<u>5,695,903</u>	<u>5,371,495</u>
Total Noncurrent Assets	<u>2,834,551</u>	<u>10,541,834</u>	<u>13,376,385</u>	<u>14,081,081</u>
Total Assets	<u>3,307,264</u>	<u>22,477,224</u>	<u>25,784,488</u>	<u>25,267,483</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	81,286	540,744	622,030	185,757
Compensated absences due within one year	-	830,750	830,750	721,759
Insurance claims payable due within one year	-	1,239,182	1,239,182	1,407,356
Unearned revenue	-	-	-	675,226
Total Current Liabilities	<u>81,286</u>	<u>2,610,676</u>	<u>2,691,962</u>	<u>2,990,098</u>
Non-current liabilities:				
Compensated absences (note 11)	18,975	3,323,004	3,341,979	3,100,191
Insurance claims payable (note 7)	-	2,891,424	2,891,424	3,283,829
Net OPEB liability (note 12)	-	218,696	218,696	168,691
Total Noncurrent Liabilities	<u>18,975</u>	<u>6,433,124</u>	<u>6,452,099</u>	<u>6,552,711</u>
Total Liabilities	<u>100,261</u>	<u>9,043,800</u>	<u>9,144,061</u>	<u>9,542,809</u>
<b>NET ASSETS</b>				
Net assets:				
Invested in capital assets	2,834,551	3,057,458	5,892,009	5,567,601
Unrestricted	<u>372,452</u>	<u>10,375,966</u>	<u>10,748,418</u>	<u>10,157,073</u>
Total Net Assets	<u>\$ 3,207,003</u>	<u>\$ 13,433,424</u>	<u>\$ 16,640,427</u>	<u>\$ 15,724,674</u>

See accompanying notes to basic financial statements.

**CITY OF LAGUNA BEACH**  
**Proprietary Funds**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Year Ended June 30, 2012**  
**(With Comparative Totals for Year Ended June 30, 2011)**

	Business		Governmental	
	Type Activity		Activities	
	Municipal Transit	Internal Service Funds	Totals	
			2012	2011
Operating revenues:				
Passenger revenues	\$ 318,205	\$ -	\$ 318,205	\$ 323,428
Vehicle rentals	-	1,104,700	1,104,700	1,075,692
Employee benefits charges	-	759,800	759,800	701,000
Insurance charges	-	5,674,517	5,674,517	5,601,310
Total Operating Revenues	<u>318,205</u>	<u>7,539,017</u>	<u>7,857,222</u>	<u>7,701,430</u>
Operating expenses:				
Personnel services	1,150,219	-	1,150,219	1,231,365
Contractual services	196,406	-	196,406	209,853
Materials and supplies	427,535	-	427,535	375,704
Administration	260,385	144,160	404,545	314,541
Employee benefits	-	915,026	915,026	1,078,561
Insurance claims and premiums	-	5,937,581	5,937,581	6,753,706
Depreciation	198,951	553,461	752,412	947,260
Total Operating Expenses	<u>2,233,496</u>	<u>7,550,228</u>	<u>9,783,724</u>	<u>10,910,990</u>
Operating Income (Loss)	<u>(1,915,291)</u>	<u>(11,211)</u>	<u>(1,926,502)</u>	<u>(3,209,560)</u>
Nonoperating revenues (expenses):				
Investment income	3,936	-	3,936	2,496
Intergovernmental	1,321,121	-	1,321,121	1,637,397
Gain (loss) on disposal of capital assets	-	58,098	58,098	38,829
Total Nonoperating Revenues (Expenses)	<u>1,325,057</u>	<u>58,098</u>	<u>1,383,155</u>	<u>1,678,722</u>
Income (Loss) Before Capital Contributions and Transfers	<u>(590,234)</u>	<u>46,887</u>	<u>(543,347)</u>	<u>(1,530,838)</u>
Capital contributions and transfers:				
Transfers in (note 14)	391,300	1,067,800	1,459,100	2,278,185
Capital grants	-	-	-	393,174
Total Capital Contributions and Transfers	<u>391,300</u>	<u>1,067,800</u>	<u>1,459,100</u>	<u>2,671,359</u>
Change in Net Assets	<u>(198,934)</u>	<u>1,114,687</u>	<u>915,753</u>	<u>1,140,521</u>
Net Assets at Beginning of Year (restated)	<u>3,405,937</u>	<u>12,318,737</u>	<u>15,724,674</u>	<u>14,584,153</u>
Net Assets at End of Year	<u>\$ 3,207,003</u>	<u>\$ 13,433,424</u>	<u>\$ 16,640,427</u>	<u>\$ 15,724,674</u>

See accompanying notes to basic financial statements.

**CITY OF LAGUNA BEACH**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**Year Ended June 30, 2012**  
**(With Comparative Totals for Year Ended June 30, 2011)**

	Business Type	Governmental Activities	Totals	
	Municipal Transit	Internal Service Funds	2012	2011
Cash flows from operating activities:				
Cash received from customers	\$ 269,282	\$ -	\$ 269,282	\$ 720,525
Cash received from user departments	-	7,530,066	7,530,066	7,392,016
Cash payments to suppliers for goods and services	(890,620)	(5,510,273)	(6,400,893)	(7,654,383)
Cash payments to employees for services	(1,154,460)	(915,026)	(2,069,486)	(2,200,737)
Net cash provided by (used for) operating activities	(1,775,798)	1,104,767	(671,031)	(1,742,579)
Cash flows from noncapital financing activities:				
Operating grant proceeds received	1,321,121	-	1,321,121	1,287,343
Cash received from other funds	391,300	1,067,800	1,459,100	2,278,185
Return of unused capital grants	(675,226)	-	(675,226)	-
Cash paid to other funds	-	990,000	990,000	-
Repayments received on notes receivable	-	39,104	39,104	35,177
Net cash provided by (used for) noncapital financing activities	1,037,195	2,096,904	3,134,099	3,600,705
Cash flows from capital and related financing activities:				
Purchase of capital assets	-	(1,076,820)	(1,076,820)	(1,084,072)
Proceeds from sale of capital assets	-	58,098	58,098	38,842
Net cash provided by (used for) capital and related financing activities	-	(1,018,722)	(1,018,722)	(1,045,230)
Cash flows from investing activities:				
Interest received	3,936	-	3,936	2,496
Net cash provided by (used for) investing financing activities	3,936	-	3,936	2,496
Net increase (decrease) in cash and cash equivalents	(734,667)	2,182,949	1,448,282	815,392
Cash and cash equivalents at beginning of year	822,776	9,743,490	10,566,266	9,750,874
Cash and cash equivalents at end of year	\$ 88,109	\$ 11,926,439	\$ 12,014,548	\$ 10,566,266

See accompanying notes to basic financial statements.



**CITY OF LAGUNA BEACH**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**(Continued)**

	Business Type	Governmental Activities	Totals	
	Municipal Transit	Internal Service Funds	2012	2011
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (1,915,291)	\$ (11,211)	\$ (1,926,502)	\$ (3,209,560)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	198,951	553,461	752,412	947,260
Gain (loss) on disposal of capital assets	-	-	-	38,829
(Increase) decrease in accounts receivable	(348,735)	(8,951)	(357,686)	411,111
(Increase) decrease in prepaids	17,632	266,823	284,455	(62,357)
(Increase) decrease in other assets	299,812	-	299,812	(43,593)
Increase (decrease) in accounts payable and accrued liabilities	(23,926)	460,199	436,273	(78,658)
Increase (decrease) in compensated absences payable	(4,241)	355,020	350,779	88,224
Increase (decrease) in net OPEB liability	-	50,005	50,005	66,250
Increase (decrease) in insurance claims payable	-	(560,579)	(560,579)	99,915
Net cash provided by (used for) operating activities	<u>\$ (1,775,798)</u>	<u>\$ 1,104,767</u>	<u>\$ (671,031)</u>	<u>\$ (1,742,579)</u>

Noncash capital, financing, and investing activities

There were no noncash capital, financing, or investing activities during the year ended June 30, 2012.

See accompanying notes to basic financial statements.

**CITY OF LAGUNA BEACH**  
**Agency Funds**  
**Statement of Fiduciary Assets and Liabilities**  
**June 30, 2012**  
**(With Comparative Totals for June 30, 2011)**

	Totals	
	2012	2011
<b>ASSETS</b>		
Cash and investments (note 2)	\$ 2,694,241	\$ 3,321,544
Investments with fiscal agent (note 2)	685,337	1,188,811
Receivables:		
Taxes	18,878	31,744
Accounts	4,235	4,235
Intergovernmental	7,058	6,008
Total Assets	\$ 3,409,749	\$ 4,552,342
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 148,544	\$ 43,520
Deposits	1,800,615	1,802,937
Due to bondholders	1,460,590	2,705,885
Total Liabilities	\$ 3,409,749	\$ 4,552,342

See accompanying notes to basic financial statements.

**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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

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

A. Reporting Entity

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

**Discretely Presented Component Unit**

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

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

B. Basis of Accounting and Measurement Focus

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

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

Financial reporting is based upon all GASB pronouncements. In addition FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements are followed for the government-wide and proprietary fund statements. Governments also have the option of following subsequent guidance for their business-type activities and enterprise funds, subject to the limitation. The City has elected not to follow subsequent guidance.

**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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

**B. Basis of Accounting and Measurement Focus (Continued)**

Government-wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

CITY OF LAGUNA BEACH, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012

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

B. Basis of Accounting and Measurement Focus (Continued)

Fund Financial Statements (Continued)

Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about the major fund individually and nonmajor funds in the aggregate for governmental and enterprise funds. Fiduciary statements include financial information for fiduciary funds and similar component units. 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 for grants.

Sales taxes, property taxes, franchise taxes, gas taxes, motor vehicles in lieu, 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. 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.

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

**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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

**B. Basis of Accounting and Measurement Focus (Continued)**

Governmental Funds (Continued)

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

Recognition of governmental fund type revenues represented by non-current receivables are deferred until they become current receivables.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, 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. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

Proprietary and Fiduciary Funds

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

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

**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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

C. Fund Classifications

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

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

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

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

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

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

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

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

D. Encumbrances

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

**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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

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

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

F. Advances to Other Funds

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

G. Inventory

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

H. Investments with Fiscal Agent

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

I. Capital Assets

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



**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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

**I. Capital Assets (Continued)**

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

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

	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 30 years

**J. Compensated Absences**

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

**K. Fund Equity**

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

**Nonspendable Fund Balance:**

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

**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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

K. Fund Equity (Continued)

Spendable Fund Balance:

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

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

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

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

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

L. General Fund Balance Policy

It is the policy of the City to maintain a minimum reserve in unassigned fund balance for unforeseen emergencies or catastrophic impacts upon the city, and whenever fiscally possible and financially prudent, to maintain a greater target reserve. The minimum reserve of the General Fund is 10% of General Fund operating expenditures. Total expenditures were \$59,185,283 and minimum reserve requirement was \$5,918,528.

M. Comparative Data

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

**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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

N. New GASB Pronouncements

Adopted in the Current Year

**GASB Statement No. 61** – In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34*. The objective of this statement is to improve the financial reporting for a governmental financial reporting entity. The Statement is effective for periods beginning after June 15, 2012. The City early implemented this pronouncement, effective July 1, 2011.

Effective in Future Years

**GASB Statement No. 63** – In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Statement is effective for periods beginning after December 15, 2011, or the 2012-2013 fiscal year. The City has not determined its effect on the financial statements.

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

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

CITY OF LAGUNA BEACH, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012

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

N. New GASB Pronouncements (Continued)

Effective in Future Years (Continued)

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

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

**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	
Governmental Activities	\$ 60,285,367
Business-Type Activities	88,109
Statement of Fiduciary Assets and Liabilities:	
Cash and investments	2,694,241
Cash and investments held by fiscal agent	685,337
Total cash and investments	<u>\$ 63,753,054</u>

**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

Cash and investments as of June 30, 2012 consist of the following:

Cash on hand (petty cash and change funds)	\$	3,618
Deposits with financial institutions		1,034,431
Investments		62,715,005
Total cash and investments	\$	63,753,054

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

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

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

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

**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The debt agreements permit the investments held by bond trustee to be invested in investment types that are permitted by California Government Code Section 53601 as illustrated in the previous table.

Disclosures Relating to Interest Rate Risk

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

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

Investment Type	Total	Remaining Maturity (in Months)		
		18 Month Or Less	19 to 24 Months	25 to 60 Months
Federal Agency Securities	\$ 40,673,590	\$ 3,997,950	\$ -	\$ 36,675,640
Local Municipal Bonds	1,009,430	1,009,430	-	-
State Investment Pool	15,346,647	15,346,647	-	-
Certificates of Deposit	3,000,000	500,000	1,750,000	750,000
Medium-Term Notes	2,000,000	-	-	2,000,000
Held by bond fiscal agent:				
State Investment Pool	685,338	685,338	-	-
Total	<u>\$ 62,715,005</u>	<u>\$ 21,539,365</u>	<u>\$ 1,750,000</u>	<u>\$ 39,425,640</u>

**CITY OF LAGUNA BEACH, CALIFORNIA**

**NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

Disclosures Relating to Credit Risk

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

Investment Type	Total	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year End		
				AA+	A-	Not Rated
Federal agency securities	\$ 40,673,590	N/A	\$ -	\$ 40,673,590	\$ -	\$ -
Local Municipal Bonds	1,009,430	A	-	-	1,009,430	-
State Investment Pool	15,346,647	N/A	-	-	-	15,346,647
Certificates of Deposit	3,000,000	N/A	3,000,000	-	-	-
Medium-Term Notes	2,000,000	A	-	2,000,000	-	-
Held by bond fiscal agent:						
State Investment Pool	685,338	N/A	-	-	-	685,338
<b>Total</b>	<b>\$ 62,715,005</b>		<b>\$ 3,000,000</b>	<b>\$ 42,673,590</b>	<b>\$ 1,009,430</b>	<b>\$ 16,031,985</b>

Concentration of Credit Risk

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

Issuer	Investment Type	Reported Amount
Federal Farm Credit Bank	Federal agency securities	\$ 14,000,000
Federal Home Loan Mortgage Corporation	Federal agency securities	6,000,000
Federal National Mortgage Association	Federal agency securities	10,000,000
Federal Home Loan Bank	Federal agency securities	10,673,590

Custodial Credit Risk

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

**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

***NOTE 2 – CASH AND INVESTMENTS (CONTINUED)***

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

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

Investment in State Investment Pool

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

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

***NOTE 3 – PROPERTY TAXES***

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

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



**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 4 – INTERFUND ACTIVITY**

Interfund balances at June 30, 2012 consisted of the following:

The interfund balance reflected above represents short-term borrowings of cash pending receipt of grant reimbursements and transfers from other funds.

