



City of Newport Beach



Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2012





*Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2012*

*Prepared by the Finance Department
Dan Matusiewicz, Director*



The City of Newport Beach was incorporated September 1, 1906
The present City Seal was adopted July 22, 1957

INTRODUCTORY SECTION

CITY OF NEWPORT BEACH
 Comprehensive Annual Financial Report
 Year Ended June 30, 2012

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INTRODUCTORY SECTION
 (Unaudited)

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CITY OF NEWPORT BEACH

FINANCE DEPARTMENT

December 28, 2012

Honorable Mayor and Members of the City Council,
and Residents of the City of Newport Beach, California

The City Charter and California state law require that the City of Newport Beach issue annually a complete set of financial statements and that an independent firm of certified public accountants audit this report in conformance with generally accepted auditing standards (GAAS). The Comprehensive Annual Financial Report (CAFR) of the City of Newport Beach for the year ended June 30, 2012, is hereby submitted.

The CAFR was prepared in conformance with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). This report consists of City management's representations concerning the finances of the City of Newport Beach. Responsibility for the accuracy and completeness of the data presented rests with the City. Management of the City is also responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft, or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. We believe the information presented in this report is complete and accurate in all material respects, and that it is reported in a manner designed to fairly present the financial position and results of operations of the various activities of the City of Newport Beach.

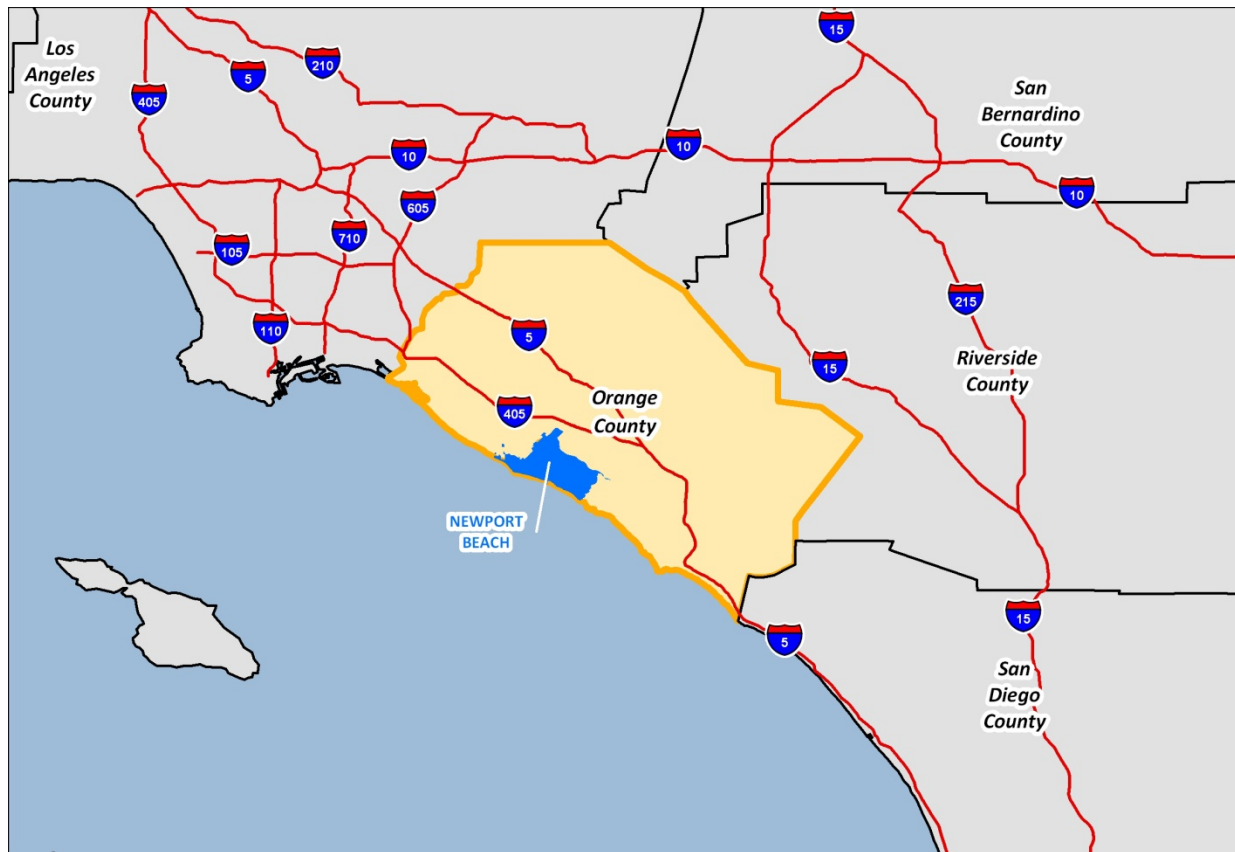
The City of Newport Beach's financial statements have been audited by White Nelson Diehl Evans LLP, a firm of licensed certified public accountants. The goal of the audit was to provide reasonable assurance that the financial statements of the City of Newport Beach for the fiscal year ended June 30, 2012 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Newport Beach's financial statements for the year ended June 30, 2012 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report. A narrative introduction, overview, and analysis accompany the basic financial statements in the form of the Management's Discussion and Analysis (MD&A). The letter of transmittal is designed to complement the MD&A and should be read in

conjunction with it. The City of Newport Beach MD&A can be found immediately following the report of the independent auditors and will provide further information regarding the format and content of this report.

PROFILE OF THE CITY

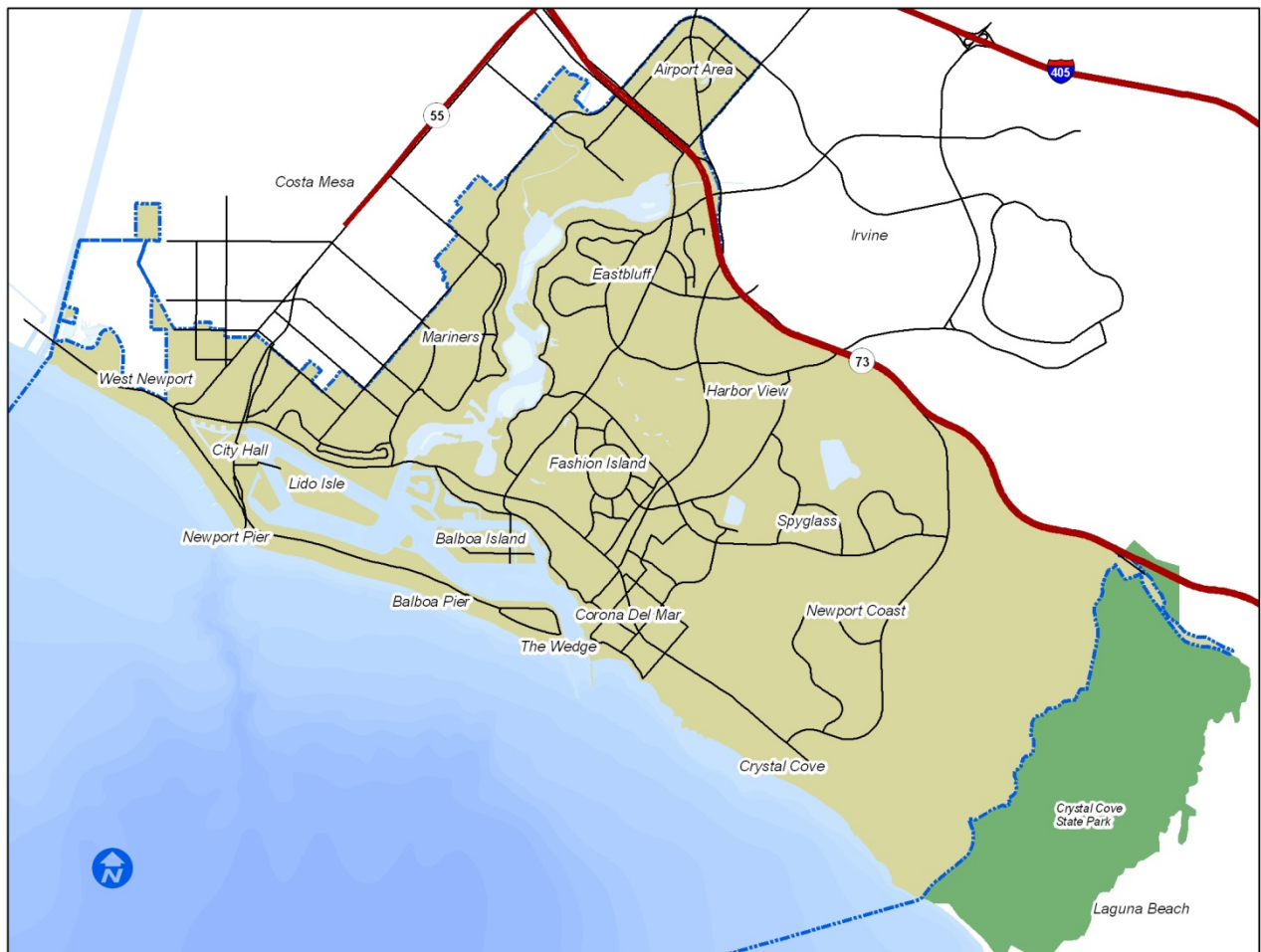
The City of Newport Beach is a community located in the coastal center of Orange County, in the heart of Southern California, with Los Angeles County to the north and San Diego County to the south. There are currently 34 cities within the County offering one of the finest climates in the United States. Orange County is now the second largest county in California trailing only Los Angeles and surpassing San Diego. It is the 6th largest county in the nation.

The general vicinity of Newport Beach and the County of Orange relative to the counties of Los Angeles, San Bernardino, Riverside and San Diego is illustrated on the map below:



The City of Newport Beach is one of Southern California's most scenic and dynamic communities. It surrounds Newport Bay, well known for its picturesque islands and one of the greatest natural yacht harbors in the world, accommodating over 9,000 boats of all types docked within its 21 square mile harbor area. This bay area and the ten miles of ocean beach offer outstanding fishing, swimming, surfing, and aquatic sports activities. The city has a permanent population of 85,990 which typically grows to over 100,000 during the summer months, including 20,000 to 100,000 tourists daily. There are fine residential areas, modern shopping facilities, and a quality school system. The University of California, Irvine, is located immediately adjacent to the city, and eight other colleges are within a 30-mile radius.

The following map illustrates the communities within the City of Newport Beach; the upper bay, the recreational harbor and beachfront topography; and the city's location relative to the bordering cities of Costa Mesa to the north, Irvine to the east and Laguna Beach to the south.

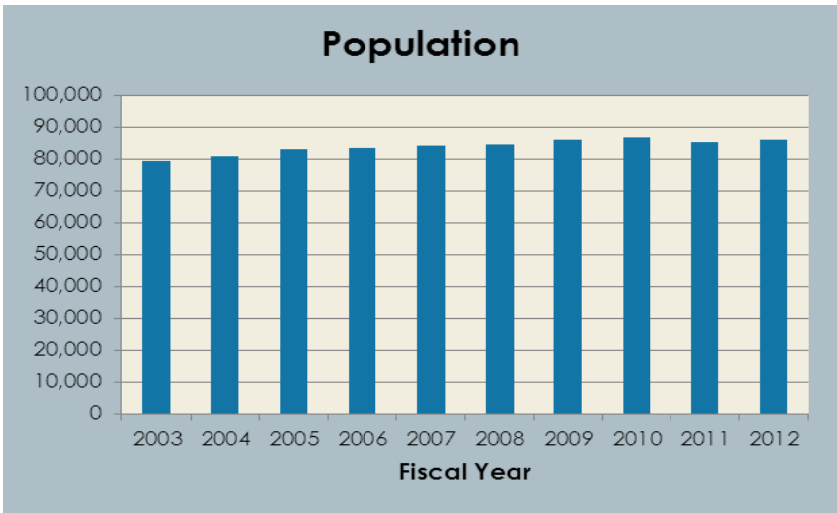


The City of Newport Beach was incorporated September 1, 1906. The City Charter was originally adopted in 1954 but has been updated and amended over time. The City operates under a Council-Manager form of government. Council Members are elected by district but voted on by the population as a whole, and serve four-year staggered terms. The governing council consists of the mayor and six other members and is responsible for among other things, policy-making, passing local ordinances, adopting the budget, appointing committees and hiring the City Manager, City Attorney, and City Clerk. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day to day operations of the City, and for appointing heads of departments. The City of Newport Beach is a full service city providing its residents and visitors with the following functional services: general governance, legal, financial, information technology, and administrative management; police, fire, paramedic, lifeguard, and emergency medical transport services; engineering, construction, and maintenance of public facilities, public streets, beaches, and parks; planning, zoning, and economic development services; building inspection, plan check and code enforcement services; libraries and cultural and arts services; recreation and senior services; and water, wastewater, waste disposal, and street light utility services. The City provides water and sewer service to most areas within City limits, but it does not provide gas, cable television, electrical, or other utility service. Public elementary and secondary education is provided by the Newport-Mesa Unified School District and the Laguna Beach Unified School District.

Component Unit: The City's financial statements present the financial activity of the City of Newport Beach (the primary government) and the Newport Beach Public Facilities Corporation (a component unit of the City). The Corporation is blended into the City's financial statements because of its operational and financial relationship with the City. Even though it is a legally separate organization, City of Newport Beach elected officials are accountable for fiscal matters of the Corporation. Additional information about the Newport Beach Public Facilities Corporation and the reporting entity in general can be found in Footnote 1a of the notes to the financial statements.

DEMOGRAPHICS

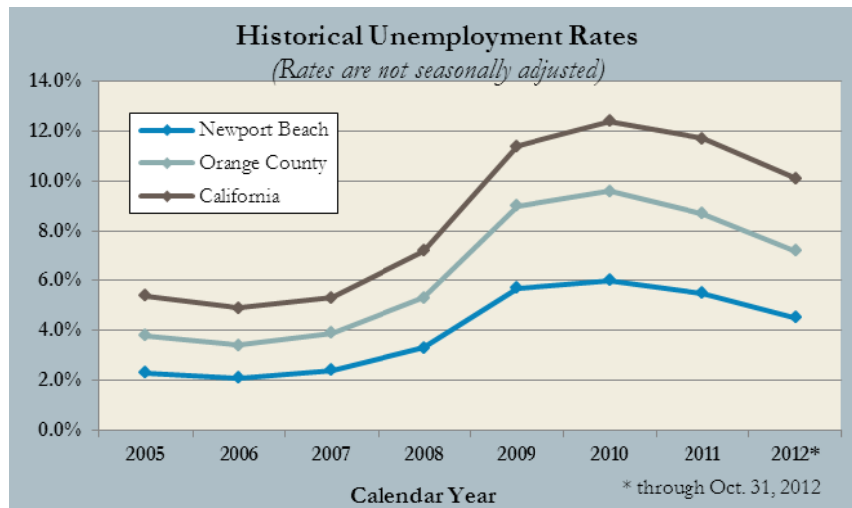
Reflective of a mature community, vacant land has become increasingly scarce and the City is relatively built-out. Currently at 85,990, population has been very stable as indicated by the chart below:



The effective buying income and median Household income are generally higher in Newport Beach than in other areas of the State and the US overall. As illustrated by the table below, Newport Beach Median Household income is nearly twice that of the US Median Household income.

| 2011 Median Household Income | |
|------------------------------|----------|
| City of Newport Beach | \$96,918 |
| Orange County | 72,293 |
| California | 57,287 |
| USA | 50,502 |

The leading industries here are professional, scientific, health-care, finance, insurance, legal and other management. Unemployment in the City has been significantly lower than elsewhere as illustrated in the chart on the following page.



More detailed information concerning the City's demographics and statistics are contained within the Statistical Section of this report.

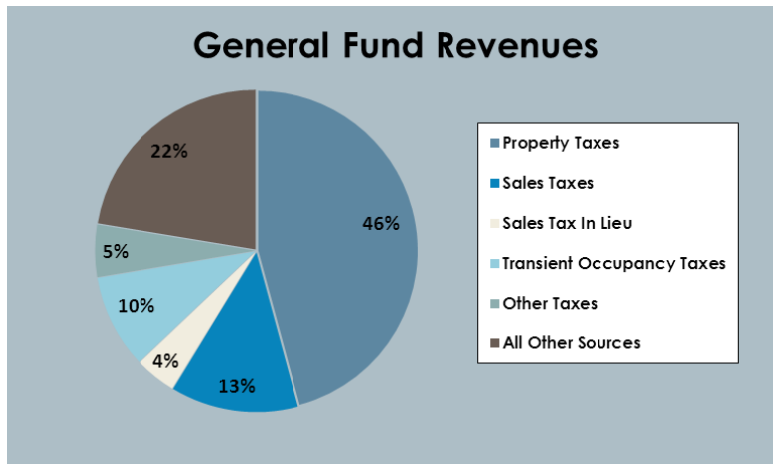
LOCAL ECONOMY

Fiscal year 2011-12 marked a gradual turning point in the national and local economy. In the auto sales segment, easing credit coupled with pent-up demand and a broader selection of vehicles had buyers returning to dealer showrooms. Restaurant activity continues to be vibrant. Many regions of the state recorded significant upticks in permitting activity particularly for office/industrial space and multiple family housing. Companies continued to invest in new technology and equipment but economic slowdowns in Europe and Asia kept expenditures cautious and gains moderate. Improved employment confidence and credit availability resulted in better than anticipated home sales. As sales increase and the share of distressed properties in the sales mix declines, home prices are expected to begin growing at a mild, yet sustainable pace that is more in line with income growth in the state.

Orange County's economy is moving beyond "recovery" and has several attributes that have historically supported strong economic growth including its universities, high tech industries and the pull of tourist attractions. Some of Newport Beach's most vital employment sectors including leisure and hospitality, information technology, and professional and business services have shown the most secure job growth in California during the recovery period. However, a generally conservative outlook is warranted at this early phase of the recovery. As revenues are projected to gradually increase next year, management will continue to focus on Council priorities; maintaining responsible fiscal planning and forecasting; and furthering the goals of the City's 2010 Fiscal Sustainability Plan.

TOP THREE REVENUE SOURCES

General Fund revenues were approximately \$156 million during FY 2011-12. The top three individual revenue sources, Property Taxes, Sales Taxes and Sales Tax in Lieu, and Transient Occupancy Taxes (TOT), represent 72.4% of all General Fund revenues. Tax revenues in total, including business licenses, franchise fees and other taxes represent nearly 77.7% of all General Fund revenues while only 22.3% is generated by other revenue sources.

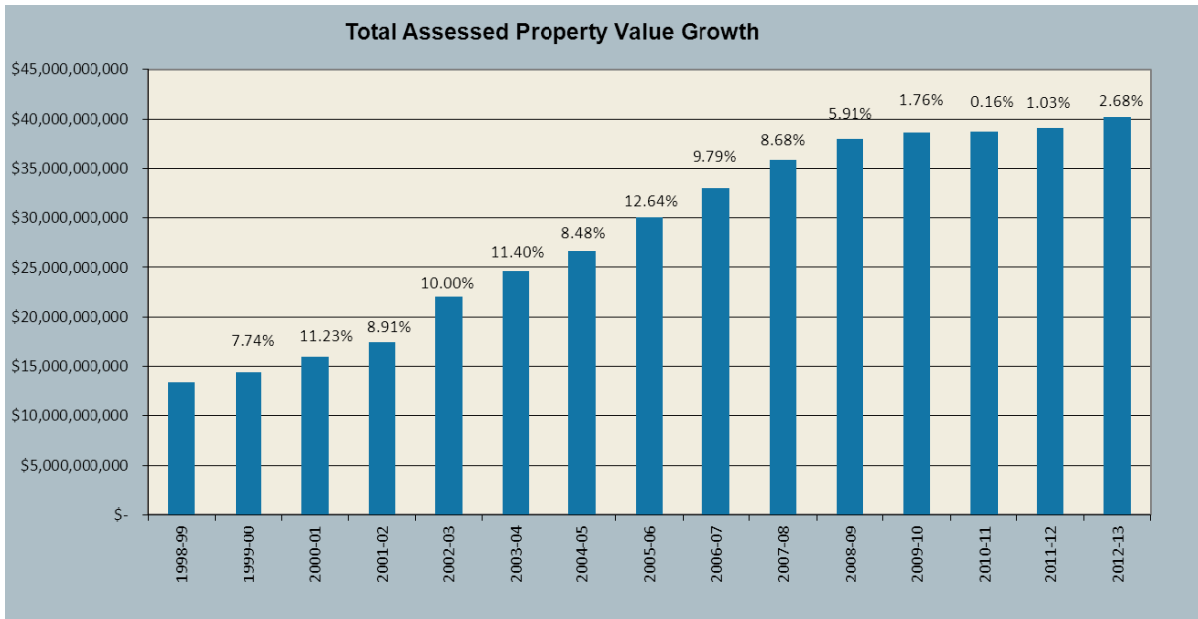


Property Taxes

Unlike many cities, property taxes, not sales taxes, are the #1 source of revenue for the City of Newport Beach, representing almost half (45.8%) of all General Fund revenues. Due to the limited supply of scenic coastal property and the unique access to the scenic Newport Bay, the Newport Beach community has been developed into affluent residential neighborhoods and high-end commercial districts.

Consistent and vigorous demand for coastal property has allowed the City to enjoy long-term growth trends with its number one revenue source. Over a ten-year period, assessed valuation increased an average of 6.3% per annum and 5.7% over a twenty-year period. Since Californians passed Proposition 13 in 1978, assessed property value is reassessed to market value only when the property changes ownership. Otherwise, the assessed value (AV) grows by no more than 2% per year. This practice creates a constant lag and buffer between assessed and market values, effectively insulating the tax base from more erratic market value gyrations.

While property tax growth rates have fallen sharply during the Great Recession, the City has experienced positive AV growth during each of the past 15 years as demonstrated by the chart below. This positive growth occurred while many other cities experienced large decreases in their AV during 2008 through 2011.



The secured property tax valuation grew by 2.9% for FY 2012-13, reflecting new construction in the Fashion Island area and net reassessments from property sales and/or assessment appeals. Unsecured property taxes (e.g. business equipment, boats and other personal property) decreased -2.55%. The net result is that the overall property tax levy, as of September 30, 2012, grew by +2.7%.

While the City's FY 2012-13 AV growth of +2.7% is below the long-term historical averages of 5% to 7%, a gradual but steady rebound is anticipated. Despite dramatic declines in the real estate market in recent years, sales data for the month of October 2012 demonstrates the relatively high market values throughout the residential communities of Newport Beach. Median home sales prices in all areas of the City far exceed the County wide median sales price of \$455,000.

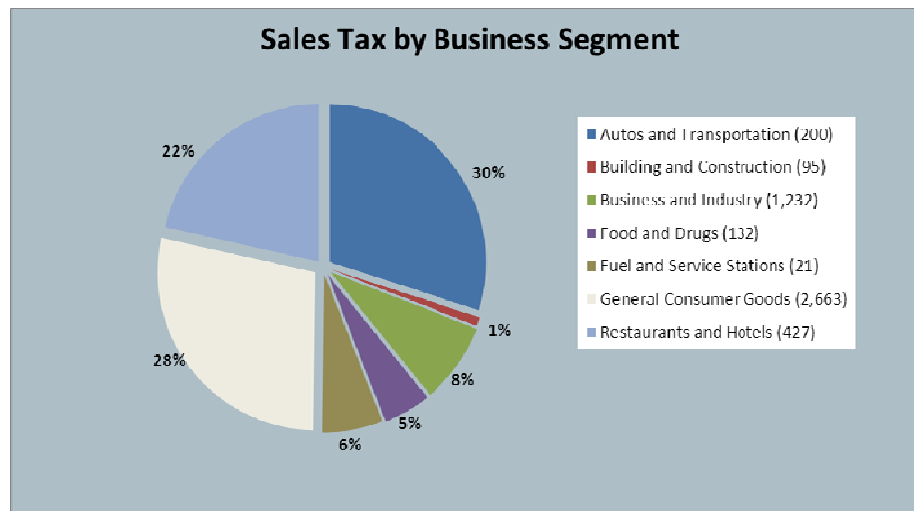
| CITY OF NEWPORT BEACH Median Home Sales* Comparative Month Ending October | | | | |
|---------------------------------------------------------------------------------|-------------------------------|-------------------------------|---------------------------------|---------------------------------|
| Newport Beach Zip Code | Median Sales Price 2011 | Median Sales Price 2012 | Number of Home Sales 2011 | Number of Home Sales 2012 |
| 92625 | \$ 1,375,000 | \$1,200,000 | 9 | 28 |
| 92660 | 897,250 | 1,037,250 | 36 | 51 |
| 92661 | 912,500 | 1,400,000 | 2 | 8 |
| 92662 | 1,590,000 | 1,390,500 | 3 | 4 |
| 92663 | 650,000 | 910,000 | 22 | 34 |
| 92657 | 1,633,500 | 2,525,000 | 18 | 29 |
| All Orange County | 405,000 | 455,000 | 2,241 | 3,148 |

* Source: DataQuick Information Systems

Sales Taxes and Sales Taxes in Lieu

In March of 2004, voters approved Proposition 57 which allowed the State to enact revenue swapping procedures commonly referred to as the “Triple Flip.” In doing so, Sales Taxes were reallocated to cities in two separate revenue streams, “Sales Taxes” and “Sales Taxes in Lieu,” which impacted the timing and distribution method but did not impact the revenue category in total. Sales Taxes in total represent 17.1% of all General Fund revenues.

