

City of Laguna Woods, California

Comprehensive Annual Financial Report with Report on Audit by Independent Auditors

Year Ended June 30, 2018
(Fiscal Year 2017-18)

Prepared by:

Administrative Services Department
Margaret Cady, CPA

Administrative Services Director/City Treasurer



City of Laguna Woods, California

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**Year Ended June 30, 2018
(Fiscal Year 2017-18)**

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Margaret Cady, CPA
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**CITY OF LAGUNA WOODS,
CALIFORNIA
JUNE 30, 2018**

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INTRODUCTORY SECTION

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City of Laguna Woods

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Carol Moore
Mayor

October 26, 2018

Cynthia Conners
Mayor Pro Tem

Honorable Mayor and Members of the City Council:

Noel Hatch
Councilmember

Shari L. Horne
Councilmember

Joe Rainey
Councilmember

Christopher Macon
City Manager

It is my privilege to present the City of Laguna Woods' (City) Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2018 (Fiscal Year 2017-18). This CAFR was prepared by the City's Administrative Services Department in conformance with Generally Accepted Accounting Principles (GAAP). This CAFR also meets state law requirements for the annual publication of audited financial records.

This CAFR consists of management's representations concerning the finances of the City. As such, management of the City assumes full responsibility for the completeness and reliability of all information presented. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed 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. The internal control framework is a guide at any given time. As the City's business and operating environments may change over time, management periodically reassesses the internal control framework to identify opportunities to improve its effectiveness. The internal control framework is designed to provide reasonable, rather than absolute, assurance that the City's financial statements will be free from material misstatement. Management believes that, to the best of our knowledge, this CAFR is complete and reliable in all material respects.

The City's financial statements for Fiscal Year 2017-18 have been independently audited by Brown Armstrong Accountancy Corporation. The goal of the independent audit was to provide reasonable assurance that the City's financial statements are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and, evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this CAFR.

The City, as a recipient of federal financial assistance, including pass-through of federal funding by the State of California, County of Orange, and other agencies, is responsible for compliance with applicable laws and regulations related to those programs. The City's internal control framework, monitored by management, is designed to meet required compliance. The federal Office of Management and Budget's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) establishes a threshold for a

required annual audit (single audit) of those entities receiving federal funding. The City did not meet that threshold and a single audit was not required for Fiscal Year 2017-18.

This transmittal letter is designed to supplement the components of the CAFR, which includes Management's Discussion and Analysis (MD&A), summaries of all financial activity for all funds of the City, and government-wide financial statements. The MD&A provides analysis of trends, fluctuations, variances, and other events or decisions that affect the financial condition of the City. This transmittal letter complements and should be read in conjunction with the MD&A. The MD&A can be found immediately following the independent auditor's report.

Government Profile

The City of Laguna Woods was incorporated on March 24, 1999 and includes the private gated community of Laguna Woods Village, several senior-oriented residential communities, commercial centers, three public parks, and additional open space areas. The City occupies approximately three square miles of land in Orange County, California and is bordered by the cities of Aliso Viejo, Irvine, Laguna Beach, and Laguna Hills, as well as unincorporated and undeveloped open space owned by the County of Orange and the City of Laguna Beach.

The City of Laguna Woods is a "general law city" with a "Council-Manager" form of local government, meaning that it operates within the parameters of California municipal law with an elected City Council that is responsible for legislative and policy functions. The City Council appoints and supervises a professional City Manager who is charged with the "day-to-day" responsibilities of managing the City and implementing City Council laws and policy. The City Council also appoints a City Attorney to serve as the City's legal counsel. The five members of the City Council are residents of Laguna Woods who are elected at-large by registered voters to four-year terms. Elections are held in even-numbered years with two and then three members of the City Council elected at subsequent elections. The City Council appoints a Mayor and Mayor Pro Tem, annually, from amongst its membership, to preside over City Council meetings, execute certain legal instruments and authorizations, and attend to various ceremonial matters.

The City operates as a "contract city," partnering with other governmental entities and private firms to provide traditional municipal services. Key franchise and contract services providers for Fiscal Year 2017-18 included:

SERVICE	PROVIDER
Animal Control & Shelter Services	City of Laguna Beach
Building & Engineering Services	CivilSource
Landscape Maintenance Services	Nieves Landscaping
Law Enforcement Services	Orange County Sheriff's Department
Legal Services	Rutan & Tucker, LLP
Planning Services	Michael Baker International
Solid Waste Handling Services	Waste Management
Street & Right-of-Way Maintenance Services	PV Maintenance
Traffic Signal & Lighting Maintenance Services	Computer Service Company

The City is a member of two joint powers authorities – the California Joint Powers Insurance Authority (CJPIA), which provides insurance and risk management services, and the Orange County Fire Authority (OCFA), which provides fire services. As a “structural fire fund city,” a fire tax is included in Laguna Woods’ 1% basic property tax levy. As the County of Orange collects the fire tax, accumulates the proceeds in a structural fire fund, and makes payments to OCFA on behalf of the City, expenses for fire services are not included in this CAFR.

Prior to each fiscal year, the City Council adopts a budget, which serves as the foundation for the City’s financial planning and control. The budget is established at the fund level with the City Manager having the authority to make adjustments within and between departments in the same fund, provided that there are no increases in fund-level budgets. While the City Manager is authorized to decrease fund-level budget appropriations as a method of fiscal control, City Council action is required to increase fund-level budget appropriations.

Economic Considerations

The California State Budget for Fiscal Year 2018-19 “assumes the continued expansion of the economy and a balanced budget,” but warns that “by the end of 2018-19, the current economic expansion will have matched the longest in post-war history.” Uncertainty regarding actions of the federal government, including the long-term impact of changes in the federal tax system that were enacted in late-2017 (particularly as they relate to growth of the federal deficit and income inequality), compound long-term sustainability concerns and lead to a continued emphasis on “rainy day” planning in anticipation of a coming recession. Most succinctly, the California State Budget notes that “economic expansions don’t last forever.”

Chapman University’s A. Gary Anderson Center for Economic Research takes a similar view of current economic performance, noting in its 40th Annual Economic Forecast (December 2017) that “the critical question now is whether the [economic] expansion can endure in the face of full employment and falling productivity.” That same forecast opined that due to a current lack of recessionary signals, the economic expansion is likely to continue through 2018.

In June 2018, the A. Gary Anderson Center for Economic Research’s California Composite Index of Consumer Sentiment found consumer optimism “steady” with recent measurements, which “suggests consumers are content with the overall economic conditions.” The Consumers’ Spending Plan Index increased from months prior, which “suggests that consumers’ spending over the next six months on big-ticket items will continue to be strong.”

Again, similar to the California State Budget and the A. Gary Anderson Center for Economic Research, California State University, Fullerton’s Woods Center for Economic Analysis and Forecasting’s spring 2018 update to its *Economic Outlook and Forecasts* found that “while risks are elevated compared to a year ago... economic expansion [is expected] to continue apace in the U.S. and the rest of the world this year and the next.” The analysis of Orange County business leader expectations of economic performance indicated that anticipated increases in the Federal Reserve interest rate and government regulation are top concerns for businesses.

Significant Financial Concerns

The single greatest threat to the solvency of the City remains the rising cost of law enforcement services. After a reduction of investigative staffing that caused a small reduction in costs for law enforcement services in Fiscal Year 2017-18, law enforcement costs increased by approximately 5.78% in Fiscal Year 2018-19. As in fiscal years past, the increase was primarily attributable to wage and benefit increases that were negotiated by the County of Orange and approved by the Orange County Board of Supervisors, as well as retirement rate changes approved by the Orange County Employees Retirement System. Projections continue to show that law enforcement costs are increasing at an unsustainable rate, significantly in excess of inflation.

The City's lack of a strong and diversified local sales tax base also continues to be of significant concern, with sales tax comprising the second largest (and, most vulnerable) source of operating revenue. While the addition of ALDI Food Market, Dollar Tree, and the drive-thru Starbucks positively impacted sales tax in Fiscal Year 2017-18, and the renovation of the Willow Tree Center is expected to do the same for Fiscal Year 2018-19, the City continues to be reliant on an extremely small number of businesses for sales tax revenue. Such dependency creates a high level of potential financial volatility, particularly in the event of any future turnover amongst top sales tax-generating businesses. The continued vacancy of the former Office Max site, and the planned transition of the former Hometown Buffet site to a use that is expected to generate negligible sales tax revenue, are examples of near-term erosion of the sales tax base.

In the event that California voters approve Proposition 6 (*Eliminates certain road repair and transportation funding. Requires certain fuel taxes and vehicle fees be approved by the electorate. Initiative constitutional amendment.*) at the upcoming November 6, 2018 General Election, transportation-related revenues that the City receives as a result of Senate Bill 1 (*Road Repair and Accountability Act of 2017*), will cease to be collected five days after the California Secretary of State certifies the election results. Proposition 6's passage would require the City to reconsider planned and anticipated capital improvement project expenditures.

Relevant Financial Policies

The City has numerous financial policies to promote the prudent management and safeguarding of its assets, including investment, budgeting, reserves, reporting, payment, purchasing and procurement policies. During Fiscal Year 2017-18, the City Council approved an update of the budgeting, reserves, and reporting policy, as well as purchasing and procurement policies. After completing its annual review of the adequacy and effectiveness of the investment policy, the City Council re-adopted the investment policy without modification.

- Budgeting, Reserves, and Reporting Policy – This administrative policy is intended to “provide a framework for the development of the [City’s] budget, with an emphasis on balance, transparency, fiscal responsibility, and long-term planning.” On June 20, 2018, the policy was modified to include (1) changes related to the City’s transition from seven- to 11-year capital improvement program development; (2) policy related to the finalization of, and accounting entries for, carryovers of budget appropriations between

fiscal years; and, (3) clarifications of existing policy.

- Purchasing and Procurement Policies – Prior to Fiscal Year 2017-18, purchasing and procurement policies were contained in the Laguna Woods Municipal Code and various administrative policies. During Fiscal Year 2017-18, the policies were consolidated, clarified, and comprehensively updated for the first time since the purchasing chapter of the Laguna Woods Municipal Code was carried over from the County of Orange's Code of Ordinances at the City's incorporation in 1999.

Long-Term Financial Planning

In recent fiscal years, the City has expanded its budget presentation; transitioned from single-year to two-year budgets and work plans; improved the quality and transparency of its annual financial reporting by preparing comprehensive annual financial reports; updated policies and practices pertaining to investment, budgeting, reserves, reporting, purchasing, and procurement; and, undertaken longer-term strategic financial planning. Those efforts have resulted in the City receiving the Operating Budget Meritorious Award for Fiscal Year 2017-18 from the California Society of Municipal Finance Officers (CSMFO) and the Certificate of Achievement for Excellence in Financial Reporting for the Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2016-17 from the Government Finance Officers Association (GFOA).

Multi-Year Budgeting and Strategic Financial Planning

Fiscal Year 2017-18 was the first fiscal year of the City's first two-year budget and work plan. The transition from single- to two-year budgets and work plans was undertaken with the goals of providing longer-term economic forecasts, greater certainty regarding the sustainability of the City's operations, and heightened strategic vision. Central to the transition to a two-year budget and work plan was the development of a five-year strategic financial plan with projections of future revenue and expenditure conditions. The five-year strategic financial plan is incorporated throughout the budget and work plan.

In Fiscal Year 2017-18, the City also transitioned from seven- to 11-year capital improvement program planning and from seven- to 10-year pavement management planning. Both transitions are expected to assist with longer-range financial planning.

Budgetary Reserves

The overall target for committed and assigned reserves is currently established in an amount equal to 50% of the adopted General Fund revenue budget at the beginning of each fiscal year (July 1), less any one-time revenues and non-operating revenues. The overall target amount is currently used to fund three committed and assigned reserves – (1) a Paid Leave Contingency Fund to compensate for payments required to comply with the City's paid leave policies and obligations, when such amounts exceed adopted budgets; (2) a Self-Insurance Contingency Fund to compensate for liability and workers' compensation claim settlements not covered by insurance policies; and, (3) a General Fund Contingency Fund to compensate for economic uncertainty, operating contingencies, and emergencies caused by calamitous events.

In addition to committed and assigned reserves, unassigned General Fund balance is available for any governmental purpose and can be appropriated upon direction from the City Council. Use of unassigned General Fund balance is generally limited to one-time projects, capital improvement projects, the payment of long-term liabilities for periods beyond the current fiscal year, and emergency expenditures. At the conclusion of Fiscal Year 2017-18, the City had an unassigned General Fund balance equivalent to approximately 188.5% of General Fund operating expenses for that year.

California Public Employees' Retirement System

The City maintains defined benefit pension plans that are administered by the California Public Employees' Retirement System (CalPERS). The plans provide benefits to qualified employees based on their number of years of service, age at retirement, and final compensation (average salary for a defined period of employment). Qualified employees hired prior to January 1, 2013, or otherwise eligible in accordance with the Public Employees' Pension Reform Act of 2013 (PEPRA), are considered "classic" members and are enrolled in a "2% at age 55" plan. Classic members contribute 7% of their annual covered salary with the City contributing 9.517% for Fiscal Year 2017-18 and 10.014% for Fiscal Year 2018-19. Qualified employees hired on or after January 1, 2013, and not considered "classic" members (new/PEPRA members), are enrolled in a "2% at age 62" plan and contribute a variable percentage of their annual covered salary, in accordance with PEPRA. The new/PEPRA employee contribution rate was 6.75% for Fiscal Year 2017-18 and is 6.75% for Fiscal Year 2018-19, with the City contributing 6.628% for Fiscal Year 2017-18 and 6.946% for Fiscal Year 2018-19.

CalPERS produces annual valuation reports for each city's pension plans based on information available as of June 30 of the preceding year. The City's budget appropriations for employer contributions to CalPERS are based on the information contained in the most current valuation reports. Current and prior valuation reports are available at City Hall and on CalPERS' website (www.calpers.ca.gov > search and then select "Public Agency Actuarial Valuation Reports" > search and then select "Laguna Woods City" in the "Name" field).

The City's most current valuation reports are based on information as of June 30, 2016; however, at the City's request, CalPERS provided updated valuations with projections as of September 6, 2018. CalPERS has projected the City's total unfunded accrued liability as of June 30, 2019 at \$144,692 (classic and new/PEPRA plans).

The City makes annual required contributions to CalPERS that are based on a variety of assumptions including, but not limited to, rates of return on pooled investments managed by CalPERS. The difference between the sum of the City's annual required contributions and the total projected cost of earned pension benefits is referred to as "unfunded accrued liability."

In December 2016, the CalPERS Board of Administration voted to lower CalPERS' assumed rate of return on pooled investments from 7.5 to 7%, over a three-year period, beginning in Fiscal Year 2017-18. CalPERS advised that cities should anticipate increases of up to 3% in annual required contributions over that three-year period, as well as increases of up to 40% in unfunded

accrued liability. It has also been suggested that the assumed rate of return may be further reduced in the future, which would result in even greater increases.

While many other cities struggle with the burden of increased costs of employee pension plans and, in particular, unfunded accrued liabilities thereof, the City has taken steps to manage its obligations, including through the establishment of a policy of at least biennial consideration of lump sum payments to reduce unfunded accrued liability. The first such lump sum payments were made in Fiscal Year 2016-17 and second were made in Fiscal Year 2018-19. Those actions are expected to save the City hundreds of thousands of dollars over the next 30 years.

Other Post-Employment Benefits Trust

In Fiscal Year 2015-16, the City established an Other Post-Employment Benefits (OPEB) trust to proactively manage future costs and reduce unfunded liabilities associated with the City's statutorily required cost of CalPERS health insurance premiums for qualified, retired employees. The trust was established with an initial funding level of 80% of the OPEB liability and is reviewed and maintained as stipulated in the City's budgeting, reserves, and reporting policy. As of June 30, 2018, the net OPEB obligation was funded at 82.76% through the trust, which will be reflected in the next valuation report and CAFR.

Major Initiatives

During Fiscal Year 2017-18, the City Council pursued the following priority focus areas, which provided guiding principles and goals for the City's programs, projects, and services. The priority focus areas were first selected in Fiscal Year 2014-15.

City Council's Priority Focus Areas

A City that is...



Healthy and safe



High in quality of life



Environmentally conscious



Economically prosperous



Fiscally responsible



Professionally and efficiently served

The City's accomplishments in Fiscal Year 2017-18, included:

- Laguna Woods was ranked as one of the top 50 safest cities in California by SafeWise. In the 2017 calendar year, Laguna Woods' public safety personnel responded to 5,561 calls for fire/emergency medical services, 3,550 calls for law enforcement services, and 444 calls for animal services, under contracts and agreements with the City.
- The City continued to enforce, and provide resources related to, the California Building Standards Code as required by state law. In the 2017 calendar year, the City issued 3,021 building permits and conducted over 6,200 building inspections.
- The City's Senior Mobility Program continued to promote lifelong mobility by providing affordable, senior-oriented transportation services. In the 2017 calendar year, Laguna Woods residents took 12,398 trips to destinations throughout Orange County (including 6,463 non-emergency medical trips), totaling 94,914 miles.
- The City continued to provide free notarization and foreign pension acknowledgement services to residents. In the 2017 calendar year, 2,232 signatures were notarized and 129 foreign pensions were acknowledged.
- The City continued its efforts to protect and improve the environment by offering a wide assortment of waste and recycling programs that satisfied the requirements of state law and contributed toward the diversion of 18,269 tons (or, nearly 69%) of waste from landfills in the 2017 calendar year.
- The City was recognized for several financial achievements, including receipt of an Operating Budget Meritorious Award from the California Society of Municipal Finance Officers for Fiscal Year 2017-18, and a Certificate of Achievement for Excellence in Financial Reporting for the Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2016-17 from the Government Finance Officers Association.
- The City's annual independent audit resulted in an unmodified opinion that the financial statements for Fiscal Year 2016-17 were fairly presented in conformity with governmental accounting standards.
- The City implemented new financial software (including modules for general ledger, bank reconciliation, accounts payable, and cashiering) and completed its first year of use.
- The City transitioned from seven- to 11-year capital improvement planning, with the adoption of the Fiscal Years 2017-28 Capital Improvement Plan.

- The City transitioned from seven- to 10-year pavement management planning, with the adoption of the Fiscal Years 2018-28 Pavement Management Plan. The Pavement Management Plan found existing pavement conditions to be in “very good” condition, overall, with an average Pavement Condition Index (PCI) of 88.80 of 100.
- The City obtained \$291,400 in Community Development Block Grant (CDBG) funding to make accessibility improvements on public sidewalks and curb ramps.
- The City completed numerous capital improvement projects, including the [1] Drainage Improvement Project (Moulton Parkway at Santa Maria Avenue), [2] El Toro Road Traffic Signal Synchronization Project, [3] Moulton Parkway Traffic Signal Synchronization Project, [4] Moulton Parkway Water Efficient Median Improvement Project, and [5] Pavement Management Plan Project (Westbound El Toro Road between Avenida Sevilla and Paseo de Valencia), inclusive of additional sidewalk repairs on El Toro Road and pavement work at City Hall.
- The City initiated work on the “A Place for Paws” Dog Park Relocation Project with the assistance of a newly established Dog Park Advisory Group comprised of residents.
- The City continued to update the Laguna Woods Municipal Code through the adoption of ordinances regarding construction and demolition materials management; housing density bonuses; electric vehicle charging stations; purchasing and procurement; smoking and tobacco sales; transitional and supportive housing; and, wireless facilities.
- The City continued its commitment to competitive procurement by undertaking Request for Proposals (RFP) processes for audit services; landscape architecture, landscape plan review, and arborist services; planning and geographic information system services; and, tree pruning and removal services.
- The City completed its review of the draft local address list that will be used for the 2020 Census. Staff reviewed 13,872 addresses, line-by-line, and identified eight additions, 67 changes, and 376 deletions.

The City is currently working to complete major initiatives, including:

- Comprehensive update of the General Plan
- Modernization of the commercial zoning code and parking standards
- Response planning for Polyphagous Shot Hole Borer impacts on City trees
- Implementation of permitting software
- Update of the Local Hazard Mitigation Plan

Additional significant work plan items can be found in the City’s budget and work plan.

The following capital improvement projects are planned for Fiscal Year 2018-19:

- "A Place for Paws" Dog Park Relocation Project (*this project began in Fiscal Year 2017-*

18 and is anticipated to continue through Fiscal Year 2018-19)

- Americans with Disabilities Act (ADA) Pedestrian Accessibility Improvement Project: Phase 1 (Moulton Parkway) *(this project began in Fiscal Year 2017-18 and is anticipated to continue through Fiscal Year 2018-19)*
- Americans with Disabilities Act (ADA) Pedestrian Accessibility Improvement Project: Phase 2 (El Toro Road and Moulton Parkway)
- City Hall Refurbishment and Safety Project: Phase 1 (Construction)
- City Hall Restroom Repair and Improvement Project (Construction) *(this project began in Fiscal Year 2017-18 and is anticipated to continue through Fiscal Year 2018-19)*
- Pavement Management Plan Project (Eastbound El Toro Road between Avenida Sevilla and Church Intersection) and Various Median and Sidewalk Reconstruction
- Water Efficient Median Improvement Project (El Toro Road between Calle Sonora and Moulton Parkway, Moulton Parkway between South City Limit and Calle Aragon) (Design)

Closing Acknowledgments

The City appreciates the services and diligence of the independent auditors, Brown Armstrong Accountancy Corporation.

The Ad Hoc Audit Committee comprised of Councilmember Hatch and Councilmember Rainey provided constructive input throughout their work with the independent auditors.

I also appreciate staff's continued efforts to help the City manage its financial future.