Receivable Fund	Payable Fund	Amount
General Fund	Non-Major Governmental Fund	(a) \$ 1,146,043
Advances to Other Funds	Advances from Other Funds	Amount
Non-Major Governmental Funds	Non-Major Governmental Fund	\$ 1,000,000
Internal Service Fund	Non-Major Governmental Fund	10,000
		(b) <u>1,010,000</u>
Internal Service Fund	General Fund	4,500,000
Internal Service Fund	General Fund	700,000
Non-Major Governmental Funds	General Fund	1,500,000
		(c) <u>6,700,000</u>
		<u>\$ 7,710,000</u>

- (a) The General Fund has provided a temporary subsidy to the December Storms 2010 Fund to be repaid when there are grant revenues received to sufficient to pay-back the receivable.
- (b) The City has authorized the interfund borrowing listed for the operations of the Gas Tax Fund. The funds are expected to be paid without interest within the next five years. The purpose of these advances was to fund a Citywide street resurfacing project.
- (c) During 2010, the City authorized an interfund borrowing to fund the pay off of the City’s side fund obligation associated with the City’s safety pension plans. The funds are to be repaid annually in the amount of \$857,078 over a period fourteen years at an interest rate of 2.75%. The amount paid in FY 2011-2012 is Principal \$612,930 and interest \$244,170 and is not recorded on the Statement of Activities. The payment schedule from the general fund is as follows:

Year	Payment Amount
2012 - 2013	\$ 630,192
2013 - 2014	647,711
2014 - 2015	665,750
2015 - 2016	684,290
2016 - 2017	703,347
2018 - 2024	3,368,710
	<u>\$ 6,700,000</u>

**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance at July 1, 2011	Additions	Deletions/ Transfers	Balance at June 30, 2012
Governmental activities:				
Capital assets, not depreciated:				
Land	\$ 80,278,754	\$ 325,000	\$ -	\$ 80,603,754
Construction in progress	6,376,136	6,293,303	(4,357,884)	8,311,555
Total Capital Assets, Not Depreciated	<u>86,654,890</u>	<u>6,618,303</u>	<u>(4,357,884)</u>	<u>88,915,309</u>
Capital assets, being depreciated:				
Buildings and improvements	48,577,852	1,456,600	(183,797)	49,850,655
Office equipment and machinery	5,817,136	567,397	(663,019)	5,721,514
Furniture and fixtures	1,622,870	66,230	(22,265)	1,666,835
Equipment, machinery and tools	4,022,226	769,863	(153,319)	4,638,770
Sewer plan and lines	68,339,196	-	(13,011)	68,326,185
Automotive equipment	7,893,098	1,108,237	(764,853)	8,236,482
Infrastructure	206,674,138	1,235,298	(92,439)	207,816,997
Total Capital Assets Being Depreciated	<u>342,946,516</u>	<u>5,203,625</u>	<u>(1,892,703)</u>	<u>346,257,438</u>
Less accumulated depreciation for:				
Buildings and improvements	(17,673,525)	(1,445,366)	61,878	(19,057,013)
Office equipment and machinery	(4,278,578)	(361,263)	591,005	(4,048,836)
Furniture and fixtures	(346,024)	(24,684)	11,106	(359,602)
Equipment, machinery and tools	(2,975,559)	(602,130)	76,024	(3,501,665)
Sewer plan and lines	(29,423,852)	(965,514)	-	(30,389,366)
Automotive equipment	(5,385,838)	(598,194)	820,440	(5,163,592)
Infrastructure	(42,170,057)	(1,257,990)	33,317	(43,394,730)
Total Accumulated Depreciation	<u>(102,253,433)</u>	<u>(5,255,141)</u>	<u>1,593,770</u>	<u>(105,914,804)</u>
Total Capital Assets Being Depreciated, Net	<u>240,693,083</u>	<u>(51,516)</u>	<u>(298,933)</u>	<u>240,342,634</u>
Governmental Activities Capital Assets, Net	<u>\$ 327,347,973</u>	<u>\$ 6,566,787</u>	<u>\$ (4,656,817)</u>	<u>\$ 329,257,943</u>

**CITY OF LAGUNA BEACH, CALIFORNIA**

**NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 5 – CAPITAL ASSETS (CONTINUED)**

	Balance at July 1, 2011	Additions	Deletions/ Transfers	Balance at June 30, 2012
Business-type activities:				
Capital assets, not depreciated:				
Land	\$ 196,106	\$ -	\$ -	\$ 196,106
Total Capital Assets, Not Depreciated	<u>196,106</u>	<u>-</u>	<u>-</u>	<u>196,106</u>
Capital assets, being depreciated:				
Buildings and improvements	1,950,672	-	-	1,950,672
Office equipment and machinery	111,461	-	(60,315)	51,146
Furniture and fixtures	1,500	-	-	1,500
Automotive equipment	3,493,567	-	(1,406)	3,492,161
Total Capital Assets Being Depreciated	<u>5,557,200</u>	<u>-</u>	<u>(61,721)</u>	<u>5,495,479</u>
Less accumulated depreciation for:				
Buildings and improvements	(251,954)	(63,170)	-	(315,124)
Office equipment and machinery	(106,491)	(979)	60,315	(47,155)
Furniture and fixtures	(1,500)	-	-	(1,500)
Automotive equipment	(2,359,859)	(165,975)	32,579	(2,493,255)
Total Accumulated Depreciation	<u>(2,719,804)</u>	<u>(230,124)</u>	<u>92,894</u>	<u>(2,857,034)</u>
Total Capital Assets Being Depreciated, Net	<u>2,837,396</u>	<u>(230,124)</u>	<u>31,173</u>	<u>2,638,445</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,033,502</u>	<u>\$ (230,124)</u>	<u>\$ 31,173</u>	<u>\$ 2,834,551</u>

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

General government	\$ 218,614
Community development	78,943
Public safety	375,100
Public works	2,340,288
Recreation and social services	597,919
Sewer service operating costs	1,644,277
Total	<u>\$ 5,255,141</u>

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

Municipal transit	<u>\$ 230,124</u>
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**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 5 – CAPITAL ASSETS (CONTINUED)**

During the fiscal year, changes in service lives were made to several assets, resulting in a change in accounting estimate. The impact of the current year and future years is as follows:

Fiscal Year Ending:	Decrease (Increase) in Depreciation in Future Fiscal Years
2012	\$ 102,947
2013	32,766
2014	24,743
2015	(5,594)
2016	(1,041)
2017	27,941
2018 - 2023	(12,736)
2024 - 2028	(169,026)

**NOTE 6 – CONSTRUCTION COMMITMENTS**

As of June 30, 2012, budgeted funds for major capital projects included the following:

Description	Project Budget	Expenditures To Date	Unexpended Balance
Storm Drain-Temple Hilles Dr	\$ 700,000	\$ 10,868	\$ 689,132
Lifeguard Headquarters and Restroom	6,324,890	620,100	5,704,790
Laguna Canyon Channel Rehabilitation	638,000	177,195	460,805
Parks Rehabilitation-Moulton, Alta, Lang	700,000	68,876	631,124
Broadway Landscaping/Fencing	700,000	120,400	579,600
Heisler Park III	3,322,800	2,826,067	496,733
Village Entrance Project	528,371	267,676	260,695
Main Beach Life Station Reconstruction	3,999,950	2,913,754	1,086,196
	<u>\$ 16,914,011</u>	<u>\$ 7,004,936</u>	<u>\$ 9,909,075</u>

**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE 7 – RISK MANAGEMENT**

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

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

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

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 \$4,130,606 reported in the Insurance and Employee Benefits Internal Service Fund, at June 30, 2012. Changes in the Insurance and Employee Benefits Internal Service Fund's claims liability amounts in fiscal years 2012 and 2011 were as follows:

	2012	2011
Beginning of year liability	\$ 4,691,185	\$ 4,591,270
Current year claims and changes in estimates	1,453,257	3,032,755
Claims payments	(2,013,836)	(2,932,840)
Insurance claims payable	\$ 4,130,606	\$ 4,691,185

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.

**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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***NOTE 8 – IMPROVEMENT DISTRICTS***

Bonds issued for improvement districts are liabilities of the property owners and are secured by liens against the assessed property. The City is not liable for repayment, but is only acting as an agent to expend the project funds on behalf of the property owners and to collect principal and interest payments from property owners and remit such monies to the bondholders. During the fiscal year ended June 30, 2012, contributions from property owners were \$1,348,930. At June 30, 2012, the unpaid principal assessments in the 1915 Bond Improvement Districts were \$5,914,000.

Refunding bonds were issued on February 16, 2012 to refund outstanding bonds of certain districts in the amount of \$3,359,000.

***NOTE 9 – DEFERRED COMPENSATION PLAN***

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

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

The City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. At June 30, 2012, the deferred compensation assets are not reflected on the City's balance sheet.

***NOTE 10 – OPERATING LEASE***

The City rents a community center under an operating lease that extends through January 31, 2014. Total expenditures under this lease were \$26,400 for the year ended June 30, 2012. The minimum future rental payments under this lease are as follows:

<u>Year Ending June 30:</u>	
2013	\$ 26,400
2014	<u>15,400</u>
Total	<u><u>\$ 41,800</u></u>

**CITY OF LAGUNA BEACH, CALIFORNIA**

**NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 11 – LONG-TERM LIABILITIES**

The following is a summary of the changes in the principal balance of long-term liabilities for the year ended June 30, 2012:

	Balance at July 1, 2011	Additions	Deletions	Balance at June 30, 2012	Due within One year	Due beyond One year
Governmental activities:						
General obligation bonds	\$ 1,565,000	\$ -	\$ (1,565,000)	\$ -	\$ -	\$ -
I-Bank installment agreement	5,382,492	-	(350,472)	5,032,020	360,040	4,671,980
Net OPEB liability	168,691	150,762	(100,757)	218,696	-	218,696
Compensated absences	3,798,734	2,668,109	(2,313,089)	4,153,754	830,750	3,323,004
Insurance claims payable	4,691,185	1,453,257	(2,013,836)	4,130,606	1,239,182	2,891,424
<b>Total Long-Term Liabilities</b>	<b>\$ 15,606,102</b>	<b>\$ 4,272,128</b>	<b>\$ (6,343,154)</b>	<b>\$ 13,535,076</b>	<b>\$ 2,429,972</b>	<b>\$ 11,105,104</b>

General Obligation Bonds

On May 22, 2001, the City issued \$12,870,000 in General Obligation Bonds to refund its 1990 General Obligation Bonds. The principal is due annually on August 15 in amounts ranging from \$970,000 to \$1,565,000, commencing in 2002 and ending in 2011. Interest is payable semiannually on February 15 and August 15 of each year commencing February 15, 2002, at rates ranging from 4% to 5%. As of June 30, 2012, the outstanding balance is \$0.

I-Bank Installment Sale Agreement

On June 1, 2004, the City entered into an I-Bank Installment Sale Agreement with the California Infrastructure and Economic Development Bank (CIEDB). The agreement was amended on August 1, 2005 to increase the maximum loan amount to \$7,000,000, which will be used for the City's Sewer Line Reconstruction, Line and Manhole Rehabilitation Project. The loan is secured by revenues generated by the Sewer Service Fund (which is consolidated with the General Fund for reporting purposes) and bears interest at a rate of 2.73% per annum. As of June 30, 2012, 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 annual on August 1 which commenced on August 1, 2006. As of June 30, 2012, the outstanding principal amount was \$5,032,020. Total revenues available for debt service was \$6,878,503 and total debt service, including interest, was \$492,630.

The annual payment amounts required to retire the Sales Agreement as of June 30, 2012 are as follows:

Year Ending June 30,	Principal	Interest	Total Payment
2013	\$ 360,040	\$ 132,460	\$ 492,499
2014	369,869	122,496	492,365
2015	379,966	112,260	492,227
2016	390,339	101,746	492,086
2017	400,996	90,945	491,940
2018 - 2023	3,130,810	308,352	3,439,162
	<b>\$ 5,032,020</b>	<b>\$ 868,259</b>	<b>\$ 5,900,280</b>

**CITY OF LAGUNA BEACH, CALIFORNIA**

**NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 12 – POST EMPLOYMENT BENEFIT PLAN**

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

*City's Funding Policy:* The contribution requirements of plan members and the City are established and may be amended by City Council. The contribution required to be made under City Council and labor agreement requirements is based on a pay-as-you-go basis (i.e., as medical insurance premiums become due). For fiscal year 2011-12, plan members receiving benefits contributed \$100,757 (100% of total premiums) through their required contribution.

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

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

Annual required contribution	\$ 153,301
Interest on net OPEB obligation	8,435
Adjustments to annual required contributions	<u>(10,974)</u>
Annual OPEB cost (expense)	150,762
Contributions made (including premiums paid)	<u>(100,757)</u>
Increase in net OPEB obligation	50,005
Net OPEB obligation - beginning of year	<u>168,691</u>
Net OPEB obligation - end of year	<u><u>\$ 218,696</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
<u>6/30/2010</u>	\$ 128,950	64%	\$ 102,441
6/30/2011	128,950	56%	168,691
6/30/2012	150,762	67%	218,696



**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 12 – POST EMPLOYMENT BENEFIT PLAN (CONTINUED)**

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

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

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

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

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

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

**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 13 – FUND BALANCES (DEFICIT)**

Fund balances are classified as follows:

	General Fund*	Major Special Revenue Fund		Total
		Disaster Contingency Fund	Nonmajor Governmental Funds	
Fund balances:				
Nonspendable:				
Inventory	\$ 43,395	\$ -	\$ -	\$ 43,395
Prepays	60,331	-	791,384	851,715
Total Nonspendable	<u>103,726</u>	<u>-</u>	<u>791,384</u>	<u>895,110</u>
Restricted for:				
Sewer service	2,544,073	-	-	2,544,073
Parking in-lieu	110,181	-	-	110,181
Park in-lieu	24,458	-	-	24,458
Art in-lieu	138,165	-	-	138,165
Drainage	57,934	-	-	57,934
Housing in-lieu	652,165	-	-	652,165
Assessment districts	-	-	230,684	230,684
Street lighting district	-	-	3,981,297	3,981,297
Public safety	-	-	243,641	243,641
Repair of public facilities and natural disaster	-	5,929,533	-	5,929,533
Subtotal	<u>3,526,976</u>	<u>5,929,533</u>	<u>4,455,622</u>	<u>13,912,131</u>
Committed for:				
Solid Waste	306,539	-	-	306,539
Total Committed	<u>306,539</u>	<u>-</u>	<u>-</u>	<u>306,539</u>
Assigned to:				
Open space	206,553	-	-	206,553
Parking authority	5,949,213	-	-	5,949,213
Other capital projects	14,806,732	-	-	14,806,732
Subtotal	<u>20,962,498</u>	<u>-</u>	<u>-</u>	<u>20,962,498</u>
Unassigned	8,215,647	-	(774,645)	7,441,002
Total Fund Balance	<u>\$ 33,115,386</u>	<u>\$ 5,929,533</u>	<u>\$ 4,472,361</u>	<u>\$ 43,517,280</u>

\*Includes General, Sewer Service, Open Space, Capital Improvement, Parking Authority, Parking In-Lieu, Park In-Lieu, Drainage, and Housing In-Lieu Funds.