The City’s sales tax base is generated from a relatively diverse business community and is not dependent on any one merchant or industry. The following chart demonstrates the diversity of the City sales tax revenue. The largest segment, “Autos and Transportation,” accounts for 30% of total sales taxes and is represented by 200 new and used auto/boat/aircraft dealers, supply stores and repair shops. The next largest segment, “General Consumer Goods” accounts for 28% of total sales taxes and is represented by a multitude of stores and shops that provide various consumer goods. The third largest sales tax segment, “Restaurants and Hotels,” accounts for 22% of total sales tax and is represented by 427 restaurants, hotels, clubs and other amusement places.



Sales Tax revenue continues to trend upward, finishing up nearly 7.6% over the previous Fiscal Year. The Autos and Transportation, General Consumer Goods, and Restaurants and Hotels categories posted increases of 2.9%, 8.8%, and 9.5% respectively over the prior year. The Fiscal Year 2011-12 budget had built in a minimal growth factor for sales taxes due to the poor economy and high unemployment rate. However, at fiscal year-end, Sales Tax revenues exceeded budget by approximately \$912,000 and prior year revenue by \$1.9 million.

Transient Occupancy Taxes (TOT)

TOT accrues to the City at a rate of 10% of room charges (with 18% of this collection going to the local Conference and Visitors Bureau to promote Newport Beach as a tourist destination). The City distinguishes its transient occupancy taxpayers in two broad property type categories, commercial and residential property. The commercial category is composed of approximately twenty inns, motels, hotels and resorts and accounts for 92% of TOT revenues. The residential category is made up of some 700 vacation rentals representing only 8% of TOT revenue. Together, they accounted for \$14.8 million in TOT revenue during FY 2011-12.

TOT increased nearly 13.1% over the prior year. While the economy as a whole experienced moderate growth, the City's TOT revenues were up by double digits at year end. This is largely attributable to the pull of tourists to luxury accommodations located within in the city. While mostly all hotels trended upward, four of the largest hoteliers were up 25% to 32% over the prior year. As of the fiscal year end, actual TOT collections exceeded budget by \$1.1 million.

LONG TERM FINANCIAL PLANNING

The City Council has adopted prudent fiscal policies concerning its investments, reserves, budget administration, revenue initiative, competitive contracting, facility replacement planning and the like. These fiscal policies, such as the 15-point Fiscal Sustainability Plan mentioned earlier, can be found on the City's website in the City Council section under City Government at www.newportbeachca.gov.

The annual budget serves as the foundation for the City of Newport Beach's financial planning and control and allows the City Council to prioritize City expenditures strategically aligned with core community values. Appropriations for operating expenditures shall be balanced in relation to current revenue sources and will not over-rely on one-time revenue sources or reserves. When significant uncertainty exists concerning revenue volatility or threatening/pending obligations, the City Council and City Manager reserve the right to impose any special fiscal control measures, including personnel hiring freezes, and other spending controls, whenever circumstances warrant. The City Council may authorize the use of Contingency reserves (set at 15% of the General Fund Operating Budget) only during emergency situations as set forth by the Council Reserve Policy. The City Council holds a budget hearing and adopts a budget on or before June 30, the close of the City's fiscal year.

FISCAL SUSTAINABILITY / FINANCIAL POLICIES

The City has long taken a conservative approach to forecasting revenues, often assuming a “worst case scenario.” This fiscal conservatism has created a stable financial base. As a result, even in a downturn, the City of Newport Beach is able to maintain its services at a high level, while reducing expenses to accommodate reduced revenues. The City’s fiscal discipline has allowed it to prepare balanced budgets and to save, both during prosperous and difficult economic periods.

Smarter, Faster, Smaller

The City has been very proactive in restructuring and making strategic cuts in department operations, striving to evolve into a smarter, faster, smaller local government.

In FY 2011-12, the City took additional measures to avoid any budgetary impacts as a result of the struggling economy. The City closed an operating shortfall in the General fund of approximately 6% or almost \$8 million, reduced about 34 full-time equivalent positions, and continued a careful effort to outsource certain city services.

In FY 2012-13, management has taken a deliberative and methodical approach towards strengthening the bottom line while at the same time enabling greater efficiencies through technological investment. Through a combination of an early retirement plan, attrition, outsourcing and lay-offs in recent years, and the net reduction of 11 full-time positions in FY 2012-13, the full-time work-force has been reduced nearly 10% since FY 2009-10 as depicted in the chart below:



The FY 2012-13 budget provides funding to initiate a five-year capital investment to upgrade the city's technology to set the stage for a smaller, versatile, innovative and cost effective government. The essential initiatives of this investment include upgrading the city's finance and payroll system to meet fiscal and performance measurement needs and upgrading the Computer-Aided Dispatch/Records Management System in Police to provide better analytics to combat crime.

"Still not Done"

Looking ahead, management will continue to evaluate priorities while managing scarce resources wisely. The FY 2012-13 balanced budget was prepared with a continued focus on transformation of the Newport Beach city government to a more accountable and performance-based organization. Past management decisions have maintained the City's fiscal sustainability and provided the groundwork for a stronger city government. But the work is not done. As such, FY 2012-13 will be another year of systematically evaluating how services are delivered and at what cost. The City will again consider regional collaboration, effective private-sector provision of services and solid public service provision where appropriate.

GENERAL FUND & FACILITIES REPLACEMENT (FINANCING)

Revenues net of expenditures coupled with transfers in/out resulted in an overall \$17 million, or 27.1%, increase to the General Fund reserve balance as indicated in the table on the following page. This is the result of better than expected revenue, departmental budget cuts, and non-recurring transfers.

Non-spendable fund balance includes amounts that are either (a) not in a spendable form, or (b) legally or contractually required to be maintained intact. Major increases to the non-spendable balance include a \$6.9 million long-term loan receivable from the Tide and Submerged Land-Capital Fund.

| General Fund Reserves | | | |
|--------------------------------------------|----------------------|---------------------|----------------------|
| | 2011 | 2012 | Change |
| Non-spendable: | | | |
| Prepaid Items | \$ 328,851 | \$ 285,754 | \$ (43,097) |
| Inventories | 231,641 | 217,771 | (13,870) |
| Long-Term Loan Receivable | 471,250 | 7,350,953 | 6,879,703 |
| Restricted | 1,681,333 | 2,263,049 | 581,716 |
| Committed: | | | - |
| Facilities Financing Plan * | 31,300,000 | 4,016,812 | (27,283,188) |
| Contingency Reserve | 21,841,467 | 21,582,798 | (258,669) |
| Recreation Reserves | 452,448 | 521,447 | 68,999 |
| Parking Reserves | 238,876 | 297,612 | 58,736 |
| Cable Franchise | 1,360,385 | 1,514,574 | 154,189 |
| Other Miscellaneous | 3,726,726 | 5,756,892 | 2,030,166 |
| Assigned | 11,865,835 | 19,431,475 | 7,565,640 |
| Unassigned (Appropriations Reserve) | 20,570,033 | 20,570,033 | - |
| Fund Balance Pre FFP Transfer | \$ 94,068,845 | \$83,809,170 | \$ (10,259,675) |
| FFP Transfer Out* | \$(31,300,000) * | \$(4,016,812) | 27,283,188 |
| Ending General Fund Balance | \$ 62,768,845 | \$79,792,358 | \$ 17,023,513 |

*In FY 11 \$31.3 Million was transferred to the Facilities Replacement Fund

Restricted fund balance represents the portion of fund balance that reflects constraints placed on the use of resources (other than non-spendable items) that are externally imposed by creditors, grantors, contributors, or laws and regulations. Of the \$2.3 million that is restricted, \$2.1 million is for Affordable Housing, and \$134,760 is set aside for Hoag Hospital. Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action by the City Council. Within this reserve category, the City Council has set aside \$21.6 million for emergency contingency, which represents 15% of the original General Fund operating budget. Major decreases in this category resulted mostly from the one-time transfer of \$31.3 million in committed fund balance to the Facilities Replacement Fund in FY 2010-11.

Assigned fund balance includes amounts that are constrained by the City Manager's intent to be used for specific purposes but that are not restricted or committed. Examples of assigned reserves include appropriation reserves for funds not yet fully appropriated in the annual budget and a retirement system rate reserve to smooth out the year-to-year fluctuations in retirement rates. The \$7.6 million increase in assigned fund balance is the result of additional set asides for IT replacement, CIP, contributions to the Facilities Replacement Fund and prior year projects that were committed but not completed at year-end.

The unassigned portion of available fund balance is not otherwise restricted, committed or assigned. For a more detailed summary of fund balances, see footnote 17 in the Notes to the Financial Statements.

Facilities Financing Plan (FFP) Commitment & Major Construction Initiatives

The City takes long-term financial planning seriously and has developed several master replacement plans for its critical assets and infrastructure including major facilities, street pavement, water and sewer infrastructure, and City vehicles and heavy equipment. Council Policy F-28, approved in August 2009, establishes a long-term Facilities Financing Plan (FFP) for the replacement of all General Fund supported facilities (Civic Center, Fire Stations, Police Stations and Parks). The FFP provides a consistent, level funding plan to minimize negative impacts on the General Fund in any given year, while also ensuring the City is able to maintain its high quality facilities. The City has been committing (reserving prior to fiscal year 2011) these funds in a Facilities Financing “Reserve or Fund (see table below)” within the General Fund. With the financing of the Civic Center Project and completion of the OASIS Senior Center, the City transferred \$31.3 million to a separate fund in FY 2010-11. This designation is available to accumulate resources to pre-fund debt service or cash fund construction of projects catalogued in the FFP. In FY 2011-12, the City continued its financial commitment to the FFP with a \$4 million transfer from the General Fund.

| Facilities Replacement Fund | |
|--------------------------------------|----------------------|
| Beginning Balance 7/1/11 | \$ 25,625,644 |
| Revenues | |
| Donations | 13,545,000 |
| Transfer In from General Fund | 4,016,812 |
| Transfer In from Oasis Senior Center | 1,040,773 |
| Interest Income | 343,797 |
| Total Revenues | 18,946,382 |
| Expenditures | |
| 2012 Civic Center COPs Debt Service | (8,191,020) |
| Civic Center Construction | (3,231,281) |
| Total Expenditures | (11,422,301) |
| Ending Balance 6/30/12 | \$ 33,149,725 |

After accounting for interest earnings and net debt service payments on the 2010 Civic Center bonds, the beginning Facilities Replacement Fund balance was \$25.6 million. The balance of the Facilities Replacement Fund has grown to more than \$33.1 million after a major developer contribution dedicated to the facilities plan was received during FY 2011-12.

Special Note: The FFP was the winner of the prestigious “Helen Putnam Award – Internal Administration category” from the League of California Cities in 2008!

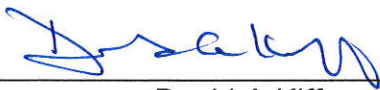
AWARDS AND ACKNOWLEDGMENTS

Awards: The City has prepared a comprehensive annual financial report for the past 20 years. The City has received awards for excellence in financial reporting each of those years.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Newport Beach for its comprehensive annual financial report for the fiscal year ended June 30, 2011. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgments: Preparation of this report was accomplished through the efficient and dedicated services of virtually everyone in the City's Accounting Division and the Graphics and Print Services unit. In addition, members of the Finance Department would like to thank the City Manager, and the Mayor and City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner. We would also like to thank our auditors, White Nelson Diehl Evans LLP, for their time and assistance in the preparation of the report. This report was completely prepared and published by City employees.



David A Kiff
City Manager



Dan Matusiewicz
Finance Director

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Newport Beach
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



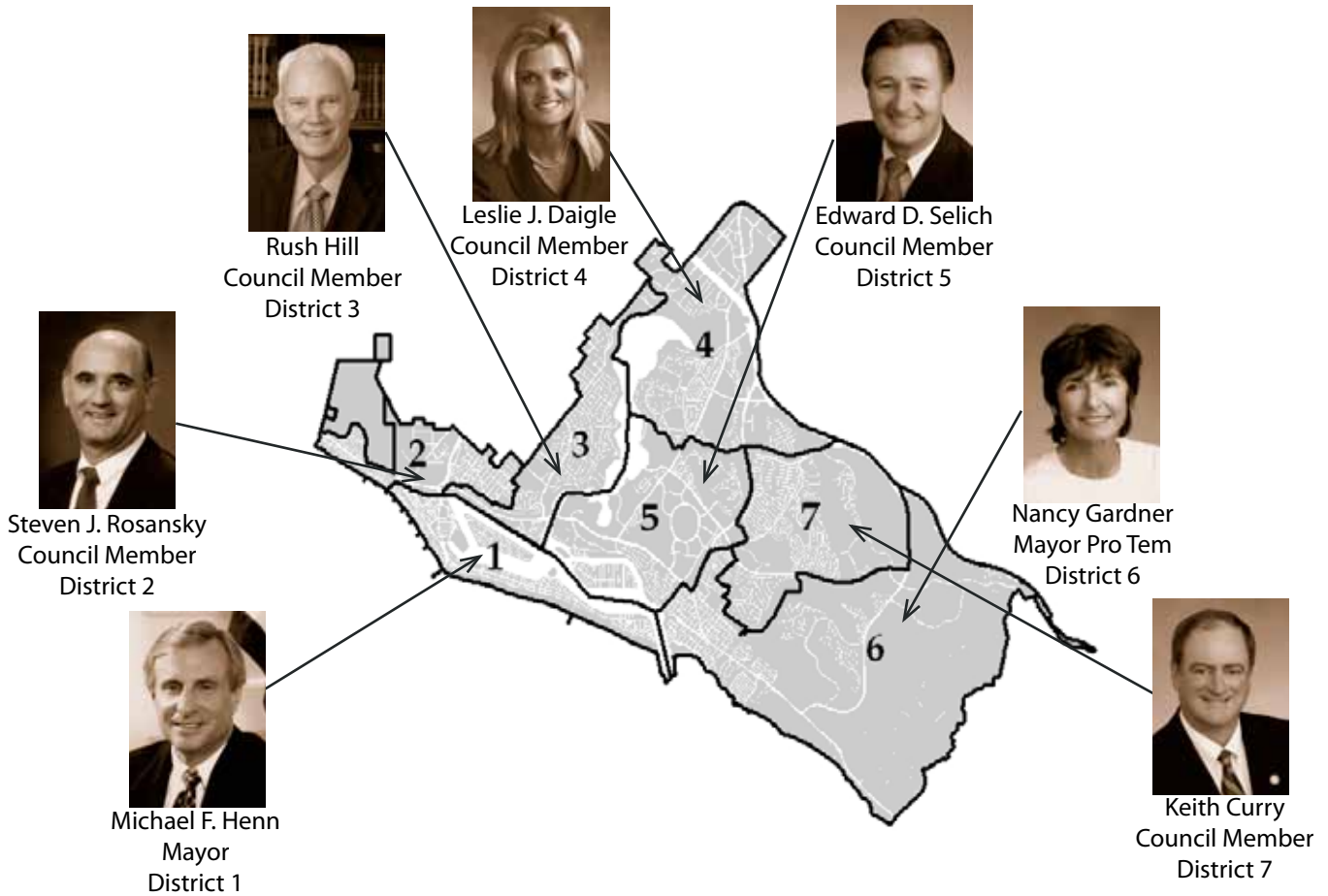
Linda C. Davison

President

Jeffrey R. Enos

Executive Director

Newport Beach City Officials



City Attorney
Aaron Harp

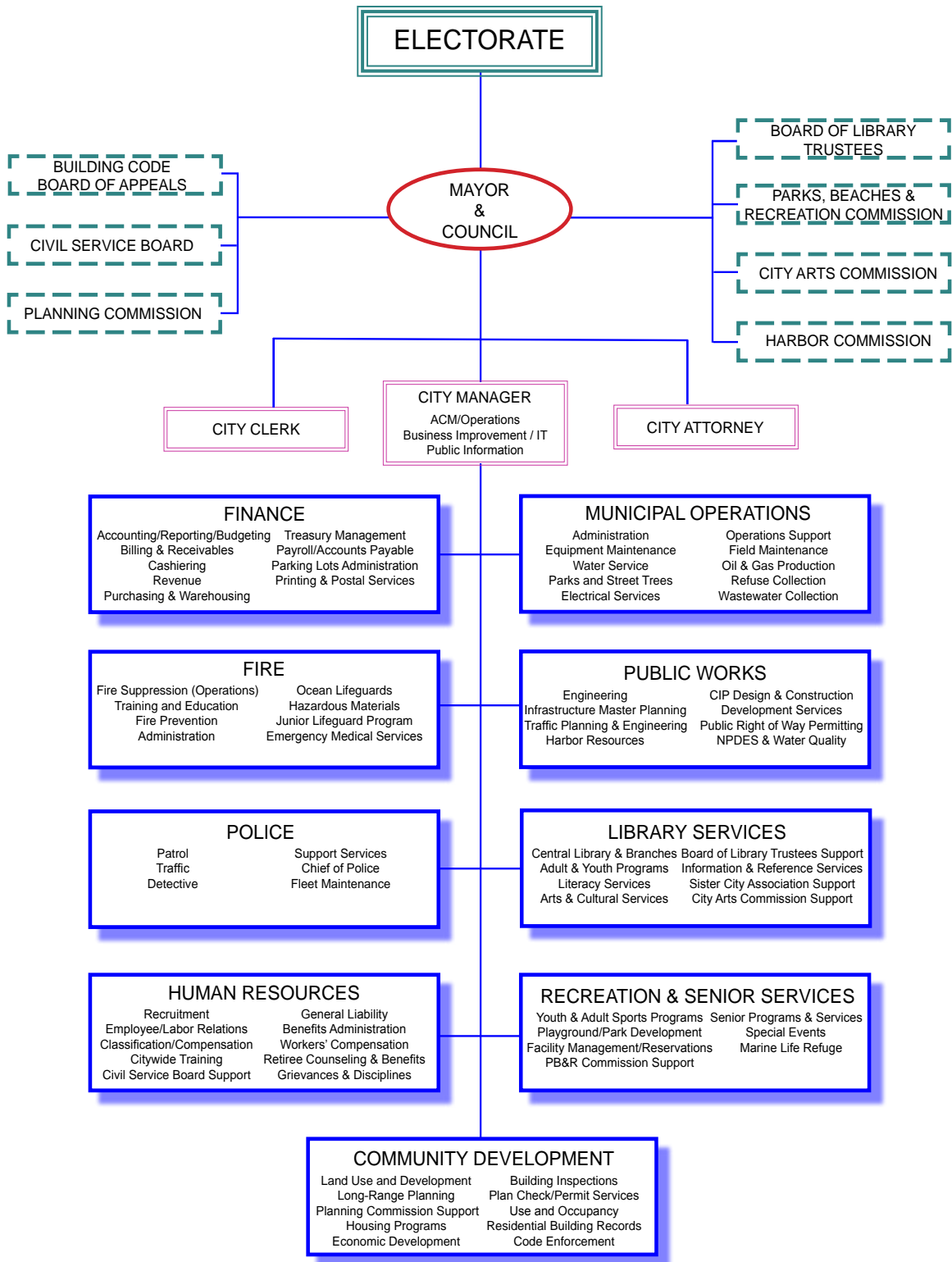


City Manager
Dave Kiff




City Clerk
Leilani Brown


- Dana M. SmithAssistant City Manager
- Dan Matusiewicz.....Finance Director/Treasurer
- Kimberly BrandtCommunity Development Director
- Scott Poster..... Interim Fire Chief
- Terri L. Cassidy Human Resources Director
- Cynthia CowellLibrary Services Director
- Mark HarmonMunicipal Operations Director
- Jay Johnson Police Chief
- Steve Badum Public Works Director
- Laura Detweiler.....Recreation & Senior Services Director




ELECTED OFFICIALS


COUNCIL APPOINTED BOARDS & COMMISSIONS


COUNCIL APPOINTED POSITIONS


CITY DEPARTMENTS

Fiscal Year 2011-2012

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FINANCIAL SECTION

INDEPENDENT
AUDITORS' REPORT

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

City Council Members
City of Newport Beach
Newport Beach, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport Beach, California, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Newport Beach, California's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Newport Beach, California's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport Beach, California, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, of the City of Newport Beach, California, and the respective budgetary comparison information for the General, Tide and Submerged Land-Operating and Tide and Submerged Land-Capital major governmental funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 27, 2012 on our consideration of the City of Newport Beach, California's internal control over financial reporting and 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 and should be considered in assessing the results of our audit.

The management's discussion and analysis, as listed in the table of contents as required supplementary information, is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. This information is 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 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Newport Beach, California's financial statements as a whole. The introductory section, supplementary information and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

White Nelson Dick Evans LLP

Irvine, California
December 27, 2012

FINANCIAL SECTION

MANAGEMENT'S

DISCUSSION AND ANALYSIS

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Newport Beach's Comprehensive Annual Financial Report (CAFR) presents management's discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2012. This analysis should be read in conjunction with the Transmittal Letter at the front of this report and the accompanying Basic Financial Statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the comprehensive annual financial report contains the following information: *Independent Auditors' Report, Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and the *Supplementary Information* section, an optional section that presents combining and budgetary schedules for individual non-major funds. The *Basic Financial Statements* are comprised of three components: 1) *Government-wide Financial Statements*, 2) *Fund Financial Statements* and, 3) *Notes to the Financial Statements*. Management's Discussion and Analysis is intended to be an introduction to the Basic Financial Statements.

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements – The Government-wide Financial Statements use the economic resources measurement focus and basis of accounting which is similar to the accounting standard used by private sector companies. The government-wide financial statements are intended to provide a "Big Picture" view of the City. With the economic resources measurement focus and basis of accounting, changes in net assets are recognized as soon as the event occurs regardless of the timing of related cash flows.

The Statement of Net Assets includes all of the City's assets (including non-spendable assets like streets, roads, and land rights) and liabilities (including long-term liabilities that may be paid over twenty or so more years). All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The Government-wide Financial Statements report the City's net assets and how they have changed. Net assets, the difference between the City's assets and liabilities, is one way to measure the City's financial health, or position. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the City, one should also consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's roads.

The Government-wide Financial Statements of the City are divided into two categories:

Governmental Activities – This statement depicts the extent to which programs are self-supporting and the net amount provided by property taxes and other

general revenues. Most of the City's basic services are included in this category, such as the public safety, public works, community development, community services and general administration. Taxes and other general revenues finance most of these activities.

Business-type Activities – The City accounts for its Water and Wastewater utilities as business enterprises. The City charges fees to customers to recover the cost of providing Water and Wastewater services.

Fund Financial Statements – Funds are accounting devices that the City uses to track and control resources intended for specific purposes. The Fund Financial Statements provide more detailed information about the City's most significant funds (major funds) but not the City as a whole. Some funds are required by State and Federal law or by bond covenants. Other funds are utilized simply to control and manage resources intended for particular purposes.

Fund Financial Statements have a short-term focus measuring inflows of current spendable assets. The resulting net difference between current financial assets and current financial liabilities otherwise known as fund balance (or net working capital in the private sector) is a measure of the City's ability to finance activities in the near term.