Respectfully,



Christopher Macon
City Manager

**CITY OF LAGUNA WOODS
PRINCIPAL CITY OFFICIALS
JUNE 30, 2018**

City Officials



Carol Moore
Mayor

Cynthia Conners
Mayor Pro Tem

Noel Hatch
Councilmember

Shari L. Horne
Councilmember

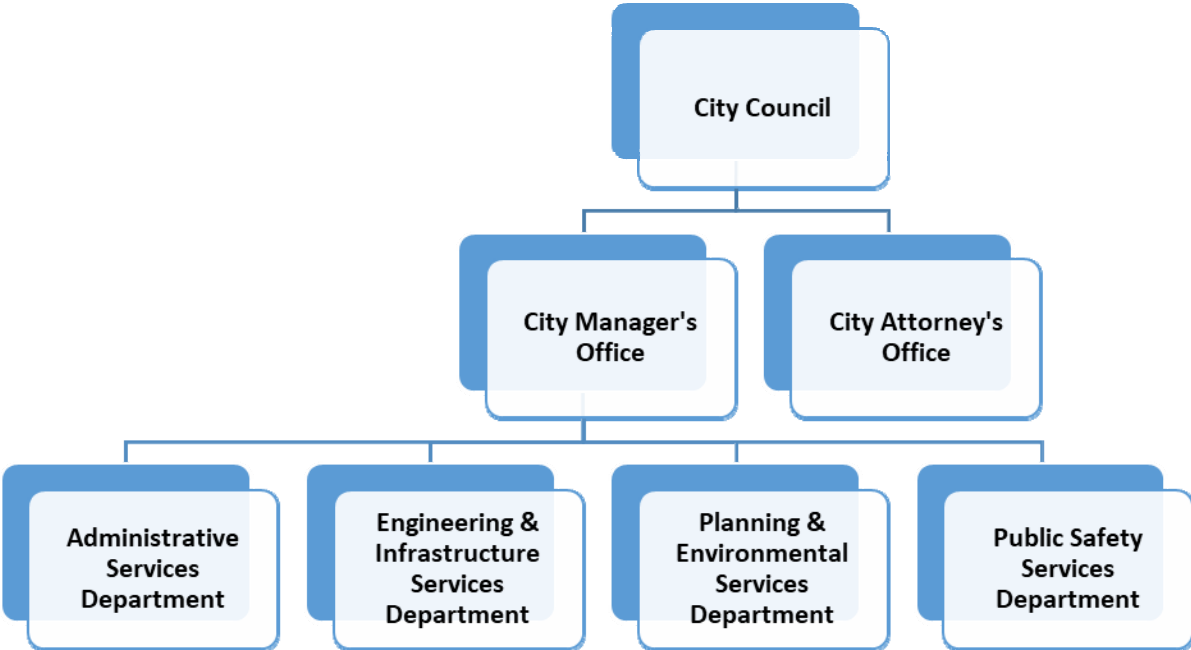
Joe Rainey
Councilmember

Christopher Macon
City Manager

David B. Cosgrove
City Attorney

Margaret Cady, CPA
Administrative Services Director/
City Treasurer

**CITY OF LAGUNA WOODS
CITY ORGANIZATION CHART
JUNE 30, 2018**





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Laguna Woods
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

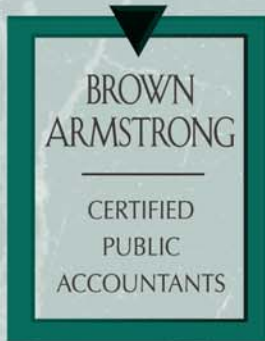
Christopher P. Morrell

Executive Director/CEO

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FINANCIAL SECTION

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BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Honorable City Council of the
City of Laguna Woods
Laguna Woods, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Laguna Woods, California (City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2018, and the respective changes in financial position, and cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15 and the Required Supplementary Information on pages 55 to 63 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 have applied certain limited procedures to the management's discussion and analysis and the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements taken 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 schedules and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 26, 2018

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Management's Discussion and Analysis

This discussion and analysis of the City of Laguna Woods' (the City) financial statements provide an overview of the City's financial activities for the fiscal year ended June 30, 2018 (FY 2017-18). This document should be read in conjunction with the basic financial statements and the accompanying notes to those statements.

FINANCIAL HIGHLIGHTS

- The City ended FY 2017-18 with total assets, including capital assets and deferred outflows of resources, exceeding total liabilities and deferred inflows of resources by \$42.9 million. This amount is referred to as the net position of the City. Of this amount, \$9.9 million is unrestricted net position and may be used to meet the City's ongoing obligations to constituents and creditors. Of the remainder, \$31.7 million represents investment in capital assets and the remaining balance of \$1.2 million is restricted for designated programs.
- The City's government-wide net position decreased by \$0.3 million. This decrease is primarily attributable to a net decrease of \$0.3 million in capital assets due to depreciation of prior years' contributed infrastructure exceeding current year additions. There was also a corresponding offset from an increase in deferred pensions, partially offset by a decrease in net pension obligation liabilities, which are anticipated to turn around over time due to future changes in staffing, salaries, pension rates, and plan performance.
- The City's governmental funds reported combined ending fund balances of \$11.0 million, or \$0.1 million higher than the prior year.
- The General Fund reported an ending fund balance of \$9.9 million, with revenues exceeding expenditures by \$0.4 million, primarily related to an increase in one-time miscellaneous revenues related to waste diversion, census reimbursement, and local agency reimbursement for share of project expenditures, as well as an increase in receipts of property taxes in lieu of vehicle license fees (VLF).
- The General Fund ending fund balance of \$9.9 million represents 188% of annual General Fund expenditures for FY 2017-18 (versus 171% for the prior year). The percentage increase is primarily due to the increase in revenues and timing of capital projects.
- There was General Fund budgetary savings of \$1.5 million as shown in the Required Supplementary Information, Budgetary Comparison Schedule, General Fund. Budgetary savings does not impact actual activity for reporting revenues, expenditures, and changes to fund balance; however, it reflects the City's prudent management of financial resources. FY 2017-18 savings were primarily due to \$0.3 million in revenues received over budgeted amounts and \$1.2 million savings across all departments from planned reductions and the deferral of one-time activities to address increasing law enforcement costs (see discussion below).
- Increasing law enforcement service costs continue to impact funding, reducing amounts that would otherwise be available for general operations and programs. In FY 2015-16, law enforcement costs increased 63.0% over prior year expenditures due to modified cost sharing, including the addition of two deputies, related equipment, and one vehicle. 43.3% of the increase was due a change in costing methodology by the Orange County Sheriff Department and the impact of prior year labor agreements approved by the Orange County Board of Supervisors (Board of Supervisors). Finally, there was an unplanned 1.28% net increase in April 2016 due to additional Board of Supervisors approved labor agreements. In FY 2016-17 and FY 2017-18, law enforcement costs increased an additional 5.72% on July 1, 2016, and an additional 1.93% on June 1, 2017, primarily due to additional labor actions approved by the Board of Supervisors.

OVERVIEW OF THIS REPORT AND THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The City's basic financial statements include three components: 1) Government-Wide Financial Statements, 2) Governmental Fund Financial Statements, and 3) Notes to the Financial Statements. This report also contains required supplementary information regarding historical pension information and other post-employment benefit (OPEB) plan information.

Government-Wide Financial Statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The City's governmental activities include general government, public safety, public works, community development, and community services. Governmental activities are financed by property tax, sales tax, transient occupancy tax, franchise fees, vehicle code fines, fuel tax, funds allocated under the Road Repair and Accountability Act, Measure M tax revenues, and other state and federal funding and grants. The City has no business-type activities.

Reporting the City as a Whole: The Government-Wide Financial Statements, Including the Statement of Net Position and the Statement of Activities

One of the most important questions asked about the City's finances is "Is the City as a whole better or worse off as a result of this year's activities?" The *Government-Wide Financial Statements* provide short-term and long-term information about the City's financial position, which assists in assessing the City's economic condition at the end of the fiscal year. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting, which basically means that they take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The Government-Wide Financial Statements include two statements:

The *Statement of Net Position* presents all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in the City's net position may serve as an indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. Revenues and expenses are reported in this statement for some items that will not result in cash flows or expenditures until future fiscal years (such as uncollected taxes and earned but unused leave balances). This statement also presents a comparison between direct expenses and program revenues for each function of the City.

These statements report that the City's net position decreased during FY 2017-18. The decrease was primarily due to the recording of depreciation of prior years' contributed capital assets. Decreases related to operations were minimal and were primarily due to capital project expenditures which will be reimbursed in FY 2018-19.

Reporting the City's Most Significant Funds: Governmental Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain accountability over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure compliance with finance related legal requirements, which could include grant, legal, or legislative restrictions, etc.

Governmental Funds focus on how money flows into and out of funds for governmental activities and the balances left at year-end that are available for future appropriation. These funds are reported using the modified accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current fiscal year, while expenditures are recognized in the accounting period in which the liability is incurred. There are five different types of governmental funds: the general fund, special revenue funds, debt service funds, capital projects funds, and permanent funds. Currently, the City has only a general fund and special revenue funds (capital projects are accounted for in the General Fund or special revenue funds).

The Governmental Fund Financial Statements provide a detailed short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or less financial resources that can be spent in the near future to finance the City's programs. The differences of results in the Governmental Fund Financial Statements to those in the Government-Wide Financial Statements are explained in the reconciliation schedule following each governmental fund financial statement.

The General Fund is the City's primary operating governmental fund. The City also identifies within the financial statements "major" governmental funds. The City's special revenue funds are reviewed annually to determine if any should be classified as a major fund (e.g., the fund has 10% or more of total assets, liabilities, or fund balance of total governmental funds). The City may also classify as a major fund any fund or combination of funds that is considered particularly important to users. In FY 2017-18, the City has designated the Fuel Tax Fund and Measure M Fund as a major funds. Lesser funds are reported collectively as Other Governmental Funds. Some funds are required to be established by State law; however, the City establishes additional funds to help control and manage money for specific purposes or to demonstrate compliance with legal requirements for using certain taxes, grants, and other monies. The City currently has only governmental funds.

The City added a special revenue fund in FY 2016-17 to account for the Laguna Woods Civic Support Fund, a blended component unit, formed March 16, 2016, as a nonprofit public benefit corporation, with the specific and primary purpose to raise and distribute funds to support programs, projects, and services of the City as well as to function as a "Friends of the Library" group in support of the Laguna Woods branch of the County of Orange public library system. The Civic Support Fund began accepting donations supporting the "Friends of the Library" at the very end of FY 2017-18. Miscellaneous revenues reflected in the fund's Budgetary Comparison Schedule represent the first donations received. Next fiscal year, FY 2018-19, will reflect a higher level of donations to the "Friends of the Library" as well as to a new program established to support the City's Dog Park.

Management's discussion and analysis continues on the following page beginning with a comparative table summarizing net position.

THE CITY AS A WHOLE

The following analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental activities (the City as a whole).

Table 1
Net Position
Governmental Activities

	2018	2017
Assets:		
Cash and investments	\$ 10,827,867	\$ 11,044,511
Other receivables and assets	801,916	745,239
Capital assets, net	<u>31,748,757</u>	<u>32,095,973</u>
Total Assets	<u>43,378,540</u>	<u>43,885,723</u>
Deferred Outflows of Resources:		
Deferred amount from pension plans	547,505	714,975
Deferred amount from OPEB plan	<u>28,634</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>576,139</u>	<u>714,975</u>
Liabilities:		
Accounts payable and other accrued expenses	424,865	669,536
Long-term liabilities - net pension liability	112,334	565,179
Long-term liabilities - net OPEB liability	46,631	60,729
Long-term liabilities - compensated absences	<u>99,158</u>	<u>96,271</u>
Total Liabilities	<u>682,988</u>	<u>1,391,715</u>
Deferred Inflows of Resources:		
Deferred amount from pension plans	<u>349,966</u>	<u>37,338</u>
Total Deferred Inflows of Resources	<u>349,966</u>	<u>37,338</u>
Net Position:		
Net investment in capital assets	31,748,757	32,095,973
Restricted	1,236,152	1,371,195
Unrestricted	<u>9,936,816</u>	<u>9,704,477</u>
Total Net Position	<u><u>\$ 42,921,725</u></u>	<u><u>\$ 43,171,645</u></u>

Table 2
Changes in Net Position
Governmental Activities

	2018	2017
REVENUES:		
Program Revenues:		
Charges for services	\$ 1,010,211	\$ 895,212
Operating contributions and grants	694,918	782,456
Capital contributions and grants	2,552,084	209,447
General Revenues:		
Taxes:		
Property taxes	378,862	428,265
Property taxes in lieu of VLF	2,194,558	2,062,919
Sales taxes	896,503	888,817
Franchise fees	672,266	662,027
Transient occupancy taxes	484,470	487,391
Investment income	128,314	73,727
TOTAL REVENUES	9,012,186	6,490,261
EXPENSES:		
Governmental Activities:		
General government	1,331,112	1,433,890
Public safety	2,668,100	2,667,582
Public works	4,064,453	2,440,923
Community development	963,362	948,873
Community services	265,384	429,479
TOTAL EXPENSES	9,292,411	7,920,747
Decrease in Net Position	(280,225)	(1,430,486)
Net Position, Beginning of Year, as Previously Stated	43,171,645	44,602,131
Prior period adjustment	30,305	-
Net Position - Beginning of Year, Restated	43,201,950	44,602,131
Net Position, End of Year	<u>\$ 42,921,725</u>	<u>\$ 43,171,645</u>

Below summarizes key trends and variances related to Tables 1 and 2.

Tables 1 and 2
Summary of Key Trends and Variances
Governmental Activities

- Total assets and deferred outflows of resources in the government-wide financial statements were \$43.9 million as of year-end, a decrease of \$0.6 million (1.4%) over the prior year, which was due primarily to the depreciation of capital assets, a net decrease in cash related to deferred revenues, and a net decrease in deferred pension and OPEB amounts.
- Unrestricted net position, the part of net position that can be used to finance ongoing obligations, was \$9.9 million at year-end, an increase of \$0.2 million (2.4%) over the prior year, which was due primarily to a decrease in nearly all liabilities and offset by an increase in deferred outflows of resources related to deferred pension amounts.

- The City's total program and general revenues were \$4.3 million and \$4.7 million, respectively, totaling \$9.0 million, compared to the prior year total of \$6.5 million, an increase of approximately \$2.5 million (38.9%). This increase is primarily due to the receipt of grant funding and local partner reimbursements of expense related to the completion of the El Toro Road and the Moulton Parkway Traffic Signal Synchronization projects. The total cost of all programs and services was \$9.3 million, an increase from the prior year of approximately \$1.4 million (17.3%), due primarily to costs associated with projects completed including the Moulton Parkway Water Efficient Median Improvement project and the El Toro Road and the Moulton Parkway Traffic Signal Synchronization projects.
- Local property tax revenues and property taxes in lieu of State vehicle license fees (VLF) totaled \$2.6 million, and combined, they are the City's largest revenue source at 28.6% of total revenues. These revenues fund a significant portion of the City's basic services. This combined revenue source increased by \$0.1 million in FY 2017-18, or 6.4%.
- Sales taxes of \$0.9 million are the City's second largest revenue source at 9.9% of total revenues. This revenue source remained level with receipts in FY 2017-18, compared to an increase of 0.9% in the prior year.

Governmental Activities

Table 3 below presents the cost of each of the City's governmental activity programs: general government, public safety, public works, community development, and community services, as well as each program's net cost (total cost less revenues generated by the activities). The net cost reflects the financial burden that was placed on the City's taxpayers by each of these functions.

Table 3
Net Cost of Governmental Activities

	2018		2017	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
General government	\$ 1,331,112	\$ 480,317	\$ 1,433,890	\$ (1,232,994)
Public safety	2,668,100	(2,528,684)	2,667,582	(2,567,582)
Public works	4,064,453	(2,071,634)	2,440,923	(1,218,815)
Community development	963,362	(942,580)	948,873	(918,169)
Community services	265,384	27,383	429,479	(96,072)
	<u>\$ 9,292,411</u>	<u>\$ (5,035,198)</u>	<u>\$ 7,920,747</u>	<u>\$ (6,033,632)</u>

- General Government expenses of \$1.3 million comprise 14.3% of total cost of services in FY 2017-18, remained level with the prior year, and include City Council, City Manager, City Clerk, City Attorney, Administrative Services, Support Services, and Risk Management. Charges for services minimally reduce the net cost of these programs. In FY 2017-18, charges for services were approximately 10.9% of total costs.
- Public Safety expenses of \$2.7 million comprise 28.7% of the total cost of services compared to 33.7% in the prior year. Revenue from vehicle code fines and state grants, which were level with amounts received in the prior year, reduced the need for general revenues to support this program in FY 2017-18 by 5.6%. This resulted in a 0.3% savings realized by the General Fund which was primarily due to an increase in state sales tax revenue passed through to the Supplemental Law Enforcement Services Fund. State funded revenues fluctuate year-over-year based on growth trends in statewide sales tax collections and such savings are not currently forecast for years beyond FY 2018-19.

- Public Works expenses (primarily for maintenance and operation of the City's roadway system) were \$4.1 million and comprise 43.8% of the total cost of services, compared to 30.8% in the prior year. Operating and capital contributions and grants were 58.8% of charges in the current year versus 60.4% in the prior year. The decrease is primarily due to the prior year receipt of one-time deferred revenues related to the Proposition 1B, State and Local Partnership Program partially offset by grant revenue received at the completion of the El Toro Road and Moulton Parkway Traffic Synchronization Projects. FY 2017-18 expenses included annual depreciation expense on the City's infrastructure assets of \$1.8 million.
- Community Development expenses of \$1.0 million comprise 10.4% of the total cost of services, compared to 12.0% in the prior year. Overall, the total cost of the program remained fairly level with the prior year.
- Community Services expenses of \$0.3 million comprise 2.9% of the total cost of services, compared to 5.4% in the prior year, primarily due to suspending the Community Development Block Grant "Residential Energy Efficiency Improvement" program in the prior fiscal year. The decrease was partially offset in the current year by a new Community Development Block Grant "Americans with Disabilities Act (ADA) Pedestrian Accessibility Improvement" program. Operating contributions and grants, and charges for services related to the Senior Mobility program offset 91.2% of all Community Services program expenses in FY 2017-18.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

At the fiscal year-end, the City's Governmental Funds reported combined fund balances of \$11.0 million, level with the prior year. The General Fund comprises \$9.9 million, or 90.4%, of the total fund balance. The total fund balance of the City's General Fund equates to over 188.5% of annual General Fund expenditures. The City's General Fund unassigned fund balance of \$8.9 million equates to over 169.5% of annual General Fund expenditures.

General Fund Budgetary Highlights:

Revenues: Actual total revenues of \$5.7 million were \$0.3 million, or 6.3%, higher than budgeted, primarily because all revenues, with the exception of charges for services, came in over budget estimates. Local property tax revenue, sales taxes, transient occupancy tax revenue, and franchise fees were all greater than expected, but excess growth was low compared to growth experienced County-wide. Franchise fees came in above budget due to growth experienced and reflected in the fourth quarter payment made by one franchisee.

Expenditures: Actual expenditures of \$5.3 million were \$1.2 million, or 18.2%, lower than budgeted, primarily due to savings across all departments resulting from the continuation of the City's reorganization, continued cost savings measures, and deferral of one-time projects.

CAPITAL ASSETS

Capital assets, net of accumulated depreciation, totaled \$31,748,757 at year-end, primarily consisting of the City's land, building, and infrastructure assets. During FY 2017-18, the City added \$1,433,132 in value, including a net \$125,992 decrease of value for construction in process completed during the fiscal year and \$1,559,124 in infrastructure additions. The \$1,559,124 of current year added value included \$278,104 expended on infrastructure additions related to the Pavement Management Plan for Westbound El Toro Road between Avenida Sevilla and Paseo de Valencia, \$988,546 for the El Toro Road and Moulton Parkway Traffic Signal Synchronization Projects, and \$292,474 for the Moulton Parkway Water Efficient Median Project. The City allocated \$1,780,348 of depreciation expense on capital assets, which increased accumulated depreciation to \$13,956,225 at year-end. Land and construction in progress are not depreciated. Table 4a below summarizes capital assets at year-end, net of depreciation.

Table 4a
Capital Assets at Year-End
(Net of Depreciation)

	2018	2017
Land	\$ 6,916,750	\$ 6,916,750
Construction in progress	100,901	226,893
Buildings	2,563,250	2,563,250
Building improvements	736,647	736,647
Equipment and furniture	212,231	212,231
Infrastructure	35,175,203	33,616,079
Less accumulated depreciation	<u>(13,956,225)</u>	<u>(12,175,877)</u>
 Total	 <u><u>\$ 31,748,757</u></u>	 <u><u>\$ 32,095,973</u></u>

Please refer to Note 1 (e) beginning on page 29 and Note 4 beginning on page 38 for additional discussion related to capital assets.

DEBT ADMINISTRATION

The City currently has no debt obligations. However, pension liabilities, compensated absences, and the net OPEB obligation are classified as long-term liabilities and totaled \$99,158, \$112,334, and \$46,631, respectively, as of year-end. The City has assigned General Fund balance to address compensated absence liabilities. The City established an OPEB Trust in 2016 with a planned funding level of 80%, which is reviewed every two years. At June 30, 2018, the net OPEB obligation was funded at approximately 59% through the OPEB Trust. The funding ratio does not consider contributions made after the measurement date which are projected to bring the funded level back to 82.76%. Please refer to Notes 9 and 10 beginning on page 41 and required supplementary information on pages 55-58 for additional discussion related to pension liabilities and OPEB obligations.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Local economists forecast that economic growth will continue at a modest rate. Chapman University A. Gary Anderson Center for Economic Research (Chapman), Cal State Fullerton's Mihaylo's Woods Center for Economic Analysis (Cal State Fullerton), and Beacon Economics (a local, private consulting firm), all forecast that Orange County's economy will continue to grow over the next twelve to 24 months. All three economic research groups issued a continued guarded outlook for California and Orange County. Beacon Economics, in February 2018, stated that "there are just as many "cons" as there are "pros" when it comes to what is likely to transpire in 2018." All three groups expressed concern over the impact that California and Orange County may experience based on potential stress on national trade relations, and Federal impacts related to changes in income tax structure and actions taken by the Federal Reserve Board.

In stark contrast to the above warnings, the Conference Board by Nielsen (a leading global provider of information and analytics applied to what consumers buy and watch) in August 2018 published the Consumer Confidence Index, which increased to 133.4, up from 127.9 in July. According to Lynn Franco, Director of Economic Indicators at the Conference Board, "Consumer confidence increased to its highest level since October 2000." The continued increase in consumer confidence supports predictions that consumer spending will continue at present or higher levels in the near-term, at least for the remainder of 2018. This confidence and spending could decline if the Federal Reserve Bank raises interest rates, or if household budgets are negatively impacted by Federal income tax changes.

The table below presents key Orange County economic indicators published by the Orange County Workforce Investment Board in June 2018.

Orange County Economic Summary	Most Recent Month / Quarter	Year-to-Year Change	Five Year Position
Economy-Wide			
Unemployment Rate	May 2018	Down 0.6%	Down
Total Employment Orange County	May 2018	Up 2,200	Up
Orange County Composite Index – Chapman	Second Quarter 2018	Up 4.6	Up
PCBX Business Expectations – Cal State Fullerton	Second Quarter 2018	Up 2.0	Up
Bankruptcy Filings	May 2018	Down 40	Down
Real Estate			
Median Home Price	April 2018	Up \$40,000	Up
Average OC Apartment Rent	May 2018	Up \$154	Up
Orange County Monthly Building Permits	April 2018	Down 45	Up

Chapman and Cal State Fullerton both forecast continued downfalls related to job growth being generated in low-wage categories such as leisure and hospitality, home healthcare, and other minimum wage occupations, resulting in a decrease in workers able to cover the cost of housing in Orange County. There is some expectation that growth in high-tech occupations may reduce the impact of lower wage categories. Decreases in construction activity in Orange County are predicted by both Chapman and Cal State Fullerton, which will create further downward pressure on employment. The California Department of Transportation (DOT) prepares an extensive annual economic forecast. Their forecast released in 2017 projected that the professional services sector will be the primary driver of growth in the Orange County labor market, adding up to 25,300 jobs between 2017 and 2022.