**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE 14 – INTERFUND TRANSFERS**

Interfund transfers at June 30, 2012 consisted of the following:

<u>Transfers In</u>	<u>Transfers Out</u>		
	General Fund	Nonmajor Governmental Funds	Total
General Fund	\$ -	\$ 687,270	\$ 687,270
Non-Major Governmental Fund	300,000		300,000
Transit Fund	391,300	-	391,300
Internal Service Fund	1,067,800	-	1,067,800
	<u>\$ 1,759,100</u>	<u>\$ 687,270</u>	<u>\$ 2,446,370</u>

Transfers are used to:

1. Transfer from General Fund to Non-Major Governmental Fund in the amount of \$300,000 for unreimbursed disaster recovery costs.
2. Transfer from Non-Major Governmental Fund to the General Fund in the amount of \$511,752 to match revenues received by the Orange County Transportation Authority Gas Tax Exchange Program.
3. Transfer from Non-Major Governmental Fund to the General Fund in the amount of \$175,517 for residual earnings not needed to satisfy debt service obligations.
4. Transfer from the General Fund to the Internal Service Fund in the amount of \$1,067,800 for the following reasons: 1) \$154,900 transferred to cover the balance of compensated absences; 2) \$312,900 transfer to offset claim costs related to disaster recovery; and 3) \$600,000 transfer for unexpected tort claims and a number of additional claims related to the December Storms.
5. Transfer from the General Fund to the Transit Fund in the amount of \$391,300 for the following reasons: 1) \$10,000 for the purchase of GPS trackers for Summer Festival Bus; and 2) \$381,300 to cover the balance of expenditures not funded from grants or other revenue.

**NOTE 15 – SEWAGE TREATMENT FACILITIES**

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

**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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***NOTE 15 – SEWAGE TREATMENT FACILITIES (CONTINUED)***

The governing board is comprised of one member from each participating agency and is responsible for the selection of management and for the budgeting and financial management of the Agency. As of June 30, 2011 (the most recent information available), SOCWA had total assets of \$56,540,573 total liabilities of \$4,467,391 and total equity of \$52,073,182. A separate financial report may be obtained from the South Orange County Wastewater Authority office.

The City's share of ownership varies by year depending upon the purchased capacities of each subsystem. Each member is responsible for its share of maintenance and operations costs proportional to its purchased capacity which is billed to each member by SOCWA. Sewer service charges are assessed to fund these and other operating costs. The City paid \$1,621,640 and \$546,546 for its share of operating and capital costs, respectively, during the fiscal year ended June 30, 2012.

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

*Plan Description*

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

*Contributions*

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

For each of the fiscal years shown below, the City has contributed at the actuarially determined rate provided by CalPERS' actuaries. Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2011 to June 30, 2012 has been determined by an actuarial valuation of the plan as of June 30, 2009. The City's covered payroll for PERS was \$20,798,783 for the year ended June 30, 2012, while the City's total payroll for all employees was \$25,610,224 during the same period. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2012, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2011 to June 30, 2012.

**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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

Three-Trend Information

*Annual Pension Cost (Police)*

Fiscal Year	Employer Contribution Rate	Employer Contribution	Percentage Contributed	Net Pension Obligated
6/30/2010	30.369% *	\$ 1,122,833	100%	-
6/30/2011	19.094%	879,977	100%	-
6/30/2012	24.112%	1,085,577	100%	-

*Annual Pension Cost (Fire)*

Fiscal Year	Employer Contribution Rate	Employer Contribution	Percentage Contributed	Net Pension Obligated
6/30/2010	29.180% *	\$ 999,389	100%	-
6/30/2011	19.094%	820,731	100%	-
6/30/2012	24.112%	1,004,674	100%	-

*Annual Pension Cost (Lifeguards)*

Fiscal Year	Employer Contribution Rate	Employer Contribution	Percentage Contributed	Net Pension Obligated
6/30/2010	15.854%	\$ 110,173	100%	-
6/30/2011	16.407%	101,901	100%	-
6/30/2012	21.252%	135,890	100%	-

*Annual Pension Cost (Miscellaneous)*

Fiscal Year	Employer Contribution Rate	Employer Contribution	Percentage Contributed	Net Pension Obligated
6/30/2010	9.200%	\$ 1,084,955	100%	-
6/30/2011	12.015%	1,388,118	100%	-
6/30/2012	15.258%	1,753,211	100%	-

\*The rate changed to 18.229% in February 2010.

**CITY OF LAGUNA BEACH, CALIFORNIA**

**NOTES TO BASIC FINANCIAL STATEMENTS  
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***NOTE 16 – PENSION PLAN (DEFINED BENEFIT) (CONTINUED)***

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

*Pension Plan (Defined Contribution)*

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

The City's total payroll in fiscal year 2012 was \$25,610,224 and covered (part-time) payroll was \$2,048,765. Both the City and covered employees made the required 3.75% contributions amounting to \$76,829 from each source, or \$153,657 in total. Vested funds can be withdrawn upon termination or retirement from the City.

***NOTE 17 – FUND DEFICITS***

The following funds reported a deficit in fund balance as of June 30, 2012:

	<u>Deficit Balance</u>
Nonmajor Special Revenue Fund:	
December Storms 2010	\$ (648,934)
Gas Tax	(130,386)

The deficit reported in the Gas Tax Fund will be remedied as allocations from the State are received. The deficit reported in the December Storms 2010 Fund will be remedied as reimbursement requests are received from granting agencies.

***NOTE 18 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS***

Expenditures for the year ended June 30, 2012 exceeded appropriations in the following funds:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess Over Appropriations</u>
General Fund:			
Administrative Services	\$ 2,139,800	\$ 2,432,986	\$ (293,186)

Administrative Services expenditures are in excess of appropriations due to the gas tax exchange program with the Orange County Transportation Authority. The expenditures are offset by transfers from the Gas Tax Fund.

**CITY OF LAGUNA BEACH, CALIFORNIA**

**NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012**

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

For the period of October 1, 2001 through September 30, 2041, the City of Laguna Beach has leased to the Festival of Arts of Laguna Beach (an unrelated non-profit organization) parcels of land and related structures associated with the operation of certain community events relating to the arts. At all times throughout the term of this operating lease and at the termination of the lease, title to these assets remains with the City of Laguna Beach. The rental payment to be received by the City will be an amount equal to 3.5% of certain gross revenues relating to the use of the property without limitation (no maximum rental payment). In addition, the Festival of Arts of Laguna Beach will pay 6% of the gross revenues described above, which the City will deposit into a capital improvement fund. The money in the capital improvement fund is to be used solely for capital improvements to the premises being rented and debt associated with such improvements, and insurance premiums. All rentals are considered to be contingent upon the amount of gross revenues and the lease does not provide for minimum rental payments to be made to the City. The carrying amount of the land involved in this lease is \$405,040. The carrying amount of the structures and improvements being leased is \$1,022,667. These assets are recorded in the capital assets of the City of Laguna Beach. The land was originally donated to the City under the condition that if it is used for other than park and/or arts-related purposes, then title to the land would revert to the donor. Rental income associated with this lease has been recognized in the accompanying financial statements in the amount of \$239,300.

***NOTE 20 – TRANSPORTATION DEVELOPMENT ACT***

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

TDA 50% Limitation		
Total Operating Costs		\$ 2,233,496
Less: Depreciation		<u>(198,951)</u>
Net Operating Costs		2,034,545
50% Limitation		1,017,273
TDA Financial Need Limitation:		
Total Operating Costs		2,233,496
Depreciation	\$ (198,951)	
OCTA Operating Assistance	(86,598)	
Passenger Revenues	(318,205)	
Taxi Voucher Program	(22,044)	
Park and Ride	(109,325)	<u>(735,123)</u>
Financial Need		<u>1,498,373</u>
Lesser of "Financial Need" or "50% Limitation"		<u><u>\$ 1,017,273</u></u>

**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 21 – RELATED PARTIES**

Housing Program to Enhance Emergency Response

In order to enhance the ability of key personnel to respond to emergency situations within the community, the City is providing assistance for those employees to reside in close proximity to their response area. The accompanying financial statements reflect the City's investment in five such properties in the amount of \$2,032,252 and two loans to these respective employees. The outstanding balance of the loans was \$596,567 and \$635,671, for fiscal years ending June 30, 2012 and 2011, respectively.

**NOTE 22 – GRANTS AND ALLOCATIONS**

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

**NOTE 23 – PRIOR PERIOD ADJUSTMENTS**

In prior years the City did not present the Laguna Beach County Water District (Water District) within the City's basic financial statements as a blended component unit. Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* requires that the primary government present all component units within the governments basic financial statements. Therefore, a prior period adjustment was posted to bring on the net assets balance of the Water District as of June 30, 2011.

In addition, the City has early implemented GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34* which changed the reporting requirements for component units allowing the City to present the Water District as a discretely presented component unit. The prior period adjustments noted below provide for the reclassification of the Water District from a blended component unit to a discretely presented component unit as allowed by GASB Statement No. 61.

To include the Water District within the City's basic financial statements as a blended component unit:

	<u>Business Type Activities</u>	<u>Water District Enterprise Fund</u>	<u>Discretely Presented Water District</u>
Beginning equity	\$ 3,405,937	\$ -	\$ -
Adjustment to include the Water District within the City's basic financial statements	64,505,825	64,505,825	-
Restatement to early implementation of GASB Statement No. 61:			
Reclassification of Water District to discretely presented	<u>(64,505,825)</u>	<u>(64,505,825)</u>	<u>64,505,825</u>
Beginning equity as restated	<u>\$ 3,405,937</u>	<u>\$ -</u>	<u>\$ 64,505,825</u>



**CITY OF LAGUNA BEACH, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 23 – PRIOR PERIOD ADJUSTMENTS (CONTINUED)**

During the current year, it was determined that prepaid pension assets totaling \$9,158,423 was incorrectly capitalized in the government-wide statement of net assets for governmental activities. To correct this error, the beginning net assets for governmental activities of \$383,869,702, as originally reported, has been decreased \$9,158,423.

For fiscal year 2011-12, the City recognized the impact of sales tax and payroll accruals in accordance with GAAP. The adjustments resulted in the restatement of beginning fund balance in the General Fund in the governmental fund statement of revenues, expenditures, and changes in fund balances and beginning net assets in the government-wide statement of activities as follows:

To correct errors for the accruals payroll liabilities and sales tax transactions and recognition of an error for prepaid assets:

	General Fund	Government- Wide Governmental Activities
Beginning of year, as previously reported		
Fund balance	\$ 30,758,591	\$ -
Net Assets		383,869,702
Restatement for prepaid asset	-	(9,158,423)
Recognition of sales tax accrual	273,800	273,800
Recognition of payroll liabilities accrual	(433,146)	(433,146)
Beginning equity as restated	\$ 30,599,245	\$ 374,551,933

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF LAGUNA BEACH**  
**General Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances –**  
**Budget and Actual**  
**Year Ended June 30, 2012**  
**(With Comparative Totals for Year Ended June 30, 2011)**

	Budgeted Amounts		Actual	Variance with	2011
	Original	Final		Final Budget Positive/ (Negative)	
Revenues:					
Taxes:					
Property taxes	\$ 25,351,000	\$ 25,351,000	\$ 25,386,274	\$ 35,274	\$ 25,566,967
Sales and use taxes	3,955,000	3,955,000	4,448,873	493,873	4,042,644
Transient lodging taxes	7,200,000	7,200,000	7,904,562	704,562	7,073,251
Franchise taxes	1,090,000	1,090,000	1,166,704	76,704	1,151,500
Business license taxes	800,000	800,000	843,338	43,338	810,366
Real property transfer taxes	300,000	300,000	387,393	87,393	367,105
Total Taxes	<u>38,696,000</u>	<u>38,696,000</u>	<u>40,137,144</u>	<u>1,441,144</u>	<u>39,011,833</u>
Licenses and permits:					
Construction permits	837,000	837,000	952,259	115,259	964,281
Other	21,000	21,000	23,625	2,625	26,685
Total Licenses and Permits	<u>858,000</u>	<u>858,000</u>	<u>975,884</u>	<u>117,884</u>	<u>990,966</u>
Fines and penalties					
Vehicle codes	1,295,000	1,317,800	1,218,127	(99,673)	1,177,316
Other	46,000	46,000	33,837	(12,163)	39,785
Total Fines and Penalties	<u>1,341,000</u>	<u>1,363,800</u>	<u>1,251,964</u>	<u>(111,836)</u>	<u>1,217,101</u>
Investment income	655,000	655,000	651,719	(3,281)	929,076
Rental income	433,000	433,000	419,641	(13,359)	445,491
Intergovernmental	1,472,300	3,309,128	1,345,235	(1,963,893)	2,671,742
Charges for services:					
Sewer charges	6,277,000	6,277,000	6,308,982	31,982	6,082,856
Planning fees	1,070,000	1,070,000	1,046,109	(23,891)	1,014,539
Building department fees	252,000	252,000	228,358	(23,642)	294,112
Refuse service charges	1,996,000	1,996,000	2,011,192	15,192	2,012,473
Medical fees	90,000	90,000	101,010	11,010	105,928
Parks and recreation fees	1,344,000	2,674,000	2,976,517	302,517	2,621,358
Other	1,615,000	285,000	315,670	30,670	328,921
Total Charges for Services	<u>12,644,000</u>	<u>12,644,000</u>	<u>12,987,838</u>	<u>343,838</u>	<u>12,460,187</u>
Parking meters, lots and permits	3,876,000	3,876,000	4,276,533	400,533	4,891,228
Development tax:					
Building construction tax	180,000	180,000	183,704	3,704	675,391
Other	-	-	-	-	5,000
Total Development Tax	<u>180,000</u>	<u>180,000</u>	<u>183,704</u>	<u>3,704</u>	<u>680,391</u>
Other					
Reimbursed expenditures	255,200	355,200	452,417	97,217	712,047
Other	21,000	46,000	79,066	33,066	446,615
Total Other	<u>276,200</u>	<u>401,200</u>	<u>531,483</u>	<u>130,283</u>	<u>1,158,662</u>
Total Revenues	<u>60,431,500</u>	<u>62,416,128</u>	<u>62,761,145</u>	<u>345,017</u>	<u>64,456,677</u>

See accompanying note to required supplementary information.