The City utilizes three broad categories of funds:

Governmental Funds – Unlike Government-wide Financial Statements, Governmental Fund Financial Statements utilize the financial resources measurement focus and thus concentrate on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Consequently, the Governmental Fund Financial Statements provide a detailed short-term view that helps a reader determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. Also included in the Governmental Funds are Permanent Funds. These funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support City programs.

Proprietary Funds – Services for which the City charges customers a fee are generally reported in Proprietary Funds (Enterprise Funds and Internal Service Funds). Like the Government-wide Financial Statements, these funds provide both long and short-term financial information utilizing the economic resources measurement focus. The City's Enterprise Funds (Water and Wastewater Funds) are individual funds represented in the combined presentation of Business-type Activities in the Government-wide Financial Statements. The individual fund presentation provides more detailed information about each business segment, its operating statements, and statements of cash flow. The City also uses Internal Service Funds that are utilized to report and allocate the cost of certain centrally managed and operated activities (e.g. fleet maintenance, risk management, retiree insurance, information technology services, etc.). Because the Internal

Service Funds primarily serve the government, they are reported with Governmental Activities rather than the Business-type Activities in the Government-wide Financial Statements.

Fiduciary Funds – The City utilizes Fiduciary Funds to account for assets held by the City in a trustee capacity, or as an agent for other governmental entities, private organizations, or individuals. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City's Government-wide Financial Statements because the City cannot use these assets to finance its operations.

Notes to the Financial Statements – The financial statements also include the Notes to the Financial Statements that provide important narrative details about the information contained in the financial statements. Information contained in the Notes to the Financial Statements is critical to a reader's full understanding of the Government-wide and Fund Financial Statements.

Supplementary Information – In addition to the required elements of the Basic Financial Statements, we have also included a Supplementary Information section, which includes budgetary and combining schedules that provide additional details about the City's non-major Governmental Funds, Internal Service Funds, and Fiduciary Funds.

ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

Net Asset Discussion - As shown in Figure 1, the City's combined net assets for year ended June 30, 2012 were \$2.368 billion, increasing \$30.7 million or 1.3% over the prior year. Net assets can serve as an important indicator of whether the City's overall financial condition is improving or deteriorating over time.

Current assets decreased approximately \$32.0 million primarily due to a decrease in cash with fiscal agents to fund construction of a new Civic Center, park and parking structure while Capital assets increased \$56.5 million due to work-in-progress to date on the new Civic Center project.

Other Liabilities increased approximately \$6.5 million primarily due to an increase in current liabilities in the City Hall Improvement Fund related to the construction of the new Civic Center project.

Long-term liabilities decreased approximately \$12.7 million during the year due to a reduction in general long term liabilities of \$19.9 million offset by a net increase of \$7.2 million in various internal service fund liabilities.

Figure 1
Net Assets
(in thousands)

| | Governmental Activities | | Business-Type Activities | | Total | |
|-----------------------------------------|-------------------------|--------------|--------------------------|------------|-------------|-------------|
| | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 |
| Current and other assets | \$ 298,131 | \$ 261,570 | \$ 12,999 | \$ 17,573 | \$ 311,130 | \$ 279,143 |
| Capital assets | 2,126,458 | 2,182,996 | 108,976 | 108,981 | 2,235,434 | 2,291,977 |
| Total assets | 2,424,589 | 2,444,566 | 121,975 | 126,554 | 2,546,564 | 2,571,120 |
| Other liabilities | 28,675 | 36,225 | 3,556 | 2,483 | 32,231 | 38,708 |
| Long-term liabilities outstanding | 177,070 | 164,420 | - | - | 177,070 | 164,420 |
| Total liabilities | 205,745 | 200,645 | 3,556 | 2,483 | 209,301 | 203,128 |
| Net assets | | | | | | |
| Invested in capital assets, net of debt | 2,087,403 | 2,098,350 | 108,976 | 108,981 | 2,196,379 | 2,207,331 |
| Restricted | 63,940 | 61,924 | - | - | 63,940 | 61,924 |
| Unrestricted | 67,501 | 83,647 | 9,443 | 15,090 | 76,944 | 98,737 |
| Total net assets | \$ 2,218,844 | \$ 2,243,921 | \$118,419 | \$ 124,071 | \$2,337,263 | \$2,367,992 |

The increase in the current year net assets is attributable to an increased investment in Capital Assets and modest revenue growth and various cost saving efforts.

- Invested in Capital Assets reflects the City's investment in capital assets (e.g., land, buildings, infrastructure, and equipment) less accumulated depreciation and any related outstanding debt used to acquire those assets. At \$2.207 billion, they represent the largest component of net assets (93.2%). The City's investment in capital assets does not represent a financial resource and consequently are not readily available for funding current obligations.
- Restricted Assets totaled \$61.9 million or 2.6% of net assets and decreased just over \$2 million reflecting a net increase of \$0.5 million for Public Safety, an increase of \$0.7 million for Public Works, a decrease of \$2.9 million for Community Services and a decrease of \$0.3 million for Community Development.
- The remaining balance of net assets \$98.7 million or 4.2% are unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors. Unrestricted net assets increased \$21.8 million as a net result of the elimination of \$8.5 million in Retiree Insurance liability due to a change in accounting estimate in the actuarial report, an increase of \$5.6 million in Business-Type Activities generated by an increase in water rates and reduction in operating expenses, and \$7.7 million is attributable to an increase in taxes, business licenses and property income generated by a modest growth in economy.

Governmental Activities

Governmental activities are generally financed through taxes, intergovernmental revenues, and other nonexchange revenues. The Statement of Activities is intended to illustrate how the cost of governmental activities are financed and determine the annual change in net assets.

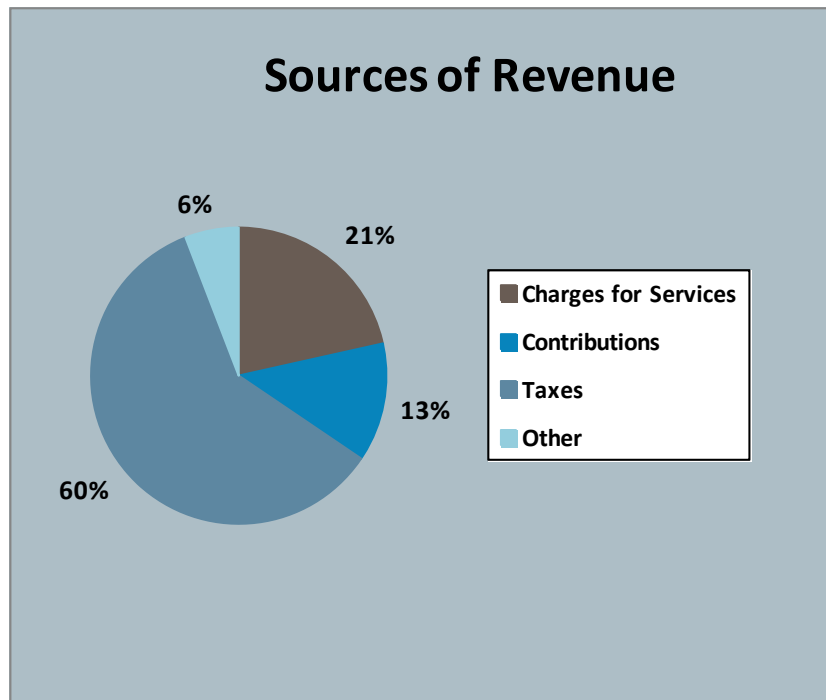
Figure 2
Changes in Net Assets
(in thousands)

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------------------------|-------------------------|---------------------|--------------------------|-------------------|--------------------|--------------------|
| | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | \$ 35,910 | \$ 43,732 | \$ 23,445 | \$ 27,261 | \$ 59,355 | \$ 70,993 |
| Operating grants and capital contributions | 10,710 | 11,418 | - | - | 10,710 | 11,418 |
| Capital grants and contributions | 11,101 | 14,839 | - | - | 11,101 | 14,839 |
| General Revenues: | | | | | - | - |
| Taxes: | | | | | | |
| Property taxes | 71,630 | 71,546 | - | - | 71,630 | 71,546 |
| Sales tax | 18,455 | 20,108 | - | - | 18,455 | 20,108 |
| Sales tax in-lieu | 6,284 | 6,524 | - | - | 6,284 | 6,524 |
| Transient occupancy taxes | 13,083 | 14,798 | - | - | 13,083 | 14,798 |
| Other taxes | 8,048 | 8,198 | - | - | 8,048 | 8,198 |
| Intergovernmental (Unrestricted): | | | | | - | - |
| Motor Vehicle License Tax | 403 | 43 | - | - | 403 | 43 |
| Investment related income | 735 | 652 | 112 | 117 | 847 | 769 |
| Change in accounting estimates | - | 8,484 | - | - | - | 8,484 |
| Other | 2,602 | 2,789 | - | - | 2,602 | 2,789 |
| Capital contribution from Water Fund | - | 7 | - | (7) | - | - |
| Total revenues | 178,961 | 203,138 | 23,557 | 27,371 | 202,518 | 230,509 |
| Expenses: | | | | | | |
| General government | 15,857 | 14,326 | - | - | 15,857 | 14,326 |
| Public safety | 78,128 | 75,696 | - | - | 78,128 | 75,696 |
| Public works | 40,341 | 48,913 | - | - | 40,341 | 48,913 |
| Community development | 8,638 | 9,366 | - | - | 8,638 | 9,366 |
| Community services | 17,272 | 21,555 | - | - | 17,272 | 21,555 |
| Interest | 5,079 | 8,205 | - | - | 5,079 | 8,205 |
| Water | - | - | 19,825 | 18,359 | 19,825 | 18,359 |
| Wastewater | - | - | 3,937 | 3,360 | 3,937 | 3,360 |
| Total expenses | 165,315 | 178,061 | 21,964 | 21,719 | 189,077 | 199,780 |
| Increases in net assets | 13,646 | 25,077 | (205) | 5,652 | 13,441 | 30,729 |
| Net asset at beginning of year | 2,205,198 | 2,218,844 | 118,624 | 118,419 | 2,323,822 | 2,337,263 |
| Net assets at end of year | <u>\$2,218,844</u> | <u>\$ 2,243,921</u> | <u>\$118,419</u> | <u>\$ 124,071</u> | <u>\$2,337,263</u> | <u>\$2,367,992</u> |

Revenue Discussion

Figure 3 illustrates how the \$203.1 million in revenue was derived. As shown, \$43.7 million or 21% of the revenues were recovered by those who directly benefited from the programs as a Charge for Service. Another \$26.3 million or 13% of the revenues were generated by contributions and grants received from governmental organizations, developers, and property owners for both capital and operating activities. The remaining \$133.1 million or 66% represented general revenues of the City including taxes, intergovernmental transfers and other miscellaneous revenues.

Figure 3
Governmental Activities Revenue Sources
Year Ended June 30, 2012



As illustrated in Figure 2, charges for services increased by \$11.6 million of which \$3.8 million was derived from a significant increase in water sales. The remaining \$7.8

million resulted from a increase in \$5.1 million in Community Services, \$0.5 million in Public Safety, \$1.6 million in Public Works and \$0.6 million in Community Development.

Property tax assessed valuation growth has remained positive for the past fifteen years averaging in excess of 7% annually during this same time period. While the current growth is low by historical standards the growth trend is steadily increasing in fiscal years 2010-11, 2011-2012 and 2012-2013. Assessed valuations grew 0.16%, 1.03% and 2.7% respectively. In total, property tax collections, including unsecured property and prior year collections amounted to \$71.5 million, decreasing \$84,096 or 0.1% from the prior year. This was a net result of a 1.3% increase in secured property tax revenues and a nearly 8.7% decrease in unsecured property taxes and a 27.1% decrease in prior year collections, penalties and interest.

At nearly \$26.6 million, sales taxes, including sales tax-in-lieu, represent the second largest individual revenue source for the City. Sales taxes increased 9.0% over the prior year. Retail sales continue to deliver solid returns. Autos and Transportation, and restaurants and hotels continue to rank as the highest sales tax generating segments. The business segments that showed the largest improvements included light industry, service stations and apparel stores. Sales taxes in-lieu increased 3.8% over the prior year.

At \$14.8 million, Transient occupancy taxes increased by \$1.7 million or 13.1% from the prior year, due to increases in occupancy rates in the City's hotels, motels, cottages, and resorts and a generally improving travel and tourism business sector.

Expenses Associated with Governmental Activities

The City is a full service city providing residents and visitors with the following functional services:

General Government is comprised of six departments (City Council, City Clerk, City Manager, City Attorney, Human Resources, and Finance Department) providing general governance, executive management, legal services, records management, risk management, finance, accounting, and information technology services.

Public Safety is comprised of two departments (Police and Fire) providing general law enforcement, fire suppression and prevention services, paramedic and medical transport services, disaster preparedness, and ocean lifeguard services.

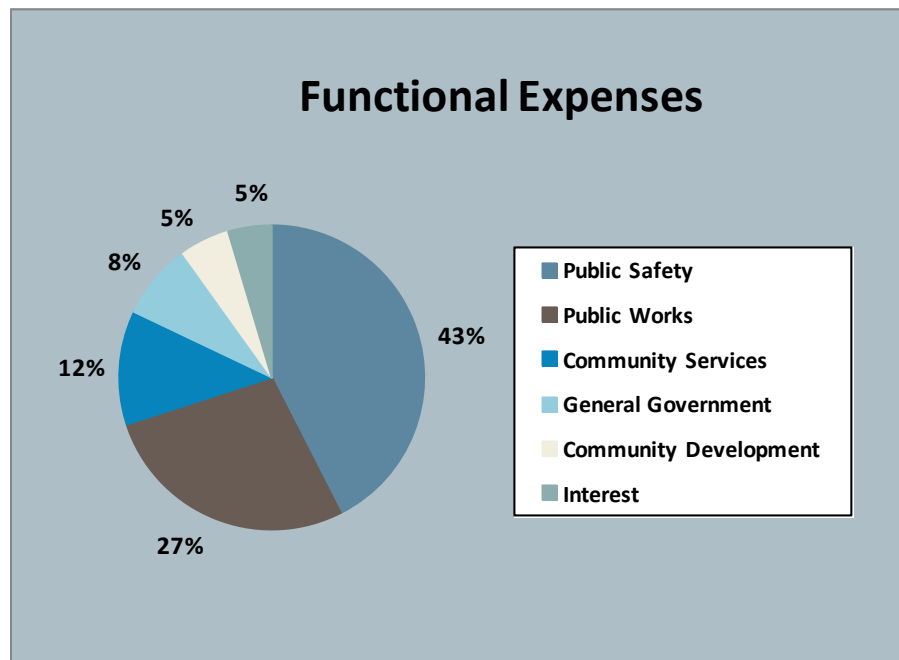
Public Works is comprised of two departments (Public Works and Municipal Operations) providing engineering, construction and maintenance of public streets, highways, buildings, beaches, parks, and related infrastructure; as well as traffic engineering, street lighting, and trash disposal services.

Community Development is comprised of two departments (Planning and Building) that provide planning and zoning services, economic development services, and building plan check and code enforcement services.

Community Services is comprised of two departments (Library Services and Recreation & Senior Services) providing library services, cultural and arts programs, recreation services, and senior social and transportation services.

Business Enterprise Operations are overseen by one department (Utilities) providing water and wastewater services.

Figure 4
Government wide Functional Expenses
Year Ended June 30, 2012



- As illustrated in Figure 2, the current year, expenses for all governmental activities totaled \$178.1 million.
- Overall, an increase of \$12.7 million (7.7%) from the prior year, which can be attributed to the following factors:
 - General Government expenses decreased \$1.5 million (9.7%) when compared to the prior year primarily due to the reorganization of the City's Information Technology Department from General Government to an Internal Service Fund.

- Public Safety expenses are down \$2.4 million (3.1%) in the current year. The decrease is primarily due to salary savings generated from vacancies.
- Public Works expenses were up \$8.6 million (21.2%) when compared to the prior year due to maintenance projects such as harbor dredging and street maintenance.
- Community Development expenses increased \$728,151 (8.4%) in the current year due to salary and information technology service charges.
- Community Services expenses increased \$4.3 million (24.8%) in the current year. This increase is due to purchases related to library donations, increases in recreation program activity and an increased investment in street parking infrastructure.
- Interest expenses increased \$3.1 million (62.6%) when compared to the prior year due the first full year of debt service payments related to the \$126.7 million in Civic Center COPs issued in FY 2011.

As illustrated in figures 5 and 6, the total illustrates the net cost of each service. The net cost represents the extent to which governmental activities are subsidized by taxes and other general revenues of the City.

Figure 5
Governmental Activities
(in thousands)

| | 2011 | | 2012 | |
|-----------------------|--------------------------|------------------------|--------------------------|------------------------|
| | Total Cost of Service | Net Cost of Service | Total Cost of Service | Net Cost of Service |
| General government | \$ 15,857 | \$ (13,135) | \$ 14,326 | \$ (11,692) |
| Public safety | 78,128 | (60,650) | 75,696 | (57,053) |
| Public works | 40,341 | (20,529) | 48,913 | (22,103) |
| Community development | 8,638 | (2,994) | 9,366 | (1,948) |
| Community services | 17,272 | (5,208) | 21,555 | (7,071) |
| Interest | 5,079 | (5,079) | 8,205 | (8,205) |
| | <u>\$ 165,315</u> | <u>\$ (107,594)</u> | <u>\$ 178,061</u> | <u>\$ (108,072)</u> |

Figure 6
Program Expenses and Revenue - Governmental Activities
Year Ended June 30, 2012
(in millions)

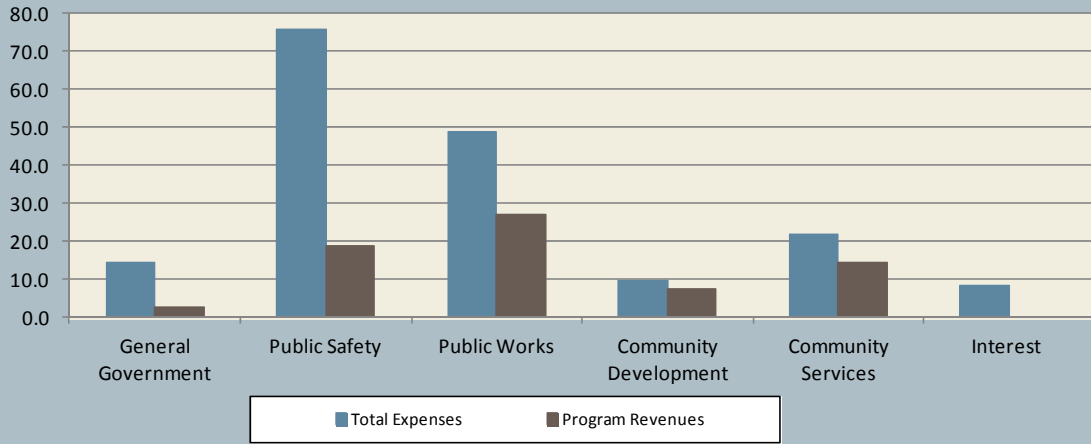
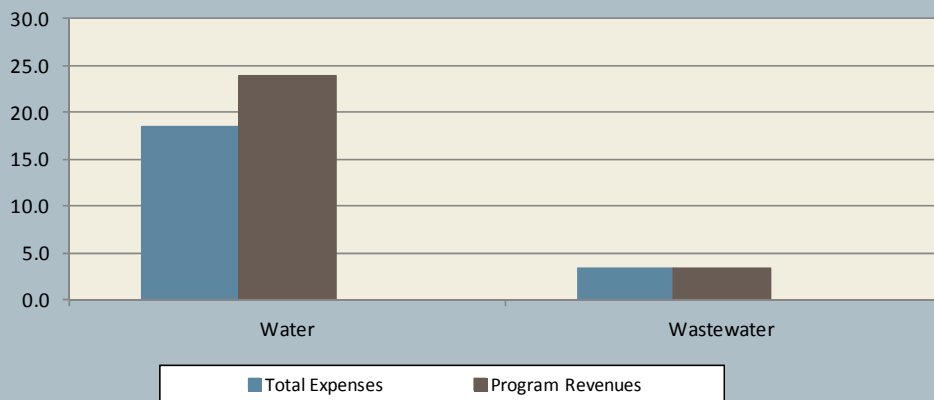


Figure 7
Program Expense & Revenue - Business-type Activities
Year Ended June 30, 2012
(in millions)



Major Business-type Activities in the current fiscal year included the following:

Water

Of the \$18.4 million in water related expenses, \$8.5 million (46.2%) is for the purchase of water, \$3.8 million (20.7%) covers employee related costs, \$4.7 million (25.6%) is for maintenance, supplies, and depreciation of the water system, \$1.6 million (8.7%) is for professional services, and the remaining \$156,070 (1.1%) is collectively attributable to other miscellaneous expenses.

Wastewater

Of the \$3.4 million in wastewater related expenses, \$1.4 million (41.2%) is for maintenance, supplies, and depreciation of the wastewater system, \$1.7 million (50.0%) is for employee related costs, and the remaining \$272,835 (8.8%) is attributable to professional services and other miscellaneous expenses.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds – Utilizing the financial resources measurement focus, the City's Governmental Funds provide information on near-term inflows and outflows, and balances of spendable resources. This information is useful in assessing the City's financing requirements and may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Fund Balance – As of the end of the current fiscal year, the City's Governmental Funds reported combined fund balances of \$175.3 million, a decrease of \$48.4 million from the prior year. The General Fund represented \$79.8 million or 45.5% of the combined fund balances of the Governmental Funds.

Nonspendable Fund Balance – The City has \$13.3 million in fund balance classified as nonspendable to indicate that it cannot be readily converted to cash. Of the \$13.3 million nonspendable fund balance, \$1.1 million is for prepaid items, \$217,771 is for inventories, \$7.4 million is for long-term loan receivable and \$4.6 million is for permanent endowments.

Restricted Fund Balance – The City has \$33.2 million in fund balance classified as restricted to indicate that it has an externally imposed restriction on how the money may be spent. Of the \$33.2 million restricted fund balance, \$2.1 million is restricted for Affordable Housing, \$134,760 is for Hoag Hospital, \$228,820 is for the Upper Newport Bay restoration, \$1.1 million is in the Tide and Submerged Land – Operating Fund restricted for capital re-appropriations and encumbrances, and \$2.5 million is restricted for Civic Center COP debt service.

Of the remaining \$27.1 million in restricted fund balance, \$23.0 million is restricted for various special revenue funds, \$2.7 million is restricted for various capital projects and \$1.4 million of earnings are restricted for permanent funds.

Committed Fund Balance – The City has \$100.2 million in fund balance classified as committed to indicate that the City Council committed how the money will be spent. Of the \$100.2 million committed fund balance, \$21.6 million is committed to contingency reserves, \$8.1 million is committed to various General Fund activities, \$400,000 is committed to the oil and gas reserves in the Tide and Submerged Land - Operating Fund, \$33.1 million is committed to the Facilities Replacement activities and \$37.0 million is committed to the City Hall Improvements.

Assigned Fund Balance – The City has \$19.4 million in fund balance which is not restricted or committed and is classified as assigned to indicate the City Manager’s intent to be used for specific purposes .

Unassigned Fund Balance – The remaining \$9.2 million in fund balance is classified as unassigned to indicate that it is the residual balance not otherwise restricted.

- Overall General Fund Revenues finished 3.6% higher than the prior year while expenditures finished 12.2% higher than the prior year. The net result is that General Fund income before transfers and other financing sources and uses decreased by nearly \$9.5 million. Actual General Fund expenditures came in at \$8.6 million under budget. This was due to structural changes that resulted from salary savings, shared services and reorganization. The General Fund ended the year with a \$79.8 million fund balance, a net increase of \$17.0 million after transferring \$7.4 million to other funds comprised of \$4.0 million planned transfer from the General Fund to the Facilities Replacement Fund and \$3.0 million to subsidize the Tide and Submerged Land - Operating Fund. The remaining \$350,416 represented nonrecurring transfers to other funds to cover expenditures not originally budgeted for.
- The Tide and Submerged Land - Operating Fund ended the current year with \$1.7 million in fund balance which represented project encumbrances and commitments. The Tide and Submerged Land – Capital Fund ended the current year with a \$6.9 million deficit fund balance due to capital dredging projects undertaken in the current year.
- The Facilities Financing Fund fund balance increased \$7.5 million to \$33.1 million. This was attributable to a developer contribution of \$13.5 million, a planned transfer of \$4.0 million from the General Fund, and the use of \$3.2 million to fund portions of the Civic Center Project.