Cal State Fullerton and Chapman both predicted positive consumer sentiment related to spending, as did Beacon Economics. DOT projected that Orange County taxable sales will increase by an average of 1.8% per year between 2017 and 2022. 1.8% is well below the annual increases in law enforcement costs that the City continues to experience. Major retailers are closing stores or reducing the size of stores, and a survey of manufacturing industry purchasing managers indicated a continuing decline in their expected rate of manufacturing activity and profits. Changes in the retail environment has had impact on the City in terms of long-term vacancies. In 2017 new business openings within the City included ALDI Food Market, Coffee Bean and Tea Leaf, Dollar Tree, and a new drive-through Starbucks. In 2018, some existing vacancies are anticipated to be filled by service type businesses, which will provide only minimal volume in taxable sales. Increases in online versus retail shopping is a continued trend and can have a significant impact on the City's sales tax revenues. In California, tax on internet sales is only collected from businesses that have a physical presence in the State, such as a warehouse, store, office, or sales representative. In 2012, California passed legislation, commonly referred to as "the Amazon law," that in most cases requires larger internet retailers with no physical presence in California to collect and pay California sales taxes under certain conditions.

In addition to impact from slow growth in sales, and impacts of other economic factors, the City is faced with continued growth in costs of key services. Law enforcement costs have increased over 83.37% from FY 2014-15 to FY 2017-18. Increases since FY 2014-15 were 63.24% in FY 2015-16 when the City was required to add two patrol officers, 5.72% in FY 2016-17 due to salary and retirement cost increases, 0.45% in FY 2017-18 which would have been over 4.00% had the City not reduced an investigator position to part-time, and 5.78% in FY 2018-19 due to salary and retirement cost increases. The County of Orange, Board of Supervisors, and the Orange County Employees Retirement System (OCERS) control the timing and amount of increases in salaries and retirement costs for all law enforcement services staffing, sworn and non-sworn.

The City is also impacted by the actions of the California Public Employees' Retirement System (CalPERS). The City's pension costs, including its share of the Unfunded Actuarial Liability (UAL) for the Miscellaneous Pool, has experienced significant increases due to CalPERS changes in assumptions when calculating the UAL. Recent changes included the impact of the reduction of the discount rate from 7.75% to 7.50% and then to 7.25%. Changes in amortization period, smoothing methodologies, and

longer lifespans also had impact. The City has proactively addressed such increases, by leveraging funds to prepay the City's share of the UAL in 2016 and 2018, saving the City several hundred thousand dollars.

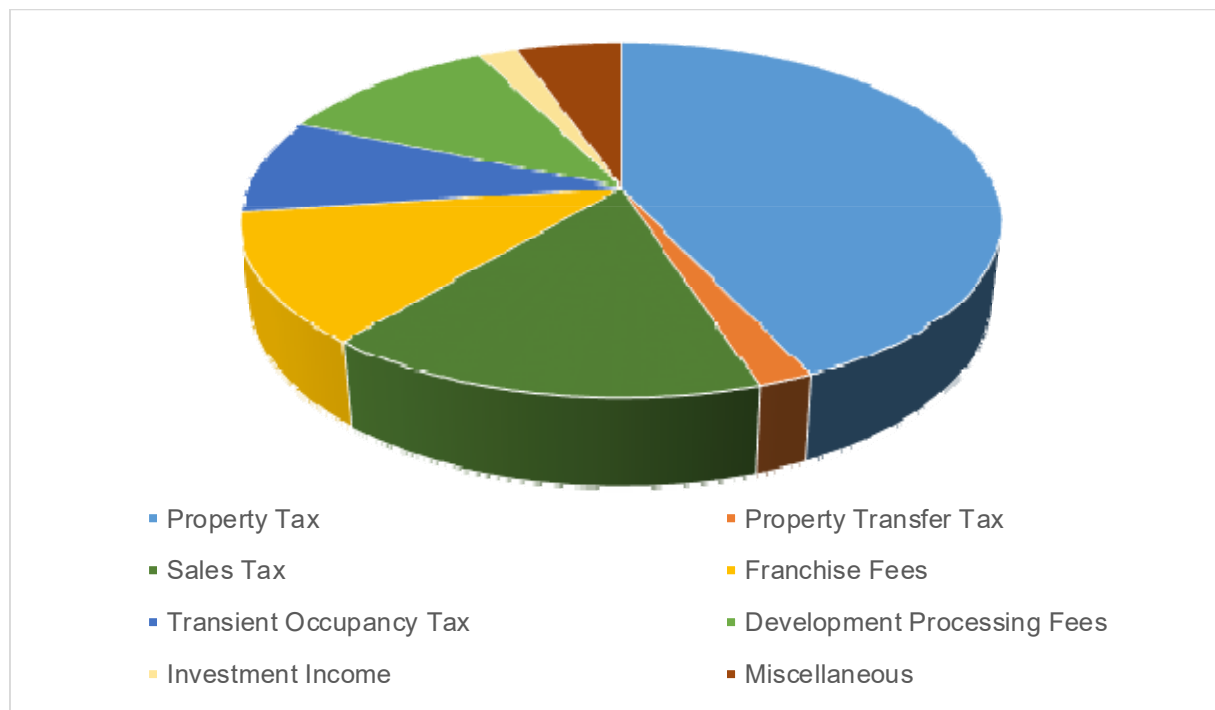
With slow growth predictions, concerns over the longevity of lower growth trends is warranted. Lower revenue growth compared to increased expenditure growth warrants additional concern. In response, the City continues to set conservative and prudent budgets.

In June 2017, the City Council adopted the City's first two-year budget for Fiscal Years 2017-19. The second year of that budget, FY 2018-19, included assumptions such as:

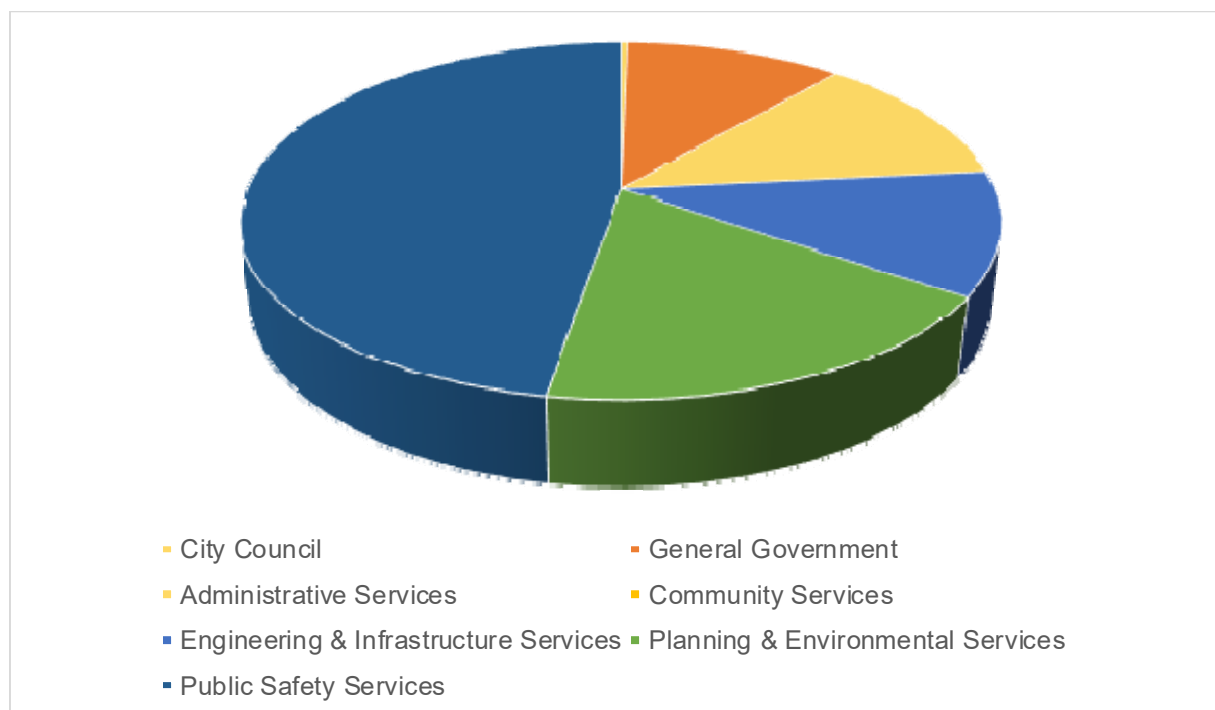
- Assessed property valuations in the City are projected to increase 5.7% from Fiscal Year 2017-18 due, in part, to continued growth in home sale prices and the recapture of additional assessed property valuations that had been temporarily reduced pursuant to Proposition 8's tax relief program. In the following four years, valuations are anticipated to decline to 3.89% in FY 2018-19 and decrease to 1.95% thereafter.
- Sales tax revenue is anticipated to increase by 3.7% due to continued growth in consumer spending. The projected increase is tempered by the City's sales tax base which is limited in size and lacking in diversity. The top 25 sales tax producers, on average, account for more than 96% of total sales tax revenue. The closure in FY 2017-18 of two of the top 25 sales tax producers is anticipated to have continued impact in FY 2018-19 and beyond.
- Development processing fee revenue is estimated to increase by 1.0% due to stabilization in private building-related work. Updates of the City's fee schedules, developed to achieve full cost recovery, reflect minimal change in costs resulting from City efforts to minimize costs and establish service efficiencies. Changes in building activity will impact costs and revenues similarly.
- Interest rates are projected to increase at less than 1% in FY 2017-18, based on the expectation that the Federal Reserve may raise short-term rates in the next 12 months and as market rates, in general, will continue to be low and without growth. Interest rate growth and the investment strategies allowed per the City's Investment Policy, revised at the end of 2015 and amended in 2016, allowed the City to realize 295.2% in growth of investment income from \$18,657 in FY 2014-15 to \$73,727 in FY 2017-18. With the introduction of a five-year strategic financial plan issued with the FYs 2017-19 budget, the City will be better able to manage cash flows, and invest longer term to mitigate lower interest rates. A recently approved change in the City's investment policy, allowing for investing in instruments with maturities up to 5 years, should allow for realization of higher rates of returns going forward.
- Franchise fee revenue is projected to remain consistent with FY 2017-18 with no new franchise agreements or material changes to existing agreements anticipated. In FY 2017-18, the City was successful in negotiating a 10-year extension of the bus shelter franchise agreement without any loss of revenue.

Total General Fund FY 2018-19 operating revenues (excluding transfers from other funds) are estimated at \$5,373,600. This represents a 3.0% decrease from FY 2017-18 actual revenues primarily related to one-time property transfer tax collections and one-time transfers to the General Fund related to closures of special revenue funds in FY 2017-18. After adjusting for one-time revenues, total FY 2018-19 revenues are forecasted to reflect level or modest growth over FY 2017-18, with slight increases in the City's three largest sources of operating revenue: property tax, sales tax, and development processing fees. Development processing fees offset the City's expenses for providing related services and do not represent a profit. General Fund operating expenditures are budgeted at \$5,286,288. After adding one-time non-operating expenditures and transfers to other funds, total General Fund expenditures equal \$5,724,476. At the end of FY 2018-19, the General Fund unassigned fund balance is forecast to be at least 159% of FY 2017-18 General Fund operating expenditures. Budgeted FY 2018-19 General Fund revenues by source and operating expenditures by program are illustrated in the following charts:

[General Fund Revenue Estimates by Source – Fiscal Year 2018-19]



[General Fund Operating Expenditures by Program – Fiscal Year 2018-19]



CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the City's citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, you may contact the City of Laguna Woods, Administrative Services Department, 24264 El Toro Road, Laguna Woods, California 92637, at (949) 639-0500 or cityhall@cityoflagunawoods.org.

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**CITY OF LAGUNA WOODS
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities
Assets	
Cash and Investments	\$ 10,827,867
Accounts Receivable	171,417
Due from Other Governments	573,498
Prepaid Items	57,001
Capital Assets:	
Not Being Depreciated	7,017,651
Being Depreciated (Net of Accumulated Depreciation)	<u>24,731,106</u>
Total Assets	<u>43,378,540</u>
Deferred Outflows of Resources	
Deferred Amount from Pension Plans	547,505
Deferred Amount from Other Post-Employment Benefits (OPEB) Plan	<u>28,634</u>
Total Deferred Outflows of Resources	<u>576,139</u>
Liabilities	
Accounts Payable	273,428
Accrued Liabilities	151,437
Long-Term Liabilities:	
Due Within One Year	75,855
Due in More Than One Year	<u>182,268</u>
Total Liabilities	<u>682,988</u>
Deferred Inflows of Resources	
Deferred Amount from Pension Plans	<u>349,966</u>
Total Deferred Inflows of Resources	<u>349,966</u>
Net Position	
Net Investment in Capital Assets	31,748,757
Restricted for:	
Public Safety	48,527
Public Works	936,739
Community Development	163,640
Community Services	87,246
Unrestricted	<u>9,936,816</u>
Total Net Position	<u><u>\$ 42,921,725</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LAGUNA WOODS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
General Government	\$ 1,331,112	\$ 252,305	\$ -	\$ 1,559,124	\$ 480,317
Public Safety	2,668,100	-	139,416	-	(2,528,684)
Public Works	4,064,453	647,008	352,851	992,960	(2,071,634)
Community Development	963,362	-	20,782	-	(942,580)
Community Services	265,384	110,898	181,869	-	27,383
Total Governmental Activities	\$ 9,292,411	\$ 1,010,211	\$ 694,918	\$ 2,552,084	(5,035,198)
General Revenues:					
Taxes:					
Property Taxes					2,573,420
Sales Taxes					896,503
Transient Occupancy Taxes					484,470
Franchise Taxes					672,266
Investment Income					128,314
Total General Revenues					4,754,973
Change in Net Position					(280,225)
Net Position - Beginning of Year, as Previously Stated					43,171,645
Prior Period Adjustment					30,305
Net Position - Beginning of Year, Restated					43,201,950
Net Position - End of Year					\$ 42,921,725

The accompanying notes are an integral part of these financial statements.

BASIC FINANCIAL STATEMENTS

FUND FINANCIAL STATEMENTS

**CITY OF LAGUNA WOODS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General Fund	Fuel Tax Special Revenue Fund	Measure M Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Assets					
Cash and Investments	\$ 9,657,559	\$ 575,806	\$ -	\$ 594,502	\$ 10,827,867
Receivables:					
Accounts	170,642	-	-	775	171,417
Prepaid Items	57,001	-	-	-	57,001
Due from Other Funds	110,589	-	-	-	110,589
Due from Other Governments	288,472	-	192,463	92,563	573,498
Total Assets	<u>\$ 10,284,263</u>	<u>\$ 575,806</u>	<u>\$ 192,463</u>	<u>\$ 687,840</u>	<u>\$ 11,740,372</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 220,207	\$ 18,036	\$ 14,760	\$ 20,425	\$ 273,428
Accrued Liabilities	109,304	-	-	42,133	151,437
Due to Other Funds	-	-	93,063	17,526	110,589
Total Liabilities	<u>329,511</u>	<u>18,036</u>	<u>107,823</u>	<u>80,084</u>	<u>535,454</u>
Deferred Inflows of Resources					
Unavailable Revenues	<u>15,484</u>	<u>-</u>	<u>156,234</u>	<u>37,522</u>	<u>209,240</u>
Fund Balances (Deficit)					
Nonspendable:					
Prepaid Items	57,001	-	-	-	57,001
Restricted for:					
Public Safety	-	-	-	48,527	48,527
Public Works	3,980	557,770	81,348	293,641	936,739
Community Development	-	-	-	163,640	163,640
Community Services	-	-	-	87,246	87,246
Assigned to:					
Capital Projects	860,896	-	-	-	860,896
Compensated Absences	99,158	-	-	-	99,158
Self Insurance Contingencies	50,000	-	-	-	50,000
Unassigned	8,868,233	-	(152,942)	(22,820)	8,692,471
Total Fund Balances (Deficit)	<u>9,939,268</u>	<u>557,770</u>	<u>(71,594)</u>	<u>570,234</u>	<u>10,995,678</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 10,284,263</u>	<u>\$ 575,806</u>	<u>\$ 192,463</u>	<u>\$ 687,840</u>	<u>\$ 11,740,372</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LAGUNA WOODS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
JUNE 30, 2018**

Total Fund Balances - Total Governmental Funds \$ 10,995,678

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

Capital assets	\$ 45,704,982	
Accumulated depreciation	(13,956,225)	
		31,748,757

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Position. Balances as of June 30, 2018, are:

Compensated absences	(99,158)	
OPEB liability	(46,631)	
Net pension liability	(112,334)	
		(258,123)

Deferred outflows of resources and deferred inflows of resources related to pensions are only reported in the Statement of Net Position as the changes in these amounts effects only the government-wide financial statements for governmental activities:

Deferred outflows of resources	576,139	
Deferred inflows of resources	(349,966)	
		226,173

Receivables which are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental fund financial statements.

	209,240	
Net Position of Governmental Activities		\$ 42,921,725

The accompanying notes are an integral part of these financial statements.

**CITY OF LAGUNA WOODS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	General Fund	Fuel Tax Special Revenue Fund	Measure M Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes and Assessments	\$ 3,972,439	\$ 334,299	\$ -	\$ 95,622	\$ 4,402,360
Intergovernmental	56,143	18,552	861,596	304,395	1,240,686
Franchise Fees	672,266	-	-	-	672,266
Charges for Services	647,008	-	-	110,897	757,905
Investment Income	111,739	8,762	2,057	5,756	128,314
Miscellaneous	251,416	-	-	150	251,566
Total Revenues	<u>5,711,011</u>	<u>361,613</u>	<u>863,653</u>	<u>516,820</u>	<u>7,453,097</u>
Expenditures					
Current					
General Government	1,234,039	-	-	-	1,234,039
Public Safety	2,496,393	-	-	171,707	2,668,100
Public Works	580,829	716,966	820,315	66,341	2,184,451
Community Development	961,253	-	-	55,130	1,016,383
Community Services	794	-	-	264,590	265,384
Total Expenditures	<u>5,273,308</u>	<u>716,966</u>	<u>820,315</u>	<u>557,768</u>	<u>7,368,357</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>437,703</u>	<u>(355,353)</u>	<u>43,338</u>	<u>(40,948)</u>	<u>84,740</u>
Other Financing Sources (Uses)					
Transfers In	-	-	-	5,000	5,000
Transfers Out	(5,000)	-	-	-	(5,000)
Total Other Financing Sources (Uses)	<u>(5,000)</u>	<u>-</u>	<u>-</u>	<u>5,000</u>	<u>-</u>
Net Change in Fund Balances	432,703	(355,353)	43,338	(35,948)	84,740
Fund Balances (Deficits), as Previously Stated	<u>9,654,675</u>	<u>913,123</u>	<u>(114,932)</u>	<u>458,072</u>	<u>10,910,938</u>
Prior Period Adjustment	(148,110)	-	-	148,110	-
Fund Balances (Deficits), Restated	<u>9,506,565</u>	<u>913,123</u>	<u>(114,932)</u>	<u>606,182</u>	<u>10,910,938</u>
Fund Balances (Deficits), Ending	<u>\$ 9,939,268</u>	<u>\$ 557,770</u>	<u>\$ (71,594)</u>	<u>\$ 570,234</u>	<u>\$ 10,995,678</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LAGUNA WOODS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Net Change in Fund Balances - Total Governmental Funds \$ 84,740

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 cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which capital outlays and capital contributions exceed depreciation in the current period.

Capital asset purchases	\$ 1,433,132	
Depreciation expense	<u>(1,780,348)</u>	(347,216)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	(2,888)	
OPEB expense and related changes in deferred outflows of resources	12,427	
Pension expense and related changes in deferred outflows/inflows of resources	<u>(27,253)</u>	(17,714)

Certain revenues in the governmental funds are unavailable revenues because they are not collected within the prescribed time period after year-end. However, the revenues are included in the government-wide financial statements.

(35)

Change in Net Position of Governmental Activities \$ (280,225)

The accompanying notes are an integral part of these financial statements.

**CITY OF LAGUNA WOODS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Laguna Woods (the City) conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Description of the Reporting Entity

The City was incorporated March 24, 1999, under the laws of the State of California and enjoys all rights and privileges pertaining to “General Law” cities. The City operates under the Council-Manager form of government and currently provides the following services as authorized by its general laws: public safety, public works, community development, community services, and general administrative services.

The Laguna Woods Civic Support Fund (the Fund), a blended component unit, was formed March 16, 2016, as a nonprofit public benefit corporation, with the specific and primary purpose to raise and distribute funds to support programs, projects, and services of the City as well as to function as a “Friends of the Library” group in support of the Laguna Woods branch of the County of Orange’s public library system. Beginning in fiscal year (FY) 2018-19, the Civic Support Fund will also provide support to the operations and maintenance of the City’s newly constructed dog park.

Although the Fund is a legally separate entity from the City, it receives provision of operating space and administrative services from the City. In addition, the City Council has continuing accountability for the Fund including appointing persons to the Fund’s Board of Directors, including the appointment of two (2) Councilmembers, and approving all programs, projects, and services for which the Fund raises or distributes funds.

Since the City is able to impose its will on the Fund and to make decisions related to the Fund’s activities, the City is considered to be the primary government and the Fund is a component unit of the City. As a component unit, the financial statements of the Fund and of the City are blended. For presentation within the statements of the City, or government unit, the transactions between the City and the Fund are reported as interfund transactions. The Fund’s financial data and activity are presented as a Special Revenue Fund. The Fund does not issue separate financial statements.

B. Basis of Accounting, Measurement Focus, and Financial Statement Presentation

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

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

Financial reporting is based upon all GASB pronouncements including the *Codification of Accounting and Financial Reporting Guidelines*.

Government-Wide Financial Statements

Government-Wide Financial Statements display information about the reporting government as a whole. These statements include a single column for the governmental activities of the primary government. The City has no business-type activities and no discretely presented component units. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting, Measurement Focus, and Financial Statement Presentation (Continued)

Government-Wide Financial Statements (Continued)

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.

Fund Financial Statements

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

Fund financial statements for the City's governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental funds.

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *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. Sales taxes, property taxes, franchise taxes, gas taxes, transient occupancy taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available when cash is received by the City.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting, Measurement Focus, and Financial Statement Presentation (Continued)

Governmental Funds (Continued)

Revenue recognition is subject to the *measurable* and *available* 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 non-exchange 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 non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met. Revenues, expenditures, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, which requires that local governments defer grant revenue that is not received within their availability period of 60 days after the fiscal year ends to meet the “available” criteria of revenue recognition.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets, current liabilities, and deferred inflows of resources are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of “available spendable resources.”