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

	Budgeted Amounts		Actual	Variance with	2011
	Original	Final		Final Budget	
				Positive/ (Negative)	
Expenditures:					
General government:					
City Council	\$ 67,900	\$ 67,900	\$ 56,372	\$ 11,528	\$ 51,974
City Manager	715,100	745,600	656,143	89,457	614,510
City Clerk	306,000	308,100	300,267	7,833	313,832
City Treasurer	143,500	143,500	142,983	517	134,407
City Attorney	585,000	905,600	481,484	424,116	499,326
Administrative services	2,070,100	2,139,800	2,432,986	(293,186)	2,377,657
Total General Government	3,887,600	4,310,500	4,070,235	240,265	3,991,706
Community development	3,697,700	3,729,100	3,600,452	128,648	3,531,828
Public safety:					
Police protection	12,646,700	12,838,100	12,326,411	511,689	12,099,400
Fire protection	9,334,800	9,571,600	8,940,908	630,692	8,873,308
Marine safety	2,366,800	2,470,800	2,272,708	198,092	2,275,456
Parking enforcement	898,600	898,600	879,291	19,309	831,779
Total Public Safety	25,246,900	25,779,100	24,419,318	1,359,782	24,079,943
Public works	10,736,100	11,117,900	10,335,823	782,077	9,821,342
Recreation and social services	4,022,700	4,512,628	4,049,299	463,329	4,003,836
Sewer service operating costs	4,109,200	4,129,500	4,062,448	67,052	4,009,715
Capital expenditures	8,165,000	27,101,150	8,155,078	18,946,072	7,866,382
Debt service:					
Principal	350,000	350,000	350,472	(472)	
Interest and fiscal charges	143,000	143,000	142,158	842	509,928
Total Debt Service	493,000	493,000	492,630	370	509,928
Total Expenditures	60,358,200	81,172,878	59,185,283	21,987,595	57,814,680
Excess (deficiency) of revenues over (under) expenditures	73,300	(18,756,750)	3,575,862	(21,642,578)	6,641,997
Other financing sources (uses):					
Transfers in	450,000	450,000	687,270	(237,270)	514,987
Transfers out	(1,512,600)	(1,512,600)	(1,759,100)	246,500	(2,278,185)
Sale of land and equipment	3,000	3,000	12,109	(9,109)	5,050
Total Other Financing Sources (uses)	(1,059,600)	(1,059,600)	(1,059,721)	121	(1,758,148)
Net Change in Fund Balances	(986,300)	(19,816,350)	2,516,141	(22,332,491)	4,883,849
Fund balances, Beginning of Year (restated)	30,599,245	30,599,245	30,599,245	-	25,874,742
Fund Balances, End of Year	\$ 29,612,945	\$ 10,782,895	\$ 33,115,386	\$ (22,332,491)	\$ 30,758,591

See accompanying note to required supplementary information.

**CITY OF LAGUNA BEACH**  
**Major Special Revenue Fund**  
**Disaster Contingency Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual**  
**Year Ended June 30, 2012**  
**(With Comparative Totals for Year Ended June 30, 2011)**

	Budgeted Amounts		Actual	Variance with	2011 Actual
	Original	Budget		Final Budget Positive/ (Negative)	
Revenues:					
Investment income	\$ 100,000	\$ 100,000	\$ 71,665	\$ (28,335)	\$ 91,697
Total Revenues	<u>100,000</u>	<u>100,000</u>	<u>71,665</u>	<u>(28,335)</u>	<u>91,697</u>
Net Change in Fund Balances	100,000	100,000	71,665	(28,335)	91,697
Fund Balances, Beginning of Year	<u>5,916,171</u>	<u>5,916,171</u>	<u>5,857,868</u>	<u>(58,303)</u>	<u>5,766,171</u>
Fund Balances, End of Year	<u>\$ 6,016,171</u>	<u>\$ 6,016,171</u>	<u>\$ 5,929,533</u>	<u>\$ (86,638)</u>	<u>\$ 5,857,868</u>

See accompanying note to required supplementary information.

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

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

See accompanying note to required supplementary information.

**CITY OF LAGUNA BEACH**

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2012**

***NOTE #1 – BUDGETARY POLICY AND CONTROL***

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

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

Budget information is presented for the general and certain special revenue fund types. Budgeted revenue amounts represent the original budget modified by Council-authorized adjustments during the year which were contingent upon new or additional revenue sources. Budgeted expenditures amounts represent original appropriations adjusted for supplemental appropriations during the year. Supplemental appropriations include carryover appropriations from the prior year. Supplemental budgetary appropriations of \$20,814,678 were made in the General Fund.

**SUPPLEMENTARY SCHEDULES**



## **GENERAL FUND**

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

**CITY OF LAGUNA BEACH**  
**General Fund**  
**Consolidating Balance Sheet by Sub-Fund**  
**June 30, 2012**  
**(With Comparative Totals for June 30, 2011)**

	General	Sewer Service	Open Space	Capital Improvement	Parking Authority
<b>ASSETS</b>					
Cash and investments	\$ 14,570,206	\$ 2,999,013	\$ 206,553	\$ 15,064,464	\$ 6,354,352
Receivables:					
Taxes	1,108,173	91,463	-	90,226	-
Accounts	287,760	1,940	-	112,392	93,035
Interest	11,048	-	-	-	-
Intergovernmental	2,232	-	-	-	-
Notes	-	-	-	-	-
Due from other funds	1,146,043	-	-	-	-
Prepays	43,395	-	-	-	-
Inventory	60,331	-	-	-	-
Advances to other funds	-	-	-	-	1,300,000
Total Assets	<u>\$ 17,229,188</u>	<u>\$ 3,092,416</u>	<u>\$ 206,553</u>	<u>\$ 15,267,082</u>	<u>\$ 7,747,387</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and accrued liabilities	\$ 1,841,663	\$ 548,343	\$ -	\$ 460,350	\$ 164,644
Due to other government agencies	-	-	-	-	-
Deferred revenue	61,613	-	-	-	333,530
Advances from other funds	8,000,000	-	-	-	-
Total Liabilities	<u>9,903,276</u>	<u>548,343</u>	<u>-</u>	<u>460,350</u>	<u>498,174</u>
Fund balances:					
Nonspendable	103,726	-	-	-	1,300,000
Restricted	-	2,544,073	-	-	-
Committed	306,539	-	-	-	-
Assigned	-	-	206,553	14,806,732	5,949,213
Unassigned	6,915,647	-	-	-	-
Total Fund Balances	<u>7,325,912</u>	<u>2,544,073</u>	<u>206,553</u>	<u>14,806,732</u>	<u>7,249,213</u>
Total Liabilities and Fund Balances	<u>\$ 17,229,188</u>	<u>\$ 3,092,416</u>	<u>\$ 206,553</u>	<u>\$ 15,267,082</u>	<u>\$ 7,747,387</u>

Parking In-Lieu	Park In-Lieu	Art In-Lieu	Drainage	Housing In-Lieu	Eliminations (1)	Totals	
						2012	2011
\$ 110,181	\$ 24,458	\$ 153,656	\$ 57,934	\$ 330,497	\$ -	\$ 39,871,314	\$ 35,384,882
-	-	-	-	-	-	1,289,862	1,009,256
-	-	-	-	-	-	495,127	117,342
-	-	-	-	-	-	11,048	19,418
-	-	-	-	-	-	2,232	1,581,492
-	-	-	-	348,000	-	348,000	348,000
-	-	-	-	-	-	1,146,043	1,110,022
-	-	-	-	-	-	43,395	50,377
-	-	-	-	-	-	60,331	47,085
-	-	-	-	-	(1,300,000)	-	1,360,000
<u>\$ 110,181</u>	<u>\$ 24,458</u>	<u>\$ 153,656</u>	<u>\$ 57,934</u>	<u>\$ 678,497</u>	<u>\$ (1,300,000)</u>	<u>\$ 43,267,352</u>	<u>\$ 41,027,874</u>
\$ -	\$ -	\$ 15,491	\$ -	\$ -	\$ -	\$ 3,030,491	\$ 2,171,067
-	-	-	-	26,332	-	26,332	19,077
-	-	-	-	-	-	395,143	79,139
-	-	-	-	-	(1,300,000)	6,700,000	8,000,000
-	-	15,491	-	26,332	(1,300,000)	10,151,966	10,269,283
-	-	-	-	-	(1,300,000)	103,726	1,457,462
110,181	24,458	138,165	57,934	652,165	-	3,526,976	4,731,971
-	-	-	-	-	-	306,539	234,988
-	-	-	-	-	-	20,962,498	19,511,838
-	-	-	-	-	1,300,000	8,215,647	4,822,332
<u>110,181</u>	<u>24,458</u>	<u>138,165</u>	<u>57,934</u>	<u>652,165</u>	<u>-</u>	<u>33,115,386</u>	<u>30,758,591</u>
<u>\$ 110,181</u>	<u>\$ 24,458</u>	<u>\$ 153,656</u>	<u>\$ 57,934</u>	<u>\$ 678,497</u>	<u>\$ (1,300,000)</u>	<u>\$ 43,267,352</u>	<u>\$ 41,027,874</u>

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

**CITY OF LAGUNA BEACH**  
**General Fund**  
**Consolidating Statement of Revenues, Expenditures and Changes in Fund Balances by Sub-Fund**  
**Year Ended June 30, 2012**

	General	Sewer Service	Open Space	Capital Improvement	Parking Authority
<b>Revenues:</b>					
Taxes	\$ 36,585,040	\$ -	\$ -	\$ 3,552,104	\$ -
Licenses and permits	975,884	-	-	-	-
Fines and penalties	17,132	-	-	1,234,832	-
Investment income	631,295	-	-	-	-
Rental	419,641	-	-	-	-
Intergovernmental	662,878	451,278	-	231,079	-
Charges for services	6,677,071	6,308,982	-	1,785	-
Parking meters, lots and permits	2,673	-	-	-	4,273,860
Development tax	-	-	-	183,704	-
Other	379,865	118,243	-	-	-
<b>Total Revenues</b>	<b>46,351,479</b>	<b>6,878,503</b>	<b>-</b>	<b>5,203,504</b>	<b>4,273,860</b>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	4,070,235	-	-	-	-
Community development	3,600,452	-	-	-	-
Public safety	23,540,027	-	-	-	879,291
Public works	9,151,031	-	-	-	1,184,792
Recreation and social services	4,024,721	-	-	-	-
Sewer service operating costs	-	4,062,448	-	-	-
Capital expenditures	535,680	3,264,459	433	3,932,685	421,821
<b>Debt service:</b>					
Principal	-	350,472	-	-	-
Interest and fiscal charges	-	142,158	-	-	-
<b>Total Expenditures</b>	<b>44,922,146</b>	<b>7,819,537</b>	<b>433</b>	<b>3,932,685</b>	<b>2,485,904</b>
Excess (deficiency) of revenues over (under) expenditures	1,429,333	(941,034)	(433)	1,270,819	1,787,956
<b>Other financing sources (uses):</b>					
Transfers in	1,259,552	450,000	175,518	1,515,000	381,000
Transfers out	(2,882,800)	-	-	(507,800)	(1,081,300)
Sale of land and equipment	12,109	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(1,611,139)</b>	<b>450,000</b>	<b>175,518</b>	<b>1,007,200</b>	<b>(700,300)</b>
<b>Net Change in Fund Balances</b>	<b>(181,806)</b>	<b>(491,034)</b>	<b>175,085</b>	<b>2,278,019</b>	<b>1,087,656</b>
Fund Balances, Beginning of Year (restated)	7,507,718	3,035,107	31,468	12,528,713	6,161,557
Fund Balances, End of Year	\$ 7,325,912	\$ 2,544,073	\$ 206,553	\$ 14,806,732	\$ 7,249,213

Parking In-Lieu	Park In-Lieu	Art In-Lieu	Drainage	Housing In-Lieu	Eliminations (1)	Totals	
						2012	2011
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 40,137,144	\$ 39,011,833
-	-	-	-	-	-	975,884	990,966
-	-	-	-	-	-	1,251,964	1,217,101
1,378	306	1,626	724	16,390	-	651,719	929,076
-	-	-	-	-	-	419,641	445,491
-	-	-	-	-	-	1,345,235	2,671,742
-	-	-	-	-	-	12,987,838	12,460,187
-	-	-	-	-	-	4,276,533	4,891,228
-	-	-	-	-	-	183,704	680,391
-	-	33,375	-	-	-	531,483	1,158,662
1,378	306	35,001	724	16,390	-	62,761,145	64,456,677
-	-	-	-	-	-	4,070,235	3,991,706
-	-	-	-	-	-	3,600,452	3,531,828
-	-	-	-	-	-	24,419,318	24,079,943
-	-	-	-	-	-	10,335,823	9,821,342
-	-	24,578	-	-	-	4,049,299	4,003,836
-	-	-	-	-	-	4,062,448	4,009,715
-	-	-	-	-	-	8,155,078	7,866,382
-	-	-	-	-	-	350,472	-
-	-	-	-	-	-	142,158	509,928
-	-	24,578	-	-	-	59,185,283	57,814,680
1,378	306	10,423	724	16,390	-	3,575,862	6,641,997
-	-	-	-	-	(3,093,800)	687,270	514,987
-	-	-	-	(381,000)	3,093,800	(1,759,100)	(2,278,185)
-	-	-	-	-	-	12,109	5,050
-	-	-	-	(381,000)	-	(1,059,721)	(1,758,148)
1,378	306	10,423	724	(364,610)	-	2,516,141	4,883,849
108,803	24,152	127,742	57,210	1,016,775	-	30,599,245	25,874,742
\$ 110,181	\$ 24,458	\$ 138,165	\$ 57,934	\$ 652,165	\$ -	\$ 33,115,386	\$ 30,758,591

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

## **NONMAJOR FUNDS**

### **SPECIAL REVENUE**

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

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

#### **Gas Tax Fund**

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

#### **Street Lighting District Fund**

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

#### **Asset Forfeiture Fund**

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

#### **December Storms 2010 Fund**

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

## **DEBT SERVICE FUND**

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

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

#### **General Obligations Bonds**

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

## **CAPITAL PROJECTS FUND**

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

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

#### **Assessment Districts**

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

**CITY OF LAGUNA BEACH**  
**Nonmajor Special Revenue Funds**  
**Combining Balance Sheet**  
**June 30, 2012**  
**(With Comparative Totals for June 30, 2011)**