Proprietary Funds – The City’s Proprietary Funds (Enterprise and Internal Service Funds) presented in the Fund Financial Statements section basically provide the same type of information in the Government-wide Financial Statements, but include individual segment information.

Enterprise Fund results for the year included the following:

Net Assets in the Water Fund increased \$5.3 million due to an increase in water rates and a reduction in operating expenses.

Major Internal Service Fund activity in the current fiscal year included the following:

Net assets in the Internal Service Funds increased \$11.9 million in the current year. The City prefunds the cash portion of the City’s OPEB obligation in a prefunding trust. The primary reason that Internal Service net assets increased so significantly was due to the elimination of a non-community rated health plan the City had previously offered which resulted in the elimination of the Net OPEB obligation of \$8.5 million, as well as the implied subsidy expense accrual required per GASB 45. See Note (12) in the Notes to the Financial Statements for further information.

GENERAL FUND BUDGETARY HIGHLIGHTS

Changes to Original Budget

Final budgeted revenues for the General Fund increased \$4.6 million from the original budget during the year ended June 30, 2012. Significant factors contributing to this fluctuation are highlighted as follows:

Final budgeted property taxes increased \$567,233 from the original budget due to mid-year budget revisions based on collection trends.

Final budgeted sales tax including sales tax in-lieu increased \$631,003 from the original budget due to a mid-year budget revisions based on collection trends.

Final budgeted transient occupancy tax increased \$949,150 from the original budget due to mid-year budget revisions based on collection trends.

Final budgeted licenses and permits increased \$470,716 from the original budget due to an increase in Affordable Housing In-Lieu received from developers.

Final budgeted charges for services increased \$757,048 from the original budget primarily due to an increase in revenue estimates related to paramedic service fees and increased demand for fee based classes.

Final budgeted property and other income increased \$1.2 million from the original budget primarily due to an increase in revenue estimates in the parking operations and an increase in donations.

Final budgeted expenditures for the General Fund decreased \$7.0 million from the original budget during the year ended June 30, 2012. Significant factors contributing to this fluctuation are highlighted as follows:

- General government decreased \$796,642 due to a routine allocation of expenditures from General Fund cost centers to the Tideland Fund for code enforcement and parking services utilized in support of tidelands operations.
- Public safety and public works functions decreased by \$6.0 million and \$2.2 million respectively. This budget decrease was primarily due a routine allocation of expenditures from General Fund cost centers to the Tideland Fund for police, fire and beach maintenance services utilized in support of tidelands operations.
- Budgeted expenditures for community services increased \$1.2 million due to a buyout of previously leased equipment and increased expenditure related to library donations and recreation program activity.
- Capital outlay increased \$743,054 primarily due to a palm tree installation project on Irvine Avenue medians and for various neighborhood revitalization projects.

Variance with Final Budget

Actual revenues were \$2.2 million above final budgeted revenues for the year ended June 30, 2012 due to the continued moderate growth in the economy. Significant factors contributing to this favorable variance are summarized as follows:

- A \$1.2 million unfavorable variance was realized in property taxes due to a combination of a shortfall of \$0.6 million in Secured Property Tax, \$0.4 million in prior year collections, penalties and interest and \$0.3 million in Supplemental Taxes offset by an increase of \$0.1 million in Property Tax Transfers.
- Higher than expected sales tax and sales tax-in-lieu of \$911,919 due to a continued moderate growth in the economy.
- Transient Occupancy tax revenues were higher than expected by \$1.1 million due to the continued moderate growth in economy.
- A \$1.3 million favorable variance was realized in charges for services due to higher than expected paramedic service fees, increased demand for fee based classes, OASIS fitness membership fees and personal trainers. In addition jail booking fees, fire permits and fire construction inspections came in higher than expected.

Actual General Fund expenditures of \$136.5 million were significantly less than final budgetary estimates of \$145.1 million. Significant factors contributing to this \$8.6 million surplus are summarized as follows:

- A \$1.3 million favorable variance was realized in General Government due to a reduction in special litigation expenditures and salary savings.
- A \$2.8 million surplus in Public Safety generated by salary savings from vacant positions in addition to the elimination Air Born Law Enforcement (ABLE) program.
- A \$1.1 million favorable variance in Public Works due to reduction in contract services and salary savings.
- A \$0.6 million reduction in Community Development due to salary savings.
- A \$0.7 million favorable variance Community Services generated by salary savings as well to a reduction in expenditures related to fee based classes.
- A \$2.1 million surplus was realized from capital improvement projects completed below budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for governmental and business-type activities as of June 30, 2012, amounts to \$2.29 billion (net of accumulated depreciation). This investment is comprised of a broad range of capital assets including land, buildings, machinery and equipment, park facilities, road improvements, storm drains, piers, oil wells, sound walls, parking pay stations and bridges. The total net increase (including additions and deletions) of \$56.5 million represents a 2.5% increase over last year. The \$56.5 million net increase is the result of additions of \$78.9 million, and deletions of \$22.4 million.

Figure 8
Capital Assets at Year End
(net of depreciation, in thousands)

| | Governmental Activities | | Business-Type Activities | | Total | |
|------------------|-------------------------|---------------------|--------------------------|-------------------|---------------------|---------------------|
| | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 |
| Land | \$ 1,820,832 | \$ 1,821,418 | \$ 2,016 | \$ 2,016 | \$ 1,822,848 | \$ 1,823,434 |
| Structures | 53,654 | 67,233 | 561 | 546 | 54,215 | 67,779 |
| Equipment | 8,503 | 7,537 | 78 | 65 | 8,581 | 7,602 |
| Infrastructure | 188,550 | 187,501 | 103,489 | 105,552 | 292,039 | 293,053 |
| Work in progress | 54,919 | 99,307 | 2,832 | 802 | 57,751 | 100,109 |
| Totals | \$ 2,126,458 | \$ 2,182,996 | \$ 108,976 | \$ 108,981 | \$ 2,235,434 | \$ 2,291,977 |

Major capital asset events during the current fiscal year included the following:

- The City capitalized \$78.9 million in capital assets in both the Governmental and Business Type Activities in the current year. Of the \$78.9 million, \$58.1 million paid for through current year expenses was primarily for work in progress and the remaining \$20.8 million represents additions from work in progress started in previous years.
- Of the \$76.2 million capitalized as governmental assets in the current year, the Civic Center Project contributed to the vast majority of the work in progress additions including \$16.0 million for structure additions and \$2.3 million to infrastructure additions.
- The \$2.7 million capitalized in the current year as business-type assets represented majority in additions to infrastructure.

Additional information on the City's capital assets can be found in Note (5) of the Notes to the Financial Statements.

Long-term Debt

At the end of the current fiscal year, the City had total long-term debt outstanding of \$133.6 million for all governmental activities.

Figure 9
Outstanding Debt at Year-End
(in thousands)

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------------|----------------------------|------------|-----------------------------|------|------------|------------|
| | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 |
| Certificates of participation | \$ 126,660 | \$ 124,920 | \$ - | \$ - | \$ 126,660 | \$ 124,920 |
| Bond premium | 1,085 | 964 | - | - | 1,085 | 964 |
| Note payable | 738 | - | - | - | 738 | - |
| Pre-annexation agreement | 7,200 | 6,000 | - | - | 7,200 | 6,000 |
| CDBG Loan | 1,788 | 1,686 | - | - | 1,788 | 1,686 |
| Purchase Installment Agreement | 750 | - | - | - | 750 | - |
| Totals | \$ 138,221 | \$ 133,570 | \$ - | \$ - | \$ 138,221 | \$ 133,570 |

The City's total debt decreased \$4.6 million during the current fiscal year. The decrease is the result of expected debt service payments and the pay down of the note payable in Fiscal Year 2011-12. Additional information on the City's long-term debt obligation can be found in Note (6) of the Notes to the Financial Statements.

FACTORS AFFECTING NEXT YEAR'S BUDGET

Economy

Orange County is moving beyond "recovery" and is predicted to continue its economic expansion in FY 2012-13 with the local economy adding jobs at a slow but steady rate. Orange County has several attributes that have historically supported strong economic growth, namely its universities, high tech industries and the pull of its tourist attractions. Going forward these core strengths will provide a firm base for continuing expansion for Newport Beach's local economy. A number of recent economic indicators (as listed below) suggest that the City's largest revenue generators, namely sales, property, and transient occupancy taxes will be positively affected in the coming year.

- A more vibrant labor market expansion is expected in 2013, as many of the population serving sectors hire to accommodate more people and visitors in California.
- Job growth is now occurring in the larger counties in California and by 2013, nearly all counties will be increasing employment.
- The job engines of growth in California continue to technology, exports, and leisure and hospitality.

- As of late summer 2012, housing prices and home sales increased from the prior year in most of Orange County. Homes sales were up in 53 of Orange County's 83 ZIP codes, representing almost two-thirds of the market.
- Both foreclosure starts and homes with negative equity are heading down. Notices of defaults were down 49 percent from August 2011.

Property Tax

Property tax represents the largest General Fund revenue source. The 2012-13 secured property tax levy grew by +2.9% due to new construction and net reassessments from property sales and or assessment appeals. Unsecured property taxes (e.g. business equipment and boats) decreased -2.55%. The net result is that the overall property tax levy, as of September 30, 2012, grew by +2.68% compared to fiscal year 2011-12 as indicated below:

| Property Tax Assessed Valuation (AV) | | | | |
|--------------------------------------|----------------|----------------|---------------|----------|
| | 2012-13 | 2011-12 | Change in AV | % Change |
| Secured | 38,638,269,438 | 37,550,413,836 | 1,087,855,602 | 2.90% |
| Unsecured | 1,517,072,450 | 1,556,752,313 | (39,679,863) | -2.55% |
| Total AV | 40,155,341,888 | 39,107,166,149 | 1,048,175,739 | 2.68% |

Budget Approach

The City Manager's core budget principles again informed the 2012-13 budget process.

| Our Budget Principles |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ol style="list-style-type: none"> 1. Adhere of 2010's Fiscal Sustainability Plan. 2. Use the next 18 months to thoughtfully and deliberately change the way local governments does business. 3. Our City's long-term success depends upon our investment in infrastructure (streets, parks, facilities). 4. There are things we should not be doing. 5. Pension costs need to be addressed comprehensively and cooperatively. 6. Public Safety is paramount - but we need to be open to better ways of delivery of public safety services. |

In furtherance of these principals, management has taken a deliberative and disciplined approach in the development of in the FY 2012-13 budget. The City Council considered and approved the following proposals as reflected in the budget:

- Allocate \$3 million in General Fund surplus to invest in our IT Strategic Plan in order to become a smarter, smaller, and faster city government of the future.
- Increase contribution to the Facilities Financing plan (FFP) by \$2.5 million to ensure that strong reserves are available to renovate and maintain our physical infrastructure.
- Reduce 11 full-time positions, which included some reclassifications of existing positions to allow for additional work and prepare staff for a more technologically advanced future.

Pension Costs

The City's accrued pension liabilities continue to exceed assets set aside to fund the projected benefit obligations. And, while the City has always funded 100 percent of the actuarial determined pension contribution, the market value of pension assets has been quite volatile. The combined effect is that the unfunded liability is \$169 million as of the last actuarial valuation dated June 30, 2011. Since the unfunded pension liability has risen dramatically over the last several years, so too have the annual pension costs. The City has reached agreement with employee associations to reduce benefits including creating a second lower tier. Employee associations have also agreed to cost sharing agreements where employees contribute as much as 9 percent of their salary to the existing pension obligation. The recently enacted Public Employee Pension Reform Act of 2013 (PEPRA) will create a third tier of lower benefits for employees that are new to the CalPers retirement system. Among other provisions, the most significant pension reform measures impacting the City are: reduced retirement formula and increased retirement ages, a cost sharing of 50% annual "normal cost" by all members, anti-spiking provisions, and pensionable compensation and limitations. This provision is not required until January 2018 and the City's miscellaneous units already exceed this requirement. While the second and third tier benefits described above will take many years to have a meaningful impact on the accrued pension liability, the cost sharing provisions will provide some relief of the existing pension burden.

Approximately 73% of pension funding comes from investment earnings. If expectations for future investment returns continue to diminish, required pension contributions will increase. CalPERS has revised the investments earnings rate down from 7.75% percent to 7.5% and may consider a further decrease of 0.25% in the next year.

Labor Contracts

The City negotiated new labor contracts with Police, Police Management, Fire, and Fire Management that provide increased employee contributions toward pension costs. The new contracts expire on June 30, 2014. The City is currently in labor negotiations with the miscellaneous employee bargaining units whose contracts expired on June 30, 2012, and with the Lifeguard Management unit whose contract expired on December 31, 2011.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and 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 questions about this report or need additional financial information, contact the City's Finance Department, 3300 Newport Boulevard, Newport Beach, CA 92663-3884, (949) 644-3126. The City's Budgets, Comprehensive Annual Financial Reports as well as other City financial information can be found on the City's website at: www.NewportBeachCA.gov/financialinfo.

FINANCIAL SECTION

GOVERNMENT-WIDE
FINANCIAL STATEMENTS

FINANCIAL SECTION

CITY OF NEWPORT BEACH
Statement of Net Assets
June 30, 2012

| | Governmental Activities | Business-type Activities | Total |
|-------------------------------------------------|------------------------------------|-------------------------------------|-------------------------|
| Assets: | | | |
| Cash and investments (note 4) | \$ 180,913,865 | \$ 11,744,151 | \$ 192,658,016 |
| Receivables: | | | |
| Accounts | 8,720,036 | 5,541,467 | 14,261,503 |
| Notes | 471,250 | - | 471,250 |
| Interest | 813,302 | - | 813,302 |
| Intergovernmental receivables | 8,301,003 | - | 8,301,003 |
| Cash with fiscal agent (note 4) | 56,828,798 | - | 56,828,798 |
| Internal balances | (287,077) | 287,077 | - |
| Due from agency funds | 69,864 | - | 69,864 |
| Inventory | 582,228 | - | 582,228 |
| Investment in joint ventures (note 15) | 2,673,977 | - | 2,673,977 |
| Prepaid items | 1,350,176 | 264 | 1,350,440 |
| Deferred charges | 1,132,169 | - | 1,132,169 |
| Capital assets, (note 5): | | | |
| Non-depreciable | 1,920,725,536 | 2,818,406 | 1,923,543,942 |
| Depreciable | 429,839,552 | 162,908,480 | 592,748,032 |
| Accumulated depreciation | (167,568,830) | (56,745,649) | (224,314,479) |
| Total assets | 2,444,565,849 | 126,554,196 | 2,571,120,045 |
| Liabilities: | | | |
| Accounts payable | 19,906,936 | 2,218,833 | 22,125,769 |
| Accrued payroll | 5,098,054 | 213,974 | 5,312,028 |
| Accrued interest payable | 3,987,475 | - | 3,987,475 |
| Deposits payable | 2,099,611 | 50,354 | 2,149,965 |
| Unearned revenue | 5,132,288 | - | 5,132,288 |
| Noncurrent liabilities (note 6): | | | |
| Due within one year | 11,889,531 | - | 11,889,531 |
| Due in more than one year | 152,530,836 | - | 152,530,836 |
| Total liabilities | 200,644,731 | 2,483,161 | 203,127,892 |
| Net Assets: | | | |
| Invested in capital assets, net of related debt | 2,098,349,998 | 108,981,237 | 2,207,331,235 |
| Restricted for: | | | |
| Public safety | 1,572,898 | - | 1,572,898 |
| Public works | 53,655,385 | - | 53,655,385 |
| Community services | 633,155 | - | 633,155 |
| Permanent Funds: | | | |
| Nonexpendable | 4,629,781 | - | 4,629,781 |
| Expendable | 1,432,500 | - | 1,432,500 |
| Unrestricted | 83,647,401 | 15,089,798 | 98,737,199 |
| Total net assets | \$ 2,243,921,118 | \$ 124,071,035 | \$ 2,367,992,153 |

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Statement of Activities
Year Ended June 30, 2012

| Functions/Programs | Program Revenues | | | | Total Program Revenues |
|--------------------------------|-----------------------|----------------------|------------------------------------|----------------------------------|------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Primary government: | | | | | |
| Governmental activities: | | | | | |
| General government | \$ 14,325,966 | \$ 2,593,741 | \$ 39,973 | \$ - | \$ 2,633,714 |
| Public safety | 75,696,570 | 16,240,135 | 2,403,056 | - | 18,643,191 |
| Public works | 48,913,412 | 4,576,208 | 7,734,950 | 14,499,188 | 26,810,346 |
| Community development | 9,365,676 | 6,202,080 | 1,216,069 | - | 7,418,149 |
| Community services | 21,554,696 | 14,119,869 | 24,099 | 339,595 | 14,483,563 |
| Interest on long-term debt | 8,204,928 | - | - | - | - |
| Total governmental activities | <u>178,061,248</u> | <u>43,732,032</u> | <u>11,418,147</u> | <u>14,838,783</u> | <u>69,988,962</u> |
| Business-type activities: | | | | | |
| Water | 18,358,646 | 23,877,685 | - | - | 23,877,685 |
| Wastewater | 3,360,418 | 3,382,905 | - | - | 3,382,905 |
| Total business-type activities | <u>21,719,064</u> | <u>27,260,590</u> | <u>-</u> | <u>-</u> | <u>27,260,590</u> |
| Total primary government | <u>\$ 199,780,312</u> | <u>\$ 70,992,622</u> | <u>\$ 11,418,147</u> | <u>\$ 14,838,783</u> | <u>\$ 97,249,552</u> |

General revenues:

Taxes:

- Property tax
- Sales tax
- Sales tax in-lieu
- Transient occupancy tax
- Business license tax
- Franchise tax
- Other taxes

Intergovernmental (Unrestricted):

- Motor vehicle license tax
- Investment income
- Net increase in fair value of investments
- Change in accounting estimates
- Other
- Capital contribution from Water Fund

Total general revenues

Change in net assets

Net assets at beginning of year

Net assets at end of year

See accompanying notes to basic financial statements

Net (Expense) Revenue and Changes in Net Assets

Primary Government

| Governmental Activities | Business-type Activities | Total |
|------------------------------------|-------------------------------------|-------------------------|
| \$ (11,692,252) | \$ - | \$ (11,692,252) |
| (57,053,379) | - | (57,053,379) |
| (22,103,066) | - | (22,103,066) |
| (1,947,527) | - | (1,947,527) |
| (7,071,133) | - | (7,071,133) |
| <u>(8,204,928)</u> | <u>-</u> | <u>(8,204,928)</u> |
| (108,072,286) | - | (108,072,286) |
| - | 5,519,039 | 5,519,039 |
| - | 22,487 | 22,487 |
| <u>-</u> | <u>5,541,526</u> | <u>5,541,526</u> |
| (108,072,286) | 5,541,526 | (102,530,760) |
| 71,546,249 | - | 71,546,249 |
| 20,107,597 | - | 20,107,597 |
| 6,523,492 | - | 6,523,492 |
| 14,798,191 | - | 14,798,191 |
| 4,073,725 | - | 4,073,725 |
| 3,845,901 | - | 3,845,901 |
| 278,521 | - | 278,521 |
| 42,911 | - | 42,911 |
| 405,674 | 49,718 | 455,392 |
| 246,119 | 67,696 | 313,815 |
| 8,484,000 | - | 8,484,000 |
| 2,789,471 | - | 2,789,471 |
| <u>7,352</u> | <u>(7,352)</u> | <u>-</u> |
| <u>133,149,203</u> | <u>110,062</u> | <u>133,259,265</u> |
| 25,076,917 | 5,651,588 | 30,728,505 |
| <u>2,218,844,201</u> | <u>118,419,447</u> | <u>2,337,263,648</u> |
| <u>\$ 2,243,921,118</u> | <u>\$ 124,071,035</u> | <u>\$ 2,367,992,153</u> |

See accompanying notes to basic financial statements

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FINANCIAL SECTION

FUND
FINANCIAL STATEMENTS
GOVERNMENTAL FUNDS

FINANCIAL SECTION

GOVERNMENTAL FUNDS

Major Funds

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

The **Tide and Submerged Land Operating Fund** is a Special Revenue Fund used to account for all revenues and expenditures related to the operation of the City's tidelands, including beaches and marinas.

The **Tide and Submerged Land Capital Fund** is a Special Revenue Fund used to account for capital improvements such as dredging projects in the City's tidelands.

The **Facilities Replacement Fund** is used to account for the receipt and expenditure of funds for the replacement of facilities.

The **City Hall Improvement Fund** is used to account for the design and construction of a new Civic Center Complex.

The **Civic Center COP Fund** is used to account for debt service transactions related to the Certificates of Participation issued to finance the construction of the Civic Center.

Other Governmental Funds

Other governmental funds are those governmental funds which do not meet the criteria of a major fund. For reporting purposes in this section, they are combined together as Other Governmental Funds.