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period. Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current 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 an *other financing source* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

C. Fund Classifications

The City reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the City. The General Fund accounts for activities and services traditionally associated with governments, such as police services, that are financed primarily through tax-generated revenues and not required to be accounted for in another fund.

Fuel Tax Special Revenue Fund – The Fuel Tax Fund is used to account for the City’s share of State Highway Users’ Tax (Gasoline) Taxes, Sections 2103, 2105, 2106, 2107, and 2107.5 of the California Streets and Highways Code for the construction, improvement, and maintenance of local streets and roads.

Measure M Special Revenue Fund – The Measure M Fund is used to account for the City’s share of an additional one-half percent sales tax approved by the Orange County electorate and collected by the Orange County Transportation Authority for the improvement and maintenance of local streets and roads.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Investments

Investments are reported in the accompanying financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings and changes in fair value. The City pools cash and investments of all funds. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance, except for investment income associated with funds not legally required to receive pooled investment income which has been assigned to and recorded as revenue of the General Fund, as provided by California Government Code Section 53647. See Note 2 for additional information related to Fair Value Measurements of Investments.

E. Capital Assets

Capital assets (including infrastructure) are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Contributed capital assets are valued at their estimated acquisition value at the date of the contribution. Generally, capital asset purchases in excess of \$5,000 are capitalized if they have an expected useful life of three years or more. It is the policy of the City to capitalize infrastructure projects in excess of \$100,000 if they constitute infrastructure and have extended the useful life of the assets by 20 years or longer. Capital assets include public domain (infrastructure) general capital assets consisting of roads, streets, sidewalks, medians, and storm drains.

The City uses the straight-line method in the government-wide financial statements for depreciating infrastructure, park equipment, buildings, vehicles, equipment and furniture, and leasehold improvements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net position. The range of useful lives used for depreciation purposes for each capital asset class is as follows:

<u>Item</u>	<u>Useful Life</u>
Building	35 years
Building improvements	8-9 years
Equipment and furniture	5 years
Infrastructure	20 years

F. Due from Other Governments

The amounts recorded as due from other governments represent sales taxes, gas taxes, motor vehicle in-lieu taxes, Measure M revenue, reimbursement grant revenues, and other revenues collected or provided by Federal, State, and County governments that were unremitted to the City as of June 30.

G. Compensated Absences

Permanent, full-time City employees earn 20 paid leave days a year, which includes vacations and sick time. The City accounts for compensated absences in accordance with GASB Statement No. 16. In governmental funds, compensated absences are recorded as expenditures in the year paid, primarily from the General Fund, and it is the City's policy to liquidate any unpaid vacation or sick leave at June 30 from future resources rather than currently available expendable resources.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Claims and Judgments

The City records a liability for material litigation, judgments, and claims (including incurred but not reported losses) when it is probable that an asset has been significantly impaired or a material liability has been incurred prior to year-end and the probable amount of loss (net of any insurance coverage) can be reasonably estimated.

I. Property Taxes

Under California law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the cities based on complex formulas. Accordingly, the City recognizes as revenue only those taxes which are received during the year and within 60 days after year-end.

The property tax calendar for the City is as follows:

Lien date	January 1
Levy date	July 1
Due dates	First Installment – November 1 Second Installment – February 1
Delinquent dates	First Installment – December 11 Second Installment – April 11

Taxes are collected by the County of Orange and are remitted to the City periodically. Dates and percentages are as follows:

December	30% advance
January	Collection No. 1
April	10% advance
May	Collection No. 2
July	Collection No. 3

J. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses, during the reporting period. Actual results could differ from those estimates.

K. Implementation of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following accounting pronouncements that the City implemented in the current fiscal year:

GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, effective for periods beginning after June 15, 2017. Please see Note 10 for reporting of the City's post-employment benefits other than pensions.

GASB Statement No. 82 – Pension Issues, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Please see Note 9 for reporting of the City's pension related expense and liabilities.

GASB Statement No. 85 – Omnibus 2017, effective for periods beginning after June 15, 2017.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Pending Accounting Standards

GASB has issued the following statements, which may impact the City's financial reporting requirements in the future:

GASB Statement No. 84 – *Fiduciary Activities*, effective for periods beginning after December 15, 2018. It is not yet known if this statement will impact the City.

GASB Statement No. 86 – *Certain Debt Extinguishment Issues*, effective for periods beginning after June 15, 2017. This statement is not anticipated to impact the City.

GASB Statement No. 87 – *Leases*, effective for periods beginning after December 15, 2019. It is not yet known if this statement will impact the City.

GASB Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for periods beginning after June 15, 2018. This statement is not anticipated to impact the City.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred Before the End of a Construction Period*, effective for periods beginning after December 15, 2019. This statement is not anticipated to impact the City.

GASB Statement No. 90 – *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, effective for periods beginning after December 15, 2018. This statement is not anticipated to impact the City.

M. Fund Balance and Spending Policy

The City follows the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. In the governmental fund financial statements, fund balances are classified in the following categories:

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

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

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

Assigned – Assigned fund balances encompass the portion of net fund resources reflecting the government's intended use of resources that are neither restricted nor committed. Assignment of resources can be done by the highest level of decision making (City Council Resolution) or by a committee or official designated for that purpose. The City Council has authorized the City Manager to assign fund balance for specific departmental projects.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Fund Balance and Spending Policy (Continued)

When both restricted and unrestricted resources are available for use when an expenditure is incurred, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. It is the City's policy to consider committed amounts as being reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

N. Deferred Outflows/Inflows of Resources

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

- Deferred outflow related to pensions for employer contributions made after the measurement date of the net pension liability.
- Deferred outflow related to pensions for differences between expected and actual experience. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.
- Deferred outflow related to pensions for the changes in proportion and differences between employer contributions and the proportionate share of contributions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.
- Deferred outflow related to pensions resulting from the difference in projected and actual earnings on investments of the pension plans fiduciary net position. These amounts are amortized over five years.

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

- Deferred inflow from unavailable revenue, which arises only under modified accrual basis of accounting, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflow related to pensions for differences between expected and actual experience. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.
- Deferred inflow from pensions resulting from changes in assumptions. These amounts are amortized over a closed period equal to the average expected remaining service lives of all employees that are provided with pensions through the plans.
- Deferred inflow related to pensions for the changes in proportion and differences between employer contributions and the proportionate share of contributions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Net Position

In the government-wide financial statements, net position is classified in the following categories: *Net Investment in Capital Assets*, which consists of capital assets net of accumulated depreciation and is reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets; *Restricted Net Position*, which is net position restricted by external creditors, grantors, contributors, or laws or regulations of other governments; and *Unrestricted Net Position*, which is all net position that does not meet the definition of “net investment in capital assets” or “restricted net position.”

P. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City’s California Public Employees’ Retirement System (CalPERS) pension plans (Plans) and additions to/deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 9 for additional disclosure related to pensions.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments	<u>\$ 10,827,867</u>
----------------------	----------------------

Cash and investments held by the City at June 30, 2018, consisted of the following:

Petty Cash	\$ 1,221
Demand Deposits	667,077
Negotiable Certificates of Deposits	1,915,000
Local Agency Investment Pool (LAIF)	4,204,980
Orange County Investment Pool (OCIP)	<u>4,039,588</u>
Total Cash and Investments Held by City	<u>\$ 10,827,867</u>

NOTE 2 – CASH AND INVESTMENTS (Continued)**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). Investment types authorized by the California Government Code, but not by the City's investment policy, are not presented. 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**.

Type of Investment	Maximum Amount of Portfolio Investment*	Maximum Maturity*
Federal Deposit Insurance Corporation (FDIC) Insured Accounts	100%	N/A
Bankers' Acceptances	20% (no more than 5% with one bank)	180 days
Commercial Paper	15% (no more than 10% of a single issuer)	270 days
Local Government Investment Pools	90%	N/A
Money Market Mutual Funds	10%	N/A
Non-Negotiable Certificates of Deposit	20% (no more than 5% with one bank or issuer) and no more than 30% of the overall portfolio when combined with Negotiable Certificates of Deposit	3 years
Negotiable Certificates of Deposit	30% (no more than 5% with one bank or single issuer) and no more than 30% of the overall portfolio when combined with Non-Negotiable Certificates of Deposit	5 years
Passbook Savings Demand Deposits	100%	3 years
Repurchase Agreements	10% (no more than 20% of a single issuer)	30 days
United States Treasury Obligations	90% of overall portfolio for any one investment type (no more than 20% of a single issuer)	5 years
United States Agency Obligations		5 years
State of California and Other States-Issued Obligations	20% of overall portfolio for any one investment type (no more than 5% of a single issuer)	5 years
California Local Government-Issued Municipal Obligations		5 years
*Based on state law requirements or investment policy requirements, whichever is more restrictive.		

Allowable investment instruments are defined in the California Government Code Section 53600, et. seq., as amended. If the Government Code is further revised to allow additional investments or is changed regarding the limits on certain categories of investments, the City is authorized to conform to these changes, excluding those changes that may be prohibited by the City's investment policy. Where the Government Code specifies a percentage limitation for a particular category of investments, that percentage is applicable only at the date of purchase.

Investments Authorized by Debt Agreements

As of June 30, 2018, the City had no investments from debt proceeds held by bond trustees.

NOTE 2 – CASH AND INVESTMENTS (Continued)**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.

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

Investment Type	Remaining Maturity (in Months)				Total
	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months	
LAIF	\$ 4,204,980	\$ -	\$ -	\$ -	\$ 4,204,980
OCIP	4,039,588	-	-	-	4,039,588
Negotiable Certificates of Deposits	735,000	345,000	835,000	-	1,915,000
Total	<u>\$ 8,979,568</u>	<u>\$ 345,000</u>	<u>\$ 835,000</u>	<u>\$ -</u>	<u>\$10,159,568</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

During the fiscal year ended June 30, 2018, the City did not hold any investments that were highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

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	Amount	Minimum Legal Rating	Rating as of Year-End	
			AAA	Not Rated
LAIF	\$ 4,204,980	N/A	\$ -	\$ 4,204,980
OCIP	4,039,588	N/A	-	4,039,588
Negotiable Certificates of Deposits	1,915,000	N/A	-	1,915,000
Total	<u>\$ 10,159,568</u>		<u>\$ -</u>	<u>\$ 10,159,568</u>

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. During the fiscal year ended June 30, 2018, the City did not hold any investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represented 5% or more of total City investments.

NOTE 2 – CASH AND INVESTMENTS (Continued)

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 California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The 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. As of June 30, 2018, the City did not have any deposits with financial institutions in excess of federal depository insurance limits that were held in uncollateralized accounts.

Investments in State Investment Pool

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 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 amortized cost basis. LAIF is not rated.

Investment in Orange County Investment Pool (OCIP)

The City is also a voluntary participant in the Orange County Investment Pool (OCIP) that is regulated by California Government Code under the oversight of the County of Orange Treasurer. 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 OCIP for the entire OCIP portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by OCIP, which are recorded on amortized cost basis. OCIP is not rated.

Fair Value Measurements

The City categorizes its fair value measurement within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

The City's investments in LAIF and OCIP are not subject to the fair value measurement hierarchy. The City's investments in the Negotiable Certificates of Deposits are categorized as Level 2 inputs in the fair value measurement hierarchy.

NOTE 3 – INTERFUND TRANSACTIONS**Due to/Due from Other Funds**

Current interfund receivables and payables balances at June 30, 2018, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount (a)</u>
General Fund	Measure M Special Revenue Fund	\$ 93,063
	Nonmajor Governmental Funds	<u>17,526</u>
	Total Interfund Receivables and Payables	<u>\$ 110,589</u>

(a) The amounts owed represent short-term borrowings to manage cash flows.

Interfund Transfers

Interfund transfers at June 30, 2018, consisted of the following:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Total Funds Transferred</u>
Nonmajor Governmental Funds	General Fund	<u>\$ 5,000</u>

\$5,000 in transfers from the General Fund to the Senior Mobility Nonmajor Special Revenue Fund were budgeted transfers to fund program activities.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

Governmental Activities	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Capital Assets Not Being Depreciated:				
Land	\$ 6,916,750	\$ -	\$ -	\$ 6,916,750
Construction in Progress	226,893	1,433,132	(1,559,124)	100,901
Total Capital Assets Not Being Depreciated	7,143,643	1,433,132	(1,559,124)	7,017,651
Capital Assets Being Depreciated:				
Building	2,563,250	-	-	2,563,250
Building Improvements	736,647	-	-	736,647
Furniture and Equipment	212,231	-	-	212,231
Infrastructure	33,616,079	1,559,124	-	35,175,203
Total Capital Assets Being Depreciated	37,128,207	1,559,124	-	38,687,331
Less Accumulated Depreciation for:				
Building	(512,650)	(73,236)	-	(585,886)
Building Improvements	(731,882)	(4,765)	-	(736,647)
Furniture and Equipment	(209,515)	(1,358)	-	(210,873)
Infrastructure	(10,721,830)	(1,700,989)	-	(12,422,819)
Total Accumulated Depreciation	(12,175,877)	(1,780,348)	-	(13,956,225)
Net Total Capital Assets Being Depreciated	24,952,330	(221,224)	-	24,731,106
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 32,095,973</u>	<u>\$ 1,211,908</u>	<u>\$ (1,559,124)</u>	<u>\$ 31,748,757</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General Government	\$ 79,359
Public Works	<u>1,700,989</u>
Total	<u>\$ 1,780,348</u>

Construction commitments at year-end were as follows:

	Spent to Date	Remaining Commitment
Pedestrian Accessibility Project, Moulton Phase 1	\$ 16,341	\$ 129,359
Dog Park Relocation	53,285	441,714
City Hall Restroom Repair & Improvement	31,275	282,089
City Hall Refurbishment Safety Phase 1	21,720	<u>2,380</u>
		<u>\$ 855,542</u>

NOTE 5 – LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2018, were as follows:

Type of Debt	Restated Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 96,271	\$ 76,534	\$ 73,647	\$ 99,158	\$ 75,855
Net Post-Employment Benefits Liability	34,539	18,885	6,793	46,631	-
Net Pension Liability	565,179	110,479	563,324	112,334	-
Total Long-Term Liabilities	<u>\$ 695,989</u>	<u>\$ 205,898</u>	<u>\$ 643,764</u>	<u>\$ 258,123</u>	<u>\$ 75,855</u>

NOTE 6 – INDIVIDUAL FUND DISCLOSURES

Deficit Fund Balance

For the year ended June 30, 2018, the following funds had a deficit fund balance:

Major Fund:	
Measure M Special Revenue Fund	\$ 71,594
Nonmajor Funds:	
Senior Mobility Fund	6,479
Community Development Block Grant Fund	<u>16,341</u>
Total Deficit Fund Balance	<u>\$ 94,414</u>

The deficit fund balance is expected to be corrected by future receipt of amounts due from other governments for claims filed in the current fiscal year.

NOTE 7 – RISK MANAGEMENT

A. Description of Self-Insurance Pool Pursuant to Joint Powers Agreement

The City is a member of the California Joint Powers Insurance Authority (Authority). The Authority is composed of 116 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other lines of coverage. The Authority began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board of Directors operates through a nine-member Executive Committee.

B. Self-Insurance Programs of the Authority

Each member pays an annual contribution at the beginning of the coverage period. A retrospective adjustment is then conducted annually thereafter, for coverage years 2012-13 and prior. Coverage years 2013-14 and forward are not subject to routine annual retrospective adjustment. The total funding requirement for self-insurance programs is based on an actuarial analysis. Costs are allocated to individual agencies based on payroll and claims history, relative to other members of the risk-sharing pool.

NOTE 7 – RISK MANAGEMENT (Continued)

B. Self-Insurance Programs of the Authority (Continued)

Primary Liability Program

Claims are pooled separately between police and general government exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$30,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$30,000 to \$750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs from \$750,000 to \$50 million, are distributed based on the outcome of cost allocation within the first and second loss layers.

The overall coverage limit for each member, including all layers of coverage, is \$50 million per occurrence. Subsidence losses have a sub-limit of \$40 million per occurrence. The coverage structure includes retained risk that is pooled among members, reinsurance, and excess insurance. More detailed information about the various layers of coverage is available on the following website: <https://cjpia.org/protection/coverage-programs>.

Workers' Compensation Program

Claims are pooled separately between public safety (police and fire) and general government exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$50,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$50,000 to \$100,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs from \$100,000 to statutory limits are distributed based on the outcome of cost allocation within the first and second loss layers.

For fiscal year 2017-18, the Authority's pooled retention is \$2 million per occurrence, with reinsurance to statutory limits under California Workers' Compensation Law. Employer's Liability losses are pooled among members to \$2 million. Coverage from \$2 million to \$5 million is purchased as part of a reinsurance policy, and Employer's Liability losses from \$5 million to \$10 million are pooled among members.

C. Purchased Insurance

Pollution Legal Liability Insurance

The City participates in the pollution legal liability insurance program which is available through the Authority. The policy covers sudden and gradual pollution of scheduled property, streets, and storm drains owned by the City. Coverage is on a claims-made basis. There is a \$50,000 deductible. The Authority has an aggregate limit of \$50 million for the 3-year period from July 1, 2017, through July 1, 2020. Each member of the Authority has a \$10 million sub-limit during the 3-year term of the policy.

Property Insurance

The City participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. The City property is currently insured according to a schedule of covered property submitted by the City to the Authority. The City property currently has all-risk property insurance protection in the amount of \$4,505,533. There is a \$10,000 deductible per occurrence except for non-emergency vehicle insurance which has a \$2,500 deductible.

NOTE 7 – RISK MANAGEMENT (Continued)

C. Purchased Insurance (Continued)

Earthquake and Flood Insurance

The City purchases earthquake and flood insurance on a portion of its property. The earthquake insurance is part of the property protection insurance program of the Authority. The City property currently has earthquake protection in the amount of \$4,476,023. There is a deductible of 5% per unit of value with a minimum deductible of \$100,000.

Crime Insurance

The City purchases crime insurance coverage in the amount of \$1,000,000 with a \$2,500 deductible. The fidelity coverage is provided through the Authority.

D. Adequacy of Protection

During the past three fiscal years, none of the above programs of protection experienced settlements or judgments that exceeded pooled or insured coverage. There were also no significant reductions in pooled or insured liability coverage in fiscal year 2017-18.

NOTE 8 – JOINT VENTURE

Orange County Fire Authority

In 1999, the City entered into a joint powers agreement that now includes the Cities of Buena Park, Cypress, Dana Point, Irvine, Laguna Hills, Laguna Niguel, Lake Forest, La Palma, Los Alamitos, Aliso Viejo, Rancho Santa Margarita, Mission Viejo, Placentia, San Clemente, San Juan Capistrano, Santa Ana, Seal Beach, Stanton, Tustin, Villa Park, Westminster, and Yorba Linda and the County of Orange (the County) to create the Orange County Fire Authority (Fire Authority). The purpose of the Fire Authority is to provide for mutual fire protection, prevention, and suppression services and related and incidental services including, but not limited to, emergency medical and transport services, as well as providing facilities and personnel for such services. The effective date of formation was March 1, 1995. The Fire Authority's governing board consists of one representative from each city and two from the County. The operations of the Fire Authority are funded with fire fees collected by the County through the property tax roll for the unincorporated area and on behalf of all member cities except for the cities of Stanton, Tustin, San Clemente, Westminster, Buena Park, Placentia, Santa Ana, and Seal Beach. The County pays all structural fire fees it collects to the Fire Authority. The cities of Stanton, Tustin, San Clemente, Westminster, Buena Park, Placentia, Santa Ana, and Seal Beach are considered "cash contract cities" and accordingly make cash contributions based on the Fire Authority's annual budget. The City does not have an equity interest in the assets of the Fire Authority.

Complete financial statements may be obtained from the Orange County Fire Authority, 1 Fire Authority Road, Irvine, CA 92602.

NOTE 9 – DEFINED BENEFIT PENSION PLANS

A. General Information about the Pension Plans

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the City's Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)A. General Information about the Pension Plans (Continued)Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 to 62 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

Applicable plan dates and periods for the year ended June 30, 2018, are:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

Hire Date	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Benefit Formula	2.000% @ 55	2.000% @ 62
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	50-67	52-67
Monthly Benefits, as a Percentage of Eligible Compensation	1.426% to 2.418%	1.000% to 2.500%
Required Employee Contribution Rates	7.000%	6.750%
Required Employer Contribution Rates		
Normal Cost Rate	9.517%	6.628%
Payment of Unfunded Liability	\$ 24,266	\$ 9

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)**B. Pension Liability, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions**

As of June 30, 2018, the City reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

Proportionate Share of Net Pension Liability / (Asset)

	Fiscal Year Ending	
	June 30, 2018	June 30, 2017
Miscellaneous	\$ 112,334	\$ 565,179

The City's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2017, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. The City's proportionate share of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The City's proportionate share of the net pension liability for each Plan as of the measurement dates ended June 30, 2016 and 2017, was as follows:

	Miscellaneous
Proportion - June 30, 2016	0.006532%
Proportion - June 30, 2017	0.001133%
Change - Increase (Decrease)	-0.005399%

For the year ended June 30, 2018, the City recognized pension expense of \$89,912. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Outflows of Resources
Pension contributions subsequent to measurement date	\$ 62,659	\$ -
Differences between actual and expected experience	888	12,718
Changes in assumptions	110,142	8,398
Change in employer's proportion and differences between employer's contributions and the employer's proportionate share of contribution	2,161 346,745	328,850 -
Net differences between projected and actual earnings on plan investments	24,910	-
Total	\$ 547,505	\$ 349,966

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)**B. Pension Liability, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions** (Continued)

\$62,659 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows/inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	<u>Deferred Outflows / (Inflows) of Resources</u>
2019	\$ 35,707
2020	70,447
2021	43,514
2022	(14,788)
2023	-
Thereafter	-
Total	<u>\$ 134,880</u>

Actuarial Assumptions

For the measurement period ended June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability determined in the June 30, 2016 actuarial accounting valuation. The June 30, 2017 total pension liability was based on the following actuarial methods and assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation Rate	2.63%
Salary Increases	(1)
Mortality Rate Table	(2)
Post Retirement Benefit Increase	(3)

- (1) Varies by entry age and service.
- (2) The probabilities of mortality are derived using CalPERS' membership data for all funds. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.
- (3) Contract cost of living adjustment (COLA) up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality, and retirement rates. The Experience Study report can be obtained at the CalPERS website under Forms and Publications.

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)**B. Pension Liability, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions** (Continued)Change of Assumptions

The discount rate was lowered to 7.15% from 7.65% and the inflation rate was lowered to 2.63% from 2.75%. It is anticipated that for the year ended June 30, 2018, additional assumption changes will be made. Deferred inflows of resources for changes of assumptions presented in the financial statements represent the unamortized portion of the changes of assumptions related to prior measurement periods.