	Special Revenue			
	Gas Tax	Street Lighting District	Asset Forfeiture	December Storms 2010
<b>ASSETS</b>				
Cash and investments	\$ 786,664	\$ 1,195,353	\$ 243,641	\$ -
Receivables:				
Taxes	-	14,109	-	-
Accounts	39,419	-	-	501,420
Intergovernmental	59,864	-	-	-
Prepays	-	791,384	-	-
Advances to other funds	-	2,500,000	-	-
Property held for investment	-	354,444	-	-
Total Assets	<u>\$ 885,947</u>	<u>\$ 4,855,290</u>	<u>\$ 243,641</u>	<u>\$ 501,420</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 6,333	\$ 82,609	\$ -	\$ 4,311
Due to other funds	-	-	-	1,146,043
Deferred revenue	-	-	-	-
Advances from other funds	1,010,000	-	-	-
Total Liabilities	<u>1,016,333</u>	<u>82,609</u>	<u>-</u>	<u>1,150,354</u>
Fund balances (deficit):				
Nonspendable	-	791,384	-	-
Restricted	-	3,981,297	243,641	-
Unassigned	(130,386)	-	-	(648,934)
Total Fund Balances	<u>(130,386)</u>	<u>4,772,681</u>	<u>243,641</u>	<u>(648,934)</u>
Total Liabilities and and Fund Balances	<u>\$ 885,947</u>	<u>\$ 4,855,290</u>	<u>\$ 243,641</u>	<u>\$ 501,420</u>

Debt Service General Obligation Bonds	Capital Projects Assessment Districts	Totals	
		2012	2011
		\$ -	\$ 332,423
4,675	-	18,784	25,967
-	-	540,839	-
-	-	59,864	1,180,459
-	-	791,384	791,384
-	-	2,500,000	2,500,000
-	-	354,444	354,444
<u>\$ 4,675</u>	<u>\$ 332,423</u>	<u>\$ 6,823,396</u>	<u>\$ 9,124,624</u>
\$ -	\$ 101,739	\$ 194,992	\$ 137,543
-	-	1,146,043	1,110,022
-	-	-	944,018
-	-	1,010,000	2,060,000
-	101,739	2,351,035	4,251,583
-	-	791,384	791,384
-	230,684	4,455,622	6,266,345
4,675	-	(774,645)	(2,184,688)
<u>4,675</u>	<u>230,684</u>	<u>4,472,361</u>	<u>4,873,041</u>
<u>\$ 4,675</u>	<u>\$ 332,423</u>	<u>\$ 6,823,396</u>	<u>\$ 9,124,624</u>



**CITY OF LAGUNA BEACH**  
**Nonmajor Special Revenue Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Year Ended June 30, 2012**  
**(With Comparative Totals for Year Ended June 30, 2011)**

	Special Revenue Fund			
	Gas Tax	Street Lighting District	Asset Forfeiture	December Storms 2010
Revenues:				
Taxes	\$ 356,302	\$ 1,110,920	\$ -	\$ -
Fines and penalties	-	-	31,734	-
Investment income	645	-	2,903	-
Intergovernmental	1,228,409	6,672	-	889,155
Other	61,125	344	-	170,848
Total Revenues	<u>1,646,481</u>	<u>1,117,936</u>	<u>34,637</u>	<u>1,060,003</u>
Expenditures:				
Current:				
General government	-	-	-	-
Public works	-	335,226	-	-
Capital expenditures	24,445	3,817	-	1,064,919
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	<u>24,445</u>	<u>339,043</u>	<u>-</u>	<u>1,064,919</u>
Excess of revenues over (under) expenditures	<u>1,622,036</u>	<u>778,893</u>	<u>34,637</u>	<u>(4,916)</u>
Other financing sources (uses):				
Transfers in	-	-	-	300,000
Transfers out	(511,752)	(23,270)	-	-
Bond proceeds - Transfer in	-	-	-	-
Total Other Financing Sources (Uses)	<u>(511,752)</u>	<u>(23,270)</u>	<u>-</u>	<u>300,000</u>
Net Change in Fund Balances	1,110,284	755,623	34,637	295,084
Fund Balances, Beginning of Year	<u>(1,240,670)</u>	<u>4,017,058</u>	<u>209,004</u>	<u>(944,018)</u>
Fund Balances (Deficit), End of Year	<u>\$ (130,386)</u>	<u>\$ 4,772,681</u>	<u>\$ 243,641</u>	<u>\$ (648,934)</u>

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

<u>Debt Service</u>		<u>Capital Projects</u>			
General		Assessment	Eliminations	Totals	
Obligation	Bonds			Districts	(1)
\$	49,367	\$ -	\$ -	\$ 1,516,589	\$ 2,666,485
	-	-	-	31,734	57,169
	3,110	9,586	-	16,244	43,694
	34	-	-	2,124,270	1,306,585
	-	137,015	-	369,332	214,231
	<u>52,511</u>	<u>146,601</u>	<u>-</u>	<u>4,058,169</u>	<u>4,288,164</u>
	1,000	-	-	1,000	-
	-	-	-	335,226	275,771
	-	1,497,310	-	2,590,491	3,193,858
	1,565,000	-	-	1,565,000	1,490,000
	39,125	-	-	39,125	115,500
	<u>1,605,125</u>	<u>1,497,310</u>	<u>-</u>	<u>4,530,842</u>	<u>5,075,129</u>
	(1,552,614)	(1,350,709)	-	(472,673)	(786,965)
	-	23,270	(23,270)	300,000	23,755
	(175,518)	-	23,270	(687,270)	(538,742)
	-	459,263	-	459,263	-
	<u>(175,518)</u>	<u>482,533</u>	<u>-</u>	<u>71,993</u>	<u>(514,987)</u>
	(1,728,132)	(868,176)	-	(400,680)	(1,301,952)
	1,732,807	1,098,860	-	4,873,041	6,174,993
\$	<u>4,675</u>	<u>\$ 230,684</u>	<u>\$ -</u>	<u>\$ 4,472,361</u>	<u>\$ 4,873,041</u>

**CITY OF LAGUNA BEACH**  
**Nonmajor Special Revenue Funds**  
**Gas Tax Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**Year Ended June 30, 2012**  
**(With Comparative Totals for Year Ended June 30, 2011)**

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)	2011 Actual
<b>Revenues:</b>				
Taxes	\$ 275,000	\$ 356,302	\$ 81,302	\$ 261,916
Investment income	-	645	645	-
Intergovernmental	661,000	1,228,409	567,409	1,172,831
Other	-	61,125	61,125	50,000
<b>Total Revenues</b>	<b>936,000</b>	<b>1,646,481</b>	<b>710,481</b>	<b>1,484,747</b>
<b>Expenditures:</b>				
Capital expenditures	1,050,000	24,445	1,025,555	1,381,765
<b>Total Expenditures</b>	<b>1,050,000</b>	<b>24,445</b>	<b>1,025,555</b>	<b>1,381,765</b>
Excess (deficiency) of revenues over (under) expenditures	(114,000)	1,622,036	1,736,036	102,982
<b>Other financing sources (uses):</b>				
Transfers out	-	(511,752)	(511,752)	(514,987)
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>(511,752)</b>	<b>(511,752)</b>	<b>(514,987)</b>
<b>Net Change in Fund Balances</b>	<b>(114,000)</b>	<b>1,110,284</b>	<b>1,224,284</b>	<b>(412,005)</b>
Fund Balances (Deficit), Beginning of Year	(1,240,670)	(1,240,670)	-	(828,665)
Fund Balances (Deficit), End of Year	<u>\$ (1,354,670)</u>	<u>\$ (130,386)</u>	<u>\$ 1,224,284</u>	<u>\$ (1,240,670)</u>

**CITY OF LAGUNA BEACH**  
**Nonmajor Special Revenue Funds**  
**Street Lighting District Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**Year Ended June 30, 2012**  
**(With Comparative Totals for Year Ended June 30, 2011)**

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)	2011 Actual
<b>Revenues:</b>				
Taxes	\$ 1,117,000	\$ 1,110,920	\$ (6,080)	\$ 1,114,893
Intergovernmental	6,700	6,672	(28)	6,788
Other	-	344	344	29,494
<b>Total Revenues</b>	<b>1,123,700</b>	<b>1,117,936</b>	<b>(5,764)</b>	<b>1,151,175</b>
<b>Expenditures:</b>				
<b>Current:</b>				
Public works	1,302,300	335,226	967,074	275,771
Capital expenditures	134,900	3,817	131,083	93,163
<b>Total Expenditures</b>	<b>1,437,200</b>	<b>339,043</b>	<b>1,098,157</b>	<b>368,934</b>
Excess (deficiency) of revenues over (under) expenditures	(313,500)	778,893	1,092,393	782,241
<b>Other financing sources (uses):</b>				
Transfers in	-	-	-	19,359
Transfers out	(23,270)	(23,270)	-	(4,396)
<b>Total Other Financing Sources (Uses)</b>	<b>(23,270)</b>	<b>(23,270)</b>	<b>-</b>	<b>14,963</b>
<b>Net Change in Fund Balances</b>	<b>(336,770)</b>	<b>755,623</b>	<b>1,092,393</b>	<b>797,204</b>
Fund Balances, Beginning of Year	4,017,058	4,017,058	-	3,219,854
<b>Fund Balances, End of Year</b>	<b>\$ 3,680,288</b>	<b>\$ 4,772,681</b>	<b>\$ 1,092,393</b>	<b>\$ 4,017,058</b>

**CITY OF LAGUNA BEACH**  
**Nonmajor Special Revenue Funds**  
**Asset Forfeiture Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**Year Ended June 30, 2012**  
**(With Comparative Totals for Year Ended June 30, 2011)**

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)	2011 Actual
Revenues:				
Fines and penalties	\$ -	\$ 31,734	\$ 31,734	\$ 57,169
Investment income	-	2,903	2,903	3,239
Total Revenues	-	34,637	34,637	60,408
Expenditures:				
Capital expenditures	-	-	-	19,074
Total Expenditures	-	-	-	19,074
Net Change in Fund Balances	-	34,637	34,637	41,334
Fund Balances, Beginning of Year	209,004	209,004	-	167,670
Fund Balances, End of Year	<u>\$ 209,004</u>	<u>\$ 243,641</u>	<u>\$ 34,637</u>	<u>\$ 209,004</u>

**CITY OF LAGUNA BEACH**  
**Nonmajor Special Revenue Funds**  
**December Storms 2010**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**Year Ended June 30, 2012**  
**(With Comparative Totals for Year Ended June 30, 2011)**

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)	2011 Actual
<b>Revenues:</b>				
Intergovernmental	\$ 2,120,600	\$ 889,155	\$ (1,231,445)	\$ 122,584
Investment income	-	-	-	115,148
Other	768,668	170,848	(597,820)	-
<b>Total Revenues</b>	<b>2,889,268</b>	<b>1,060,003</b>	<b>(1,829,265)</b>	<b>237,732</b>
<b>Expenditures:</b>				
Capital expenditures	2,889,268	1,064,919	1,824,349	1,181,750
<b>Total Expenditures</b>	<b>2,889,268</b>	<b>1,064,919</b>	<b>1,824,349</b>	<b>1,181,750</b>
Excess (deficiency) of revenues over (under) expenditures	-	(4,916)	(3,653,614)	(944,018)
<b>Other financing sources (uses):</b>				
Transfers in	-	300,000	300,000	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>300,000</b>	<b>300,000</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>295,084</b>	<b>(3,353,614)</b>	<b>(944,018)</b>
<b>Fund Balances, Beginning of Year</b>	<b>(944,018)</b>	<b>(944,018)</b>	<b>-</b>	<b>-</b>
<b>Fund Balances (Deficit), End of Year</b>	<b>\$ (944,018)</b>	<b>\$ (648,934)</b>	<b>\$ (3,353,614)</b>	<b>\$ (944,018)</b>

**CITY OF LAGUNA BEACH**  
**Nonmajor Debt Service Fund**  
**General Obligation Bonds**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**Year Ended June 30, 2012**  
**(With Comparative Totals for Year Ended June 30, 2011)**

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)	2011 Actual
<b>Revenues:</b>				
Taxes	\$ -	\$ 49,367	\$ 49,367	\$ 1,289,676
Investment income	-	3,110	3,110	18,463
Intergovernmental	-	34	34	4,382
Total Revenues	-	52,511	52,511	1,312,521
<b>Expenditures:</b>				
Current:				
General government	10,000	1,000	-	-
Debt service:				
Principal	1,565,000	1,565,000	-	1,490,000
Interest and fiscal charges	39,100	39,125	(25)	115,500
Total Expenditures	1,604,100	1,605,125	(25)	1,605,500
Excess (deficiency) of revenues over (under) expenditures	(1,604,100)	(1,552,614)	52,486	(292,979)
<b>Other financing sources (uses):</b>				
Transfers out	-	(175,518)	175,518	-
Total Other Financing Sources (Uses)	-	(175,518)	175,518	-
Net Change in Fund Balances	(1,604,100)	(1,728,132)	228,004	(292,979)
Fund Balances, Beginning of Year	1,732,807	1,732,807	-	2,025,786
Fund Balances, End of Year	\$ 128,707	\$ 4,675	\$ 228,004	\$ 1,732,807

**CITY OF LAGUNA BEACH**  
**Nonmajor Capital Projects Fund**  
**Assessment Districts**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**Year Ended June 30, 2012**  
**(With Comparative Totals for Year Ended June 30, 2011)**

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)	2011 Actual
<b>Revenues:</b>				
Taxes	\$ -	\$ -	\$ -	\$ 21,992
Investment income	-	9,586	9,586	-
Other	160,286	137,015	(23,271)	19,589
<b>Total Revenues</b>	<b>160,286</b>	<b>146,601</b>	<b>(13,685)</b>	<b>41,581</b>
<b>Expenditures:</b>				
Capital expenditures	1,712,986	1,497,310	215,676	518,106
<b>Total Expenditures</b>	<b>1,712,986</b>	<b>1,497,310</b>	<b>215,676</b>	<b>518,106</b>
Excess (deficiency) of revenues over (under) expenditures	(1,552,700)	(1,350,709)	201,991	(476,525)
<b>Other financing sources:</b>				
Transfers in	-	23,270	23,270	4,396
Transfers out	-	-	-	(19,359)
Bond Proceeds - Transfer In	-	459,263	459,263	-
<b>Total Other Financing Sources</b>	<b>-</b>	<b>482,533</b>	<b>482,533</b>	<b>(14,963)</b>
<b>Net Change in Fund Balances</b>	<b>(1,552,700)</b>	<b>(868,176)</b>	<b>684,524</b>	<b>(491,488)</b>
Fund Balances, Beginning of Year	1,098,860	1,098,860	-	1,590,348
Fund Balances, End of Year	<u>\$ (453,840)</u>	<u>\$ 230,684</u>	<u>\$ 684,524</u>	<u>\$ 1,098,860</u>



## **INTERNAL SERVICES FUNDS**

### **Insurance and Employee Benefits Fund**

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

### **Vehicle Replacement Fund**

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

**CITY OF LAGUNA BEACH**  
**Internal Service Funds**  
**Combining Statement of Net Assets**  
**June 30, 2012**  
**(With Comparative Totals for June 30, 2011)**