CITY OF NEWPORT BEACH
Governmental Funds
Balance Sheet
June 30, 2012

| Assets | General | Tide and Submerged Land - Operating | Tide and Submerged Land-Capital | Facilities Replacement | City Hall Improvements | Civic Center COP | Other Governmental Funds | Totals |
|----------------------------------------------------|----------------------|----------------------------------------------------|------------------------------------------------|-----------------------------------|-----------------------------------|-----------------------------|-----------------------------------------|-----------------------|
| Cash and investments (note 4) | \$ 64,776,234 | \$ 1,860,898 | \$ - | \$ 27,780,429 | \$ 2,830,000 | \$ - | \$ 35,163,911 | \$ 132,411,472 |
| Receivables: | | | | | | | | |
| Accounts | 4,799,631 | 726,225 | - | - | - | - | 1,037,308 | 6,563,164 |
| Notes | 471,250 | - | - | - | - | - | - | 471,250 |
| Interest | 762,800 | - | - | - | 50,502 | - | - | 813,302 |
| Intergovernmental receivables | 5,394,622 | - | - | - | - | - | 2,906,381 | 8,301,003 |
| Cash with fiscal agent (note 4) | - | - | - | - | 48,924,164 | 7,904,634 | - | 56,828,798 |
| Advance to other funds (note 13) | 6,879,703 | - | - | - | - | - | - | 6,879,703 |
| Due from other funds (note 13) | 8,511,346 | - | - | 5,369,296 | - | - | - | 13,880,642 |
| Due from agency funds | 69,864 | - | - | - | - | - | - | 69,864 |
| Prepaid items | 285,754 | - | - | - | 642,883 | - | 123,772 | 1,052,409 |
| Inventory | 217,771 | - | - | - | - | - | - | 217,771 |
| Total assets | \$ 92,168,975 | \$ 2,587,123 | \$ - | \$ 33,149,725 | \$ 52,447,549 | \$ 7,904,634 | \$ 39,231,372 | \$ 227,489,378 |
| Liabilities and Fund Balances | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts payable | \$ 3,328,037 | \$ 777,305 | \$ - | \$ - | \$ 12,679,374 | \$ 2,777 | \$ 2,198,137 | \$ 18,985,630 |
| Accrued payroll | 4,932,789 | 17,579 | - | - | - | - | - | 4,950,368 |
| Deposits payable | 1,997,540 | 102,071 | - | - | - | - | - | 2,099,611 |
| Unearned revenue | 2,104,710 | - | - | - | - | - | 3,027,578 | 5,132,288 |
| Unavailable revenue | 13,541 | - | - | - | - | - | 2,612,938 | 2,626,479 |
| Advance from other funds (note 13) | - | - | 6,879,703 | - | - | - | - | 6,879,703 |
| Due to other funds (note 13) | - | - | - | - | 2,174,861 | 5,369,296 | 3,964,679 | 11,508,836 |
| Total liabilities | 12,376,617 | 896,955 | 6,879,703 | - | 14,854,235 | 5,372,073 | 11,803,332 | 52,182,915 |
| Fund balances (deficit): | | | | | | | | |
| Nonspendable: | | | | | | | | |
| Prepaid items | 285,754 | - | - | - | 642,883 | - | 123,772 | 1,052,409 |
| Inventories | 217,771 | - | - | - | - | - | - | 217,771 |
| Long-Term Loan Receivable | 7,350,953 | - | - | - | - | - | - | 7,350,953 |
| Permanent Endowment | - | - | - | - | - | - | 4,629,781 | 4,629,781 |
| Restricted: | | | | | | | | |
| Affordable housing | 2,128,289 | - | - | - | - | - | - | 2,128,289 |
| Hoag | 134,760 | - | - | - | - | - | - | 134,760 |
| Upper Newport Bay Restoration | - | 228,820 | - | - | - | - | - | 228,820 |
| Other | - | 1,061,348 | - | - | - | 2,532,561 | 27,134,455 | 30,728,364 |
| Committed: | | | | | | | | |
| Contingency Reserve | 21,582,798 | - | - | - | - | - | - | 21,582,798 |
| Other | 8,090,535 | 400,000 | - | 33,149,725 | 36,950,431 | - | - | 78,590,691 |
| Assigned: | 19,431,475 | - | - | - | - | - | - | 19,431,475 |
| Unassigned: | 20,570,023 | - | (6,879,703) | - | - | - | (4,459,968) | 9,230,352 |
| Total fund balances (deficit) | 79,792,358 | 1,690,168 | (6,879,703) | 33,149,725 | 37,593,314 | 2,532,561 | 27,428,040 | 175,306,463 |
| Total liabilities and and fund balances | \$ 92,168,975 | \$ 2,587,123 | \$ - | \$ 33,149,725 | \$ 52,447,549 | \$ 7,904,634 | \$ 39,231,372 | \$ 227,489,378 |

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Governmental Funds
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2012

| | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------------------------|
| Fund balances of governmental funds | \$ | 175,306,463 |
| <p>Amounts reported for governmental activities in the statement of net assets are different because:</p> | | |
| <p>Capital assets net of accumulated depreciation have not been included as financial resources in governmental fund activity. Amount excludes capital assets from internal service funds which are added below.</p> | | 2,176,594,062 |
| <p>Bond issue costs have not been amortized and deferred in the governmental funds and must be added to the statement of net assets.</p> | | 1,132,169 |
| <p>Long term debt that have not been reported in the governmental fund activity. Amounts exclude long-term debt activity from internal service funds which have been added below:</p> | | |
| Certificates of participation payable | | (124,920,000) |
| Premium payable | | (964,424) |
| Pre-annexation agreement | | (6,000,000) |
| CDBG loan | | (1,686,000) |
| <p>Accrued interest payable for the current portion of interest due on long-term debt has not been reported in the governmental funds.</p> | | (3,987,475) |
| <p>Some of the revenue will be collected after year-end, but is not available soon enough to pay for the current period's expenditures, and therefore is reported as unavailable revenue in the governmental funds.</p> | | 2,626,479 |
| <p>Internal service funds are used by management to charge the costs of certain activities, such as self-insurance, workers' compensation, compensated absences, retiree insurance, fleet management and information technology, to individual funds. The assets (including capital assets) and liabilities of the internal service funds must be added to the statement of net assets.</p> | | 23,432,944 |
| <p>Investment in joint ventures is not a current financial resource and therefore not reported in the governmental funds.</p> | | 2,673,977 |
| <p>Internal balance created by the consolidation of internal service fund activities related to enterprise funds is not reported in the governmental funds.</p> | | <u>(287,077)</u> |
| Net assets of governmental activities | \$ | <u>2,243,921,118</u> |

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2012

| | General | Tide and Submerged Land - Operating | Tide and Submerged Land - Capital | Facilities Replacement | City Hall Improvements | Civic Center COP | Other Governmental Funds | Totals |
|------------------------------------------------------|----------------------|-------------------------------------------|-----------------------------------------|---------------------------|---------------------------|---------------------|--------------------------------|----------------------|
| Revenues | | | | | | | | |
| Taxes and assessments: | | | | | | | | |
| Property tax | \$ 71,546,249 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 71,546,249 |
| Sales tax | 20,107,597 | - | - | - | - | - | - | 20,107,597 |
| Sales tax in-lieu | 6,523,492 | - | - | - | - | - | - | 6,523,492 |
| Transient occupancy tax | 14,798,191 | - | - | - | - | - | - | 14,798,191 |
| Other taxes | 8,251,799 | - | - | - | - | - | 483,627 | 8,735,426 |
| Intergovernmental | 2,189,766 | - | - | - | - | 2,535,196 | 7,398,001 | 12,122,963 |
| Licenses, permits and fees | 4,085,672 | 1,790,750 | - | - | - | - | 814,703 | 6,691,125 |
| Charges for services | 15,900,300 | 120,525 | - | - | - | - | - | 16,020,825 |
| Fines and forfeitures | 3,772,841 | 22,946 | - | - | - | - | - | 3,795,787 |
| Investment income | 405,674 | 30,941 | - | 145,577 | 399,778 | 217 | 160,748 | 1,142,935 |
| Net increase in fair value of investments | 246,119 | 42,116 | - | 198,220 | - | - | 218,201 | 704,656 |
| Property income | 7,395,495 | 10,062,648 | - | - | - | - | - | 17,458,143 |
| Donations | 388,480 | - | - | 13,545,000 | - | - | 44,370 | 13,977,850 |
| Other | 488,782 | 162,166 | - | - | - | - | 40,177 | 691,125 |
| Total revenues | 156,100,457 | 12,232,092 | - | 13,888,797 | 399,778 | 2,535,413 | 9,159,827 | 194,316,364 |
| Expenditures | | | | | | | | |
| Current: | | | | | | | | |
| General government | 11,817,861 | 1,078,631 | - | - | - | - | - | 12,896,492 |
| Public safety | 67,415,971 | 7,559,523 | - | - | - | - | 402,377 | 75,377,871 |
| Public works | 25,953,473 | 3,233,617 | - | - | - | - | 3,212,088 | 32,399,178 |
| Community development | 8,798,193 | - | - | - | - | - | 141,632 | 8,939,825 |
| Community services | 17,731,921 | 1,564,584 | - | - | - | - | - | 19,296,505 |
| Capital outlay | 3,827,132 | 478,997 | 6,879,703 | - | 56,245,249 | - | 13,186,867 | 80,617,948 |
| Debt service (note 6): | | | | | | | | |
| Principal | 750,000 | 737,854 | - | - | - | 1,740,000 | 1,302,000 | 4,529,854 |
| Interest and fiscal charges | 229,590 | 33,203 | - | - | 15,512 | 7,942,542 | 99,653 | 8,320,500 |
| Total expenditures | 136,524,141 | 14,686,409 | 6,879,703 | - | 56,260,761 | 9,682,542 | 18,344,617 | 242,378,173 |
| Excess (deficiency) of revenues over expenditures | 19,576,316 | (2,454,317) | (6,879,703) | 13,888,797 | (55,860,983) | (7,147,129) | (9,184,790) | (48,061,809) |
| Other financing sources (uses) | | | | | | | | |
| Transfers in (note 14) | 4,842,263 | 3,027,839 | - | 5,057,585 | 3,231,281 | 8,191,020 | 290,330 | 24,640,318 |
| Transfers out (note 14) | (7,395,066) | (4,772,752) | - | (11,422,301) | - | - | (1,363,648) | (24,953,767) |
| Total other financing sources (uses) | (2,552,803) | (1,744,913) | - | (6,364,716) | 3,231,281 | 8,191,020 | (1,073,318) | (313,449) |
| Net change in fund balances | 17,023,513 | (4,199,230) | (6,879,703) | 7,524,081 | (52,629,702) | 1,043,891 | (10,258,108) | (48,375,258) |
| Fund balances, beginning | 62,768,845 | 5,889,398 | - | 25,625,644 | 90,223,016 | 1,488,670 | 37,686,148 | 223,681,721 |
| Fund balances (deficit), ending | \$ 79,792,358 | \$ 1,690,168 | \$ (6,879,703) | \$33,149,725 | \$37,593,314 | \$ 2,532,561 | \$27,428,040 | \$175,306,463 |

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year ended June 30, 2012

| | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| Net change in fund balances - total governmental funds | \$ (48,375,258) |
| <p>Amounts reported for governmental activities in the statement of activities differ from the amounts reported in the statement of activities because:</p> | |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p> | 57,073,218 |
| <p>Payment of debt service principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p> | 4,529,854 |
| <p>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 :</p> | |
| Amortization of issuance costs | (54,879) |
| <p>Issuance of debt premium</p> <p>Premium on bonds are recognized as revenues in the period received, however, in the Statement of Net Assets, it is amortized over the life of the bond.</p> | 120,553 |
| <p>Accrued Interest for debt service. This is the net change in accrued interest for the current period.</p> | 49,898 |
| <p>Some of the revenue will be collected after year-end, but is not available soon enough to pay for the current period's expenditures, and therefore is reported as unavailable revenue in the governmental funds. This is the net change in unearned revenue for the current period.</p> | 177,429 |
| <p>Internal service funds are used by management to charge the costs of certain activities, such as self-insurance, workers' compensation, compensated absences, retiree insurance and fleet management, to individual funds. The net revenue of the internal service funds is reported in the statement of activities.</p> | 11,855,949 |
| <p>Investment in joint ventures creates an explicit, measurable equity interest reported only in the statement of activities.</p> | 145,944 |
| <p>Internal balance created by the consolidation of internal service funds activities related to enterprise funds is reflected as a reduction of revenues in the statement of activities.</p> | (445,791) |
| Change in net assets of governmental activities | \$ 25,076,917 |

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
General Fund
Budgetary Comparison Statement
For the Year Ended June 30, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with</u> |
|-------------------------------------------|-------------------------|--------------------|--------------------|----------------------|
| | <u>Original</u> | <u>Final</u> | | <u>Final Budget</u> |
| | | | | <u>Positive</u> |
| | | | | <u>(Negative)</u> |
| Revenues | | | | |
| Taxes and assessments: | | | | |
| Property | \$ 72,155,614 | \$ 72,722,847 | \$ 71,546,249 | \$ (1,176,598) |
| Sales | 18,788,167 | 19,219,170 | 20,107,597 | 888,427 |
| Sales tax in-lieu | 6,300,000 | 6,500,000 | 6,523,492 | 23,492 |
| Transient occupancy | 12,786,000 | 13,735,150 | 14,798,191 | 1,063,041 |
| Other taxes | 8,103,000 | 8,103,000 | 8,251,799 | 148,799 |
| Intergovernmental | 1,789,766 | 1,765,519 | 2,189,766 | 424,247 |
| Licenses, permits and fees | 3,781,829 | 4,252,545 | 4,085,672 | (166,873) |
| Charges for services | 13,866,805 | 14,623,853 | 15,900,300 | 1,276,447 |
| Fines and forfeitures | 3,594,300 | 3,664,300 | 3,772,841 | 108,541 |
| Investment income | 500,000 | 500,000 | 405,674 | (94,326) |
| Net increase in fair value of investments | - | - | 246,119 | 246,119 |
| Property income | 7,156,219 | 7,661,286 | 7,395,495 | (265,791) |
| Donations | 100,000 | 260,335 | 388,480 | 128,145 |
| Other | 314,600 | 866,130 | 488,782 | (377,348) |
| | <u>149,236,300</u> | <u>153,874,135</u> | <u>156,100,457</u> | <u>2,226,322</u> |
| Total revenues | | | | |
| Expenditures | | | | |
| General government: | | | | |
| City council | 952,378 | 1,136,928 | 1,036,820 | 100,108 |
| City clerk | 546,464 | 571,549 | 583,499 | (11,950) |
| City attorney | 2,502,829 | 2,531,983 | 1,995,774 | 536,209 |
| City manager | 1,934,098 | 1,670,751 | 1,564,910 | 105,841 |
| Finance | 5,619,941 | 4,703,067 | 4,138,787 | 564,280 |
| Human resources | 2,408,052 | 2,552,842 | 2,498,071 | 54,771 |
| Total General government | <u>13,963,762</u> | <u>13,167,120</u> | <u>11,817,861</u> | <u>1,349,259</u> |
| Public safety: | | | | |
| Police | 41,635,426 | 40,521,495 | 38,716,929 | 1,804,566 |
| Fire | 34,637,042 | 29,718,084 | 28,699,042 | 1,019,042 |
| Total Public safety | <u>76,272,468</u> | <u>70,239,579</u> | <u>67,415,971</u> | <u>2,823,608</u> |
| Public works: | | | | |
| MOD- General services | 22,622,158 | 20,553,044 | 19,667,992 | 885,052 |
| Public works | 5,787,924 | 5,668,952 | 5,358,622 | 310,330 |
| MOD - Utilities | 796,670 | 797,641 | 926,859 | (129,218) |
| Total Public works | <u>29,206,752</u> | <u>27,019,637</u> | <u>25,953,473</u> | <u>1,066,164</u> |

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
General Fund
Budgetary Comparison Statement
For the Year Ended June 30, 2012
(continued)

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|------------------------------------------------------|-------------------------|----------------------|----------------------|-------------------------------------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Community development: | | | | |
| Community Development | 8,522,901 | 8,605,058 | 8,056,340 | 548,718 |
| Code and Water Quality Enforcement | <u>806,050</u> | <u>803,698</u> | <u>741,853</u> | <u>61,845</u> |
| Total Community development | <u>9,328,951</u> | <u>9,408,756</u> | <u>8,798,193</u> | <u>610,563</u> |
| Community services: | | | | |
| Parking Operations | 1,608,372 | 2,115,791 | 2,071,238 | 44,553 |
| Library Services | 7,151,295 | 7,499,586 | 7,257,768 | 241,818 |
| Recreation and senior services | <u>8,541,406</u> | <u>8,884,963</u> | <u>8,402,915</u> | <u>482,048</u> |
| Total Community services | <u>17,301,073</u> | <u>18,500,340</u> | <u>17,731,921</u> | <u>768,419</u> |
| Capital outlay | <u>5,229,318</u> | <u>5,972,372</u> | <u>3,827,132</u> | <u>2,145,240</u> |
| Debt service: | | | | |
| Principal | 750,000 | 750,000 | 750,000 | - |
| Interest and Fiscal Charges | <u>30,000</u> | <u>30,000</u> | <u>229,590</u> | <u>(199,590)</u> |
| Total Debt Service | <u>780,000</u> | <u>780,000</u> | <u>979,590</u> | <u>(199,590)</u> |
| Total expenditures | <u>152,082,324</u> | <u>145,087,804</u> | <u>136,524,141</u> | <u>8,563,663</u> |
| Excess (deficiency) of revenues over expenditures | <u>(2,846,024)</u> | <u>8,786,331</u> | <u>19,576,316</u> | <u>10,789,985</u> |
| Other financing sources (uses) | | | | |
| Transfers in | - | 4,772,752 | 4,842,263 | 69,511 |
| Transfers out | <u>(313,449)</u> | <u>(333,449)</u> | <u>(7,395,066)</u> | <u>(7,061,617)</u> |
| Total other financing sources (uses) | <u>(313,449)</u> | <u>4,439,303</u> | <u>(2,552,803)</u> | <u>(6,992,106)</u> |
| Net change in fund balance | (3,159,473) | 13,225,634 | 17,023,513 | 3,797,879 |
| Fund balance, beginning | <u>62,768,845</u> | <u>62,768,845</u> | <u>62,768,845</u> | <u>-</u> |
| Fund balance, ending | <u>\$ 59,609,372</u> | <u>\$ 75,994,479</u> | <u>\$ 79,792,358</u> | <u>\$ 3,797,879</u> |

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Tide and Submerged Land - Operations
Budgetary Comparison Statement
For the Year Ended June 30, 2012

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|------------------------------------------------------|-------------------------|-----------------------|---------------------|-------------------------------------------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Licenses, permits and fees | \$ 1,370,000 | \$ 1,370,000 | \$ 1,790,750 | \$ 420,750 |
| Charges for services | 55,000 | 55,000 | 120,525 | 65,525 |
| Fines and forfeitures | 500 | 500 | 22,946 | 22,446 |
| Investment income | 22,000 | 22,000 | 30,941 | 8,941 |
| Net increase in fair value of investments | - | - | 42,116 | 42,116 |
| Property income | 9,197,461 | 9,222,761 | 10,062,648 | 839,887 |
| Other | - | 56,676 | 162,166 | 105,490 |
| Total revenues | 10,644,961 | 10,726,937 | 12,232,092 | 1,505,155 |
| Expenditures | | | | |
| General government | - | 1,078,631 | 1,078,631 | - |
| Public safety | - | 7,559,523 | 7,559,523 | - |
| Public works | 995,329 | 4,228,946 | 3,233,617 | 995,329 |
| Community services | 1,766,080 | 1,825,522 | 1,564,584 | 260,938 |
| Capital outlay | 6,253,520 | 1,379,919 | 478,997 | 900,922 |
| Debt service: | | | | |
| Principal | 737,854 | 737,854 | 737,854 | - |
| Interest and fiscal charges | 33,203 | 33,203 | 33,203 | - |
| Total expenditures | 9,785,986 | 16,843,598 | 14,686,409 | 2,157,189 |
| Excess (deficiency) of revenues over expenditures | 858,975 | (6,116,661) | (2,454,317) | 3,662,344 |
| Other financing sources (uses) | | | | |
| Transfers in | - | - | 3,027,839 | 3,027,839 |
| Transfers out | - | (4,772,752) | (4,772,752) | - |
| Total other financing sources (uses) | - | (4,772,752) | (1,744,913) | 3,027,839 |
| Net change in fund balance | 858,975 | (10,889,413) | (4,199,230) | 6,690,183 |
| Fund balance, beginning | 5,889,398 | 5,889,398 | 5,889,398 | - |
| Fund balance, ending | <u>\$ 6,748,373</u> | <u>\$ (5,000,015)</u> | <u>\$ 1,690,168</u> | <u>\$ 6,690,183</u> |

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Tide and Submerged Land - Capital
Budgetary Comparison Statement
For the Year Ended June 30, 2012

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|-------------------------------------------|------------------|-----------------------|-----------------------|---------------------------------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Licenses, permits and fees | \$ - | \$ - | \$ - | \$ - |
| Charges for services | - | - | - | - |
| Fines and forfeitures | - | - | - | - |
| Investment income | - | - | - | - |
| Net increase in fair value of investments | - | - | - | - |
| Property income | - | - | - | - |
| Other | - | - | - | - |
| Total revenues | - | - | - | - |
| Expenditures | | | | |
| General government | - | - | - | - |
| Public safety | - | - | - | - |
| Public works | - | - | - | - |
| Community development | - | - | - | - |
| Community services | - | - | - | - |
| Capital outlay | - | 7,208,967 | 6,879,703 | 329,264 |
| Debt service: | | | | |
| Principal | - | - | - | - |
| Interest and fiscal charges | - | - | - | - |
| Total expenditures | - | 7,208,967 | 6,879,703 | 329,264 |
| Net change in fund balance | - | (7,208,967) | (6,879,703) | 329,264 |
| Fund balance, beginning | - | - | - | - |
| Fund balance (deficit), ending | <u>\$ -</u> | <u>\$ (7,208,967)</u> | <u>\$ (6,879,703)</u> | <u>\$ 329,264</u> |

FINANCIAL SECTION

FUND

FINANCIAL STATEMENTS

PROPRIETARY FUNDS

FINANCIAL SECTION

PROPRIETARY FUNDS

Business-type Activities

The ***Water Fund*** is a Major Fund used to account for the operations of the City's water utility, a self-supporting activity which is entirely financed through user charges.

The ***Wastewater Fund*** is a Major Fund used to account for the operations of the City's wastewater system, a self-supporting activity which is entirely financed through user charges.

Governmental Activities

The ***Internal Service Funds*** are used to allocate the cost of providing goods and services by one department to other departments on a cost reimbursement basis.

CITY OF NEWPORT BEACH
Proprietary Fund
Statement of Net Assets
June 30, 2012

| | Enterprise Funds | | | Governmental Activities Internal Service Funds |
|------------------------------------------------------------------------------------------------------------|------------------|---------------|------------------------------|---------------------------------------------------------|
| | Water | Wastewater | Total Enterprise Funds | |
| Assets | | | | |
| Current assets: | | | | |
| Cash and investments | \$ 10,677,534 | \$ 1,066,617 | \$ 11,744,151 | \$ 48,502,393 |
| Receivables: | | | | |
| Accounts | 4,885,167 | 656,300 | 5,541,467 | 2,156,872 |
| Inventories | - | - | - | 364,457 |
| Prepaid items | - | 264 | 264 | 297,767 |
| Total current assets | 15,562,701 | 1,723,181 | 17,285,882 | 51,321,489 |
| Non-current assets: | | | | |
| Capital assets (note 5): | | | | |
| Land | 2,016,450 | - | 2,016,450 | - |
| Structures | 688,396 | - | 688,396 | - |
| Equipment | 108,898 | - | 108,898 | 25,694,298 |
| Software | - | - | - | 182,021 |
| Infrastructure | 116,812,372 | 45,298,814 | 162,111,186 | - |
| Work in progress | 780,948 | 21,008 | 801,956 | - |
| Less accumulated depreciation | (42,155,451) | (14,590,198) | (56,745,649) | (19,474,123) |
| Total capital assets (net of accumulated depreciation) | 78,251,613 | 30,729,624 | 108,981,237 | 6,402,196 |
| Total noncurrent assets | 78,251,613 | 30,729,624 | 108,981,237 | 6,402,196 |
| Total assets | 93,814,314 | 32,452,805 | 126,267,119 | 57,723,685 |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 2,181,181 | 37,652 | 2,218,833 | 921,306 |
| Accrued payroll | 150,043 | 63,931 | 213,974 | 147,686 |
| Deposits payable | 50,354 | - | 50,354 | - |
| Due to other funds (note 13) | - | - | - | 2,371,806 |
| Workers' compensation - current | - | - | - | 3,328,702 |
| General liability - current | - | - | - | 1,315,727 |
| Compensated absences - current | - | - | - | 2,166,153 |
| Early retirement incentive program - current | - | - | - | 960,396 |
| Total current liabilities | 2,381,578 | 101,583 | 2,483,161 | 11,211,776 |
| Non-current liabilities (note 6): | | | | |
| Workers' compensation | - | - | - | 12,348,078 |
| General liability | - | - | - | 3,004,846 |
| Compensated absences | - | - | - | 6,765,645 |
| Early retirement incentive program - current | - | - | - | 960,396 |
| Total noncurrent liabilities | - | - | - | 23,078,965 |
| Total liabilities | 2,381,578 | 101,583 | 2,483,161 | 34,290,741 |
| Net Assets | | | | |
| Invested in capital assets | 78,251,613 | 30,729,624 | 108,981,237 | 6,402,196 |
| Unrestricted | 13,181,123 | 1,621,598 | 14,802,721 | 17,030,748 |
| Total Net Assets | \$ 91,432,736 | \$ 32,351,222 | 123,783,958 | \$ 23,432,944 |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | | | 287,077 | |
| Net assets of business-type activities | | | \$ 124,071,035 | |