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15% will be applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

In determining the long-term expected rate of return, CalPERS considered both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Considering historical returns of all the PERF's asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term net real rate of return by asset class as of April 30, 2018. The target allocation shown was adopted by the CalPERS Investment Board effective March 2018 as an interim target.

Asset Class	New Strategic Allocation	Real Return 1 Year	Real Return 10 Years	Real Return 20 Years
Global Equity	49.00%	14.80%	6.40%	6.40%
Global Fixed Income	22.00%	1.20%	5.60%	6.20%
Inflation Sensitive	6.00%	7.40%	-0.80%	N/A
Private Equity	8.00%	16.60%	8.70%	1.70%
Real Estate	10.00%	7.40%	-1.40%	6.60%
Infrastructure and Forestland	2.00%	20.30%	13.40%	N/A
Liquidity	3.00%	1.50%	1.00%	2.60%
Total	100.00%			

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)**B. Pension Liability, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions** (Continued)Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

Miscellaneous	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Net Pension Liability	\$ 475,393	\$ 112,334	\$ (188,358)

Pension Plans Fiduciary Net Position

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

Subsequent Events

In December 2016, CalPERS' Board of Directors voted to lower the discount rate used in its actuarial valuations from 7.5% to 7.0% over three fiscal years, beginning in fiscal year 2018. The change in the discount rate will affect the contribution rates for employers beginning in fiscal year 2019, and result in increases to employers' normal costs and unfunded actuarial liabilities. For the GASB Statement No. 68 accounting valuations, the discount rate will move straight to 7.0% starting with the June 30, 2017 measurement date reports and will result in an increase to employer's total pension liabilities. CalPERS continues to study actuarial assumptions with a final report due in fiscal year 2018-19.

C. Payable to the Pension Plan

At June 30, 2018, the City had no outstanding amount of contributions to the pension plans required for the year ended June 30, 2018. On September 26, 2018, the City will consider making a payment to pay off the UAL balance for both pension plans using a measurement date of September 6, 2018, and as calculated by CalPERS.

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)**A. Plan Description**

The City provides retiree medical benefits under the Public Employees Medical and Hospital Care Act (PEMHCA), which provides access to group health insurance to eligible retirees and their spouses in accordance with PEMHCA. The City's OPEB plan does not issue a separate stand-alone report as the plan type is an agent multiple-employer plan managed by the California Employers' Retirement Benefit Trust (CERBT) Fund. There are no special funding situations and no non-employer contributing entities.

B. Eligibility

Employees are eligible for retiree health benefits if they retire from the City on or after age 50 (unless disabled), are eligible for a CalPERS pension, and have worked for the City for a minimum of 10 years. The benefits are available only to employees who retire from the City. Membership of the plan consisted of 8 eligible active employees and 3 enrolled eligible retirees at June 30, 2018. These amounts do not reflect current retirees not enrolled in the CalPERS health plan who are eligible to enroll in the plan at a later date.

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)**C. City's Funding Policy**

The contribution requirements of plan members and the City are established and may be amended by the City and the City Council. The City must agree to make a defined monthly payment towards the cost of each retiree's coverage. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended June 30, 2018, the City paid \$4,115 in contributions for post-employment healthcare benefits.

D. OPEB Trust

The City established an OPEB Trust to prefund future OPEB costs in February 2016 with a goal of maintaining an 80% funding status. Prefunding allows the City to reduce future costs by generating investment income which reduces future employer cash flow requirements necessary to offset annual costs. Prefunding of the trust was established with a one-time contribution of \$60,511 in fiscal year 2015-16. The value of the trust as of the June 30, 2017 measurement date was \$67,464. The City contributed another \$23,812 in the current fiscal year which will be reflected in the next valuation. The trust value at June 30, 2018, is \$94,420 with total realized earnings of \$10,097.

Due to the establishment of the OPEB Trust, the funded status is anticipated to be at or above 80% with the next calculation (calculated June 30, 2019).

E. The CERBT Plan Long-Term Expected Rate of Return

	Target Allocation (1)	Expected Real Rate of Return (2)
Asset Class:		
Equities	24.00%	4.82%
Fixed Income	39.00%	1.47%
TIPS	26.00%	1.29%
Commodities	3.00%	0.84%
REITS	8.00%	3.76%
Assumed Long-Term Rate of Inflation		2.75%
Expected Long-Term Net Rate of Return		5.60%
Discount Rate		5.50%

Notes:

- (1) CERBT Strategy 3 provided by CalPERS' Strategic Asset Allocation Analysis Review in August 2014.
- (2) The long-term expected real rates of return are presented as geometric means developed over a 20-year period.

F. Measurement Period and Employees Covered

In the current year, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which was effective for years beginning on or after June 15, 2017. GASB Statement No. 75 eliminates and replaces GASB Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (as amended). Both standards require a calculation of a present liability for future non-pension benefits for employees and retirees, known as the "Actuarial Accrued Liability" in GASB Statement No. 45, and now the "Total OPEB Liability" in GASB Statement No. 75. The two standards differ in how the liability is disclosed on financial statements. Under GASB Statement No. 45, the total liability was included in the footnotes to the financial statements, and only a portion of the liability was recognized in the financial statements. Under GASB Statement No. 75, the full liability is recognized in the financial statements, and the footnotes are more extensive. For GASB Statement No. 75 implementation, update procedures were used to roll backward the total OPEB liability to the previous measurement date.

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)F. Measurement Period and Employees Covered (Continued)

For purposes of GASB Statement No. 75, and for measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Applicable plan dates and periods for the year ended June 30, 2018, are:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

As of the June 30, 2016 actuarial valuation, the following current and former employees were covered by the benefit terms under the plan:

Active employees	8
Inactive employees currently receiving benefits*	<u>3</u>
Total	<u><u>11</u></u>

*or beneficiaries currently receiving benefits

G. Net OPEB Liability / (Asset)

The City's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2016 that was rolled forward to determine the June 30, 2017 total OPEB liability, based on the following actuarial methods and assumptions:

<u>Net OPEB Liability / (Asset)</u>		
Fiscal year ending	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Measurement date	June 30, 2017	June 30, 2016
Total OPEB liability (TOL)	\$ 114,095	\$ 99,359
Fiduciary net position (FNP)	<u>(67,464)</u>	<u>(64,820)</u>
Net OPEB liability (NOL)	<u><u>\$ 46,631</u></u>	<u><u>\$ 34,539</u></u>

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)**H. Change in the Net OPEB Liability**

	Change in Net OPEB Liability / (Asset)		
	Total OPEB Liability	Fiduciary Net Position	Net OPEB Liability
Balance at fiscal year ended June 30, 2017*	\$ 99,359	\$ 64,820	\$ 34,539
Changes for the year			
Service cost	12,795	-	12,795
Interest	6,056	-	6,056
Contributions - employer***	-	4,115	(4,115)
Net investment income	-	2,678	(2,678)
Benefit payments including refunds***	(4,115)	(4,115)	-
Administrative expense	-	(34)	34
Net changes	14,736	2,644	12,092
Balance at fiscal year ended June 30, 2018**	\$ 114,095	\$ 67,464	\$ 46,631

* Measurement date June 30, 2016

** Measurement date of June 30, 2017

*** Includes \$357 implied subsidy benefit payments

I. Sensitivity of the Net OPEB Liability to Changes in Assumptions

The following presents the net OPEB liability of the plan as if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for the measurement period ended June 30, 2017.

	Change in Discount Rate		
	1% Decrease (4.50%)	Current Rate (5.50%)	1% Increase (6.50%)
Net OPEB Liability	\$ 63,089	\$ 46,631	\$ 33,153

The following presents the net OPEB liability of the plan if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate, for the measurement period ended June 30, 2017.

	Change in Health Care Cost Trend Rates		
	1% Decrease (6.50% decreasing to 3.00%)	Current Rate (7.50% decreasing to 4.00%)	1% Increase (8.50% decreasing to 5.00%)
Net OPEB Liability	\$ 31,814	\$ 46,631	\$ 65,135

J. Balances of Deferred Outflows/Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in the future OPEB expense.

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)J. Balances of Deferred Outflows/Inflows of Resources (Continued)

For the fiscal year ended June 30, 2018, the plan recognized OPEB expense of \$15,498.

The plan had deferred outflows of resources related to OPEB from the following sources:

	Balances of Deferred Outflows/Inflows of Resources	
	Fiscal Year Ending June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on plan investments	709	-
Employer contributions made subsequent to the measurement date	27,925	N/A
Net OPEB liability (NOL)	\$ 28,634	\$ -

*Actual employer contributions paid to the OPEB Trust plus actual benefit payments paid from employer resources outside of the OPEB Trust.

\$27,925 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the NOL in the year ending June 30, 2019. Other amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Recognition of Deferred Outflows and Inflows of Resources in Future OPEB Expense	
Fiscal Year Ending June 30th	Deferred Outflows / Inflows of Resources
2019	\$ 177
2020	177
2021	177
2022	178
2023	-
Thereafter	-
Total	\$ 709

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)**K. Significant Actuarial Assumptions Used in Calculating the Total OPEB Liability**

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.

Significant actuarial assumptions used in calculating the total OPEB liability at June 30, 2018, are:

Actuarial Assumption	June 30, 2017 Measurement Date
Discount Rate	Discount rate based on Crossover Test 5.50% at June 30, 2017 5.50 at June 30, 2016
Long-Term Expected Rate of Return on Investments	5.50% at June 30, 2017, net of expenses 5.50% at June 30, 2016, net of expenses
Municipal Bond Rate	N/A
General Inflation	2.75% per annum
Crossover Test Assumptions	Employer contributes to maintain 80% funding status. Administrative expenses - 0.005% of pay. Assets are projected to always exceed benefit payments.
Mortality, Disability, Termination, Retirement	CalPERS 1997-2011 Experience Study
Mortality Improvement	Mortality projected fully generational with Scale MP-17
Trend	Pre-Medicare - 7.5% for 2019, decreasing to 4.00% for 2076 and later Medicare - 6.5% for 2019, decreasing to 4.00% for 2076 and later
Healthcare Participation for Future Retirees	50%

Mortality and turnover information was developed based on CalPERS' specific data. For more details, please refer to the 2007 to 2011 Experience Study Report which may be accessed on the CalPERS website at www.calpers.ca.gov under Forms and Publications.

NOTE 11 – CONTINGENCIES

Financial assistance from federal, state, and local governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the City for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

In fiscal year 2017-18, the City begin a multi-year review of the Coastal Area Road Improvements and Traffic Signals Fund (CARITS). No provision has been made for any liabilities that may arise from the City's review since the amounts, if any, cannot be determined at this date.

Senate Bill 1 (SB 1), the Road Repair and Accountability Act of 2017, was passed and signed into law in April 2017 with expenditures restricted for improving and maintaining public streets, improving traffic safety, and expanding public transit systems. The City's Fiscal Year 2017-19 Budget commits projected SB 1 revenues to support various pavement management plan projects and related work. Proposition 6, the Voter Approval for Future Gas and Vehicle Taxes and 2017 Tax Repeal Initiative, has qualified to be

NOTE 11 – CONTINGENCIES (Continued)

on the ballot at the November 6, 2018 General Election. If passed, Proposition 6 would repeal fees collected under SB 1. The current eleven-year CIP plan includes \$2,266,668 in pavement management plan projects with planned funding from transportation funds, including SB 1 funds. Fiscal years 2017-18 and 2018-19 projects in process total \$486,892 dollars including \$265,100 in dedicated SB 1 funding. If Proposition 6 passes, the City will have to determine whether there is sufficient available funding in other transportation funds for the planned projects or if projects will be deferred. Since the outcome of Proposition 6 cannot be determined at this time, the City's liability for projects in process cannot be determined at this date, and as such, no provision has been made for any potential liability that may occur due to loss of funding.

The Fiscal Year 2018-19 Budget includes planned expenditures totaling \$215,100 from projected SB 1 revenues. In that event that Proposition 6 passes, the City anticipates a funding shortfall of approximately \$188,872, as a result of which projects budgeted in Fiscal Year 2018-19 would either need to be modified, allocated additional funding, deferred, or cancelled. As the outcome of Proposition 6 is purely speculative at this point, no provision has been made for any potential liabilities that may occur due to its passage.

NOTE 12 – PRIOR PERIOD ADJUSTMENTS

A prior period adjustment was made to the governmental activities' beginning net position to reflect the prior period costs related to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Another prior period adjustment was made to the governmental funds' beginning fund balances to reflect a transfer in the amount of \$148,110 from the CARITS to the General Fund to resolve past issues related to fund balances and expenditures between the two funds.

The restatement of beginning net position of the governmental activities is summarized as follows:

Governmental Activities	
Net position at July 1, 2017, as previously stated	\$ 43,171,645
Net OPEB liability adjustment	<u>30,305</u>
Net position at July 1, 2017, as restated	<u>\$ 43,201,950</u>

The restatement of beginning fund balances is summarized as follows:

	General Fund	Other Governmental Funds
Governmental Funds		
Fund balances at July 1, 2017, as previously stated	\$ 9,654,675	\$ 458,072
General Fund transfer to CARITS	<u>(148,110)</u>	<u>148,110</u>
Fund balances at July 1, 2017, as restated	<u>\$ 9,506,565</u>	<u>\$ 606,182</u>

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 26, 2018, the date the financial statements were available to be issued and has concluded that no subsequent events have occurred that would require recognition or disclosure in the basic financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF LAGUNA WOODS
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST TEN FISCAL YEARS***

Fiscal year ended	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Measurement period	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
City's proportion of the net pension liability	0.00113%	0.00653%	0.00581%	0.00641%
City's proportionate share of the net pension liability	\$ 112,334	\$ 565,179	\$ 398,688	\$ 398,648
City's covered-employee payroll	\$ 707,254	\$ 699,490	\$ 729,196	\$ 716,484
City's proportionate share of the net pension liability as a percentage of covered-employee payroll	15.88%	80.80%	54.68%	55.64%
City's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability	73.31%	74.06%	78.40%	83.03%
City's proportionate share of aggregate employer contributions	\$ 95,620	\$ 87,255	\$ 74,766	\$ 52,739

Notes to the Schedule

Changes in Benefit Terms

There were no changes in benefits.

Changes in Assumptions

From fiscal year June 30, 2015 to June 30, 2016: GASB Statement No. 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date was without reduction of pension plan administrative expense. The discount rate of 7.15% used for the June 30, 2017 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017: There were no changes in assumptions.

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

**CITY OF LAGUNA WOODS
SCHEDULE OF CONTRIBUTIONS – PENSION
LAST TEN FISCAL YEARS***

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution (actuarially determined)	\$ 62,659	\$ 545,363	\$ 6,231	\$ 79,169
Contributions in relation to the actuarially determined contributions	<u>(62,659)</u>	<u>(545,363)</u>	<u>(6,231)</u>	<u>(79,169)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 707,254	\$ 699,490	\$ 729,196	\$ 716,484
Contributions as a percentage of covered-employee payroll	8.86%	77.97%	0.85%	11.05%

Notes to Schedule:

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

Actuarial valuation method	Entry age**
Amortization method	Level percentage of payroll, closed**
Asset valuation method	Market Value***
Inflation	2.75%**
Salary increases	Depending on age, service, and type of employment**
Investment rate of return	7.50%, net of pension plan investment expense, including inflation**
Retirement age	50 years 2% @55 and 52 years 2% @62
Mortality	Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.**

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

** - The valuations for June 30, 2012 and 2013 (applicable to fiscal years ended June 30, 2015 and 2016, respectively) included the same actuarial assumptions.

*** - The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) valued assets using a 15 Year Smoothed Market method. The market value asset valuation method was utilized for the June 30, 2013 and 2014 valuations (applicable to fiscal years ended June 30, 2016 and 2017, respectively).

**CITY OF LAGUNA WOODS
SCHEDULE OF CHANGES IN THE NET OTHER POST-EMPLOYMENT
BENEFIT (OPEB) LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2018**

Total OPEB Liability	
Service cost	\$ 12,795
Interest on the total OPEB liability	6,056
Benefit payments (includes \$357 implied subsidy)	<u>(4,115)</u>
Net change in total OPEB liability	14,736
Total beginning OPEB liability	<u>99,359</u>
Total ending OPEB liability	<u><u>\$ 114,095</u></u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 4,115
Net investment interest on the total OPEB liability	2,678
Benefit payments (includes \$357 implied subsidy)	(4,115)
Administrative expense	<u>(34)</u>
Net change in plan fiduciary net position	2,644
Total beginning plan fiduciary net position	<u>64,820</u>
Total ending plan fiduciary net position	<u><u>\$ 67,464</u></u>
Net OPEB liability - ending	<u><u>\$ 46,631</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	59.1%
Covered-employee payroll	\$ 750,065
Net OPEB liability as a percentage of covered-employee payroll	6.2%

Notes:

Note 1 – The discount rate used was 5.50% net of administrative expense for the measurement period ended June 30, 2017.

Note 2 – Historical information is required only for measurement periods for which GASB Statement No. 75 is applicable. Future years' information will be displayed up to ten years when information becomes available.

Note 3 – The next actuarial study is to be issued in 2020 with a June 30, 2019 measurement period.

**CITY OF LAGUNA WOODS
SCHEDULE OF CONTRIBUTIONS – OPEB
LAST TEN FISCAL YEARS***

Note: This disclosure is not required. Funding is not based on actuarially determined contributions and contributions are neither statutorily or contractually established.

**CITY OF LAGUNA WOODS
SUMMARY OF MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

GENERAL FUND

The General Fund is the primary operating fund of the City. The General Fund accounts for activities and services traditionally associated with governments such as law enforcement services. The General Fund is used to account for revenue sources that are not legally restricted to expenditures for specified purposes, which are financed primarily through tax-generated revenues and not required to be accounted for in another fund.

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for specified purposes. The following funds have been classified as major funds. The budget-actual comparisons for these funds have been presented in the accompanying financial statements as Required Supplementary Information:

Fuel Tax Fund – is used to account for the City's share of the motor vehicle gas tax imposed under the provisions of the Streets and Highways Code of the State of California under Sections 2103, 2105, 2106, 2107, and 2107.5 which are legally restricted for the acquisition, construction, improvement, and maintenance of public streets.

Measure M Fund – is used to account for the City's share of an additional one-half percent sales tax approved by the Orange County electorate and collected by the Orange County Transportation Authority for the improvement and maintenance of local streets and roads.

**CITY OF LAGUNA WOODS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES:				
Property Tax	\$ 2,448,200	\$ 2,448,200	\$ 2,459,239	\$ 11,039
Property Transfer Tax	95,900	95,900	114,180	18,280
Sales Tax	803,200	803,200	914,550	111,350
Transient Occupancy Tax	461,800	461,800	484,470	22,670
Franchise Fee	623,800	623,800	672,266	48,466
Charges for Services	707,300	707,300	647,008	(60,292)
Intergovernmental	-	-	56,143	56,143
Investment Income	51,200	51,200	111,739	60,539
Miscellaneous	182,200	182,200	251,416	69,216
Total Revenues	5,373,600	5,373,600	5,711,011	337,411
EXPENDITURES:				
Current:				
City Council	72,317	23,221	16,925	6,296
Administrative Services	672,235	700,693	634,055	66,638
General Government	670,037	701,572	583,059	118,513
Public Safety	2,669,170	2,496,393	2,496,393	-
Public Works	618,595	1,343,021	580,829	762,192
Community Development	1,021,334	1,177,933	961,253	216,680
Community Services	788	794	794	-
Total Expenditures	5,724,476	6,443,627	5,273,308	1,170,319
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(350,876)	(1,070,027)	437,703	1,507,730
OTHER FINANCING SOURCES (USES):				
Transfers In	984,534	984,534	-	(984,534)
Transfers Out	(365,426)	(1,137,644)	(5,000)	1,132,644
Total Other Financing Sources (Uses)	619,108	(153,110)	(5,000)	148,110
NET CHANGE IN FUND BALANCE	\$ 268,232	\$ (1,223,137)	432,703	\$ 1,655,840
FUND BALANCE:				
Beginning of Year, as restated			9,506,565	
End of Year			<u>\$ 9,939,268</u>	

**CITY OF LAGUNA WOODS
BUDGETARY COMPARISON SCHEDULE
FUEL TAX SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES:				
Intergovernmental	\$ 366,500	\$ 366,500	\$ 18,552	\$ (347,948)
Taxes and Assessments	-	-	334,299	334,299
Investment Income	-	-	8,762	8,762
Total Revenues	<u>366,500</u>	<u>366,500</u>	<u>361,613</u>	<u>(4,887)</u>
EXPENDITURES:				
Current:				
Public Works	<u>437,274</u>	<u>754,650</u>	<u>716,966</u>	<u>37,684</u>
Total Expenditures	<u>437,274</u>	<u>754,650</u>	<u>716,966</u>	<u>37,684</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(70,774)</u>	<u>(388,150)</u>	<u>(355,353)</u>	<u>32,797</u>
NET CHANGE IN FUND BALANCE	<u>\$ (70,774)</u>	<u>\$ (388,150)</u>	<u>(355,353)</u>	<u>\$ 32,797</u>
FUND BALANCE:				
Beginning of Year			<u>913,123</u>	
End of Year			<u>\$ 557,770</u>	

**CITY OF LAGUNA WOODS
BUDGETARY COMPARISON SCHEDULE
MEASURE M SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES:				
Intergovernmental	\$ 211,200	\$ 1,064,669	\$ 861,596	\$ (203,073)
Investment Income	-	-	2,057	2,057
Total Revenues	<u>211,200</u>	<u>1,064,669</u>	<u>863,653</u>	<u>(201,016)</u>
EXPENDITURES:				
Current:				
Public Works	<u>242,044</u>	<u>1,272,149</u>	<u>820,315</u>	<u>451,834</u>
Total Expenditures	<u>242,044</u>	<u>1,272,149</u>	<u>820,315</u>	<u>451,834</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(30,844)</u>	<u>(207,480)</u>	<u>43,338</u>	<u>250,818</u>
NET CHANGE IN FUND BALANCE	<u>\$ (30,844)</u>	<u>\$ (207,480)</u>	<u>43,338</u>	<u>\$ 250,818</u>
FUND BALANCE (DEFICIT):				
Beginning of Year			<u>(114,932)</u>	
End of Year			<u>\$ (71,594)</u>	

**CITY OF LAGUNA WOODS
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1 – BUDGETARY POLICY

The City Manager shall prepare and submit the proposed annual budget for all governmental funds to the City Council for its approval. The City Council reviews the proposed budget during a series of public meetings. The budget is legally enacted by means of a budget resolution passed by the City Council prior to July 1st of each year. Upon final adoption, the budget shall be in effect for the ensuing fiscal year.

The level of budgetary control (this is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level. City Council approval is required for any budget revisions that increase total appropriations for a fund.