	Insurance and Employee Benefits	Vehicle Replacement	Totals	
			2012	2011
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 8,020,790	\$ 3,905,649	\$ 11,926,439	\$ 9,743,490
Receivables:				
Accounts	-	8,951	8,951	-
Prepays	-	-	-	266,823
Total Current Assets	<u>8,020,790</u>	<u>3,914,600</u>	<u>11,935,390</u>	<u>10,010,313</u>
Noncurrent assets:				
Advances to other funds	4,500,000	710,000	5,210,000	6,200,000
Notes receivable	441,610	154,957	596,567	635,671
Property held for investment	1,356,153	321,656	1,677,809	1,677,809
Capital assets, net of depreciation	-	3,057,458	3,057,458	2,534,099
Total Noncurrent Assets	<u>6,297,763</u>	<u>4,244,071</u>	<u>10,541,834</u>	<u>11,047,579</u>
Total Assets	<u>14,318,553</u>	<u>8,158,671</u>	<u>22,477,224</u>	<u>21,057,892</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	204,016	336,728	540,744	80,545
Compensated absences due within one year	830,750	-	830,750	721,759
Insurance claims payable due within one year	<u>1,239,182</u>	<u>-</u>	<u>1,239,182</u>	<u>1,407,356</u>
Total Current Liabilities	<u>2,273,948</u>	<u>336,728</u>	<u>2,610,676</u>	<u>2,209,660</u>
Non-current liabilities:				
Compensated absences	3,323,004	-	3,323,004	3,076,975
Insurance claims payable	2,891,424	-	2,891,424	3,283,829
Net OPEB liability	<u>218,696</u>	<u>-</u>	<u>218,696</u>	<u>168,691</u>
Total Non-Current Liabilities	<u>6,433,124</u>	<u>-</u>	<u>6,433,124</u>	<u>6,529,495</u>
Total Liabilities	<u>8,707,072</u>	<u>336,728</u>	<u>9,043,800</u>	<u>8,739,155</u>
<b>Net Assets</b>				
Net assets:				
Invested in capital assets	-	3,057,458	3,057,458	2,534,099
Unrestricted	<u>5,611,481</u>	<u>4,764,485</u>	<u>10,375,966</u>	<u>9,784,638</u>
Total Net Assets	<u>\$ 5,611,481</u>	<u>\$ 7,821,943</u>	<u>\$ 13,433,424</u>	<u>\$ 12,318,737</u>

**CITY OF LAGUNA BEACH**  
**Internal Service Funds**  
**Combining Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Year Ended June 30, 2012**  
**(With Comparative Totals for Year Ended June 30, 2011)**

	Insurance and Employee	Vehicle	Totals	
	Benefits	Replacement	2012	2011
Operating revenues:				
Vehicle rentals	\$ -	\$ 1,104,700	\$ 1,104,700	\$ 1,075,692
Employee benefits charges	759,800	-	759,800	701,000
Insurance charges	5,674,517	-	5,674,517	5,601,310
Total Operating Revenues	<u>6,434,317</u>	<u>1,104,700</u>	<u>7,539,017</u>	<u>7,378,002</u>
Operating expenses:				
Administration	144,160	-	144,160	-
Employee benefits	915,026	-	915,026	1,078,561
Insurance claims and premiums	5,937,581	-	5,937,581	6,753,706
Depreciation	-	553,461	553,461	628,458
Total Operating Expenses	<u>6,996,767</u>	<u>553,461</u>	<u>7,550,228</u>	<u>8,460,725</u>
Operating Income (Loss)	<u>(562,450)</u>	<u>551,239</u>	<u>(11,211)</u>	<u>(1,082,723)</u>
Nonoperating revenues (expenses):				
Gain (loss) on disposal of capital assets	-	58,098	58,098	38,829
Total Nonoperating Revenues (Expenses)	<u>-</u>	<u>58,098</u>	<u>58,098</u>	<u>38,829</u>
Income (Loss) Before Transfers	(562,450)	609,337	46,887	(1,043,894)
Transfers:				
Transfers in	1,067,800	-	1,067,800	1,454,285
Total Transfers	<u>1,067,800</u>	<u>-</u>	<u>1,067,800</u>	<u>1,454,285</u>
Change in Net Assets	505,350	609,337	1,114,687	410,391
Net Assets at Beginning of Year	<u>5,106,131</u>	<u>7,212,606</u>	<u>12,318,737</u>	<u>11,908,346</u>
Net Assets at End of Year	<u>\$ 5,611,481</u>	<u>\$ 7,821,943</u>	<u>\$ 13,433,424</u>	<u>\$ 12,318,737</u>

**CITY OF LAGUNA BEACH**  
**Internal Service Funds**  
**Combining Statement of Cash Flows**  
**Year Ended June 30, 2012**  
**(With Comparative Totals for Year Ended June 30, 2011)**

	Insurance and Employee Benefits	Vehicle Replacement	Totals	
			2012	2011
Cash flows from operating activities:				
Cash received from user departments	\$ 6,434,317	\$ 1,095,749	\$ 7,530,066	\$ 7,392,016
Cash payments to suppliers for goods and services	(5,847,001)	336,728	(5,510,273)	(6,709,978)
Cash payments to employees for services	(915,026)	-	(915,026)	(929,829)
Net cash provided by (used for) operating activities	(327,710)	1,432,477	1,104,767	(247,791)
Cash flows from noncapital financing activities:				
Cash received from other funds	1,067,800	-	1,067,800	1,454,285
Cash paid to other funds	-	990,000	990,000	-
Repayments received on notes receivable	21,316	17,788	39,104	35,177
Net cash provided by (used for) noncapital financing activities	1,089,116	1,007,788	2,096,904	1,489,462
Cash flows from capital and related financing activities:				
Purchase of capital assets	-	(1,076,820)	(1,076,820)	(352,393)
Proceeds from sale of capital assets	-	58,098	58,098	38,842
Net cash provided by (used for) capital and related financing activities	-	(1,018,722)	(1,018,722)	(313,551)
Net increase (decrease) in cash and cash equivalents	761,406	1,421,543	2,182,949	928,120
Cash and cash equivalents at beginning of year	7,259,384	2,484,106	9,743,490	8,815,370
Cash and cash equivalents at end of year	\$ 8,020,790	\$ 3,905,649	\$ 11,926,439	\$ 9,743,490

(Continued)

**CITY OF LAGUNA BEACH**  
**Internal Service Funds**  
**Combining Statement of Cash Flows**  
**(Continued)**

	Insurance and Employee Benefits	Vehicle Replacement	Totals	
			2012	2011
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (562,450)	\$ 551,239	\$ (11,211)	\$ (1,082,723)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	-	553,461	553,461	628,458
Miscellaneous income	-	-	-	-
Gain (loss) on disposal of capital assets	-	-	-	38,829
(Increase) decrease in accounts receivable	-	(8,951)	(8,951)	14,014
(Increase) decrease in prepaids	266,823	-	266,823	(11,361)
(Increase) decrease in other assets	-	-	-	(43,593)
Increase (decrease) in accounts payable and accrued liabilities	123,471	336,728	460,199	(40,062)
Increase (decrease) in compensated absences payable	355,020	-	355,020	82,482
Increase (decrease) in Net OPEB liability	50,005	-	50,005	66,250
Increase (decrease) in insurance claims payable	(560,579)	-	(560,579)	99,915
Net cash provided by (used for) operating activities	<u>\$ (327,710)</u>	<u>\$ 1,432,477</u>	<u>\$ 1,104,767</u>	<u>\$ (247,791)</u>

Noncash capital, financing, and investing activities

There were no noncash capital, financing, or investing activities during the year ended June 30, 2012.

## **AGENCY FUNDS**

### **1911 Act Bonds Fund**

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

### **1915 Act Bonds Fund**

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

### **Deposits Fund**

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

**CITY OF LAGUNA BEACH**  
**Agency Funds**  
**Combining Statement of Fiduciary Assets and Liabilities**  
**June 30, 2012**  
**(With Comparative Totals for June 30, 2011)**

	1911 Act	1915 Act	Deposits	Totals	
	Bonds	Bonds		2012	2011
<b>ASSETS</b>					
Cash and investments	\$ 12,980	\$ 743,395	\$ 1,937,866	\$ 2,694,241	\$ 3,321,544
Investments with fiscal agent	-	685,337	-	685,337	1,188,811
Receivables:					
Taxes	-	18,878	-	18,878	31,744
Accounts	-	-	4,235	4,235	4,235
Intergovernmental	-	-	7,058	7,058	6,008
Total Assets	<u>\$ 12,980</u>	<u>\$ 1,447,610</u>	<u>\$ 1,949,159</u>	<u>\$ 3,409,749</u>	<u>\$ 4,552,342</u>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 148,544	\$ 148,544	\$ 43,520
Deposits	-	-	1,800,615	1,800,615	1,802,937
Due to bondholders	12,980	1,447,610	-	1,460,590	2,705,885
Total Liabilities	<u>\$ 12,980</u>	<u>\$ 1,447,610</u>	<u>\$ 1,949,159</u>	<u>\$ 3,409,749</u>	<u>\$ 4,552,342</u>

**CITY OF LAGUNA BEACH**  
**Agency Funds**  
**Combining Statement of Changes in Fiduciary Assets and Liabilities**  
**June 30, 2012**

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
<b><u>1911 Act Bonds</u></b>				
<b><u>Assets</u></b>				
Cash and Investments	\$ 20,739	\$ 12,980	\$ 20,739	\$ 12,980
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	\$ 7,759	\$ -	\$ 7,759	\$ -
Due to bondholders	12,980	-	-	12,980
Total Liabilities	<u>\$ 20,739</u>	<u>\$ -</u>	<u>\$ 7,759</u>	<u>\$ 12,980</u>
<b><u>1915 Act Bonds</u></b>				
<b><u>Assets</u></b>				
Cash and investments	\$ 1,473,327	\$ 743,395	\$ 1,473,327	\$ 743,395
Investments with fiscal agent	1,188,811	685,337	1,188,811	685,337
Receivables:				
Taxes	31,744	18,878	31,744	18,878
Total Assets	<u>\$ 2,693,882</u>	<u>\$ 1,447,610</u>	<u>\$ 2,693,882</u>	<u>\$ 1,447,610</u>
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	\$ 977	\$ -	\$ 977	\$ -
Due to bondholders	2,692,905	1,447,610	2,692,905	1,447,610
Total Liabilities	<u>\$ 2,693,882</u>	<u>\$ 1,447,610</u>	<u>\$ 2,693,882</u>	<u>\$ 1,447,610</u>
<b><u>Deposits</u></b>				
<b><u>Assets</u></b>				
Cash and investments	\$ 1,827,478	\$ 1,937,866	\$ 1,827,478	\$ 1,937,866
Receivables:				
Accounts	4,235	4,235	4,235	4,235
Intergovernmental	6,008	7,058	6,008	7,058
Total Assets	<u>\$ 1,837,721</u>	<u>\$ 1,949,159</u>	<u>\$ 1,837,721</u>	<u>\$ 1,949,159</u>
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	\$ 34,784	\$ 148,544	\$ 34,784	\$ 148,544
Deposits	1,802,937	1,800,615	1,802,937	1,800,615
Total Liabilities	<u>\$ 1,837,721</u>	<u>\$ 1,949,159</u>	<u>\$ 1,837,721</u>	<u>\$ 1,949,159</u>
<b>TOTALS</b>				
<b><u>Assets</u></b>				
Cash and investments	\$ 3,321,544	\$ 2,694,241	\$ 3,321,544	\$ 2,694,241
Investments with fiscal agent	1,188,811	685,337	1,188,811	685,337
Receivables:				
Taxes	31,744	18,878	31,744	18,878
Accounts	4,235	4,235	4,235	4,235
Intergovernmental	6,008	7,058	6,008	7,058
Total Assets	<u>\$ 4,552,342</u>	<u>\$ 3,409,749</u>	<u>\$ 4,552,342</u>	<u>\$ 3,409,749</u>
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	\$ 43,520	\$ 148,544	\$ 43,520	\$ 148,544
Deposits	1,802,937	1,800,615	1,802,937	1,800,615
Due to bondholders	2,705,885	1,447,610	2,692,905	1,460,590
Total Liabilities	<u>\$ 4,552,342</u>	<u>\$ 3,396,769</u>	<u>\$ 4,539,362</u>	<u>\$ 3,409,749</u>



**STATISTICAL SECTION**

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

	Fiscal Years			
	2003	2004	2005	2006
Governmental activities:				
Invested in capital assets, net of related debt	\$ 88,025,542	\$ 100,630,789	\$ 105,408,336	\$ 124,111,940
Restricted	10,032,695	8,324,762	9,726,623	10,449,060
Unrestricted	23,241,494	23,439,204	31,968,151	34,239,450
Total governmental activities	<u>\$ 121,299,731</u>	<u>\$ 132,394,755</u>	<u>\$ 147,103,110</u>	<u>\$ 168,800,450</u>
Business-type activities:				
Invested in capital assets, net of related debt	\$ 1,429,586	1,773,060	\$ 1,498,938	\$ 1,720,568
Unrestricted	23,050	23,051	714,920	265,839
Total business type activities	<u>\$ 1,452,636</u>	<u>1,796,111</u>	<u>\$ 2,213,858</u>	<u>\$ 1,986,407</u>
Primary Government:				
Invested in capital assets, net of related debt	\$ 89,455,128	\$ 102,403,849	\$ 106,907,274	\$ 125,832,508
Restricted	10,032,695	8,324,762	9,726,623	10,449,060
Unrestricted	23,264,544	23,462,255	32,683,071	34,505,289
Total business type activities	<u>\$ 122,752,367</u>	<u>\$ 134,190,866</u>	<u>\$ 149,316,968</u>	<u>\$ 170,786,857</u>

*Data Source: City Records*

Fiscal Years

2007	2008	2009	2010	2011	2012
\$ 285,605,573	\$ 305,837,234	\$ 318,076,672	\$ 315,618,279	\$ 321,965,481	\$ 324,225,923
11,766,456	10,754,223	10,806,358	12,512,277	5,196,077	5,869,787
43,592,259	41,777,890	40,877,799	43,085,546	56,708,144	50,569,411
<u>\$ 340,964,288</u>	<u>\$ 358,369,347</u>	<u>\$ 369,760,829</u>	<u>\$ 371,216,102</u>	<u>\$ 383,869,702</u>	<u>\$ 380,665,121</u>
\$ 2,702,993	\$ 3,056,319	\$ 2,706,697	\$ 2,620,625	\$ 3,033,502	\$ 2,834,551
505,975	465,194	464,012	55,182	372,435	372,452
<u>\$ 3,208,968</u>	<u>\$ 3,521,513</u>	<u>\$ 3,170,709</u>	<u>\$ 2,675,807</u>	<u>\$ 3,405,937</u>	<u>\$ 3,207,003</u>
\$ 288,308,566	\$ 308,893,553	\$ 320,783,369	\$ 318,238,904	\$ 324,998,983	\$ 327,060,474
11,766,456	10,754,223	10,806,358	12,512,277	5,196,077	5,869,787
44,098,234	42,243,084	41,341,811	43,140,728	57,080,579	50,941,863
<u>\$ 344,173,256</u>	<u>\$ 361,890,860</u>	<u>\$ 372,931,538</u>	<u>\$ 373,891,909</u>	<u>\$ 387,275,639</u>	<u>\$ 383,872,124</u>