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Proprietary Fund
Statement of Revenues,
Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2012

| | <u>Enterprise Funds</u> | | <u>Total Enterprise Funds</u> | <u>Governmental Activities Internal Service Funds</u> |
|---------------------------------------------------------------------------------------------------------|-------------------------|----------------------|---------------------------------------|-------------------------------------------------------------------|
| | <u>Water</u> | <u>Wastewater</u> | | |
| Operating revenues: | | | | |
| Charges for sales and services: | | | | |
| Water sales | \$ 23,762,559 | \$ - | \$ 23,762,559 | - |
| Charges for services | - | - | - | 21,798,501 |
| Sewer service and connection fees | - | 3,376,436 | 3,376,436 | - |
| Retiree reimbursements | - | - | - | 1,205,896 |
| Employee contributions | - | - | - | 235,642 |
| Other | 115,126 | 6,469 | 121,595 | 355,455 |
| Total operating revenues | <u>23,877,685</u> | <u>3,382,905</u> | <u>27,260,590</u> | <u>23,595,494</u> |
| Operating expenses: | | | | |
| Purchase of water | 8,474,788 | - | 8,474,788 | - |
| Salaries and benefits | 3,776,634 | 1,687,534 | 5,464,168 | 3,947,237 |
| Depreciation | 1,551,707 | 566,479 | 2,118,186 | 2,288,057 |
| Professional services | 1,554,691 | 234,300 | 1,788,991 | 107,600 |
| Maintenance and supplies | 1,778,010 | 618,682 | 2,396,692 | 1,294,009 |
| System maintenance | 1,367,027 | 184,743 | 1,551,770 | - |
| Fleet parts and supplies | - | - | - | 504,918 |
| Telecommunication | - | - | - | 247,588 |
| Hardware | - | - | - | 298,806 |
| Software | - | - | - | 97,728 |
| Workers' compensation | - | - | - | 3,852,825 |
| Claims and judgments | - | - | - | 2,940,047 |
| Compensated absences | - | - | - | 1,876,529 |
| OPEB ARC - Cash subsidy | - | - | - | 2,314,000 |
| Other | 156,070 | 38,535 | 194,605 | 1,615,762 |
| Total operating expenses | <u>18,658,927</u> | <u>3,330,273</u> | <u>21,989,200</u> | <u>21,385,106</u> |
| Operating income | <u>5,218,758</u> | <u>52,632</u> | <u>5,271,390</u> | <u>2,210,388</u> |
| Nonoperating revenues (expenses): | | | | |
| Change in accounting estimates | - | - | - | 8,484,000 |
| Investment income | 33,454 | 16,264 | 49,718 | 183,478 |
| Net increase in fair value of investments | 45,551 | 22,145 | 67,696 | 249,827 |
| Gain (Loss) on removal of capital assets | - | (175,655) | (175,655) | 19,562 |
| Total nonoperating revenues (expenses) | <u>79,005</u> | <u>(137,246)</u> | <u>(58,241)</u> | <u>8,936,867</u> |
| Income (loss) before transfers | <u>5,297,763</u> | <u>(84,614)</u> | <u>5,213,149</u> | <u>11,147,255</u> |
| Transfers in (note 14) | - | - | - | 320,801 |
| Transfers out (note 14) | (7,352) | - | (7,352) | - |
| Net gain (loss) before contributed capital | <u>5,290,411</u> | <u>(84,614)</u> | <u>5,205,797</u> | <u>11,468,056</u> |
| Contributed Capital | - | - | - | 387,893 |
| Change in net assets | <u>5,290,411</u> | <u>(84,614)</u> | <u>5,205,797</u> | <u>11,855,949</u> |
| Net assets, beginning of year | <u>86,142,325</u> | <u>32,435,836</u> | | <u>11,576,995</u> |
| Net assets, end of year | <u>\$ 91,432,736</u> | <u>\$ 32,351,222</u> | | <u>\$ 23,432,944</u> |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | | | 445,791 | |
| Change in net assets of business-type activities | | | <u>\$ 5,651,588</u> | |

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Proprietary Fund
Statement of Cash Flows
For the Year ended June 30, 2012

| | <u>Enterprise Funds</u> | | | <u>Governmental Activities Internal Service Funds</u> |
|-----------------------------------------------------------------------------------------|-------------------------|---------------------|---------------------------------------|-------------------------------------------------------------------|
| | <u>Water</u> | <u>Wastewater</u> | <u>Total Enterprise Funds</u> | |
| Cash flows from operating activities: | | | | |
| Cash received from customers or user departments | \$ 23,355,366 | \$ 3,396,317 | \$ 26,751,683 | \$ 23,079,915 |
| Cash payments to employees for services | (3,761,887) | (1,673,538) | (5,435,425) | (9,452,921) |
| Cash payments to suppliers for goods and services | (13,664,144) | (1,640,705) | (15,304,849) | (8,505,765) |
| Cash received (payments made) for other operating activities | (40,944) | (32,066) | (73,010) | 591,097 |
| Net cash provided by operating activities | <u>5,888,391</u> | <u>50,008</u> | <u>5,938,399</u> | <u>5,712,326</u> |
| Cash flows from noncapital financing activities: | | | | |
| Cash received from other funds | - | - | - | 1,263,757 |
| Net cash provided by noncapital financing activities | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,263,757</u> |
| Cash flows from capital related financing activities: | | | | |
| Acquisition of capital assets | (1,635,912) | (670,058) | (2,305,970) | (1,420,719) |
| Proceeds from sale of capital assets | - | - | - | 82,317 |
| Net cash (used) for capital related financing activities | <u>(1,635,912)</u> | <u>(670,058)</u> | <u>(2,305,970)</u> | <u>(1,338,402)</u> |
| Cash flows from investing activities: | | | | |
| Interest on investments | 79,005 | 38,409 | 117,414 | 433,305 |
| Net cash provided by investing activities | <u>79,005</u> | <u>38,409</u> | <u>117,414</u> | <u>433,305</u> |
| Net increase (decrease) in cash and cash equivalents | 4,331,484 | (581,641) | 3,749,843 | 6,070,986 |
| Cash and cash equivalents, beginning | <u>6,346,050</u> | <u>1,648,258</u> | <u>7,994,308</u> | <u>42,431,407</u> |
| Cash and cash equivalents, ending | <u>\$ 10,677,534</u> | <u>\$ 1,066,617</u> | <u>\$ 11,744,151</u> | <u>\$ 48,502,393</u> |
| Reconciliation of cash equivalents to the statement of net assets | | | | |
| Cash and investments reported on statement of net assets | <u>\$ 10,677,534</u> | <u>\$ 1,066,617</u> | <u>\$ 11,744,151</u> | <u>48,502,393</u> |
| Cash and cash equivalents | <u>\$ 10,677,534</u> | <u>\$ 1,066,617</u> | <u>\$ 11,744,151</u> | <u>\$ 48,502,393</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | | | |
| Operating income (loss) | <u>\$ 5,218,758</u> | <u>\$ 52,632</u> | <u>\$ 5,271,390</u> | <u>\$ 2,210,388</u> |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation | 1,551,707 | 566,479 | 2,118,186 | 2,288,057 |
| Changes in operating assets and liabilities: | | | | |
| (Increase) in accounts receivable | (398,414) | 19,905 | (378,509) | (749,218) |
| (Increase) in inventories | - | - | - | (59,471) |
| (Increase) decrease in prepaid items | - | (264) | (264) | 959,971 |
| Increase (decrease) in accounts payable and accrued payroll | (474,881) | (588,720) | (1,063,601) | 577,571 |
| (Decrease) in deposits payable | (8,779) | (24) | (8,803) | - |
| Increase in workers' compensation | - | - | - | 1,056,780 |
| Increase in general liability | - | - | - | 362,442 |
| Increase in compensated absences | - | - | - | 26,202 |
| (Decrease) in early retirement incentive program | - | - | - | (960,396) |
| Total adjustments | <u>669,633</u> | <u>(2,624)</u> | <u>667,009</u> | <u>3,501,938</u> |
| Net cash provided by operating activities | <u>\$ 5,888,391</u> | <u>\$ 50,008</u> | <u>\$ 5,938,399</u> | <u>\$ 5,712,326</u> |
| <u>Non-cash investing, capital and financing activities:</u> | | | | |
| Net increase in fair value of investments | \$ 45,551 | \$ 22,145 | \$ 67,696 | \$ 249,827 |
| Change in accounting estimates | - | - | - | 8,484,000 |
| Transfer of contributed capital from water fund | (7,352) | - | (7,352) | 7,352 |
| Contributed capital from governmental funds | - | - | - | 387,893 |
| Gain (loss) on disposal of capital assets | - | (175,655) | (175,655) | 19,562 |
| Total of non-cash activities | <u>\$ 38,199</u> | <u>\$ (153,510)</u> | <u>\$ (115,311)</u> | <u>\$ 9,148,634</u> |

See accompanying notes to basic financial statements

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FINANCIAL SECTION

FUND
FINANCIAL STATEMENTS
FIDUCIARY FUNDS

FINANCIAL SECTION

FIDUCIARY FUNDS

Agency Funds, a type of Fiduciary Funds, are used to account for assets held by the City as an agent for other government entities, private organizations, or individuals.

CITY OF NEWPORT BEACH
Agency Funds
Statement of Fiduciary Assets and Liabilities
June 30, 2012

| Assets | Totals |
|---------------------------------|---------------------|
| Cash and investments (note 4) | \$ 576,404 |
| Cash with fiscal agent (note 4) | 6,993,845 |
| Intergovernmental receivable | 448,190 |
| Total assets | <u>\$ 8,018,439</u> |
| | |
| Liabilities | |
| Due to bondholders | \$ 7,188,967 |
| Due to others | 320,633 |
| Due to City of Newport Beach | 69,864 |
| Due to ILJAOC | 438,975 |
| Total liabilities | <u>\$ 8,018,439</u> |

See accompanying notes to basic financial statements

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FINANCIAL SECTION

NOTES TO THE
FINANCIAL STATEMENTS

FINANCIAL SECTION

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

(1) Summary of Significant Accounting Policies

The basic financial statements of the City of Newport Beach (the "City") have been prepared in conformity with generally accepted accounting principles ("GAAP") as applicable to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

a. Reporting Entity

The City of Newport Beach was incorporated on September 1, 1906. The current City Charter was adopted in 1954. Since adoption, the Charter has been amended several times. The most recent Charter amendment was approved by the voters on November 2, 2010. The City operates under a Council-Manager form of government and provides the following services: public safety (police, fire, and marine), highway and streets, cultural and recreation, public improvements, planning and zoning, utilities, and general administrative services.

The financial statements present the financial activity of the City of Newport Beach (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. This entity is legally separate from the City. However, the City of Newport Beach's elected officials have continuing full or partial accountability for fiscal matters of the component unit. The financial reporting entity consists of: (1) the City, (2) organizations for which the City is financially accountable, and (3) organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete.

An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government. In a blended presentation, a component unit's balances and transactions are reported in a manner similar to the balances and transactions of the City. Component units are presented on a blended basis when the component unit's governing body is substantially the same as the City's or the component unit provides services almost entirely to the City.

Blended Component Unit

The financial statements of the City of Newport Beach include the financial activities of the Newport Beach Public Facilities Corporation (the "Corporation"). The Corporation was formed on March 9, 1992, for the purpose of assisting the City of Newport Beach in the financing of public improvements, including a public library and most recently the new civic center project. The Corporation is

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

governed by a Board of Directors which is comprised of the seven City Council Members of the City of Newport Beach. The Corporation's financial data and transactions are included in the debt service fund. Separate financial statements are not prepared for the Corporation. The debt service fund is used solely to account for the activities of the Corporation and contains no other City debt financing activities.

b. Basis of Accounting and Measurement Focus

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

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

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units). The City of Newport Beach has 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.

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 another financing source. Amounts paid to

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

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

Governmental Funds

In the fund financial statements, governmental funds are presented using the *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 for all revenues except Sales Taxes. The fiscal year sales tax clean up payment is received in September, beyond our traditional 60 day availability criteria. However, this payment is significant to this revenue category in that it adjusts the fiscal years amounts to reflect the economic climate for the year. In an effort to be more consistent with our analytical comparisons and benchmarking we have modified our availability criteria to 90 days for sales tax revenues only.

Property taxes, sales taxes, franchise taxes, gas taxes, motor vehicle license fee, 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.

Revenue recognition is subject to the *measurability* and *availability* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

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.

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

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenue represented by non-current receivables is deferred until they become current receivables. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transaction are recognized in accordance with the requirements of GASB Statement No. 33.

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 *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

Permanent Funds, also referred to as Endowment Funds, are governmental funds used to report resources that are legally restricted to the extent that only

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

earnings, and not principal, may be used for purposes that support City programs. The amount of investment earnings available for expenditure is reported as Restricted Fund Balance in the fund level financial statements. The endowment principal is reported as Nonspendable for Permanent Endowments in the Statement of Net Assets. The State law governing the spending of endowment funds investment earnings is California Probate Code Section 18504. The authority for spending investment earnings for scholarships resides with the City Manager and for periodic maintenance dredging in the Newport Bay resides with the City Council.

Proprietary & Fiduciary Funds

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies, taxes, and investment earnings result from non-exchange transactions or ancillary activities. Amounts paid to acquire capital assets are capitalized as assets in the proprietary fund financial statements, rather than reported as expenditure. Proceeds of long-term debt are recorded as a liability in the proprietary fund financial statements, rather than as other financing source. Amounts paid to reduce long-term indebtedness of the proprietary funds are reported as a reduction of the related liability, rather than as expenditure.

Agency funds are custodial in nature (assets equal liabilities) and do not involve the recording of City revenues and expenses.

c. Fund Classifications

The City utilizes the following broad categories of funds:

Major Funds

Major funds are those funds which are either material or of particular importance.

Major Governmental Funds – Governmental funds are generally used to account for tax supported activities. The following governmental funds met the criteria of a major fund:

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

General Fund

The General Fund is the general operating fund of the City. It is used to account for all activities, except those required to be accounted for in another fund.

Special Revenue Funds

Tide and Submerged Land – Operating

The Tide and Submerged Land Operating Fund is used to account for all revenues and expenditures related to the operation of the City's tidelands, including beaches and marinas.

Tide and Submerged Land – Capital

The Tide and Submerged Land Capital Fund is used to account for capital improvements such as dredging projects in the City's tidelands.

Capital Project Funds

Facilities Replacement Fund

The Facilities Replacement Fund is used to account for the receipt and expenditure of funds for the replacement of facilities.

City Hall Improvements Fund

The City Hall Improvements Fund is used to account for the design and construction of a new Civic Center Complex.

Debt Service Fund

Civic Center COP

The Civic Center COP Fund is used to account for debt service transactions related to the Certificates of Participation issued to finance the construction of the new Civic Center Complex.

Major Proprietary Funds – Proprietary funds are used to report an activity for which a fee is charged to external users to recover the cost of operation.

Water Fund

The Water Fund is an enterprise fund used to account for the activities associated with the transmission and distribution of potable water by the City to its users.

Wastewater Fund

The Wastewater Fund is an enterprise fund used to account for the activities associated with providing sewer services by the City to its users.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

Internal Service Funds – The Internal Service Funds are used to account for the City’s self-insured general liability and workers’ compensation, compensated absences, retiree insurance, the cost of maintaining and replacing the City’s rolling stock fleet, as well as the cost of maintaining and replacing the City’s Information Technology Systems. City departments are the primary users of these services and are charged a fee on a cost reimbursement basis.

Fiduciary Funds – The Fiduciary Funds are used to account for assets held by the City as an agent for property owners with special assessments, local businesses in business improvements districts, and other individuals who have made miscellaneous special deposits with the City.

d. Cash and Investments

For purposes of the statement of cash flows, cash and cash equivalents are defined to be cash on hand, demand deposits and highly liquid investments with a maturity of three months or less from the date of purchase. For financial statement presentation purposes, cash and cash equivalents are shown as cash and investments and restricted cash and investments in the proprietary funds.

Investments

Investments are generally stated at fair value.

Cash and investments are pooled to maximize investment yields. The net change in fair value and interest earned on the investments is allocated to the respective funds based on each fund’s average monthly cash and investments balance.

The City’s investment in LAIF is \$42,333,145 at June 30, 2012. This investment value is based on information provided by the State Treasurer’s Office. The carrying value of the City’s position in the fund is materially consistent with the fair value of the fund shares. This pool is under the regulatory oversight of the State Treasurer’s Office. The LAIF Board consists of five members as designated by Statute. The Chairman is the State Treasurer, or his designated representative. Two members qualified by training and experience in the field of investment of finance, and two members who are treasurers, finance or fiscal officers or business managers employed by any County, City or local district or municipal corporation of this state, are appointed by the State Treasurer. The term of each appointment is two years, or at the pleasure of the appointing authority.

e. Notes Receivable

This is a promissory note between the City of Newport Beach and the City Manager. The City Manager and the City of Newport Beach entered into an employment agreement on August 18, 2009. This agreement provided incentives to the City Manager, in the form of an equity contribution, to allow him to re-

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

locate within the incorporated boundaries of Newport Beach. The promissory note documents the terms and conditions by which the City Manager will repay the City when the property is sold, or he retires/terminates, whichever occurs first. The note was repaid on September 10, 2012, when the City Manager sold the property.

f. Intergovernmental Receivables

Intergovernmental receivables represent grant reimbursement requests, capital project billings, and pending transfers of taxes and fees collected by other government agencies. As of June 30, 2012, the balance of this account was \$8,301,003.

g. Inventories

Inventories are valued at cost, which approximates market, using the first-in, first-out method. The City follows the consumption method for inventory control. The costs of governmental fund type inventories are recorded as expenditures when consumed.

h. Capital Assets

Capital assets, which include land, structures, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the Government-wide Financial Statements. Capital assets are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Equipment purchased in excess of \$5,000 is capitalized if it has an expected useful life of three years or more. Building, infrastructure, and improvements are capitalized if cost is in excess of \$30,000. The cost of normal maintenance and repairs that do not add to the value of the asset's lives are not capitalized. The City chose to value and report on infrastructure assets in their entirety (e.g. Prior to 1980).

Major capital outlay for capital assets and improvements are capitalized as projects are constructed. Capital assets acquired through lease obligations are valued at the present value of future lease payments at the date acquired. Contributed capital assets are valued at their estimated fair market value at the date of contribution.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements and in the fund financial statements of the proprietary funds. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The range of lives used for depreciation purposes for each capital asset class as follows:

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

| | |
|----------------|-------------|
| Structures | 30-75 years |
| Equipment | 3-15 years |
| Infrastructure | 20-75 years |

i. Claims and Judgments

The City accounts for material claims and judgments and associated legal and administrative costs when it is probable that the liability claim has been incurred and the amount of the loss can be reasonably estimated. The City records the estimated loss liabilities in the Internal Service Fund. Included therein are claims incurred but not reported, which consists of (a) known loss events expected to be presented as claims later, (b) unknown loss events that are expected to become claims, and (c) expected future development on claims already reported. This is based upon historical actual results that have established a reliable pattern supplemented by specific information about current matters. Small dollar claims and judgments are recorded as expenditures when paid.

j. Property Taxes

The assessment, levy, and collection of property taxes are the responsibility of the County of Orange. The City records property taxes as revenue when received from the County, except at year-end, when property taxes received within 60 days are accrued as revenue. Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

| | |
|------------------|-------------------------------------------------------------------------------------|
| Lien date | Jan 1 |
| Levy date | July 1 |
| Due dates | November 1 – 1 st installment March 1 – 2 nd installment |
| Collection dates | December 10 – 1 st installment April 10 – 2 nd installment |

k. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and limited amounts of earned but unused sick leave benefits, which will be paid to employees upon separation from City service. Beginning in fiscal year 1990, the City adopted a general leave plan to replace the traditional vacation and sick leave plan. The City uses a general leave plan which permits a maximum of three years' accrual for every employee, above which the excess is paid out as current compensation. All employees hired prior to January 1, 1990, were given the option of remaining in the traditional vacation and sick leave plan or enrolling in the general leave plan. All employees hired on or after January 1, 1990, are automatically enrolled in the general leave plan. Compensated absences are accrued in the Compensated Absence Internal Service Fund when employee services have been rendered and when it becomes probable that the City will compensate the employees for benefits through paid time off or cash

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

payments at termination or retirement. Benefits that have been earned but are not yet available for use because employees have not met certain conditions are accrued to the extent it is probable that the employees will meet the conditions for compensation in the future.

i. Deposits Payable

In the government-wide and fund level financial statements, deposits payable represent monies collected for developer deposits, demolition deposits, planning deposits and others, for services which have not yet been performed. These unspent portions are reported as liabilities on the financial statements.

m. Unearned Revenue/Unavailable (Deferred) Revenue

In the government-wide and the fund level financial statements, unearned revenues are those where asset recognition (availability criteria) has been met, but the revenue recognition criteria have not been met.

In the governmental funds financial statements, unavailable revenue represents revenues which have been earned but have not yet met the availability criteria for revenue recognition based on the modified accrual basis of accounting.

n. Fund Balance Classifications

Due to the implementation of GASB No. 54, governmental fund balance is made up of the different classifications and the following provides explanations as to the nature and purpose of each classification:

Nonspendable fund balance

That portion of fund balance that typically includes amounts that are either (a) not in a spendable form such as inventories and prepaid items, or (b) legally or contractually required to be maintained intact such as endowments.

Restricted fund balance

The portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance

That portion of a fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action by the government's highest level of decision making authority, and remain binding unless removed in the same manner. The City Council has authority to establish or modify a fund balance commitment by legislation (Council action) and can only rescind a fund balance commitment by new legislation requiring the same voting consensus. The City considers a resolution or an ordinance, to constitute a

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

formal action of City Council for the purposes of establishing committed fund balance.

Assigned fund balance

That portion of a fund balance that includes amounts that are constrained by the City's intent to be used for specific purposes and do not meet the criteria to be classified as restricted or committed. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts classified as committed. The City Manager or designee has the authority to establish, modify, or rescind a fund balance assignment.

Unassigned fund balance

That residual portion of a fund balance that is in spendable form and is not otherwise restricted, committed or assigned. These amounts are available to be used for any purpose.

In the governmental fund statements, when expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City uses the most restrictive funds first. The City would use the appropriate funds in the following order: restricted, committed, assigned, and finally unassigned amounts.

In the government-wide statements, when expenditures are incurred for purposes for which both restricted and unrestricted net assets are available, the City applied restricted assets first.

o. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities, disclosure of contingent assets and liabilities, and the related amounts of revenues and expenditures. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

(2) Reconciliation of Government-wide and Fund Financial Statements

a. Explanation of Differences Between Governmental Funds Balance Sheet and the Statement of Net Assets

The "total fund balances" of the City's governmental funds \$175,306,463 differs from "net assets" of governmental activities \$2,243,921,118 reported in the statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

Capital Related Items

When capital assets (property, plant, and equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

| | |
|----------------------------|------------------------|
| Cost of capital assets | \$2,324,688,769 |
| Accumulated depreciation | <u>(148,094,707)</u> |
| Total capital assets, net* | <u>\$2,176,594,062</u> |

*Amount excludes net capital assets of \$6,402,196 from Internal Service funds.