Appropriations lapse at the end of the fiscal year except (1) unexpended appropriations for projects completed or underway at the end of the fiscal year as recommended by the City Manager and approved by the City Council, and (2) unexpended appropriations for capital improvement projects.

Budgeted amounts are as originally adopted, or as amended in accordance with prescribed procedures throughout the fiscal year. During the year, there were fourteen supplemental appropriations approved by the City Council totaling \$1.3 million, and capital and other one-time projects budget carryovers totaling \$1.8 million.

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SUPPLEMENTARY INFORMATION

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**CITY OF LAGUNA WOODS
OTHER GOVERNMENTAL FUNDS
JUNE 30, 2018**

SPECIAL REVENUE FUNDS

The following Special Revenue funds have been classified as nonmajor funds in the accompanying financial statements:

Road Repair and Accountability Act of 2017 Fund – is used to account for the City's share of the motor vehicle gas tax imposed under the provisions of Senate Bill 1 (SB 1), a California legislative bill that was passed and signed into law in April 2017 with expenditures restricted for improvement and maintenance of public streets, improving traffic safety, and expanding public transit systems.

Coastal Area Road Improvements and Traffic Signals Fund (CARITS) – is used to account for receipts from the County of Orange and expenditures for the construction of roadway gaps, intersection improvements, and traffic signals as identified in the South County Road Improvement Action Plan.

Supplemental Law Enforcement Program Fund – is used to account for the receipts and expenditures from the State of California's Citizens Option for Public Safety (COPS) program.

Air Quality Improvement Fund – is used to account for funds received from the South Coast Air Quality Management District for enacting policies to improve air quality.

PEG/Cable Television Fund – is used to account for funds received and expenditures related to maintenance and the purchase of equipment necessary for the operation of public, educational, and governmental access (PEG) channels and cable access to PEG channels within the City's jurisdiction.

Senior Mobility Fund – is used to account for receipts from the Orange County Transportation Authority and expenditures for demand-responsive transportation services for seniors aged 60 and older.

Community Development Block Grant (CDBG) Fund – is used to account for the receipts and expenditures of the U.S. Housing and Urban Development – Community Development Block Grant Programs.

Civic Support Fund – is used to account for revenue, donor support, and expenditures of the Laguna Woods Civic Support Fund, a nonprofit public benefit corporation.

Grants Fund – is used to account for revenues received under Federal, State, and local grants.

**CITY OF LAGUNA WOODS
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
JUNE 30, 2018**

	Special Revenue Funds			
	Road Repair and Accountability Act of 2017	Coastal Area Road Improvements and Traffic Signals	Supplemental Law Enforcement Program	Air Quality Improvement
ASSETS				
Cash and Investments	\$ 11,034	\$ 248,019	\$ 54,860	\$ 153,203
Receivables:				
Accounts	-	-	-	-
Due from Other Governments	34,588	-	-	5,373
Total Assets	<u>\$ 45,622</u>	<u>\$ 248,019</u>	<u>\$ 54,860</u>	<u>\$ 158,576</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Accrued Liabilities	-	-	42,133	-
Due to Other Funds	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>42,133</u>	<u>-</u>
Deferred Inflows of Resources:				
Unavailable Revenues	-	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances (Deficit):				
Restricted for:				
Public Works	45,622	248,019	-	-
Community Development	-	-	-	158,576
Community Services	-	-	-	-
Public Safety	-	-	12,727	-
Unassigned	-	-	-	-
Total Fund Balances (Deficit)	<u>45,622</u>	<u>248,019</u>	<u>12,727</u>	<u>158,576</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 45,622</u>	<u>\$ 248,019</u>	<u>\$ 54,860</u>	<u>\$ 158,576</u>

**CITY OF LAGUNA WOODS
COMBINING BALANCE SHEET (Continued)
OTHER GOVERNMENTAL FUNDS
JUNE 30, 2018**

Special Revenue Funds (Continued)					Total Other Governmental Funds
PEG/Cable Television	Senior Mobility	CDBG	Civic Support	Grants	
\$ 83,698	\$ -	\$ -	\$ 2,824	\$ 40,864	\$ 594,502
775	-	-	-	-	775
-	52,602	-	-	-	92,563
<u>\$ 84,473</u>	<u>\$ 52,602</u>	<u>\$ -</u>	<u>\$ 2,824</u>	<u>\$ 40,864</u>	<u>\$ 687,840</u>
\$ -	\$ 20,362	\$ 63	\$ -	\$ -	\$ 20,425
-	-	-	-	-	42,133
-	1,197	16,278	51	-	17,526
<u>-</u>	<u>21,559</u>	<u>16,341</u>	<u>51</u>	<u>-</u>	<u>80,084</u>
-	37,522	-	-	-	37,522
<u>-</u>	<u>37,522</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,522</u>
-	-	-	-	-	293,641
-	-	-	-	5,064	163,640
84,473	-	-	2,773	-	87,246
-	-	-	-	35,800	48,527
-	(6,479)	(16,341)	-	-	(22,820)
<u>84,473</u>	<u>(6,479)</u>	<u>(16,341)</u>	<u>2,773</u>	<u>40,864</u>	<u>570,234</u>
<u>\$ 84,473</u>	<u>\$ 52,602</u>	<u>\$ -</u>	<u>\$ 2,824</u>	<u>\$ 40,864</u>	<u>\$ 687,840</u>

**CITY OF LAGUNA WOODS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	Special Revenue Funds			
	Road Repair and Accountability Act of 2017	Coastal Area Road Improvements and Traffic Signals	Supplemental Law Enforcement Program	Air Quality Improvement
REVENUES:				
Taxes and Assessments	\$ 95,622	\$ -	\$ -	\$ -
Intergovernmental	-	-	139,416	20,782
Charges for Services	-	-	-	-
Investment Income	-	1,683	717	1,742
Miscellaneous	-	-	-	-
Total Revenues	<u>95,622</u>	<u>1,683</u>	<u>140,133</u>	<u>22,524</u>
EXPENDITURES:				
Current:				
Public Safety	-	-	171,707	-
Public Works	50,000	-	-	-
Community Development	-	53,021	-	-
Community Services	-	-	-	-
Total Expenditures	<u>50,000</u>	<u>53,021</u>	<u>171,707</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>45,622</u>	<u>(51,338)</u>	<u>(31,574)</u>	<u>22,524</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>45,622</u>	<u>(51,338)</u>	<u>(31,574)</u>	<u>22,524</u>
FUND BALANCES (DEFICITS):				
Beginning of Year, as Previously Stated	-	151,247	44,301	136,052
Prior Period Adjustment	-	148,110	-	-
Beginning of Year, Restated	-	299,357	44,301	136,052
End of Year	<u>\$ 45,622</u>	<u>\$ 248,019</u>	<u>\$ 12,727</u>	<u>\$ 158,576</u>

**CITY OF LAGUNA WOODS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

Special Revenue Funds (Continued)					Total Other Governmental Funds
PEG/Cable Television	Senior Mobility	CDBG	Civic Support	Grants	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 95,622
13,260	130,937	-	-	-	304,395
-	110,897	-	-	-	110,897
913	197	-	1	503	5,756
-	-	-	150	-	150
<u>14,173</u>	<u>242,031</u>	<u>-</u>	<u>151</u>	<u>503</u>	<u>516,820</u>
-	-	-	-	-	171,707
-	-	16,341	-	-	66,341
-	-	-	-	2,109	55,130
-	263,510	-	1,080	-	264,590
<u>-</u>	<u>263,510</u>	<u>16,341</u>	<u>1,080</u>	<u>2,109</u>	<u>557,768</u>
<u>14,173</u>	<u>(21,479)</u>	<u>(16,341)</u>	<u>(929)</u>	<u>(1,606)</u>	<u>(40,948)</u>
<u>-</u>	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,000</u>
<u>-</u>	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,000</u>
<u>14,173</u>	<u>(16,479)</u>	<u>(16,341)</u>	<u>(929)</u>	<u>(1,606)</u>	<u>(35,948)</u>
70,300	10,000	-	3,702	42,470	458,072
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>148,110</u>
<u>70,300</u>	<u>10,000</u>	<u>-</u>	<u>3,702</u>	<u>42,470</u>	<u>606,182</u>
<u>\$ 84,473</u>	<u>\$ (6,479)</u>	<u>\$ (16,341)</u>	<u>\$ 2,773</u>	<u>\$ 40,864</u>	<u>\$ 570,234</u>

**CITY OF LAGUNA WOODS
ROAD REPAIR AND ACCOUNTABILITY ACT OF 2017
SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES:				
Taxes and Assessments	\$ 93,800	\$ 93,800	\$ 95,622	\$ 1,822
Total Revenues	<u>93,800</u>	<u>93,800</u>	<u>95,622</u>	<u>1,822</u>
EXPENDITURES:				
Current:				
Public Works	50,000	50,000	50,000	-
Total Expenditures	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>43,800</u>	<u>43,800</u>	<u>45,622</u>	<u>1,822</u>
NET CHANGE IN FUND BALANCE	<u><u>\$ 43,800</u></u>	<u><u>\$ 43,800</u></u>	<u>45,622</u>	<u><u>\$ 1,822</u></u>
FUND BALANCE:				
Beginning of Year			-	
End of Year			<u><u>\$ 45,622</u></u>	

**CITY OF LAGUNA WOODS
COASTAL AREA ROAD IMPROVEMENTS AND
TRAFFIC SIGNALS SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES:				
Investment Income	\$ -	\$ -	\$ 1,683	\$ 1,683
Total Revenues	<u>-</u>	<u>-</u>	<u>1,683</u>	<u>1,683</u>
EXPENDITURES:				
Current:				
Community Development	-	148,700	53,021	95,679
Total Expenditures	<u>-</u>	<u>148,700</u>	<u>53,021</u>	<u>95,679</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>-</u>	<u>(148,700)</u>	<u>(51,338)</u>	<u>97,362</u>
NET CHANGE IN FUND BALANCE	<u>-</u>	<u>(148,700)</u>	<u>(51,338)</u>	<u>97,362</u>
OTHER FINANCING SOURCES:				
Transfers in	-	148,110	-	148,110
Total other financing sources	<u>-</u>	<u>148,110</u>	<u>-</u>	<u>148,110</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ (590)</u>	<u>(51,338)</u>	<u>\$ 245,472</u>
FUND BALANCE:				
Beginning of Year, as restated			<u>299,357</u>	
End of Year			<u>\$ 248,019</u>	

**CITY OF LAGUNA WOODS
SUPPLEMENTAL LAW ENFORCEMENT PROGRAM SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES:				
Intergovernmental	\$ 119,300	\$ 119,300	\$ 139,416	\$ 20,116
Investment Income	-	-	717	717
Total Revenues	<u>119,300</u>	<u>119,300</u>	<u>140,133</u>	<u>20,833</u>
EXPENDITURES:				
Current:				
Public Safety	<u>141,707</u>	<u>171,707</u>	<u>171,707</u>	<u>-</u>
Total Expenditures	<u>141,707</u>	<u>171,707</u>	<u>171,707</u>	<u>-</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(22,407)</u>	<u>(52,407)</u>	<u>(31,574)</u>	<u>20,833</u>
NET CHANGE IN FUND BALANCE	<u>\$ (22,407)</u>	<u>\$ (52,407)</u>	<u>(31,574)</u>	<u>\$ 20,833</u>
FUND BALANCE:				
Beginning of Year			<u>44,301</u>	
End of Year			<u>\$ 12,727</u>	

**CITY OF LAGUNA WOODS
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES:				
Intergovernmental	\$ 21,200	\$ 21,200	\$ 20,782	\$ (418)
Investment Income	-	-	1,742	1,742
Total Revenues	<u>21,200</u>	<u>21,200</u>	<u>22,524</u>	<u>1,324</u>
EXPENDITURES:	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>21,200</u>	<u>21,200</u>	<u>22,524</u>	<u>1,324</u>
NET CHANGE IN FUND BALANCE	<u>\$ 21,200</u>	<u>\$ 21,200</u>	<u>22,524</u>	<u>\$ 1,324</u>
FUND BALANCE:				
Beginning of Year			<u>136,052</u>	
End of Year			<u>\$ 158,576</u>	

**CITY OF LAGUNA WOODS
PEG/CABLE TELEVISION SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES:				
Intergovernmental	\$ 12,300	\$ 12,300	\$ 13,260	\$ 960
Investment Income	-	-	913	913
Total Revenues	<u>12,300</u>	<u>12,300</u>	<u>14,173</u>	<u>1,873</u>
EXPENDITURES:				
Current:				
Community Services	<u>2,000</u>	<u>2,000</u>	-	<u>2,000</u>
Total Expenditures	<u>2,000</u>	<u>2,000</u>	-	<u>2,000</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>10,300</u>	<u>10,300</u>	<u>14,173</u>	<u>3,873</u>
NET CHANGE IN FUND BALANCE	<u>\$ 10,300</u>	<u>\$ 10,300</u>	<u>14,173</u>	<u>\$ 3,873</u>
FUND BALANCE:				
Beginning of Year			<u>70,300</u>	
End of Year			<u>\$ 84,473</u>	

**CITY OF LAGUNA WOODS
SENIOR MOBILITY SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES:				
Charges for Services	\$ 186,224	\$ 186,224	\$ 110,897	\$ (75,327)
Intergovernmental	131,476	131,476	130,937	(539)
Investment Income	-	-	197	197
Total Revenues	<u>317,700</u>	<u>317,700</u>	<u>242,031</u>	<u>(75,669)</u>
EXPENDITURES:				
Current:				
Community Services	<u>294,179</u>	<u>294,179</u>	<u>263,510</u>	<u>30,669</u>
Total Expenditures	<u>294,179</u>	<u>294,179</u>	<u>263,510</u>	<u>30,669</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>23,521</u>	<u>23,521</u>	<u>(21,479)</u>	<u>(45,000)</u>
OTHER FINANCING SOURCES:				
Transfers In	<u>-</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Total Other Financing Sources	<u>-</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ 23,521</u>	<u>\$ 28,521</u>	<u>(16,479)</u>	<u>\$ (45,000)</u>
FUND BALANCE (DEFICIT):				
Beginning of Year			<u>10,000</u>	
End of Year			<u>\$ (6,479)</u>	

**CITY OF LAGUNA WOODS
COMMUNITY DEVELOPMENT BLOCK GRANT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES:				
Intergovernmental	\$ 145,700	\$ 145,700	\$ -	\$ (145,700)
Total Revenues	<u>145,700</u>	<u>145,700</u>	<u>-</u>	<u>(145,700)</u>
EXPENDITURES				
Current:				
Public Works	<u>145,700</u>	<u>145,700</u>	<u>16,341</u>	<u>129,359</u>
Total Expenditures	<u>145,700</u>	<u>145,700</u>	<u>16,341</u>	<u>129,359</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>-</u>	<u>-</u>	<u>(16,341)</u>	<u>(16,341)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>(16,341)</u>	<u>\$ (16,341)</u>
FUND BALANCE (DEFICIT):				
Beginning of Year			<u>-</u>	
End of Year			<u>\$ (16,341)</u>	

**CITY OF LAGUNA WOODS
CIVIC SUPPORT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES:				
Miscellaneous	\$ -	\$ -	\$ 150	\$ 150
Investment Income	-	-	1	1
Total Revenues	<u>-</u>	<u>-</u>	<u>151</u>	<u>151</u>
EXPENDITURES:				
Current:				
Community Services	-	3,470	1,080	2,390
Total Expenditures	<u>-</u>	<u>3,470</u>	<u>1,080</u>	<u>2,390</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>-</u>	<u>(3,470)</u>	<u>(929)</u>	<u>2,541</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ (3,470)</u>	<u>(929)</u>	<u>\$ 2,541</u>
FUND BALANCE:				
Beginning of Year			<u>3,702</u>	
End of Year			<u>\$ 2,773</u>	

**CITY OF LAGUNA WOODS
GRANTS SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES:				
Investment Income	\$ -	\$ -	\$ 503	\$ 503
Total Revenues	<u>-</u>	<u>-</u>	<u>503</u>	<u>503</u>
EXPENDITURES:				
Current:				
Community Development	<u>5,000</u>	<u>5,000</u>	<u>2,109</u>	<u>2,891</u>
Total Expenditures	<u>5,000</u>	<u>5,000</u>	<u>2,109</u>	<u>2,891</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(5,000)</u>	<u>(5,000)</u>	<u>(1,606)</u>	<u>3,394</u>
NET CHANGE IN FUND BALANCE	<u>\$ (5,000)</u>	<u>\$ (5,000)</u>	<u>(1,606)</u>	<u>\$ 3,394</u>
FUND BALANCE:				
Beginning of Year			<u>42,470</u>	
End of Year			<u>\$ 40,864</u>	

STATISTICAL SECTION

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**CITY OF LAGUNA WOODS
DESCRIPTION OF STATISTICAL SECTION CONTENTS
FOR THE YEAR ENDED JUNE 30, 2018**

This part of the City of Laguna Woods' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information say about the government's overall financial health.

Contents	Pages
Financial Trends	
These schedules contain trend information to help the reader understand how the City's financial performance and well being have changed over time.	82 - 91
Revenue Capacity	
These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	92 - 105
Demographic and Economic Information	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	106 - 110
Operating Information	
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	111 - 113

**CITY OF LAGUNA WOODS
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year Ended June 30			
	2009	2010	2011	2012
Governmental activities:				
Net investment in capital assets	\$ 10,218,649	\$ 17,891,721	\$ 20,428,076	\$ 20,473,643
Restricted	591,290	2,702,280	165,250	171,390
Unrestricted	14,441,848	7,261,961	6,990,401	7,708,348
Total governmental activities net position	<u>\$ 25,251,787</u>	<u>\$ 27,855,962</u>	<u>\$ 27,583,727</u>	<u>\$ 28,353,381</u>

Note:

(1) The City has no business-type activities.

Business-type activities would impact government-wide activities and net position.

Source: City of Laguna Woods, Administrative Services Department

Fiscal Year Ended June 30

2013 as restated	2014 as restated	2015	2016	2017 as restated	2018
\$ 22,474,259	\$ 27,395,543	\$ 35,331,456	\$ 33,783,628	\$ 32,095,973	\$ 31,748,757
920,587	669,420	1,464,214	1,587,683	1,371,195	1,236,152
8,115,566	8,289,008	9,399,679	8,898,481	9,734,782	9,913,004
<u>\$ 31,510,412</u>	<u>\$ 36,353,971</u>	<u>\$ 46,195,349</u>	<u>\$ 44,269,792</u>	<u>\$ 43,201,950</u>	<u>\$ 42,897,913</u>

**CITY OF LAGUNA WOODS
CHANGES IN NET POSITION
EXPENSES AND PROGRAM REVENUES
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year Ended June 30			
	2009	2010	2011	2012
Expenses:				
Governmental activities:				
General government	\$ 2,184,728	\$ 1,943,324	\$ 2,152,892	\$ 1,427,072
Public safety	1,652,367	1,756,569	1,715,908	1,617,293
Public works	1,255,018	1,594,940	1,573,552	1,474,254
Community development	702,813	616,934	838,745	801,271
Community services	420,018	366,327	409,631	521,797
Total governmental activities expenses	<u>6,214,944</u>	<u>6,278,094</u>	<u>6,690,728</u>	<u>5,841,687</u>
Program revenues:				
Governmental activities:				
Charges for services:				
General government	15,186	140,157	187,584	257,340
Public safety	324,999	449,314	355,642	204,592
Public works	-	-	-	-
Community development	-	377,082	353,430	422,952
Community services	316,669	-	-	30,000
Operating grants and contributions	1,300,228	4,362,757	2,143,059	1,852,654
Capital grants and contributions	115,743	80,666	100,099	100,032
Total governmental activities program revenues	<u>2,072,825</u>	<u>5,409,976</u>	<u>3,139,814</u>	<u>2,867,570</u>
Net revenues (expenses):	<u>\$ (4,142,119)</u>	<u>\$ (868,118)</u>	<u>\$ (3,550,914)</u>	<u>\$ (2,974,117)</u>

Note:

(1) The City has no business-type activities.

Business-type activities would impact government-wide activities and net position.

Source: City of Laguna Woods, Administrative Services Department

Fiscal Year Ended June 30

2013 as restated	2014 as restated	2015	2016	2017	2018
\$ 1,652,166	\$ 1,582,672	\$ 1,378,555	\$ 1,503,279	\$ 1,433,890	\$ 1,354,924
1,738,531	1,865,156	1,623,288	2,606,312	2,667,582	2,668,100
165,783	2,090,472	2,588,172	2,654,039	2,440,923	4,064,453
850,354	700,826	1,102,273	1,107,156	948,873	963,362
440,732	434,773	346,288	487,854	429,479	265,384
4,847,566	6,673,899	7,038,576	8,358,640	7,920,747	9,316,223
121,094	118,820	150,814	90,343	200,896	252,305
258,636	248,537	25,810	5,851	-	-
-	-	699,984	730,203	694,316	647,008
580,765	535,675	-	-	-	-
5,319	38,547	-	-	-	110,898
3,011,819	1,485,564	1,419,207	1,176,753	782,456	694,918
100,000	1,457,217	10,376,299	205,231	209,447	2,552,084
4,077,633	3,884,360	12,672,114	2,208,381	1,887,115	4,257,213
\$ (769,933)	\$ (2,789,539)	\$ 5,633,538	\$ (6,150,259)	\$ (6,033,632)	\$ (5,059,010)

**CITY OF LAGUNA WOODS
CHANGES IN NET POSITION
GENERAL REVENUES
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year Ended June 30			
	2009	2010	2011	2012
General revenues and other changes in net position:				
Governmental activities:				
Taxes:				
Property taxes	\$ 270,622	\$ 295,612	\$ 241,632	\$ 229,802
Property taxes in lieu of VLF	1,770,344	1,743,438	1,732,818	1,627,101
Sales taxes	876,848	798,046	840,953	855,533
Franchise fees	391,352	389,574	389,820	607,785
Transient occupancy taxes	348,280	340,856	350,660	396,797
Investment income	210,934	62,358	46,628	26,753
Miscellaneous income	9,387	6,687	37,389	-
Total governmental activities	<u>3,877,767</u>	<u>3,636,571</u>	<u>3,639,900</u>	<u>3,743,771</u>
Net program revenues/(expense)	<u>(4,142,119)</u>	<u>(868,118)</u>	<u>(3,550,914)</u>	<u>(2,974,117)</u>
Changes in net position:				
Governmental activities	<u>\$ (264,352)</u>	<u>\$ 2,768,453</u>	<u>\$ 88,986</u>	<u>\$ 769,654</u>

Note:

(1) The City has no business-type activities.

Business-type activities would impact government-wide activities and net position.