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

	Fiscal Years			
	2003	2004	2005	2006
Expenses:				
Governmental activities:				
General government	\$ 3,124,084	\$ 2,904,607	\$ 4,294,820	\$ 3,921,931
Community development	2,337,716	2,355,274	2,382,329	2,668,812
Public Safety	16,112,020	16,049,217	18,193,401	18,864,927
Public Works	16,998,409	13,172,223	11,063,217	21,427,184
Recreation and social services	2,895,627	2,851,119	3,164,928	3,415,130
Sewer service operating costs	3,551,289	3,147,888	3,924,249	3,484,183
Interest on long-term debt	1,344,024	968,961	518,189	521,755
Total governmental activities expenses	<u>46,363,169</u>	<u>41,449,289</u>	<u>43,541,133</u>	<u>54,303,922</u>
Business-type activities:				
Municipal transit	\$ 1,289,289	\$ 1,453,091	\$ 1,677,468	\$ 1,664,811
Total business-type activities expenses	<u>\$ 1,289,289</u>	<u>\$ 1,453,091</u>	<u>\$ 1,677,468</u>	<u>\$ 1,664,811</u>
Total primary government expenses	<u>\$ 47,652,458</u>	<u>\$ 42,902,380</u>	<u>\$ 45,218,601</u>	<u>\$ 55,968,733</u>
Program revenues:				
Governmental activities:				
Charges for Services:				
General Government	\$ 763,533	\$ 895,538	\$ 954,161	\$ 985,885
Community development	1,728,284	2,317,751	2,680,048	2,775,360
Public safety	1,575,897	1,685,647	1,877,297	2,050,919
Public works	5,176,964	4,410,512	5,523,490	4,893,227
Recreation and social services	1,154,832	1,204,292	1,145,857	1,217,894
Sewer service operating costs	4,542,347	4,997,882	5,091,637	5,328,527
Operating Grants and Contributions:	2,491,136	2,445,247	2,804,549	3,716,412
Capital Grants and Contributions:	5,147,937	909,854	2,453,596	14,298,137
Total governmental activities program revenues	<u>\$ 22,580,930</u>	<u>\$ 18,866,723</u>	<u>\$ 22,530,635</u>	<u>\$ 35,266,361</u>
Business-type activities:				
Charges for Services:				
Municipal Transit	\$ 160,217	\$ 184,466	\$ 223,662	\$ 325,015
Operating Grants and Contributions:	973,931	1,085,797	1,201,453	881,047
Capital Grants and Contributions:	668,724	526,303	450,000	57,912
Total business-type activities program revenues	<u>\$ 1,802,872</u>	<u>\$ 1,796,566</u>	<u>\$ 1,875,115</u>	<u>\$ 1,263,974</u>
Total primary government program revenues	<u>\$ 24,383,802</u>	<u>\$ 20,663,289</u>	<u>\$ 24,405,750</u>	<u>\$ 36,530,335</u>
Net revenues (expenses):				
Governmental activities	\$ (23,782,239)	\$ (22,582,566)	\$ (21,010,498)	\$ (19,037,561)
Business-type activities	513,583	343,475	197,647	(400,837)
Total net revenues (expenses)	<u>\$ (23,268,656)</u>	<u>\$ (22,239,091)</u>	<u>\$ (20,812,851)</u>	<u>\$ (19,438,398)</u>

Data Source: City Records

Fiscal Years					
2007	2008	2009	2010	2011	2012
\$ 4,043,977	\$ 4,326,076	\$ 4,375,200	\$ 4,252,146	\$ 4,291,832	\$ 4,658,171
2,955,670	3,422,556	3,768,607	3,614,799	3,686,004	3,991,867
21,480,996	23,133,907	25,697,805	25,351,962	26,364,923	26,937,061
13,372,777	22,374,310	18,182,514	20,707,700	14,336,928	13,913,687
3,609,896	3,839,208	4,147,762	4,268,774	4,676,679	5,004,329
4,561,407	4,682,498	5,850,403	5,673,965	5,700,769	6,063,835
511,304	408,619	368,191	290,473	187,964	211,810
<u>50,536,027</u>	<u>62,187,174</u>	<u>62,390,482</u>	<u>64,159,819</u>	<u>59,245,099</u>	<u>60,780,760</u>
\$ 1,857,979	\$ 2,183,550	\$ 2,318,378	\$ 2,458,706	\$ 2,450,265	\$ 2,233,496
\$ 1,857,979	\$ 2,183,550	\$ 2,318,378	\$ 2,458,706	\$ 2,450,265	\$ 2,233,496
\$ 52,394,006	\$ 64,370,724	\$ 64,708,860	\$ 66,618,525	\$ 61,695,364	\$ 63,014,256
\$ 1,097,636	\$ 1,031,632	\$ 1,073,481	\$ 945,403	\$ 890,306	\$ 882,761
2,811,790	2,635,214	2,587,192	2,523,559	2,246,036	2,195,031
2,010,319	2,400,367	2,257,248	2,111,769	1,725,333	1,752,556
6,113,731	5,329,796	6,563,355	6,081,042	6,994,344	6,295,258
1,405,718	1,499,601	1,448,611	2,776,127	3,311,914	3,050,630
5,497,631	5,654,840	5,766,575	5,949,922	6,082,856	6,308,982
5,017,124	6,159,388	5,445,042	3,192,109	3,930,216	1,961,730
<u>15,865,514</u>	<u>7,300,066</u>	<u>1,083,774</u>	<u>75,751</u>	<u>1,002,303</u>	<u>878,382</u>
\$ 39,819,463	\$ 32,010,904	\$ 26,225,278	\$ 23,655,682	\$ 26,183,308	\$ 23,325,330
\$ 339,842	\$ 348,146	\$ 323,660	\$ 313,847	\$ 323,428	\$ 318,205
1,221,042	951,510	1,019,877	1,155,687	1,637,397	1,321,121
<u>1,223,950</u>	<u>862,200</u>	<u>9,496</u>	<u>-</u>	<u>393,174</u>	<u>-</u>
\$ 2,784,834	\$ 2,161,856	\$ 1,353,033	\$ 1,469,534	\$ 2,353,999	\$ 1,639,326
\$ 42,604,297	\$ 34,172,760	\$ 27,578,311	\$ 25,125,216	\$ 28,537,307	\$ 24,964,656
\$ (10,716,564)	\$ (30,176,270)	\$ (36,165,204)	\$ (40,504,137)	\$ (33,061,791)	\$ (37,455,430)
926,855	(21,694)	(965,345)	(989,172)	(96,266)	(594,170)
<u>\$ (9,789,709)</u>	<u>\$ (30,197,964)</u>	<u>\$ (37,130,549)</u>	<u>\$ (41,493,309)</u>	<u>\$ (33,158,057)</u>	<u>\$ (38,049,600)</u>

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

	Fiscal Years			
	2003	2004	2005	2006
General Revenues and other changes in net assets:				
Governmental activities:				
Taxes:				
Property taxes	\$ 14,987,265	\$ 16,295,123	\$ 19,355,411	\$ 21,284,138
Sales Tax	3,714,249	3,757,472	3,153,636	3,623,610
Sales tax in-lieu	-	-	910,621	918,602
Transient occupancy taxes	3,694,378	6,770,614	7,251,883	7,900,582
Other taxes	3,093,474	3,425,828	3,197,487	5,144,450
Motor vehicle license fees, unrestricted	1,416,513	1,073,809	266,988	171,850
Investment Income	1,035,339	866,479	790,686	952,890
Other general revenue	1,113,806	1,450,806	987,200	912,165
Gain on sale of assets	-	37,459	25,041	-
Transfers	(27,738)	-	(220,100)	(173,386)
Total governmental activities	<u>\$ 29,027,286</u>	<u>\$ 33,677,590</u>	<u>\$ 35,718,853</u>	<u>\$ 40,734,901</u>
Business-type activities				
Investment Income	\$ -	\$ -	\$ -	\$ -
Other general revenue	-	-	-	-
Gain or loss on sale of assets	(9,403)	-	-	-
Transfers	27,738	-	220,100	173,386
Total Business-type activities	<u>\$ 18,335</u>	<u>\$ -</u>	<u>\$ 220,100</u>	<u>\$ 173,386</u>
Total Primary government	<u>\$ 29,045,621</u>	<u>\$ -</u>	<u>\$ 35,938,953</u>	<u>\$ 40,908,287</u>
Changes in net assets				
Governmental activities	\$ 5,245,047	\$ 11,095,024	\$ 14,708,355	\$ 21,697,340
Business-type activities	531,918	343,475	417,747	(227,451)
Total primary government	<u>\$ 5,776,965</u>	<u>\$ 11,438,499</u>	<u>\$ 15,126,102</u>	<u>\$ 21,469,889</u>

Data Source: City Records

Fiscal Years

2007	2008	2009	2010	2011	2012
\$ 23,447,241	\$ 25,525,587	\$ 26,973,472	\$ 27,766,596	\$ 27,799,676	26,553,228
3,924,620	4,074,094	3,427,084	3,206,617	3,356,309	3,825,793
1,112,853	1,149,419	1,163,049	697,446	948,251	979,382
8,661,017	8,741,413	7,856,964	6,759,353	7,073,251	7,904,562
5,823,284	6,638,617	5,759,315	1,816,278	2,167,624	2,311,061
144,395	111,385	85,458	74,043	115,763	-
1,646,417	1,952,936	1,768,663	1,332,412	1,028,790	739,632
1,042,577	551,766	754,080	775,565	1,365,120	1,576,053
595,802	302,575	(60,087)	-	5,050	70,207
(272,174)	(386,000)	(602,000)	(468,900)	(823,900)	(391,300)
<u>\$ 46,126,032</u>	<u>\$ 48,661,792</u>	<u>\$ 47,125,998</u>	<u>\$ 41,959,410</u>	<u>\$ 43,035,934</u>	<u>\$ 43,568,618</u>
\$ 19,532	\$ 13,197	\$ 10,377	\$ 19,065	\$ 2,496	\$ 3,936
4,000	4,000	1,764	4,003	-	-
-	-	-	2,302	-	-
272,174	386,000	602,400	468,900	823,900	391,300
<u>\$ 295,706</u>	<u>\$ 403,197</u>	<u>\$ 614,541</u>	<u>\$ 494,270</u>	<u>\$ 826,396</u>	<u>\$ 395,236</u>
<u>\$ 46,421,738</u>	<u>\$ 49,064,989</u>	<u>\$ 47,740,539</u>	<u>\$ 42,453,680</u>	<u>\$ 43,862,330</u>	<u>\$ 43,963,854</u>
\$ 35,409,468	\$ 18,485,522	\$ 10,960,794	\$ 1,455,273	\$ 9,974,143	\$ 6,113,188
1,222,561	381,503	(350,804)	(494,902)	730,130	(198,934)
<u>\$ 36,632,029</u>	<u>\$ 18,867,025</u>	<u>\$ 10,609,990</u>	<u>\$ 960,371</u>	<u>\$ 10,704,273</u>	<u>\$ 5,914,254</u>

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

	Fiscal Years			
	2003	2004	2005	2006
General Fund:				
Reserved	\$ 3,328,671	\$ 1,837,552	\$ 4,347,426	\$ 12,084,685
Unreserved	18,188,487	15,167,130	18,969,420	21,154,238
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total general fund	<u>21,517,158</u>	<u>17,004,682</u>	<u>23,316,846</u>	<u>33,238,923</u>
All other governmental funds				
Reserved	5,012,584	3,776,687	4,394,865	3,830,101
Unreserved, reported in:				
Special revenue funds	2,207,348	1,813,192	2,382,224	(4,531,715)
Capital project funds	418,017	2,147,864	2,101,113	2,681,454
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total all other governmental funds	<u>\$ 7,637,949</u>	<u>\$ 7,737,743</u>	<u>\$ 8,878,202</u>	<u>\$ 1,979,840</u>

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



Fiscal Years					
2007	2008	2009	2010	2011	2012
\$ 16,453,679	\$ 8,211,027	\$ 5,858,971	\$ 3,056,277	\$ -	\$ -
24,117,352	27,071,427	28,418,761	22,743,525	-	-
-	-	-	-	1,457,462	103,726
-	-	-	-	4,731,971	3,526,976
-	-	-	-	234,988	306,539
-	-	-	-	19,511,838	20,962,498
-	-	-	-	4,822,332	8,215,647
<u>40,571,031</u>	<u>35,282,454</u>	<u>34,277,732</u>	<u>25,799,802</u>	<u>30,758,591</u>	<u>33,115,386</u>
2,806,815	2,473,864	4,788,422	5,235,110	-	-
(11,095,737)	2,678,698	2,939,618	5,511,826	-	-
4,427,423	5,565,582	2,990,803	1,269,168	-	-
-	-	-	-	791,384	791,384
-	-	-	-	6,266,345	10,385,155
-	-	-	-	5,857,868	-
-	-	-	-	-	-
-	-	-	-	(2,184,688)	(774,645)
<u>\$ (3,861,499)</u>	<u>\$ 10,718,144</u>	<u>\$ 10,718,843</u>	<u>\$ 12,016,104</u>	<u>\$ 10,730,909</u>	<u>\$ 10,401,894</u>