Long-term Debt Transactions

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 assets. Balances at June 30, 2012 were:

| | |
|-------------------------------|----------------------|
| Certificates of participation | \$124,920,000 |
| Bond Premium | 964,424 |
| Pre-annexation agreement | 6,000,000 |
| CDBG Loan | <u>1,686,000</u> |
| Total | <u>\$133,570,424</u> |

Deferred Charges

Deferred Charges represent the unamortized portion of bond issuance costs and reported only in the statement of net assets.

| | |
|------------------|--------------------|
| Deferred charges | <u>\$1,132,169</u> |
|------------------|--------------------|

Accrued Interest

Accrued liabilities in the statement of net assets differ from the amount reported in governmental funds due to accrued interest on outstanding debt payable (see Note 6).

| | |
|------------------------|--------------------|
| Accrued interest added | <u>\$3,987,475</u> |
|------------------------|--------------------|

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

Investment in Joint Venture

Investment in joint ventures is not a current financial resource and hence reported only in the statement of net assets.

| | |
|-----------------------------|--------------------|
| Net equity in joint venture | <u>\$2,673,977</u> |
|-----------------------------|--------------------|

Unavailable Revenue

Some of the revenue will be collected after year-end, but is not available soon enough to pay for the current period's expenditures, and therefore is reported as unavailable revenue in the governmental funds.

| | |
|---------------------|--------------------|
| Unavailable revenue | <u>\$2,626,479</u> |
|---------------------|--------------------|

Internal Service Funds

Internal service funds are used by management to charge the costs of certain activities (such as equipment management and self-insurance authorities) to individual funds. The assets (including capital assets) and liabilities of the internal service funds are included in governmental activities in the statement of net assets, because they primarily serve governmental activities of the City.

| | |
|------------------------|---------------------|
| Internal Service Funds | <u>\$23,432,944</u> |
|------------------------|---------------------|

Reclassifications and Eliminations

Interfund balances must generally be eliminated in the government-wide statements, except for net residual amounts due between governmental activities. Amounts involving fiduciary funds should be reported as external transactions. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once – in the function in which they are allocated.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

**Explanation of Differences between Government Funds
Balance Sheet and the Statement of Net Assets**

| Assets | Total Governmental Funds | Capital Related Items | Accumulated Depreciation | Long-term Debt Transactions |
|-----------------------------------------------------------------|-----------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------------|
| Cash and investments | \$ 132,411,472 | \$ - | \$ - | \$ - |
| Receivables: | | | | |
| Accounts | 6,563,164 | - | - | - |
| Notes | 471,250 | - | - | - |
| Interest | 813,302 | - | - | - |
| Intergovernmental receivables | 8,301,003 | - | - | - |
| Cash with fiscal agent | 56,828,798 | - | - | - |
| Interfund balances | 13,880,642 | - | - | - |
| Advances to other funds | 6,879,703 | - | - | - |
| Due from agency fund | 69,864 | - | - | - |
| Investment in joint venture | - | - | - | - |
| Prepaid items | 1,052,409 | - | - | - |
| Inventory | 217,771 | - | - | - |
| Other | - | - | - | - |
| Deferred charges | - | - | - | 1,132,169 |
| Capital assets | - | 2,324,688,769 | - | - |
| Accumulated depreciation | - | - | (148,094,707) | - |
| | <u>\$ 227,489,378</u> | <u>\$ 2,324,688,769</u> | <u>\$ (148,094,707)</u> | <u>\$ 1,132,169</u> |
| Total assets | <u>\$ 227,489,378</u> | <u>\$ 2,324,688,769</u> | <u>\$ (148,094,707)</u> | <u>\$ 1,132,169</u> |
| Liabilities and Fund Balances / Net Assets | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 18,985,630 | \$ - | \$ - | \$ - |
| Accrued payroll | 4,950,368 | - | - | - |
| Accrued interest payable | - | - | - | - |
| Deposits payable | 2,099,611 | - | - | - |
| Claims payable | - | - | - | - |
| Workers' compensation payable | - | - | - | - |
| Compensated absences payable | - | - | - | - |
| Early retirement incentive program | - | - | - | - |
| Unearned revenue | 5,132,288 | - | - | - |
| Unavailable revenue | 2,626,479 | - | - | - |
| Due to other funds | 11,508,836 | - | - | - |
| Advances from other funds | 6,879,703 | - | - | - |
| Long-term liabilities | - | - | - | 133,570,424 |
| | <u>52,182,915</u> | <u>-</u> | <u>-</u> | <u>133,570,424</u> |
| Total liabilities | <u>52,182,915</u> | <u>-</u> | <u>-</u> | <u>133,570,424</u> |
| Fund balances / net assets | <u>175,306,463</u> | <u>2,324,688,769</u> | <u>(148,094,707)</u> | <u>(132,438,255)</u> |
| Total liabilities and and fund balances / net assets | <u>\$ 227,489,378</u> | <u>\$ 2,324,688,769</u> | <u>\$ (148,094,707)</u> | <u>\$ 1,132,169</u> |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

| <u>Interest Payable</u> | <u>Investment in Joint Venture</u> | <u>Unavailable Revenue</u> | <u>Internal Service Funds</u> | <u>Reclassifications and Eliminations</u> | <u>Statement of Net Assets</u> |
|-------------------------|------------------------------------|----------------------------|-------------------------------|-------------------------------------------|--------------------------------|
| \$ - | \$ - | \$ - | \$ 48,502,393 | \$ - | \$ 180,913,865 |
| - | - | - | 2,156,872 | - | 8,720,036 |
| - | - | - | - | - | 471,250 |
| - | - | - | - | - | 813,302 |
| - | - | - | - | - | 8,301,003 |
| - | - | - | - | - | 56,828,798 |
| - | - | - | - | (14,167,719) | (287,077) |
| - | - | - | - | (6,879,703) | - |
| - | - | - | - | - | 69,864 |
| - | 2,673,977 | - | - | - | 2,673,977 |
| - | - | - | 297,767 | - | 1,350,176 |
| - | - | - | 364,457 | - | 582,228 |
| - | - | - | - | - | - |
| - | - | - | - | - | 1,132,169 |
| - | - | - | 25,876,319 | - | 2,350,565,088 |
| - | - | - | (19,474,123) | - | (167,568,830) |
| <u>\$ -</u> | <u>\$ 2,673,977</u> | <u>\$ -</u> | <u>\$ 57,723,685</u> | <u>\$ (21,047,422)</u> | <u>\$ 2,444,565,849</u> |
| \$ - | \$ - | \$ - | \$ 921,306 | \$ - | \$ 19,906,936 |
| - | - | - | 147,686 | - | 5,098,054 |
| 3,987,475 | - | - | - | - | 3,987,475 |
| - | - | - | - | - | 2,099,611 |
| - | - | - | 1,315,727 | - | 1,315,727 |
| - | - | - | 3,328,702 | - | 3,328,702 |
| - | - | - | 2,166,153 | - | 2,166,153 |
| - | - | - | 960,396 | - | 960,396 |
| - | - | - | - | - | 5,132,288 |
| - | - | (2,626,479) | - | - | - |
| - | - | - | 2,371,806 | (13,880,642) | - |
| - | - | - | - | (6,879,703) | - |
| - | - | - | 23,078,965 | - | 156,649,389 |
| <u>3,987,475</u> | <u>-</u> | <u>(2,626,479)</u> | <u>34,290,741</u> | <u>(20,760,345)</u> | <u>200,644,731</u> |
| <u>(3,987,475)</u> | <u>2,673,977</u> | <u>2,626,479</u> | <u>23,432,944</u> | <u>(287,077)</u> | <u>2,243,921,118</u> |
| <u>\$ -</u> | <u>\$ 2,673,977</u> | <u>\$ -</u> | <u>\$ 57,723,685</u> | <u>\$ (21,047,422)</u> | <u>\$ 2,444,565,849</u> |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

b. Explanation of Differences between Enterprise Funds and Government-wide Statement of Net Assets

Total net assets of the City's Enterprise Funds of \$123,783,958 differs from net assets of the business-type activities of \$124,071,035 reported in the government-wide statement of net assets. The difference, \$287,077, results from the consolidation of internal service fund activities related to the enterprise funds.

**Explanation of Differences between Enterprise Funds
and Government-wide Statement of Net Assets**

| Assets | Total Enterprise Funds | Internal Service Funds | Government wide Statement of Net Assets |
|-------------------------------------------------------|---------------------------------------|---------------------------------------|--------------------------------------------------------|
| Cash and investments | \$ 11,744,151 | \$ - | \$ 11,744,151 |
| Receivables: | | | |
| Accounts | 5,541,467 | - | 5,541,467 |
| Interfund balances | - | 287,077 | 287,077 |
| Prepaid items | 264 | - | 264 |
| Capital assets, net | <u>108,981,237</u> | <u>-</u> | <u>108,981,237</u> |
| Total assets | <u>\$ 126,267,119</u> | <u>\$ 287,077</u> | <u>\$ 126,554,196</u> |
| Liabilities and Fund Balances / Net Assets | | | |
| Liabilities: | | | |
| Accounts payable | \$ 2,218,833 | \$ - | \$ 2,218,833 |
| Accrued payroll | 213,974 | - | 213,974 |
| Deposits payable | <u>50,354</u> | <u>-</u> | <u>50,354</u> |
| Total liabilities | <u>2,483,161</u> | <u>-</u> | <u>2,483,161</u> |
| Net Assets | | | |
| Invested in capital assets, net of related debt | \$ 108,981,237 | - | \$ 108,981,237 |
| Unrestricted | <u>14,802,721</u> | <u>287,077</u> | <u>15,089,798</u> |
| | <u>\$ 123,783,958</u> | <u>\$ 287,077</u> | <u>\$ 124,071,035</u> |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

c. Explanation of Differences between Governmental Fund Operating Statements and the Statement of Activities

The “net change in fund balances” for governmental funds (\$48,375,258) differs from the “change in net assets” for governmental activities \$25,076,917 reported in the statement of activities. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effect of the difference is illustrated below.

Capital Related Items

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In governmental funds, significant maintenance projects are reclassified as functional expenses in the statement of net assets. Also, contributed capital is not recorded in governmental funds; therefore it is added to the statement of net assets.

| | |
|----------------------------------------------------------|----------------|
| Capital Outlay | \$ 87,283,455 |
| Transfers out of WIP | (18,255,722) |
| Capital Outlays expended | 69,027,733 |
| Internal Service funds - asset additions | (3,584,127) |
| Governmental funds - asset additions | (3,028,458) |
| Capital Contributions | (387,893) |
| Net change in capital related items | \$ 62,027,255 |
| Depreciation expense | (\$10,688,654) |
| Deletions in IS accumulated depreciation | 4,056,220 |
| Deletions in Governmental funds accumulated depreciation | 1,678,397 |
| Net change in accumulated depreciation | \$ (4,954,037) |

Long-Term Debt Transactions

Repayment of debt service is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. Issuance of debt is reported as an other financing source in governmental funds, thus increasing fund balance. For the City as a whole, however, the principal payments reduce the liabilities, and proceeds from long term debt increase liabilities in the statement of net assets.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

| | |
|--------------------------------------------|--------------------|
| Civic Center Certificates of Participation | \$1,740,000 |
| Note payable | 737,854 |
| Pre-annexation agreement | 1,200,000 |
| CDBG loan | 102,000 |
| Purchase Agreement Payable | 750,000 |
| Amortization of issuance costs | 54,879 |
| Amortization of debt premium | <u>(120,553)</u> |
| Total proceeds | <u>\$4,464,180</u> |

Accrued Interest

Interest accrued on outstanding debt payable is not recorded as an expenditure in governmental funds, and, thus has been added to the statement of activities.

| | |
|--------------------------------|-------------------|
| Net change in accrued interest | <u>(\$49,898)</u> |
|--------------------------------|-------------------|

Investment in Joint Venture

Investment in joint ventures creates an explicit, measurable equity interest reported only in the statement of activities.

| | |
|-------------------------------------------|------------------|
| Net change in investment in joint venture | <u>\$145,944</u> |
|-------------------------------------------|------------------|

Unavailable Revenue

Some of the revenue will be collected after year-end, but is not available soon enough to pay for current period's expenditures, and therefore is reported as unavailable revenue in the governmental funds.

| | |
|-----------------------------------|------------------|
| Net change in unavailable revenue | <u>\$177,429</u> |
|-----------------------------------|------------------|

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

Internal Service Funds

Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance activities, to individual funds. The adjustments for internal service funds “closes” those funds by reimbursing or charging additional amounts to participating departments in individual funds for costs over or under charged for those activities.

| | |
|--------------------------------------|---------------------|
| Net change in Internal Service Funds | <u>\$11,855,949</u> |
|--------------------------------------|---------------------|

Reclassification and Eliminations

Interfund balances must generally be eliminated in the government-wide financial statements, except for net residual amounts due between governmental and business-type activities. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once – in the function in which they are allocated. Amounts involving fiduciary funds should be reported as external transactions.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

**Explanation of Differences between Governmental Fund
Operating Statements and the Statement of Activities**

| | <u>Total Governmental Funds</u> | <u>Capital Related Items</u> | <u>Accumulated Depreciation</u> | <u>Long-term Debt Transactions</u> |
|-----------------------------------------------|-------------------------------------|----------------------------------|-------------------------------------|----------------------------------------|
| Revenues: | | | | |
| Taxes and assessments | \$ 121,710,955 | \$ - | \$ - | \$ - |
| Intergovernmental | 12,122,963 | - | - | - |
| Licenses and permits | 6,691,125 | - | - | - |
| Charges for services | 16,020,825 | - | - | - |
| Fines and forfeitures | 3,956,535 | - | - | - |
| Change in accounting estimates | - | - | - | - |
| Investment income | 1,200,388 | - | - | - |
| Net increase in fair value of investments | 530,825 | - | - | - |
| Property income | 17,458,143 | - | - | - |
| Share of joint venture net gain | - | - | - | - |
| Donations | 13,933,480 | - | - | - |
| Gain on sale of capital assets | - | - | - | - |
| Other | 691,125 | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total revenues | 194,316,364 | - | - | - |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 12,896,492 | - | 270,562 | - |
| Public safety | 75,377,871 | 3,635,043 | (2,641,766) | - |
| Public works | 32,399,178 | 1,378,281 | 6,330,908 | - |
| Community development | 8,939,825 | - | 125,149 | - |
| Community services | 19,296,505 | 1,599,261 | 869,184 | - |
| Capital outlay | 80,617,948 | (69,027,733) | - | - |
| Debt service: | | | | |
| Principal retirement | 4,529,854 | - | - | (4,529,854) |
| Interest and fiscal charges | 8,320,500 | - | - | - |
| Amortization of issuance costs | - | - | - | 54,879 |
| Amortization of debt premium | - | - | - | (120,553) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total expenses | 242,378,173 | (62,415,148) | 4,954,037 | (4,595,528) |
| Other financing sources (uses): | | | | |
| Transfers in | 18,584,639 | - | - | - |
| Transfers out | (18,898,088) | - | - | - |
| Total other financing sources (uses) | <hr/> | <hr/> | <hr/> | <hr/> |
| | (313,449) | - | - | - |
| Capital contributions from water fund | - | - | - | - |
| Capital contributions from governmental funds | - | (387,893) | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net change in fund balances / net assets | (48,375,258) | 62,027,255 | (4,954,037) | 4,595,528 |
| Fund balances / net assets beginning of year | 223,681,721 | 2,262,661,514 | (143,140,670) | (137,033,783) |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

| <u>Accrued Interest</u> | <u>Investment in Joint Venture</u> | <u>Unavailable Revenue</u> | <u>Internal Service Fund</u> | <u>Reclassifications and Eliminations</u> | <u>Statement of Activities</u> |
|-------------------------|------------------------------------|----------------------------|------------------------------|-------------------------------------------|--------------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 121,710,955 |
| - | - | 177,429 | - | - | 12,300,392 |
| - | - | - | - | - | 6,691,125 |
| - | - | - | - | (445,791) | 15,575,034 |
| - | - | - | - | - | 3,956,535 |
| - | - | - | 8,484,000 | - | 8,484,000 |
| - | - | - | 183,478 | - | 1,383,866 |
| - | - | - | 249,827 | - | 780,652 |
| - | - | - | - | - | 17,458,143 |
| - | 145,944 | - | - | - | 145,944 |
| - | - | - | - | - | 13,933,480 |
| - | - | - | 19,562 | - | 19,562 |
| - | - | - | - | - | 691,125 |
| - | 145,944 | 177,429 | 8,936,867 | (445,791) | 203,130,813 |
| - | - | - | (506,167) | 1,665,079 | 14,325,966 |
| - | - | - | (676,964) | 2,386 | 75,696,570 |
| - | - | - | (638,066) | 9,443,111 | 48,913,412 |
| - | - | - | (139,859) | 440,561 | 9,365,676 |
| - | - | - | (249,332) | 39,078 | 21,554,696 |
| - | - | - | - | (11,590,215) | - |
| (49,898) | - | - | - | - | - |
| - | - | - | - | - | 8,270,602 |
| - | - | - | - | - | 54,879 |
| - | - | - | - | - | (120,553) |
| (49,898) | - | - | (2,210,388) | - | 178,061,248 |
| - | - | - | 313,449 | (18,898,088) | - |
| - | - | - | - | 18,898,088 | - |
| - | - | - | 313,449 | - | - |
| - | - | - | 7,352 | - | 7,352 |
| - | - | - | 387,893 | - | - |
| 49,898 | 145,944 | 177,429 | 11,855,949 | (445,791) | 25,076,917 |
| (4,037,373) | 2,528,033 | 2,449,050 | 11,576,995 | 158,714 | 2,218,844,201 |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

d. Explanation of Differences between Enterprise Funds Operating Statement and the Statement of Activities

The change in net assets for the City's enterprise funds \$5,205,797 differs from the change in net assets of the business-type activities \$5,651,588 reported in the government-wide statement of activities. The difference, \$445,791, results from the consolidation of internal service fund activities related to the enterprise funds.

**Explanation of Differences between Enterprise Funds
Operating Statement and the Statement of Activities**

| | <u>Total Enterprise Funds</u> | <u>Internal Service Fund</u> | <u>Business-type activities Statement of Activities</u> |
|-------------------------------------------|---------------------------------------|--------------------------------------|-----------------------------------------------------------------|
| Operating revenues: | | | |
| Charges for sales and services: | | | |
| Water sales | \$ 23,762,559 | \$ - | \$ 23,762,559 |
| Sewer service and connection fees | 3,376,436 | - | 3,376,436 |
| Other | 121,595 | - | 121,595 |
| Total operating revenues | <u>27,260,590</u> | <u>-</u> | <u>27,260,590</u> |
| Operating expenses: | | | |
| Purchase of Water | 8,474,788 | - | 8,474,788 |
| Salaries and wages | 5,464,168 | - | 5,464,168 |
| Depreciation | 2,118,186 | - | 2,118,186 |
| Professional Services | 1,788,991 | - | 1,788,991 |
| Maintenance and supplies | 2,396,692 | (445,791) | 1,950,901 |
| System maintenance | 1,551,770 | - | 1,551,770 |
| Other | 194,605 | - | 194,605 |
| Total operating expenses | <u>21,989,200</u> | <u>(445,791)</u> | <u>21,543,409</u> |
| Operating income | 5,271,390 | 445,791 | 5,717,181 |
| Nonoperating revenues (expenses): | | | |
| Investment income | 49,718 | - | 49,718 |
| Net decrease in fair value of investments | 67,696 | - | 67,696 |
| Loss on removal of capital assets | (175,655) | - | (175,655) |
| Total nonoperating revenues (expenses) | <u>(58,241)</u> | <u>-</u> | <u>(58,241)</u> |
| Income before transfers | 5,213,149 | 445,791 | 5,658,940 |
| Transfers out | <u>(7,352)</u> | <u>-</u> | <u>(7,352)</u> |
| Change in net assets | 5,205,797 | 445,791 | 5,651,588 |
| Net assets, beginning of year | <u>118,578,161</u> | <u>(158,714)</u> | <u>118,419,447</u> |
| Net assets, end of year | <u>\$ 123,783,958</u> | <u>\$ 287,077</u> | <u>\$ 124,071,035</u> |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

(3) Budgetary Control and Compliance

The City adheres to the following general procedures in establishing the budgetary data reflected in the financial statements:

- During April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted at City Council meetings to obtain taxpayer comments. Prior to July 1, the budget is legally adopted through passage of an appropriation resolution.
- Budgets are adopted on an annual basis consistent with generally accepted accounting principles for General and Special Revenue Funds.
- The City of Newport Beach does not present budget information on Capital Projects Funds since the City approved project-length budgets. These project-length budgets authorize total expenditures over the duration of a construction project rather than year-by-year budgeting.
- The City of Newport Beach does not present budget information on Debt Service and Permanent Funds since the City is not required to and does not adopt an annual budget for these funds.
- The budget is formally integrated into the accounting system and employed as a management control device during the year.
- The legal level of budgetary control is at the fund level. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions which alter the total appropriations of any fund must be approved by City Council.
- At fiscal year-end, budget appropriations lapse. Budget appropriations for incomplete capital projects are re-budgeted in the following fiscal year by Council action and are included in the revisions noted above. Projects that are not started during the budget year are reevaluated in the following year.
- Encumbrances represent commitments related to unperformed contracts for goods and services. The City utilizes an encumbrance system as a management control technique to assist in controlling expenditures. Under this system, encumbrance accounting for the expenditure of funds is recorded in order to indicate outstanding commitments and is employed in the governmental fund types. Encumbrances outstanding at year-end are reported as committed or restricted fund balances since they do not constitute expenditures or liabilities. Encumbrances and their related budgets are honored in the subsequent year to fulfill these commitments and are presented in the original adopted budget.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

Expenditures exceeded appropriations in the following governmental funds.

| | <u>Appropriations</u> | <u>Expenditures</u> | <u>Variance</u> |
|------------------------------|-----------------------|---------------------|-----------------|
| Asset Forfeiture | \$ 39,060 | \$ 72,793 | \$ (33,733) |
| Supplemental Law Enforcement | 141,453 | 141,951 | (498) |

The following funds reported deficit fund balances:

Special Revenue Funds

| | |
|-----------------------------------|--------------|
| Tide and Submerged Land - Capital | \$ 6,879,703 |
| OTS DUI Grant | \$ 22,339 |
| Circulation and Transportation | \$ 377,915 |

Capital Projects

| | |
|------------------------|--------------|
| Marine Science Center | \$ 125,421 |
| Misc SAH Projects | \$ 54,735 |
| Marina Park | \$ 2,213,002 |
| Sunset Ridge Park | \$ 1,528,537 |
| Police Facility | \$ 2,175 |
| Strategic Planning | \$ 105,665 |
| Lifeguard Headquarters | \$ 30,179 |

Internal Service Funds

| | |
|----------------------|--------------|
| Compensated Absences | \$ 9,128,923 |
|----------------------|--------------|

The City's intentions are to eliminate deficit fund balances through future grant funding, other future revenue sources, or interfund transfers.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

(4) Cash and Investments

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

| | |
|----------------------------|----------------|
| Statement of net assets: | |
| Cash and investments | \$ 192,658,016 |
| Cash with fiscal agent | 56,828,798 |
| Fiduciary funds: | |
| Cash and investments | 576,404 |
| Cash with fiscal agent | 6,993,845 |
| Total cash and investments | \$ 257,057,063 |

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

| | |
|--------------------------------------|----------------|
| Cash on hand | \$ 24,229 |
| Deposits with financial institutions | 9,891,082 |
| Investments | 247,141,752 |
| Total cash and investments | \$ 257,057,063 |

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

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

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio*</u> | <u>Maximum Investment in One Issuer</u> |
|-----------------------------------|-------------------------|-----------------------------------------|-----------------------------------------|
| Local Agency Bonds | 3 years | 15% | 5% |
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Banker's Acceptances | 180 days | 20% | 5% |
| Commercial Paper | 270 days | 25% | 5% |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

| | | | |
|-------------------------------------|---------|------|------|
| Negotiable Certificates of Deposit | 2 years | 30% | 5% |
| Repurchase Agreements | 30 days | 10% | 5% |
| Reverse Repurchase Agreements | 30 days | 20% | 5% |
| Medium-Term Notes | 4 years | 30% | 5% |
| Mutual Funds | N/A | 20% | None |
| Money Market Mutual Funds | N/A | 20% | None |
| Mortgage Pass-Through Securities | 5 years | 20% | 5% |
| County Pooled Investment Funds | N/A | 5% | None |
| Local Agency Investment Fund (LAIF) | N/A | None | None |
| JPA Pools (other investment pools) | N/A | None | None |

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee (i.e. fiscal agent) are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage Allowed</u> | <u>Maximum Investment in One Issuer</u> |
|-------------------------------------|-------------------------|-----------------------------------|-----------------------------------------|
| U.S. Treasury Obligations | None | None | None |
| U.S. Agency Securities | None | None | None |
| Banker's Acceptances | 30 days - 360 days | None | None |
| Commercial Paper | 180 days - 270 days | None | 10% |
| Money Market Mutual Funds | N/A | None | None |
| Investment Agreements | None | None | None |
| Certificates of Deposit | None | None | None |
| Demand Deposits | 30 days - 360 days | None | None |
| Time Deposits | 30 days - 360 days | None | None |
| Local Agency Bonds | None | None | None |
| Forward Delivery Agreement | None | None | None |
| Forward Purchase and Sale Agreement | None | None | None |
| Corporate Notes | 5 years | 30% | None |
| Repurchase Agreements | None | None | None |
| Local Agency Investment Fund | N/A | None | None |
| Municipal Obligations | None | None | None |
| County Pooled Investment Funds | N/A | None | None |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

| Investment Type | * Fair Value | Investment Maturities (In Years) | | | | Total |
|-------------------------|-----------------------|----------------------------------|-----------------------|----------------------|---------------------|-----------------------|
| | | Less than 1 | 1 to 3 | 3 to 5 | More than 5 | |
| Money Market Funds | 3,548,002 | \$ 3,548,002 | \$ - | \$ - | \$ - | 3,548,002 |
| U.S. Treasury Notes | 36,361,528 | 3,123,251 | 28,333,065 | 4,905,212 | - | 36,361,528 |
| U.S. Agencies | 89,006,031 | 22,703,151 | 57,376,786 | 8,926,094 | - | 89,006,031 |
| Corporate Notes | 38,457,709 | 13,392,716 | 24,804,085 | 260,908 | - | 38,457,709 |
| Commercial Paper | 2,148,726 | 2,148,726 | - | - | - | 2,148,726 |
| LAIF | 13,090,919 | 13,090,919 | - | - | - | 13,090,919 |
| Municipal Bond | 706,195 | 706,195 | - | - | - | 706,195 |
| Cash with Fiscal Agent: | | | | | | |
| Money Market Funds | 14,891,206 | 14,891,206 | - | - | - | 14,891,206 |
| U.S. Treasury Notes | 2,002,085 | 2,002,085 | - | - | - | 2,002,085 |
| U.S. Agencies | 16,506,549 | 16,506,549 | - | - | - | 16,506,549 |
| LAIF | 29,242,226 | 29,242,226 | - | - | - | 29,242,226 |
| Investment Agreements | 1,180,576 | - | - | - | 1,180,576 | 1,180,576 |
| Total | \$ 247,141,752 | \$ 121,355,026 | \$ 110,513,936 | \$ 14,092,214 | \$ 1,180,576 | \$ 247,141,752 |

* Investment agreements are recorded at cost (not fair value) because these agreements represent nonparticipating contracts that are nonnegotiable and whose redemption terms do not consider market rates.