Source: City of Laguna Woods, Administrative Services Department

Fiscal Year Ended June 30					
2013 as restated	2014 as restated	2015	2016	2017	2018
\$ 384,386	\$ 289,177	\$ 308,786	\$ 328,168	\$ 428,265	\$ 378,862
1,649,600	1,557,290	1,803,982	984,031	2,062,919	2,194,558
850,241	980,556	908,621	475,926	888,817	896,503
688,948	628,027	604,739	626,027	662,027	672,266
404,110	443,361	452,293	1,949,418	487,391	484,470
20,438	19,428	26,810	44,394	73,727	128,314
-	-	102,609	-	-	-
3,997,723	3,917,839	4,207,840	4,407,964	4,603,146	4,754,973
(769,933)	(2,789,539)	5,633,538	(6,150,259)	(6,033,632)	(5,059,010)
<u>\$ 3,227,790</u>	<u>\$ 1,128,300</u>	<u>\$ 9,841,378</u>	<u>\$ (1,742,295)</u>	<u>\$ (1,430,486)</u>	<u>\$ (304,037)</u>

**CITY OF LAGUNA WOODS
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year Ended June 30			
	2009	2010	2011	2012
General fund:				
Reserved	\$ 4,267,545	\$ 500,000	\$ -	\$ -
Unreserved	9,472,573	6,746,610	-	-
Total general fund	<u>\$ 13,740,118</u>	<u>\$ 7,246,610</u>	<u>\$ -</u>	<u>\$ -</u>
All other governmental funds:				
Reserved	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:				
Special revenue funds	637,441	2,702,280	-	-
Debt service funds	-	-	-	-
Capital projects funds	184,024	151,349	-	-
Total all other governmental funds	<u>\$ 821,465</u>	<u>\$ 2,853,629</u>	<u>\$ -</u>	<u>\$ -</u>
General fund:				
Nonspendable	\$ -	\$ -	\$ 104,107	\$ -
Restricted	-	-	-	-
Assigned	-	-	763,235	1,021,165
Unassigned	-	-	6,269,079	6,815,516
Total general fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,136,421</u>	<u>\$ 7,836,681</u>
All other governmental funds:				
Restricted	\$ -	\$ -	\$ 165,250	\$ 1,005,889
Assigned	-	-	-	-
Unassigned	-	-	-	(923,251)
Total all other governmental funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 165,250</u>	<u>\$ 82,638</u>

Notes:

(1) The City has no debt service or capital project funds.

(2) GASB Statement No. 54, which was implemented in 2011, shifted the focus of fund balance reporting from the availability of fund resources to the extent to which the City has constraints for which amounts in the funds can be spent. As such, years prior to 2011 are not directly comparable to 2011 and subsequent years.

(2) GASB Statement No. 75, which was implemented in 2018, eliminated reporting under GASB Statement No. 45 for other post-employment benefits. As such, years prior to 2018 are not directly comparable to 2018 and subsequent years.

Source: City of Laguna Woods, Administrative Services Department

Fiscal Year Ended June 30

2013 as restated	2014 as restated	2015	2016	2017	2018
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ 66,466	\$ 75,761	\$ 57,001
-	32,300	-	602	-	3,980
1,859,674	1,774,782	1,728,998	679,260	285,734	1,010,054
6,845,440	7,485,338	8,348,147	8,861,873	9,293,180	8,868,233
\$ 8,705,114	\$ 9,292,420	\$ 10,077,145	\$ 9,608,201	\$ 9,654,675	\$ 9,939,268
\$ 920,587	\$ 561,920	\$ 1,464,214	\$ 1,746,561	\$ 1,371,195	\$ 1,232,172
-	-	-	-	-	-
(358,308)	(852,083)	(486,915)	(338,715)	(114,932)	(175,762)
\$ 562,279	\$ (290,163)	\$ 977,299	\$ 1,407,846	\$ 1,256,263	\$ 1,056,410

**CITY OF LAGUNA WOODS
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year Ended June 30			
	2009	2010	2011	2012
Revenues:				
Taxes and assessments	\$ 923,977	\$ 1,682,332	\$ 1,904,699	\$ 1,985,268
Intergovernmental	4,194,778	6,330,845	3,499,723	2,962,692
Franchise fees	391,352	389,576	389,821	607,787
Charges for services	329,185	517,854	494,431	623,471
Fines and forfeitures	324,999	449,315	355,642	210,089
Investment income	225,233	70,561	51,432	28,979
Miscellaneous	11,887	6,064	83,966	81,112
Total revenues	<u>6,401,411</u>	<u>9,446,547</u>	<u>6,779,714</u>	<u>6,499,398</u>
Expenditures				
Current:				
General government	1,459,638	8,299,925	2,068,618	1,352,679
Public safety	1,666,666	1,756,569	1,715,908	1,617,293
Public works	2,964,225	2,916,620	4,184,158	1,588,710
Community development	702,813	616,934	838,745	801,271
Community services	420,018	366,327	409,631	521,797
Capital outlay	-	-	-	-
Total expenditures	<u>7,213,360</u>	<u>13,956,375</u>	<u>9,217,060</u>	<u>5,881,750</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(811,949)</u>	<u>(4,509,828)</u>	<u>(2,437,346)</u>	<u>617,648</u>
Other financing sources (uses):				
Transfers in	1,004,929	53,654	27,505	71,738
Transfers out	(1,004,929)	(53,654)	(27,505)	(71,738)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ (811,949)</u>	<u>\$ (4,509,828)</u>	<u>\$ (2,437,346)</u>	<u>\$ 617,648</u>

Source: City of Laguna Woods, Administrative Services Department

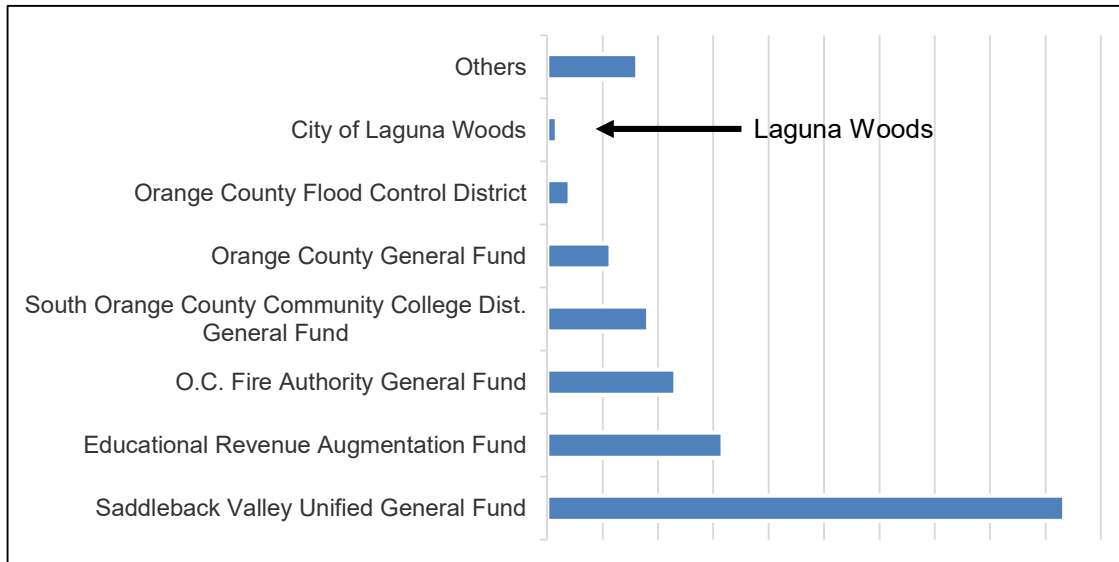
Fiscal Year Ended June 30

2013 as restated	2014 as restated	2015	2016	2017	2018
\$ 2,085,041	\$ 3,828,708	\$ 4,005,500	\$ 4,094,673	\$ 4,185,064	\$ 4,402,360
4,424,819	1,763,196	1,769,480	1,011,982	750,304	1,351,583
688,949	628,028	604,739	539,107	748,947	672,266
689,184	610,251	699,984	730,203	694,316	647,008
259,561	248,089	25,810	5,851	-	-
22,724	19,428	24,300	46,905	73,728	128,314
17,021	123,340	150,814	192,950	186,300	251,566
<u>8,187,299</u>	<u>7,221,040</u>	<u>7,280,627</u>	<u>6,621,671</u>	<u>6,638,659</u>	<u>7,453,097</u>
1,566,398	1,660,037	1,259,342	1,519,438	1,860,609	1,234,039
1,738,531	1,865,156	1,637,906	2,621,018	2,667,582	2,668,100
2,243,210	2,825,384	885,016	899,623	785,903	2,184,451
850,354	700,826	1,102,273	1,107,156	948,873	1,016,383
440,732	434,773	343,903	489,051	429,479	265,384
-	-	-	-	51,322	-
<u>6,839,225</u>	<u>7,486,176</u>	<u>5,228,440</u>	<u>6,636,286</u>	<u>6,743,768</u>	<u>7,368,357</u>
<u>1,348,074</u>	<u>(265,136)</u>	<u>2,052,187</u>	<u>(14,615)</u>	<u>(105,109)</u>	<u>84,740</u>
-	25,000	-	27,528	882,275	5,000
-	(25,000)	-	(27,528)	(882,275)	(5,000)
-	-	-	-	-	-
<u>\$ 1,348,074</u>	<u>\$ (265,136)</u>	<u>\$ 2,052,187</u>	<u>\$ (14,615)</u>	<u>\$ (105,109)</u>	<u>\$ 84,740</u>

**CITY OF LAGUNA WOODS
PROPERTY TAX DOLLAR BREAKDOWN
FISCAL YEAR 2017-18**

Tax Rate Area	Annual Tax Increment
Saddleback Valley Unified General Fund	\$0.4668
Educational Revenue Augmentation Fund	\$0.1584
O.C. Fire Authority General Fund	\$0.1157
South Orange County Community College Dist. General Fund	\$0.0912
Orange County General Fund	\$0.0573
Orange County Flood Control District	\$0.0204
Others:	
Orange County Public Library	\$0.0172
O.C. Dept. of Education General Fund	\$0.0168
Aliso Viejo City CSA #4 RO (in 99-06r)	\$0.0162
O.C. Harbors Beaches and Parks CSA 26	\$0.0157
El Toro Water District - General Fund	\$0.0110
Laguna Woods General Fund	\$0.0088
Orange County Transit Authority	\$0.0029
Orange County Vector Control District	\$0.0012
Orange County Cemetery Fund - General	\$0.0005
Total Annual Tax Increment (ATI)	\$1.0000

ATI Ratios for Tax Rate Area 32010, Excluding Redevelopment Factors and Additional Debt Service



Source: Orange County Assessor - FY 2017-18 Annual Tax Increment Tables
HdL, Coren & Cone

**CITY OF LAGUNA WOODS
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS
(RATE PER \$100 OF TAXABLE VALUE)**

	Fiscal Year Ended June 30									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Direct Rates										
Basic Levy (1)	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
Overlapping Tax Rates (2)										
Capistrano										
Union	0.00971	0.01077	0.01105	0.01101	0.01171	0.00972	0.00900	0.00845	0.00843	0.00800
Laguna Beach										
Unified	0.01544	0.01683	0.01582	0.01601	0.01694	0.01567	0.01461	0.01396	0.01371	0.01287
Metropolitan										
Water Dist.	0.00430	0.00430	0.00370	0.00370	0.00350	0.00350	0.00350	0.00350	0.00350	0.00350
Saddleback										
Valley										
Unified	<u>0.02834</u>	<u>0.03043</u>	<u>0.03194</u>	<u>0.03163</u>	<u>0.03265</u>	<u>0.03207</u>	<u>0.02806</u>	<u>0.03008</u>	<u>0.02688</u>	<u>0.02365</u>
Total Direct and Overlapping Tax Rates	<u>1.05779</u>	<u>1.06233</u>	<u>1.06251</u>	<u>1.06235</u>	<u>1.06480</u>	<u>1.06096</u>	<u>1.05517</u>	<u>1.05599</u>	<u>1.05252</u>	<u>1.04802</u>
1% Levy Per Prop 13 (3)	0.00879	0.00879	0.00879	0.00879	0.00879	0.00879	0.00879	0.00879	0.00879	0.00879
Total Direct Rate (4)	0.00879	0.00879	0.00879	0.00879	0.00879	0.00879	0.00879	0.00879	0.00879	0.00879

Notes:

- (1) In 1978, California voters passed Proposition 13 (Prop 13), which set the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies within which the subject property resides. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of any voter approved bonds.
- (2) Overlapping rates are those of local and county governments that apply to property owners within the City. Not all overlapping rates apply to all property owners within the City.
- (3) City's share of the 1% Levy is based on the City's share of the general fund tax rate area with the largest net taxable value within the City. Educational Revenue Augmentation Fund (ERAF) general fund tax shifts may not be included in tax ratio figures.
- (4) Total Direct Rate is the weighted average of all individual direct rates applied to the City and excludes revenues derived from aircraft. Beginning in the fiscal year ended June 30, 2014, the Total Direct Rate no longer includes revenue generated from former redevelopment tax rate areas. Challenges to recognized enforceable obligations are assumed to have been resolved during the fiscal year ended June 30, 2013. For purposes of this report, residual revenue is assumed to be distributed to the City in the same proportions as general fund revenue.
- (5) The City of Laguna Woods never established a redevelopment agency.

Source: Orange County Assessor - 2008-09 through 2017-18 Tax Rate Table
HdL, Coren & Cone

**CITY OF LAGUNA WOODS
OVERLAPPING DEBT
AS OF JUNE 30, 2009
(RATE PER \$100 OF TAXABLE VALUE)**

	<u>Gross Bonded Debt Balance</u>	<u>Percent Applicable to City</u>	<u>Net Bonded Debt</u>
Overlapping Debt			
628.01 CAPISTRANO UNION SFID#1 1999 BOND #2002C	\$ 16,245,000	0.047%	\$ 7,564
629.01 CAPISTRANO UNION SFID#1 1999 BOND #2001B	21,909,930	0.047%	10,202
632.02 LAGUNA BEACH USD 2001 SERIES 2--3	15,775,000	0.924%	145,733
634.02 LAGUNA BEACH USD 2001 BOND SER 2001	18,540,000	0.924%	171,277
640.02 CAPISTRANO U SFID#1 1999 BOND #2000A	15,535,000	0.047%	7,234
6AB.01 SADDLEBACK VALLEY USD 2004 BOND #2004A	88,200,000	6.938%	6,119,363
6AW.01 SADDLEBACK VALLEY USD 2004 SERIES #2007AB	52,000,000	6.938%	3,607,788
C55.14 METROPOLITAN WATER DISTRICT (1)	58,573,724	0.659%	385,973
Total Overlapping Debt			<u><u>\$10,455,134</u></u>

Fiscal Year 2017-18 Assessed Valuation:
\$2,950,096,038 After Deducting \$0 Incremental Value

Debt to Assessed Valuation Ratios:	Direct Debt	0.00%
	Overlapping Debt	0.46%
	Total Debt	0.46%

Notes:

- (1) This fund is a portion of a larger agency, and is responsible for debt in areas outside the City.
- (2) This report reflects debt which is being repaid through voter-approved property tax indebtedness. It excludes mortgage revenue, tax allocation bonds, interim financing obligations, non-bonded capital lease obligations, and certificates of participation, unless provided by the City. The City of Laguna Woods has issued no such bonds or instruments.
- (3) Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. The percentage of overlapping debt applicable is estimated by using taxable assessed values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the City's boundaries and dividing it by each unit's total taxable assessed value.

Source: Orange County Assessor and Auditor-Controller - Combined FY 2008-09 Lien Date Tax Rolls
HdL, Coren & Cone

**CITY OF LAGUNA WOODS
OVERLAPPING DEBT
AS OF JUNE 30, 2018
(RATE PER \$100 OF TAXABLE VALUE)**

	<u>Gross Bonded Debt Balance</u>	<u>Percent Applicable to City</u>	<u>Net Bonded Debt</u>
Overlapping Debt			
628.01 CAPISTRANO UNION SFID#1 1999 BOND #2002C	\$ 17,090,000	0.053%	\$ 9,100
629.01 CAPISTRANO UNION SFID#1 1999 BOND #2001B	7,408,787	0.053%	3,945
6AB.01 SADDLEBACK VALLEY USD 2004 BOND #2004A	63,080,000	7.093%	4,474,393
6AW.01 SADDLEBACK VALLEY USD 2004 SERIES #2004B	33,055,000	7.093%	2,344,659
6BM.01 LAGUNA BEACH USD 2010 GO REFUNDING BOND	23,300,000	0.847%	197,243
6CZ.01 SADDLEBACK VALLEY USD 2013 REF	7,530,000	7.093%	534,118
6DK.01 SADDLEBACK VALLEY USD GOB EL 2014, SERIES 2016A	9,700,000	7.093%	688,041
C55.14 METROPOLITAN WATER DISTRICT (1)	12,318,324	0.595%	73,276
Total Overlapping Debt			<u><u>\$ 8,324,775</u></u>

Fiscal Year 2017-18 Assessed Valuation:

\$2,950,096,038 After Deducting \$0 Incremental Value

Debt to Assessed Valuation Ratios:	Direct Debt	0.00%
	Overlapping Debt	0.28%
	Total Debt	0.28%

Notes:

- (1) This fund is a portion of a larger agency, and is responsible for debt in areas outside the City.
- (2) This report reflects debt which is being repaid through voter-approved property tax indebtedness. It excludes mortgage revenue, tax allocation bonds, interim financing obligations, non-bonded capital lease obligations, and certificates of participation, unless provided by the City. The City of Laguna Woods has issued no such bonds or instruments.
- (3) Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. The percentage of overlapping debt applicable is estimated by using taxable assessed values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the City's boundaries and dividing it by each unit's total taxable assessed value.

Source: Orange County Assessor and Auditor-Controller - Combined FY 2017-18 Lien Date Tax Rolls
HdL, Coren & Cone

**CITY OF LAGUNA WOODS
TOP TEN PROPERTY TAXPAYERS – FISCAL YEAR 2008-09
PRINCIPAL PROPERTY OWNERS BASED ON NET VALUES**

Owner	Secured			Unsecured		
	Parcels	Value	% of Net AV	Parcels	Value	% of Net AV
1) United Laguna Hills Mutual*	88	\$583,408,942	25.78%	29	\$749,747	2.34%
2) Avalon Regency LLC	1	\$54,264,000	2.40%			
3) Avalon Las Palmas LLC Gate Three HC*	2	\$45,155,400	2.00%	4	\$532,352	
4) NCB FSB	3	\$37,530,271	1.66%			
5) Standard Pacific Corporation	1	\$30,806,466	1.36%			
6) Federal National Mortgage Association	3	\$29,388,017	1.30%			0.00%
7) Hays Family Trust	1	\$27,533,699	1.22%			0.00%
8) Francine Spiefagel	1	\$23,121,826	1.02%			
9) Raintree Realty LLC*	3	\$23,108,289	1.02%			
10) Harriet L Fyfe	1	\$22,463,671	0.99%			0.00%
Top Ten Total	104	\$876,780,581	38.74%	33	\$1,282,099	2.34%
City Total		\$2,263,096,230			\$32,005,037	

Owner	Combined		Primary Use & Primary Agency
	Value	% of Net AV	
1) United Laguna Hills Mutual*	\$584,158,689	25.45%	R
2) Avalon Regency LLC	\$54,264,000	2.36%	C
3) Avalon Las Palmas LLC Gate Three HC*	\$45,687,752	1.99%	I
4) NCB FSB	\$37,530,271	1.64%	R
5) Standard Pacific Corporation	\$30,806,466	1.34%	R
6) Federal National Mortgage Association	\$29,388,017	1.28%	R
7) Hays Family Trust	\$27,533,699	1.20%	R
8) Francine Spiefagel	\$23,121,826	1.01%	R
9) Raintree Realty LLC*	\$23,108,289	1.01%	C
10) Harriet L Fyfe	\$22,463,671	0.98%	R
Top Ten Total	\$878,062,680	38.26%	
City Total	\$2,295,101,267		

R = Residential

C = Commercial

I = Institutional

AV = Assessed Value

*Pending Appeals on Parcels

All property tax collected on assessed value is paid to Laguna Woods General Fund.

Note:

Top Owners last edited using sales through June 30, 2009

Source: Orange County Assessor - FY 2008-09 Combined Tax Rolls and the SBE Non Unitary Tax Roll
HdL, Coren & Cone

**CITY OF LAGUNA WOODS
TOP TEN PROPERTY TAXPAYERS – FISCAL YEAR 2017-18
PRINCIPAL PROPERTY OWNERS BASED ON NET VALUES**

Owner	Secured			Unsecured		
	Parcels	Value	% of Net AV	Parcels	Value	% of Net AV
1) United Laguna Hills Mutual*	89	\$717,008,750	24.57%	72	\$2,193,293	6.91%
2) EPC Las Palmas LLC	2	\$46,600,000	1.60%			0.00%
3) EPC Regency LLC	1	\$46,500,000	1.59%			0.00%
4) Behringer Harvard San Sebastian	134	\$37,985,914	1.30%			0.00%
5) Federal National Mortgage Association*	2	\$34,627,280	1.19%			0.00%
6) Morris, Bonnie G	1	\$29,079,241	1.00%			0.00%
7) MacDonald, Cheryl E and Lisa C	2	\$27,357,841	0.94%			0.00%
8) Raintree Realty LLC	3	\$25,596,248	0.88%			0.00%
9) Kim, Suksoo	1	\$23,106,802	0.79%			0.00%
10) Dobbs Living Trust	1	\$22,090,371	0.76%			0.00%
Top Ten Total	236	\$1,009,952,447	34.61%	72	\$2,193,293	6.91%
City Total		\$2,918,362,456			\$31,733,582	

Owner	Combined		Primary Use & Primary Agency
	Value	% of Net AV	
1) United Laguna Hills Mutual*	\$719,202,043	24.38%	R
2) EPC Las Palmas LLC	\$46,600,000	1.58%	C
3) EPC Regency LLC	\$46,500,000	1.58%	C
4) Behringer Harvard San Sebastian	\$37,985,914	1.29%	R
5) Federal National Mortgage Association*	\$34,627,280	1.17%	R
6) Morris, Bonnie G	\$29,079,241	0.99%	R
7) MacDonald, Cheryl E and Lisa C	\$27,357,841	0.93%	R
8) Raintree Realty LLC	\$25,596,248	0.87%	C
9) Kim, Suksoo	\$23,106,802	0.78%	R
10) Dobbs Living Trust	\$22,090,371	0.75%	R
Top Ten Total	\$1,012,145,740	34.31%	
City Total	\$2,950,096,038		

R = Residential

C = Commercial

I = Institutional

AV = Assessed Value

*Pending Appeals on Parcels

All property tax collected on assessed value is paid to Laguna Woods General Fund.