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

	Fiscal Years			
	2003	2004	2005	2006
<b>Revenues:</b>				
Taxes and special assessments	\$ 24,645,650	\$ 27,674,519	\$ 33,632,030	\$ 37,249,362
License and permits	882,545	998,849	1,189,531	1,264,362
Fines and penalties	1,171,368	1,284,874	1,529,719	1,598,359
Investment income	1,120,290	960,226	932,572	1,277,408
Rental income	400,928	403,376	450,735	448,309
Intergovernmental	4,227,651	3,577,569	2,924,122	9,989,976
Charges for services	9,383,066	10,871,092	11,282,059	11,566,496
Parking meters, lots and permits	3,449,024	2,805,707	3,862,436	3,225,562
Development tax	627,812	372,123	356,855	386,146
Contributions from property owners	4,012,814	358,686	578,739	-
Other	572,059	677,375	547,486	806,114
Total Revenue	<u>\$ 50,493,207</u>	<u>\$ 49,984,396</u>	<u>\$ 57,286,284</u>	<u>\$ 67,812,094</u>
<b>Expenditures</b>				
<b>Current:</b>				
General government	\$ 2,881,158	\$ 2,930,520	\$ 4,181,073	\$ 3,758,978
Community development	2,283,465	2,490,925	2,416,040	2,703,135
Public Safety	15,646,840	16,758,061	18,641,992	19,267,767
Public works	8,468,281	8,426,182	8,584,263	9,089,003
Recreation and social services	2,847,479	3,039,009	3,230,652	3,486,067
Sewer service operating costs	2,785,101	2,848,097	3,389,582	2,928,237
Capital expenditures	22,180,636	10,216,779	6,865,535	23,870,902
<b>Debt service:</b>				
Principal	1,425,000	9,286,834	1,660,000	1,730,000
Interest and fiscal charges	613,869	992,687	543,296	468,513
Total Expenditures	<u>\$ 59,131,829</u>	<u>\$ 56,989,094</u>	<u>\$ 49,512,433</u>	<u>\$ 67,302,602</u>
Excess (deficiency) of revenues over (under) expenditures	\$ (8,638,622)	\$ (7,004,698)	\$ 7,773,851	\$ 509,492
<b>Other financing sources (uses):</b>				
Transfer In	\$ 1,013,001	\$ 2,397,537	\$ 1,557,042	\$ 2,905,040
Transfer Out	(1,214,051)	(1,809,812)	(3,581,690)	(2,651,632)
Issuance of bond	-	-	1,627,140	524,543
Issuance of loan	-	-	69,357	1,632,928
Advance payments of PERS obligation	-	-	-	-
Developer loan	8,707,000	-	-	-
Sales of land and equipment	5,198	3,991	6,923	4,344
Total other financing sources (uses)	<u>8,511,148</u>	<u>591,716</u>	<u>(321,228)</u>	<u>2,415,223</u>
Net change in fund balances	<u>\$ (127,474)</u>	<u>\$ (6,412,982)</u>	<u>\$ 7,452,623</u>	<u>\$ 2,924,715</u>
Debt service as a percentage of noncapital expenditures	5.8%	28.2%	5.4%	5.3%

Data Source: City Records

Fiscal Years

	2007	2008	2009	2010	2011	2012
\$	41,980,491	\$ 45,061,416	\$ 44,868,922	\$ 40,986,641	\$ 41,678,318	\$ 41,653,733
	1,096,008	1,024,172	1,141,821	924,040	990,966	975,884
	1,476,739	1,968,877	1,807,176	1,483,462	1,274,270	1,283,698
	1,836,734	2,172,846	1,907,979	1,361,432	1,064,467	739,628
	369,318	354,560	387,562	420,678	445,491	419,641
	11,713,427	24,866,373	4,892,173	3,228,921	3,978,327	3,469,505
	12,316,932	12,649,555	12,444,053	12,693,018	13,056,488	12,987,838
	4,334,250	3,406,195	4,715,786	4,080,151	4,891,228	4,276,533
	276,472	152,469	6,441	39,804	680,391	183,704
	-	-	-	-	-	-
	1,938,787	2,556,833	2,238,673	1,047,961	1,372,893	900,815
\$	<u>77,339,158</u>	<u>\$ 94,213,296</u>	<u>\$ 74,410,586</u>	<u>\$ 66,266,108</u>	<u>\$ 69,432,839</u>	<u>\$ 66,890,979</u>

\$	3,361,299	\$ 4,047,877	\$ 3,977,543	\$ 3,901,637	\$ 3,991,706	\$ 4,071,235
	3,041,255	3,399,926	3,636,575	3,482,651	3,531,828	3,600,452
	22,092,500	23,078,430	25,048,032	24,681,583	24,676,244	24,419,318
	9,202,763	10,501,163	11,049,821	11,070,780	10,097,113	10,671,049
	4,437,225	3,865,406	4,006,552	4,196,800	4,003,836	4,049,299
	3,348,521	3,620,729	3,886,559	4,093,162	4,009,715	4,062,448
	36,404,842	33,322,037	24,039,610	9,377,939	11,060,240	10,745,569
	2,101,314	2,199,676	1,655,800	1,425,000	1,490,000	1,915,472
	542,389	441,432	717,756	697,523	625,428	181,283
\$	<u>84,532,108</u>	<u>\$ 84,476,676</u>	<u>\$ 78,018,248</u>	<u>\$ 62,927,075</u>	<u>\$ 63,486,110</u>	<u>\$ 63,716,125</u>

\$	(7,192,950)	\$ 9,736,620	\$ (3,607,662)	\$ 3,339,033	\$ 5,946,729	\$ 3,174,854
\$	3,000,810	\$ 1,857,367	\$ 1,499,569	\$ 6,087,140	\$ 538,742	\$ 987,270
	(3,346,660)	(2,465,695)	(2,101,969)	(6,803,929)	(2,816,927)	(2,446,370)
	2,269,830	584,539	-	-	-	-
	2,071,567	534,000	2,586,128	152,486	-	459,263
	-	-	-	(9,956,355)	-	-
	-	-	-	-	-	-
	4,788,172	302,572	7,223	956	5,050	12,109
	8,783,719	812,783	1,990,951	(10,519,702)	(2,273,135)	(987,728)
\$	<u>1,590,769</u>	<u>\$ 10,549,403</u>	<u>\$ (1,616,711)</u>	<u>\$ (7,180,669)</u>	<u>\$ 3,673,594</u>	<u>\$ 2,187,126</u>

5.8%	5.4%	4.6%	4.1%	4.2%	4.1%
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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
2003	5,410,641,646	75,742,398	5,486,384,044	0.146%
2004	5,945,977,936	91,846,719	6,037,824,655	0.146%
2005	6,670,751,744	156,881,531	6,827,633,275	0.146%
2006	7,462,406,353	89,524,835	7,551,931,188	0.146%
2007	8,209,054,191	92,955,130	8,302,009,321	0.146%
2008	9,035,861,459	87,362,786	9,123,224,245	0.146%
2009	9,647,441,774	103,225,460	9,750,667,234	0.146%
2010	10,043,507,598	100,187,357	10,143,694,955	0.146%
2011	10,215,663,906	119,808,679	10,335,472,585	0.200%
2012	10,367,538,945	100,795,035	10,468,333,980	0.200%

NOTE:

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

*Source: Orange County Auditor Controller's Office*

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

	Fiscal Years				
	2003	2004	2005	2006	2007
City Direct Rates:					
City basic rate	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Total City Direct Rate	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Overlapping Rates:					
City of Laguna Beach Bonds	0.0291	0.0223	0.0197	0.0179	0.0179
Unified School District Bonds	0.0290	0.0202	0.0190	0.0172	0.0172
South Coast Water District	0.0166	0.0108	0.0098	0.0090	0.0090
Metro Water District	0.0067	0.0058	0.0052	0.0047	0.0047
Orange County	-	-	-	-	-
Total Direct Rate	<u>\$ 1.08129</u>	<u>\$ 1.05909</u>	<u>\$ 1.05370</u>	<u>\$ 1.04883</u>	<u>\$ 1.04883</u>

NOTE:

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

*Source: Orange County Auditor Controller's Office*

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

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

Taxpayer	2012			2003		
	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value
Laguna Beach Luxury Hotel	\$ 171,468,096	1	1.64%			
Mission Hospital Regional Medical Cnt	76,688,527	2	0.73%			
Club Laguna Partnership	45,001,717	3	0.43%	\$ 38,399,547	2	0.70%
Kenneth J. Sullivan III Trust	35,421,982	4	0.34%			
Laguna Resort Property	32,879,499	5	0.31%			
Richard and Naelda Merritt	31,740,628	6	0.30%			
Nevills Neil D Trust	30,100,092	7	0.29%			
Serenita, LLC	29,928,900	8	0.29%			
Residential Property Investment LLC	23,440,969	9	0.22%			
Gary J. Daichendt Trust	22,821,714	10	0.22%			
Five Star Resort LLC				38,760,000	1	0.71%
PW Acquisitions XI				18,859,616	3	0.34%
O Hill Properties				18,625,149	4	0.34%
Cox Communications				16,249,188	5	0.30%
Ocean Point Limited				11,673,418	6	0.21%
Philip J. Carroll				11,648,277	7	0.21%
Matthew Alcone Trust				10,617,988	8	0.19%
Stephen R. Rizzone				9,690,000	9	0.18%
Regency Associates Limited				9,521,779	10	0.17%
	<u>\$ 499,492,124</u>		<u>4.77%</u>	<u>\$ 184,044,962</u>		<u>3.35%</u>

Source: HdL Coren & Cone

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

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collections within the Fiscal Year of Levy		Collection in Subsequent Years	Total Collection to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2003	12,895,845	12,655,796	98.14%	240,049	12,895,845	100%
2004	14,215,094	14,006,384	98.53%	208,710	14,215,094	100%
2005	16,207,471	16,492,734	101.76%	285,263	16,777,997	104%
2006	18,222,850	17,817,435	97.78%	405,415	18,222,850	100%
2007	19,684,235	18,984,179	96.44%	700,056	19,684,235	100%
2008	21,536,874	20,677,967	96.01%	858,906	21,536,873	100%
2009	22,533,278	21,703,512	96.32%	829,766	22,533,278	100%
2010	20,988,144	20,435,935	97.37%	552,209	20,988,144	100%
2011	23,406,343	22,993,852	98.24%	412,491	23,406,343	100%
2012	23,537,933	23,164,514	98.41%	373,417	23,537,931	100%

*Source: Orange County Auditor Controller's Office*



CITY OF LAGUNA BEACH  
 Legal Debt Margin  
 Last Ten Fiscal Years

	Fiscal Years			
	2003	2004	2005	2006
Assessed valuation	5,486,384,044	6,037,824,655	6,827,633,275	7,551,931,188
Conversion percentage	25%	25%	25%	25%
Adjusted assessed valuation	1,371,596,011	1,509,456,164	1,706,908,319	1,887,982,797
Debt limit percentage	15%	15%	15%	15%
Debt limit	205,739,402	226,418,425	256,036,248	283,197,420
Total net debt applicable to limit:				
General obligation bonds	<u>12,692,076</u>	<u>11,346,297</u>	<u>10,138,813</u>	<u>8,913,977</u>
Legal debt margin	<u>\$ 193,047,326</u>	<u>\$ 215,072,128</u>	<u>\$ 245,897,435</u>	<u>\$ 274,283,443</u>
Total debt applicable to the limit as a percentage of debt limit	6.2%	5.0%	4.0%	3.1%

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

Note:  
 Data Source: City Records

Fiscal Years

2007	2008	2009	2010	2011	2012
8,302,009,321	9,123,224,245	9,750,667,234	10,143,694,955	10,335,472,585	10,367,538,945
25%	25%	25%	25%	25%	25%
2,075,502,330	2,280,806,061	2,437,666,809	2,535,923,739	2,583,868,146	2,591,884,736
15%	15%	15%	15%	15%	15%
311,325,350	342,120,909	365,650,021	380,388,561	387,580,222	388,782,710
7,600,937	6,330,853	7,150,000	5,840,000	4,480,000	1,565,000
<u>\$ 303,724,413</u>	<u>\$ 335,790,056</u>	<u>\$ 358,500,021</u>	<u>\$ 374,548,561</u>	<u>\$ 383,100,222</u>	<u>\$ 387,217,710</u>
2.4%	1.9%	2.0%	1.5%	1.2%	0.4%

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

Fiscal Year	Population	Personal Income (in thousands)	Per Capita Income	Unemployment Rates
2002	24,312	\$ 1,408,748	\$ 57,945	3.6%
2003	24,572	\$ 1,451,529	\$ 59,072	3.5%
2004	24,755	\$ 1,520,498	\$ 61,422	3.1%
2005	24,844	\$ 1,582,252	\$ 63,687	2.7%
2006	24,879	\$ 1,668,235	\$ 67,054	2.5%
2007	24,921	\$ 1,726,808	\$ 69,291	2.8%
2008	24,998	\$ 1,745,071	\$ 69,808	3.8%
2009	25,175	\$ 1,716,641	\$ 68,188	6.6%
2010	25,354	\$ 1,917,193	\$ 75,617	7.1%
2011	22,966	\$ 1,914,147	\$ 83,347	6.4%
2012*				

\* 2012 data not available

*Source: HdL Coren & Cone*

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

Function	Fiscal Years			
	2003	2004	2005	2006
General Government	17.10	17.63	17.63	18.03
Public Safety	134.00	131.00	131.75	132.00
Public Works	69.00	54.00	56.00	56.00
Community Development	23.60	23.60	24.00	24.00
Recreational and Cultural	6.75	7.50	7.50	7.50
Water Quality	-	15.00	15.00	15.00
Total	<u>250.45</u>	<u>248.73</u>	<u>251.88</u>	<u>252.53</u>

*Data Source: City Records*

Fiscal Years					
2007	2008	2009	2010	2011	2012
18.03	18.03	18.03	18.03	18.03	17.63
133.00	135.00	134.00	134.00	132.60	132.50
56.00	56.00	57.00	55.00	54.00	51.00
26.00	26.00	29.00	28.00	27.00	26.50
7.50	7.50	7.65	7.65	7.75	7.75
15.00	15.00	15.00	15.00	15.00	15.00
<u>255.53</u>	<u>257.53</u>	<u>260.68</u>	<u>257.68</u>	<u>254.38</u>	<u>250.38</u>

CITY OF LAGUNA BEACH  
 Operating Indicators  
 Last Ten Fiscal Years

	Fiscal Years			
	2003	2004	2005	2006
Police				
Custodial Arrests	2,936	3,358	1,997	1,823
Traffic Violations	6,945	579	9,934	7,089
Parking Violations	43,786	38,335	38,149	43,653
Fire Protection:				
Number of Calls Answered	2,432	2,432	2,454	2,446
Number of Inspections	709	709	709	714
Water Quality:				
Number of Service Connections	8,504	8,504	8,504	8,504
Daily Average Treatment in gallons	2	2	2	2
Maximum daily capacity of treatment plant in gallons	4	4	4	4

*Data Source: City Records*

N/A - Not currently available.

Fiscal Years					
2007	2008	2009	2010	2011	2012
N/A	1,337	1,296	1,411	2,163	1,527
N/A	3,718	7,292	6,624	7,176	5,855
39,659	53,863	48,148	39,108	35,688	38,553
N/A	N/A	N/A	N/A	N/A	3,413
N/A	N/A	N/A	N/A	N/A	806
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			
	2003	2004	2005	2006
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



Fiscal Years					
2007	2008	2009	2010	2011	2012
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