Note:

Top Owners last edited using sales through June 30, 2018

Source: Orange County Assessor - FY 2017-18 Combined Tax Rolls and the SBE Non Unitary Tax Roll
HdL, Coren & Cone

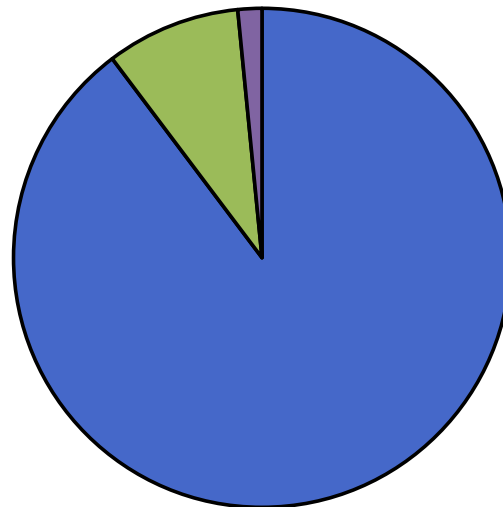
**CITY OF LAGUNA WOODS
PROPERTY USE CATEGORY SUMMARY – FISCAL YEAR 2017-18
BASIC PROPERTY VALUE TABLE**

Category	Secured				
	Parcels	Assessed Value	% of AV	Net Taxable Value	% of Net AV
Residential	6,617	\$ 2,650,461,237	89.1%	\$ 2,646,289,901	89.7%
Commercial	43	267,879,115	9.0%	257,688,478	8.7%
Industrial	3	11,824,096	0.4%	11,824,096	0.4%
Agricultural	1	80,822	0.0%	80,822	0.0%
Vacant	4	1,241,171	0.0%	1,241,171	0.0%
Exempt	248	7,882,362	0.3%	-	0.0%
Cross Reference (1)	(31)	4,259,616	0.1%	1,237,988	0.0%
Unsecured (1)	(315)	31,593,482	1.1%	31,733,582	1.1%
Totals	6,916	\$ 2,975,221,901	100.0%	\$ 2,950,096,038	100.0%

Note:

(1) Cross Reference and Unsecured parcels counts are not included in parcels totals.

NET TAXABLE VALUE



■ Residential ■ Commercial ■ Others

Source: Orange County Assessor - FY 2017-18 Combined Tax Rolls
HdL, Coren & Cone

**CITY OF LAGUNA WOODS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30,	Taxes Levied Excluding VLF Fiscal Year (1)	Collected within the Fiscal Year of Levy		Collections in Subsequent Years (2)	Total Collections to Date	
		Amount	Percent of Levy (1)		Amount (1), (2), & (3)	Percent of Levy
2009	Not available	\$ (9,853)	Not available	\$ 9,853	\$ -	Not available
2010	Not available	(9,592)	Not available	9,592	-	Not available
2011	Not available	(5,492)	Not available	5,492	-	Not available
2012	\$ 408,142	(4,757)	-1.17%	4,757	-	0.00%
2013	421,164	(96,010)	-22.80%	96,010	-	0.00%
2014	417,701	(3,175)	-0.76%	3,175	-	0.00%
2015	457,287	(1,322)	-0.29%	1,322	-	0.00%
2016	295,957	231,501	78.22%	1,870	233,371	78.85%
2017 (4)	253,757	243,608	96.00%	2,309	245,917	96.91%
2018 (5)	269,934	260,584	96.54%	2,142	262,726	97.33%

Notes:

- (1) Amounts levied excluding VLF for years prior to Fiscal Year Ended June 30, 2012, were not available.
- (2) "Collections in Subsequent Years" includes the total amount of delinquent taxes collected in each fiscal year. The Orange County Auditor-Controller does not provide detailed information regarding the levy year to which delinquent tax collections pertain.
- (3) Total collections in any year may exceed 100% due to collection reporting per Note 2 above and the fact that delinquent tax penalties collected are included in total reported collections.
- (4) 2016-17 has been adjusted to reflect information received from the Orange County Auditor-Controller in September 2018.
- (5) Beginning in FY 2017-18 (including the adjustment of FY 2016-17, see Note 4 above), the Orange County Auditor-Controller has supplied its "Tax Ledger - Detail" Report for the City to use to compile the data. In prior years, the Orange County Auditor-Controller compiled all data.

Source: Orange County Auditor-Controller, "Tax Ledger - Detail" Report as of fiscal year-end.

FY 2016-17 and prior, compiled by the Orange County Auditor-Controller

FY 2017-18 compiled by Administrative Services from reports supplied by the Orange County Auditor-Controller

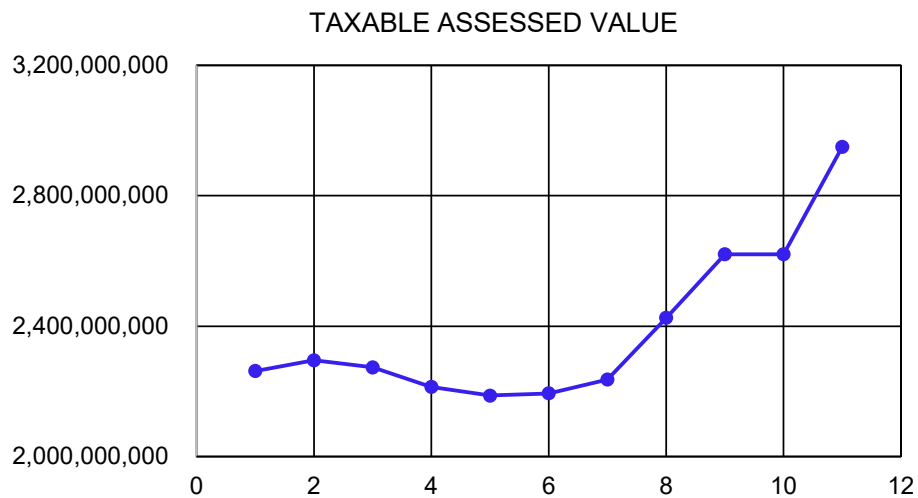
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**CITY OF LAGUNA WOODS
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30,	Secured	Unsecured	Taxable Assessed Value	Percentage Change	Parcel Count
2009	\$ 2,263,096,230	\$ 32,005,037	\$ 2,295,101,267	1.45%	Not Available
2010	2,221,283,663	52,434,822	2,273,718,485	-0.93%	6,893
2011	2,181,760,994	31,914,975	2,213,675,969	-2.64%	6,896
2012	2,152,983,070	33,958,519	2,186,941,589	-1.21%	16,336
2013	2,160,531,125	33,093,242	2,193,624,367	0.31%	6,953
2014	2,207,900,802	28,493,026	2,236,393,828	1.95%	6,950
2015	2,398,940,722	26,520,067	2,425,460,789	8.45%	6,946
2016	2,598,081,332	22,267,774	2,620,349,106	8.04%	6,944
2017	2,746,863,438	24,143,207	2,771,006,645	5.75%	6,991
2018	2,918,362,456	31,733,582	2,950,096,038	6.46%	6,983

Note:

In 1978, the voters of the State of California passed Proposition 13, which limited 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 reassessed 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 Assessor - 2008-09 through 2017-18 Combined Tax Rolls
HdL, Coren & Cone

**CITY OF LAGUNA WOODS
TOP 25 SALES TAX PRODUCERS
FISCAL YEAR 2008-09**

<u>Business Name*</u>	<u>Business Category</u>
Adapt 2 It	Medical/Biotech
California Lacrosse Inc	Sporting Goods/Bike Stores
CVS Pharmacy	Drug Stores
El Toro Pharmacy	Drug Stores
EZ Lube	Auto Repair Shops
Golden Rain Foundation	Government/Social Org.
Home Depot	Lumber/Building Materials
Hometown Buffet	Casual Dining
Jack in the Box	Quick-Service Restaurants
Leisure World Mobil	Service Stations
Longs Drug	Drug Stores
Mc Cormick & Son	Morticians and Undertakers
Mothers Market	Grocery-No Alcohol
Moulton Mini Market	Service Stations
Officemax	Office Supplies/Furniture
Okon Dental Lab	Medical/Biotech
Olive Garden	Casual Dining
Papa Johns Pizza	Quick-Service Restaurants
Rite Aid	Drug Stores
Starbucks	Quick-Service Restaurants
Stater Bros	Grocery Stores-Liquor
Sushi Wok	Casual Dining
Titan Industrial Heating System	Heavy Industrial
Vons	Grocery Stores-Liquor
Wendys Old Fashioned Hamburgers	Quick-Service Restaurants

Percent of Fiscal Year Total Paid by Top 25 Accounts = 132.41%

* Firms Listed Alphabetically

(Period: April 2008 thru March 2009)

Source: State of California Board of Equalization, California Department of Taxes and Fees
Administration, State Controller's Office
Hinderliter, de Llamas & Associates

**CITY OF LAGUNA WOODS
TOP 25 SALES TAX PRODUCERS
FISCAL YEAR 2017-18**

<u>Business Name*</u>	<u>Business Category</u>
19 Restaurant & Lounge	Casual Dining
Adapt 2 It	Medical/Biotech
Aldi	Grocery Stores
Carls Jr	Quick-Service Restaurants
CVS Pharmacy	Drug Stores
Ding Wang Global	Fine Dining
Dollar Tree	Variety Stores
Firehouse Subs	Fast-Casual Restaurants
Golden Rain Foundation	Government/Social Org.
Home Depot	Lumber/Building Materials
Jack in the Box	Quick-Service Restaurants
Leisure World Mobil	Service Stations
Mothers Market	Grocery Stores
Moulton Arco AM PM	Service Stations
Okon Dental Lab	Medical/Biotech
Olive Garden	Casual Dining
Papa Johns Pizza	Quick-Service Restaurants
PrestineHydro	Food Stores Non-Grocery
Rite Aid	Drug Stores
Sabrosada	Fine Dining
Saddleback Golf Cars	Boats/Motorcycles
Stage 21 Bikes	Sporting Goods/Bike Stores
Starbucks	Quick-Service Restaurants
Stater Bros	Grocery Stores-Liquor
Tomo Sushi	Casual Dining

Percent of Fiscal Year Total Paid by Top 25 Accounts = 95.13%

* Firms Listed Alphabetically

(Period: April 2017 thru March 2018)

Source: State of California Board of Equalization, California Department of Taxes and Fees
Administration, State Controller's Office
Hinderliter, de Llamas & Associates

**CITY OF LAGUNA WOODS
TAXABLE SALES BY CATEGORY
LAST TEN CALENDAR YEARS
(IN THOUSANDS OF DOLLARS)**

	2008	2009	2010	2011
Eating and Drinking Places	\$ 10,429	\$ 10,447	\$ 10,775	\$ 10,715
Other Retail Stores	62,620	56,381	58,007	62,455
All Other Outlets	15,213	14,001	11,674	11,832
Total sales	<u>\$ 88,262</u>	<u>\$ 80,829</u>	<u>\$ 80,456</u>	<u>\$ 85,002</u>

Note:

- (1) The categories presented are intended to provide alternative information regarding the sources of the City's revenue. The information is presented in this manner in accordance with confidentiality laws.
- (2) All data as reported in the FY 2016-17 Consolidated Annual Report has been updated to reflect final adjusted amounts amounts released by the State of California Board of Equalization.

Source: State of California Board of Equalization, California Department of Taxes and Fees Administration,
State Controller's Office
Hinderliter, de Llamas & Associates

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015 (2)</u>	<u>2016</u>	<u>2017</u>
\$ 10,593	\$ 10,774	\$ 11,540	\$ 12,430	\$ 11,164	\$ 11,392
64,142	66,770	65,839	65,895	63,148	62,301
<u>13,222</u>	<u>12,975</u>	<u>15,508</u>	<u>14,219</u>	<u>15,662</u>	<u>14,254</u>
<u>\$ 87,957</u>	<u>\$ 90,519</u>	<u>\$ 92,887</u>	<u>\$ 92,544</u>	<u>\$ 89,974</u>	<u>\$ 87,947</u>

**CITY OF LAGUNA WOODS
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN CALENDAR YEARS**

Calendar Year	Population (1)	Personal Income (in thousands) (2)	Per Capita Personal Income (2)	Unemployment Rate (3)	Median Age (2)
2008	18,344	\$ 709,710	\$ 38,689	7.30%	Not available
2009	18,453	693,200	37,566	12.30%	78.3
2010	18,747	639,854	34,131	13.10%	78.2
2011	16,334	580,282	35,526	11.90%	78.0
2012	16,500	586,212	35,528	7.90%	77.1
2013	16,581	619,400	37,356	7.00%	76.4
2014	16,575	639,480	38,581	5.60%	75.7
2015	16,213	610,005	37,624	4.50%	74.5
2016	16,319	631,062	38,670	4.10%	74.9
2017	16,597	643,075	38,746	2.60%	75.5

Notes:

(1) Population: California State Department of Finance

(2) Income and Per Capita Income:

2000-2009 - Demographic Estimates based on the last available census. Projections are developed by incorporating all of the prior census data released to date.

2010 and later - US Census Bureau, most recent American Community Survey

(3) Unemployment: California Employment Development Department

Sources: Data compiled from agencies as listed in the notes section above by
HdL, Coren & Cone

**CITY OF LAGUNA WOODS
PRINCIPAL EMPLOYERS
CALENDAR YEAR 2017 AND TEN YEARS AGO**

2017		
Employer	Estimated Number of Employees	Percent of Total Employment
Laguna Woods Village	1,000	26.32%
Professional Community Mgmt. of CA, Inc.	134	3.53%
State Bros. Market	80	2.11%
Rainbow Realty Corporation	55	1.45%
OCB Restaurant Company LLC	49	1.29%

2008		
Employer	Estimated Number of Employees	Percent of Total Employment
Laguna Woods Village	1,000	38.46%
Manorcare Health Services Inc.	150	5.77%
Renaissance Senior Living LLC	100	3.85%
GMRI Inc.	86	3.31%
OCB Restaurant Company LLC	56	2.15%

Notes:

- (1) Calendar year 2017 represents the current completed calendar year.
- (2) "Total Employment" as used above represents the total employment of all employers located within City limits per the State of California Employment Development Department.

Sources: State of California Employment Development Department and Center for Demographic Research - 2017 and 2008 Orange County Progress Reports (Hoovers Business Information Database [2016 and 2007])

**CITY OF LAGUNA WOODS
ASSESSED VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

Category	Fiscal Year Ended June 30,			
	2009	2010	2011	2012
Residential	\$ 2,007,133,935	\$ 1,962,570,692	\$ 1,924,235,756	\$ 1,934,950,643
Commercial	203,116,105	206,493,225	245,051,889	206,212,280
Industrial	12,993,437	11,923,610	10,417,199	9,858,815
Agricultural	71,416	72,844	72,671	73,218
Institutional	37,665,382	38,418,689	-	-
Vacant	1,258,269	1,283,433	1,470,832	1,345,031
Cross Reference	857,686	521,170	512,647	543,083
Unsecured	32,005,037	52,434,822	31,914,975	33,958,519
Exempt (1)	(6,893,726)	(7,306,093)	(7,049,339)	(7,138,680)
Totals	<u>\$ 2,295,101,267</u>	<u>\$ 2,273,718,485</u>	<u>\$ 2,206,626,630</u>	<u>\$ 2,186,941,589</u>
Total Direct Rate	<u>0.00879</u>	<u>0.00879</u>	<u>0.00879</u>	<u>0.00879</u>

Notes:

(1) Exempt values are not included in totals.

(2) In 1978, the voters of the State of California passed Proposition 13, which limited 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 reassessed 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 Assessor - FY 2008-09 through FY 2017-18 Combined Tax Rolls
HdL, Coren & Cone

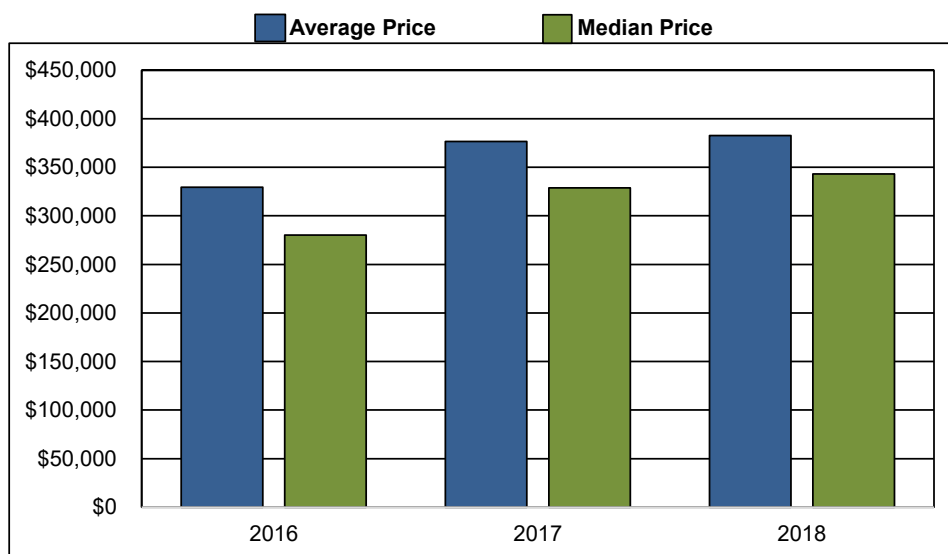
Fiscal Year Ended June 30,					
2013 as restated	2014 as restated	2015	2016	2017	2018
\$ 1,938,957,534	\$ 1,982,057,711	\$ 2,171,362,601	\$ 2,364,906,778	\$ 2,508,381,284	\$ 2,646,289,901
209,170,969	213,924,549	215,235,603	219,510,257	238,108,979	257,688,478
10,055,990	9,939,949	10,184,717	11,418,127	11,592,252	11,824,096
74,682	76,175	76,520	78,048	79,238	80,822
-	-	-	-	-	-
1,822,131	1,473,682	1,480,370	1,509,945	1,216,836	1,241,171
449,819	428,736	600,911	658,177	4,407,373	1,237,988
33,093,242	28,493,026	26,520,067	22,267,774	23,979,164	31,733,582
(7,281,425)	(7,427,044)	(7,460,756)	(7,609,792)	(7,725,834)	-
<u>\$ 2,193,624,367</u>	<u>\$ 2,236,393,828</u>	<u>\$ 2,425,460,789</u>	<u>\$ 2,620,349,106</u>	<u>\$ 2,780,039,292</u>	<u>\$ 2,950,096,038</u>
<u>0.00879</u>	<u>0.00879</u>	<u>0.00879</u>	<u>0.00879</u>	<u>0.00879</u>	<u>0.00879</u>

**CITY OF LAGUNA WOODS
RESIDENTIAL SALES VALUE HISTORY
LAST THREE CALENDAR YEARS**

Calendar Year	Full Value Sales	Average Price	Median Price	Median % Change
2016 (2)	543	\$329,615	\$280,000	12.00%
2017	556	\$376,609	\$329,000	17.50%
2018	237	\$382,724	\$343,000	4.26%

Note:

- (1) Sales not included in the analysis are quitclaim deeds, trust transfers, timeshares, and partial sales.
- (2) 2016 and 2017 data as reported in the FY 2016-17 Consolidated Annual Report has been updated to reflect final adjusted amounts released by the County of Orange Clerk-Recorder.



Source: County of Orange Clerk-Recorder as of July 31, 2018 pre-release of final amounts.
HdL, Coren & Cone

**CITY OF LAGUNA WOODS
FULL-TIME AND PART-TIME CITY EMPLOYEES
BY FUNCTION
LAST TEN FISCAL YEARS**

Function	Fiscal Year Ended June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General government (1)	3.00	3.13	3.00	2.00	2.06	2.50	3.00	2.19	2.45	2.45
Administrative services	4.25	3.75	3.75	3.75	3.88	3.76	3.48	4.00	3.95	4.00
Community services (2)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.42	-	-
Community development	1.50	2.00	2.00	2.20	2.13	2.00	1.00	0.38	1.00	1.00
Public protection (3)	-	-	-	1.00	0.13	0.13	-	-	-	-
Public works	-	-	-	-	-	-	-	0.63	1.00	1.00
Total	<u>9.75</u>	<u>9.88</u>	<u>9.75</u>	<u>9.95</u>	<u>9.20</u>	<u>9.39</u>	<u>8.48</u>	<u>7.62</u>	<u>8.40</u>	<u>8.45</u>

Notes:

- (1) The City Manager provides staff support to multiple functions, but is reported in general government.
- (2) Beginning January 2016, personnel accounted for in the general government and administrative services section are responsible for coordinating community services and events.
- (3) The City contracts out for law enforcement services and is served by a joint power authority for fire services. Personnel accounted for in the general government section are responsible for coordinating with public safety partners.

Source: City of Laguna Woods, Administrative Services Department

**CITY OF LAGUNA WOODS
OPERATING INDICATORS
BY FUNCTION
LAST TEN FISCAL YEARS**

Function	Fiscal Year Ended June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Police:										
Activity initiated by -										
Calls for Service	2,375	2,521	2,607	2,767	2,722	2,829	2,852	2,835	2,682	2,525
Office/Field Initiated	377	382	394	439	434	350	387	683	957	636
Total Calls Handled	2,752	2,903	3,001	3,206	3,156	3,179	3,239	3,518	3,639	3,161
Arrests										
Part 1 Crimes	117	119	153	152	137	124	119	160	146	125
Part 2 Crimes	108	125	134	113	139	107	90	78	86	109
Fire:										
Number of calls answered (1)	4,350	4,399	4,560	4,717	4,748	4,306	4,847	5,321	5,636	5,333
Public works: (2)										
Street resurfacing (miles)	-	-	-	-	-	-	-	-	-	-

Notes:

- (1) The number of fire calls answered included incidents dispatched by the Orange County Fire Authority with ambulance response only. In fiscal year 2016-17, there were 633 such responses and in fiscal year 2017-18 there were 564.
- (2) The City currently tracks resurfaced areas in total, and not by year. As of June 30, 2018, there were 0.0812 total square miles of streets that had been resurfaced.

Sources: Orange County Sheriff's Department, Orange County Fire Authority, and
City of Laguna Woods, Planning & Environmental Services Department

**CITY OF LAGUNA WOODS
CAPITAL ASSET STATISTICS
BY FUNCTION
LAST TEN FISCAL YEARS**

Function	Fiscal Year Ended June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Police: (1)	-	-	-	-	-	-	-	-	-	-
Fire: (2)	-	-	-	-	-	-	-	-	-	-
Public works:										
Street (miles) (4)	10.710	10.710	10.710	10.710	10.710	10.710	10.710	10.710	10.710	10.710
Streetlights	221	221	221	221	221	221	221	221	221	221
Traffic signals	14	14	14	14	14	14	14	14	14	14
Parks and recreation:										
Parks	2	2	3	3	3	3	3	3	3	3
Water: (3)	-	-	-	-	-	-	-	-	-	-

Notes:

(1) The City contracts with the Orange County Sheriff's Department for law enforcement services.

(2) The City is a member of the Orange County Fire Authority.

(3) The City does not provide water services.

(4) All years have been updated to adjust total miles.

Source: City of Laguna Woods, Administrative Services Department

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