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

As of June 30, 2012, the City did not have any investments (including investments held by fiscal agent) whose fair values were highly sensitive to interest rate fluctuations.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
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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 by Standard & Poor's as of year end for each investment type.

| Investment Type | Fair Value | Minimum | Exempt | | | | | | | | | Not Rated | |
|------------------------------|-----------------------|-----------------|----------------------|----------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|-------------------|---------------------|----------------------|------------|
| | | Legal Rating | From Disclosure | AAA | AA+ | AA | AA- | A+ | A | A- | A-1+ | | |
| Money Market Funds | 3,548,002 | AAA | \$ - | \$ 3,548,002 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| U.S. Treasury Notes | 36,361,528 | N/A | 36,361,528 | - | - | - | - | - | - | - | - | - | - |
| U.S. Agencies | 89,006,031 | N/A | - | - | 89,006,031 | - | - | - | - | - | - | - | - |
| Corporate Notes | 38,457,709 | A | - | 2,058,895 | 11,947,018 | 2,427,822 | 6,660,553 | 6,946,314 | 8,083,764 | 333,343 | - | - | - |
| Commercial Paper | 2,148,726 | A-1 | - | - | - | - | - | - | - | - | - | 2,148,726 | - |
| Local Agency Investment Fund | 13,090,919 | N/A | - | - | - | - | - | - | - | - | - | - | 13,090,919 |
| Municipal Bonds | 706,195 | AA | - | - | - | 706,195 | - | - | - | - | - | - | - |
| Cash with Fiscal Agent: | | | | | | | | | | | | | |
| Money Market Funds | 14,891,206 | AAA | - | 14,891,206 | - | - | - | - | - | - | - | - | - |
| U.S. Treasury Notes | 2,002,085 | N/A | - | - | 2,002,085 | - | - | - | - | - | - | - | - |
| U.S. Agencies | 16,506,549 | N/A | - | - | 16,506,549 | - | - | - | - | - | - | - | - |
| Local Agency Investment Fund | 29,242,226 | N/A | - | - | - | - | - | - | - | - | - | - | 29,242,226 |
| Investment Agreements | 1,180,576 | N/A | - | - | - | - | - | - | 1,180,576 | - | - | - | - |
| | <u>\$ 247,141,752</u> | | <u>\$ 36,361,528</u> | <u>\$ 20,498,104</u> | <u>\$ 119,461,683</u> | <u>\$ 3,134,017</u> | <u>\$ 6,660,553</u> | <u>\$ 6,946,314</u> | <u>\$ 9,264,340</u> | <u>\$ 333,343</u> | <u>\$ 2,148,726</u> | <u>\$ 42,333,145</u> | |

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more of total City's investments are as follows:

| <u>Issuer</u> | <u>Investment Type</u> | <u>Reported Amount</u> |
|---------------|---------------------------|------------------------|
| FHLB | Federal agency securities | \$ 26,809,756 |
| FHLMC | Federal agency securities | \$ 32,620,165 |
| FNMA | Federal agency securities | \$ 37,937,989 |

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

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
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for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2012, none of the City's deposits with financial institutions in excess of federal depository amounts were held in uncollateralized accounts.

For investments identified herein as restricted cash with fiscal agent, the fiscal agent selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not rated.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

(5) Capital Assets

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

Governmental Activities:

| | Beginning Balance | Additions | Deletions | Balance June 30, 2012 |
|---------------------------------------|-------------------------|----------------------|------------------------|--------------------------|
| Non-depreciable: | | | | |
| Land and rights of way | \$ 1,820,831,639 | \$ 586,758 | \$ - | \$ 1,821,418,397 |
| Work in progress | 54,918,791 | 62,644,070 | (18,255,722) | 99,307,139 |
| Depreciable: | | | | |
| Structures | 70,055,203 | 16,119,191 | (1,599,261) | 84,575,133 |
| Equipment | 28,238,184 | 1,640,416 | (1,241,179) | 28,637,421 |
| Infrastructure | 312,100,152 | 5,905,127 | (1,378,281) | 316,626,998 |
| | <u>2,286,143,969</u> | <u>86,895,562</u> | <u>(22,474,443)</u> | <u>2,350,565,088</u> |
| Less accumulated depreciation for: | | | | |
| Structures | (16,400,966) | (1,754,647) | 813,353 | (17,342,260) |
| Equipment | (19,735,108) | (2,543,740) | 1,178,423 | (21,100,425) |
| Infrastructure | (123,550,006) | (6,390,267) | 814,128 | (129,126,145) |
| | <u>(159,686,080)</u> | <u>(10,688,654)</u> | <u>2,805,904</u> | <u>(167,568,830)</u> |
| Net Capital Assets | <u>\$ 2,126,457,889</u> | <u>\$ 76,206,908</u> | <u>\$ (19,668,539)</u> | <u>\$ 2,182,996,258</u> |

Governmental Activities capital assets net of accumulated depreciation at June 30, 2012 are comprised of the following:

| | |
|-------------------------------------------|-------------------------|
| General Capital Assets, net | \$ 2,176,594,062 |
| Internal Service Fund Capital Assets, net | <u>6,402,196</u> |
| | <u>\$ 2,182,996,258</u> |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

Business-type Activities:

| | Beginning Balance | Additions | Deletions | Balance June 30, 2012 |
|------------------------------------|-----------------------|--------------------|-----------------------|--------------------------|
| Non-depreciable: | | | | |
| Land | \$ 2,016,450 | \$ - | \$ - | \$ 2,016,450 |
| Work in progress | 2,831,958 | 521,430 | (2,551,432) | 801,956 |
| Depreciable: | | | | |
| Structures | 688,396 | - | - | 688,396 |
| Equipment | 187,432 | - | (78,534) | 108,898 |
| Infrastructure | 158,141,517 | 4,335,972 | (366,303) | 162,111,186 |
| | <u>163,865,753</u> | <u>4,857,402</u> | <u>(2,996,269)</u> | <u>165,726,886</u> |
| Less accumulated depreciation for: | | | | |
| Structures | (127,610) | (14,797) | - | (142,407) |
| Equipment | (109,313) | (5,896) | 71,182 | (44,027) |
| Infrastructure | <u>(54,652,371)</u> | <u>(2,097,493)</u> | <u>190,649</u> | <u>(56,559,215)</u> |
| | (54,889,294) | (2,118,186) | 261,831 | (56,745,649) |
| Net Capital Assets | <u>\$ 108,976,459</u> | <u>2,739,216</u> | <u>\$ (2,734,438)</u> | <u>\$ 108,981,237</u> |

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

| | Governmental Activities* | Business-type Activities |
|-----------------------|-----------------------------|-----------------------------|
| General government | \$ 270,562 | \$ - |
| Public safety | 1,465,371 | - |
| Public works | 7,145,036 | - |
| Community development | 125,149 | - |
| Community service | 1,682,536 | - |
| Water | - | 1,551,707 |
| Wastewater | - | 566,479 |
| | <u>\$ 10,688,654</u> | <u>\$ 2,118,186</u> |

*Internal Service Fund depreciation of \$2,288,057 is allocated to governmental functions above.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

(6) Long-Term Debt

Changes in Long-Term Liabilities

Long-term liability for the year ended June 30, 2012, was as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance | Amounts Due Within One Year |
|--------------------------------------------------|-----------------------|---------------------|------------------------|-----------------------|-----------------------------------|
| Governmental activities: | | | | | |
| Certificates of participation payable | \$ 126,660,000 | \$ - | \$ (1,740,000) | \$ 124,920,000 | \$ 2,690,000 |
| Bond Premium | 1,084,977 | - | (120,553) | 964,424 | 120,553 |
| Note payable | 737,854 | - | (737,854) | - | - |
| Pre-annexation agreement | 7,200,000 | - | (1,200,000) | 6,000,000 | 1,200,000 |
| CDBG Loan | 1,788,000 | - | (102,000) | 1,686,000 | 108,000 |
| Purchase Agreement Payable | 750,000 | - | (750,000) | - | - |
| Workers' compensations payable | 14,620,000 | 2,796,045 | (1,739,265) | 15,676,780 | 3,328,702 |
| Claims and judgements payable | 3,958,131 | 2,577,605 | (2,215,163) | 4,320,573 | 1,315,727 |
| Compensated absences | 8,905,596 | 1,876,529 | (1,850,327) | 8,931,798 | 2,166,153 |
| Early Retirement Incentive Program (see note 11) | 2,881,188 | - | (960,396) | 1,920,792 | 960,396 |
| Net OPEB obligation | 8,484,000 | - | (8,484,000) | - | - |
| Total governmental activities | <u>\$ 177,069,746</u> | <u>\$ 7,250,179</u> | <u>\$ (19,899,558)</u> | <u>\$ 164,420,367</u> | <u>\$ 11,889,531</u> |

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. Also, liabilities for workers' compensation, claims and judgments, compensated absences, and net OPEB obligation are typically liquidated from the Internal Service funds through resources collected from individual funds.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

Governmental Activities

- Certificates of Participation

In Fiscal Year 2010-11, the City issued \$20,085,000 of Series 2010A (Tax Exempt) and \$106,575,000 of Series 2010B (Federally Taxable Direct Pay Build America Bonds) Certificates of Participation. The 2010A Certificates were issued to prepay the \$3,990,000 principal outstanding on the 1998 Library Certificates of Participation. The refunding was undertaken to reduce total debt service payments over the next nine years by \$1,084,556 and resulted in a net present value savings of \$429,500. Accordingly, the 1998 Library Certificates have been defeased pursuant to the defeasance provisions of the 1998 Trust Agreement. The remaining proceeds from the Series 2010A Certificates are to be used to finance the acquisition, improvement and equipping of the Civic Center Project. The Series 2010B Certificates were issued to provide additional financing for the Civic Center Project. The proceeds of the Certificates will also be applied to pay certain costs of issuance incurred in connection with the Certificates.

The lease payments made by the City are held by a trustee who makes semi-annual payments on the Certificates of Participation. The lease payments began January 1, 2011, and are in amounts sufficient to cover the payment of principal and interest of the Certificates. Interest on the Certificates is payable semiannually on January 1 and July 1 of each year. The 2010A Certificates carry interest rates from 2.00% to 4.00%, while the 2010B Certificates interest rates range from 4.45% to 7.17%. The City has designated the Series 2010B Certificates as "Build America Bonds" (BABs) under the provisions of the American Recovery and Reinvestment Act of 2009. Thus, the City expects to receive refundable credits from the United States Treasury equal to 35% of the interest payable on the 2010B Certificates totaling \$53,292,850. As of June 30, 2012 the City has received \$4,021,102 of BABs Subsidy from the United States Treasury. Principal payments are payable annually on July 1 of each year. Future principal payments for the Series 2010A, which commenced July 1, 2011 and continue through July 1, 2019, range from \$410,000 to \$3,185,000. The future principal payments for the Series 2010B Certificates, which commence July 1, 2018 and are payable through July 1, 2040, range from \$2,900,000 to \$7,245,000. The total outstanding balance at June 30, 2012 amounted to \$124,920,000.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

The annual amortization requirements of the Certificates of Participation are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|------------------------|-----------------------|-----------------------|-----------------------|
| 2013 | 2,690,000 | 7,853,617 | 10,543,617 |
| 2014 | 2,775,000 | 7,771,642 | 10,546,642 |
| 2015 | 2,860,000 | 7,687,117 | 10,547,117 |
| 2016 | 2,940,000 | 7,585,417 | 10,525,417 |
| 2017 | 3,060,000 | 7,465,417 | 10,525,417 |
| 2018-2021 | 12,965,000 | 28,491,993 | 41,456,993 |
| 2022-2025 | 13,340,000 | 25,799,084 | 39,139,084 |
| 2026-2029 | 15,760,000 | 21,911,692 | 37,671,692 |
| 2030-2033 | 18,850,000 | 17,014,346 | 35,864,346 |
| 2034-2037 | 22,580,000 | 11,099,290 | 33,679,290 |
| 2038-2041 | 27,100,000 | 3,995,443 | 31,095,443 |
| | <u>\$ 124,920,000</u> | <u>\$ 146,675,058</u> | <u>\$ 271,595,058</u> |

- Note Payable

Note payable consists of a note to the California Department of Boating and Waterways in 1987 for a loan in the amount of \$3,300,000. The note is payable in thirty annual principal and interest installments of \$237,062 at 4.5% rate of interest beginning August 1, 1987. The note has been paid off and there is no outstanding balance at June 30, 2012.

- Newport Coast Pre-Annexation Agreement Payable

In conjunction with the January 1, 2002, annexation of Newport Coast, the City entered into an agreement payable with the Newport Coast Committee for a total of \$18,000,000 to reduce property owner assessments used to finance certain road and street improvements. The principal-only agreement which began in the 2003 fiscal year, is payable over a period of fifteen years in equal installments of \$1,200,000. The outstanding balance at June 30, 2012, amounted to \$6,000,000.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

- CDBG Loan

In fiscal year 2003, the City received \$2,400,000 in Section 108 loan proceeds to assist with the funding for the Balboa Village Improvement Program. The loan is collateralized by future Community Development Block Grant allocations with an average interest rate of 6.5%. Future principal payments range from \$108,000 to \$208,000 through June 30, 2023. The outstanding balance at June 30, 2012, amounted to \$1,686,000.

The annual amortization requirements for the CDBG Loan are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|------------------------|---------------------|-------------------|---------------------|
| 2013 | 108,000 | 94,485 | 202,485 |
| 2014 | 116,000 | 88,722 | 204,722 |
| 2015 | 123,000 | 82,315 | 205,315 |
| 2016 | 132,000 | 75,306 | 207,306 |
| 2017 | 141,000 | 67,639 | 208,639 |
| 2018-2021 | 663,000 | 180,203 | 843,203 |
| 2022-2023 | 403,000 | 25,013 | 428,013 |
| | <u>\$ 1,686,000</u> | <u>\$ 613,683</u> | <u>\$ 2,299,683</u> |

- Purchase Agreement Payable

In Fiscal Year 2010, the City entered into an agreement with a private property owner for the purchase of two adjacent parcels of land located at 608 East Balboa Boulevard and 209 Washington Street. The purchase price was \$3.5 million. The City paid \$2 million by the close of escrow with the remaining \$1.5 million to be paid in two annual installments with a 2% interest. The Purchase Agreement has been paid in full and there is no outstanding balance at June 30, 2012.

- Claims and Judgments

The City retains the risk of loss for general liability and workers' compensation claims as described in note (8). These amounts represent estimates of amounts to be paid for reported general liability and workers' compensation claims including incurred-but-not-reported claims based upon past experience, modified for current trends and information. While the ultimate amount of losses incurred through June 30, 2012, is dependent on future developments based upon information from the City's attorney, the City's claims administrators and others involved with the administration of the programs; City management believes the accrual is adequate to cover such losses. The estimated liability at June 30, 2012, for general liability amounted to \$4,320,573 and for workers' compensation was \$15,676,780.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

- **Compensated Absences**

The City's policies relating to compensated absences are described in Note (1). This liability, to be paid in future years from available and future resources, at June 30, 2012, is \$8,931,798.

- **Early Retirement Incentive Program (ERIP)**

In Fiscal year 2009-10, the City approved and implemented an Early Retirement Incentive Program (ERIP) to 166 eligible employees to help mitigate declining General Fund revenues and institute long-term structural changes to avert future budget shortfalls. A total of 51 people participated and the estimated liability at June 30, 2012 is \$1,920,792. See Note (11) in the notes to financial statements.

(7) Limited Obligation Bonds

Special Assessment Districts Bonds

The City has issued certain Assessment District and Community Facilities District Bonds. Although the City collects and disburses funds for these districts, the City has no obligation or duty to pay any delinquency out of any available funds of the City. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds, and therefore the bonded indebtedness is not shown in the financial statements of the City. The City holds reserve funds on behalf of bondholders; the assets are recorded in the Special Assessment Agency Fund. Bonds outstanding at June 30, 2012, for each district under the Bond Acts of 1911 and 1915, and other special assessments, are as follows:

| <u>Assessment District</u> | <u>Original Issue</u> | <u>Bonds Outstanding June 30, 2012</u> |
|----------------------------------------|-----------------------|--------------------------------------------|
| No. 68 Newport Shores | 3,813,562 | 1,730,000 |
| No. 69 West Newport | 4,978,498 | 2,170,000 |
| No. 70 Bay Shores | 1,380,996 | 665,000 |
| No. 74 Island Avenue | 222,629 | 85,000 |
| No. 75 Balboa Business | 821,204 | 470,000 |
| No. 78 Little Balboa Island | 1,348,196 | 195,000 |
| No. 79 Beacon Bay | 1,215,134 | 390,000 |
| No. 82 Corona del Mar | 274,967 | 75,000 |
| No. 86 Balboa Peninsula | 300,174 | 120,000 |
| No. 92 Coast Highway | 1,425,000 | 1,230,000 |
| No. 99-2 Ocean Front | 1,953,952 | 1,675,000 |
| No. 100 13 th /Balboa/Adams | 2,670,000 | 2,450,000 |
| No. 101 Central Balboa | 2,467,597 | 2,015,000 |
| No. 103 Peninsula Point | 3,295,700 | 2,820,000 |
| No. 95-1 CIOSA Refunding Series A | 15,495,000 | 5,185,000 |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

Other Limited Obligation Bonds

The City has issued revenue bonds for the purpose of advancing the net proceeds of the bonds to Hoag Memorial Hospital Presbyterian for the purposes of financing the acquisition, construction and equipping of health facilities located within the City.

The bonds are limited obligations of the City payable from payments required to be made by Hoag Memorial Hospital. The City is not obligated to pay the principal or interest of the bonds except from payments made by Hoag, and neither the faith and credit nor the taxing power of the City is pledged to the payment of the principal and interest on the bonds. Therefore the bonded indebtedness is not shown in the financial statements.

Bonds outstanding at June 30, 2012, are as follows:

| | |
|--------------|---------------|
| Series 2008C | \$70,095,000 |
| Series 2008D | \$80,000,000 |
| Series 2008E | \$80,000,000 |
| Series 2008F | \$90,000,000 |
| Series 2009A | \$66,835,000 |
| Series 2009D | \$35,490,000 |
| Series 2009E | \$35,490,000 |
| Series 2011A | \$105,390,000 |

The revenue bonds are subject to, at the option of Hoag Memorial Hospital Presbyterian, optional and mandatory tender for purchase. If no tender or purchase is made, varying redemption payments on the 2008 Series bonds commence on December 1, 2012, and are required to be made through December 1, 2028. For the 2009 Series bonds, varying redemption payments commence on December 1, 2014, and are required to be made through December 1, 2038. For the 2011 Series bonds, varying redemption payments begin on December 1, 2012 and are required to be made through December 1, 2040.

(8) Risk Management – General Liability and Workers' Compensation

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City carries commercial insurance with independent third parties for loss risks associated with real and personal property, and automotive liability. The City purchases fidelity bonds for employees in key positions. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. For general liability, the City has excess insurance coverage of \$50 million per occurrence with a self-insured retention (SIR) of \$500,000 per occurrence.

For workers' compensation and employer's liability insurance, the City has excess insurance coverage of \$1,000,000 per occurrence with a \$1,000,000 SIR. This coverage provides for work-related accidents and diseases.

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The Insurance Reserve fund was established to account for costs associated with general liability and workers' compensation. The Insurance Reserve fund is accounted for as an internal service fund where assets are set aside for risk management, administration, claim settlements and benefit distribution. A premium is charged to each fund that accounts for part-time or full-time employees. The total charge allocated to each of the funds is calculated using trends in actual experience after considering unexpected and unusual claims.

Fund liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts and other economic and social factors. The total liability claims payable include \$19,997,353 which represents the discounted present value at June 30, 2012. The claims were discounted using an interest rate of three percent.

| | <u>General Liability</u> | | <u>Workers' Compensation</u> | |
|-----------------------------------------|--------------------------|----------------------|------------------------------|----------------------|
| | <u>June 30, 2011</u> | <u>June 30, 2012</u> | <u>June 30, 2011</u> | <u>June 30, 2012</u> |
| Unpaid claims, beginning of fiscal year | \$ 3,820,391 | \$ 3,958,131 | \$ 12,322,000 | \$ 14,620,000 |
| Incurred claims (including IBNR) | 1,872,592 | 2,577,605 | 5,229,876 | 2,796,045 |
| Claim payments | <u>(1,734,852)</u> | <u>(2,215,163)</u> | <u>(2,931,876)</u> | <u>(1,739,265)</u> |
| Unpaid claims, end of fiscal year | <u>\$ 3,958,131</u> | <u>\$ 4,320,573</u> | <u>\$ 14,620,000</u> | <u>\$ 15,676,780</u> |

For the past three years, no payment on any claim or judgment has exceeded the amount of applicable insurance.

(9) Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years.

Section 457 plan assets were placed in trust for the exclusive benefit of all employees and their beneficiaries. Therefore, all employee assets held in Section 457 plans are not the property of the City and are not subject to the claims of the City's general creditors. The assets under the plan, which are not included in the accompanying financial statements, totaled \$72,506,971 at June 30, 2012.

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(10) Pension Plans

Plan Description - Defined Benefit Plan

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

Funding Policy

Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City makes the contribution required of City safety employees on their behalf and for their account. In December 2010, non-safety employees, except those in Police and Fire Associations, agreed to contribute 5.58% of the required 8% of annual salary for the participant contribution and 2.42% of the City's employer contribution which is discussed below. The 5.58% participant contribution was phased in over a one-year period. Benefit provisions and all other requirements are established by State statutes and City contract with employee bargaining groups.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2011 to June 30, 2012, has been determined by an actuarial valuation of the plan as of June 30, 2009. The contribution rate indicated for the period is 12.208% for non-safety employees and 35.028% for safety employees of annual covered payroll. Without the cost sharing agreement with non-safety employees, the contribution rate would be 14.628% for non-safety employees. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2012, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2011 to June 30, 2012.

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Notes to Basic Financial Statements
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Annual Pension Cost

For 2012, the City's annual pension cost of \$18,018,035 for PERS was equal to the City's required and actual contributions. A summary of principle assumptions and methods used to determine the annual required contribution is shown below:

| | <u>Miscellaneous Plan</u> | <u>Safety Plan</u> |
|-----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Valuation Date</i> | June 30, 2009 | June 30, 2009 |
| <i>Actuarial Cost Method</i> | Entry Age Actuarial Cost Method | Entry Age Actuarial Cost Method |
| <i>Amortization Method</i> | Level Percent of Payroll | Level Percent of Payroll |
| <i>Average Remaining Period</i> | 24 Years as of the Valuation Date | 29 Years as of the Valuation Date |
| <i>Asset Valuation Method</i> | 15-Year Smoothed Market | 15-Year Smoothed Market |
| <i>Actuarial Assumptions:</i> | | |
| <i>Investment Rate of Return</i> | 7.75% (net of administrative expenses) | 7.75% (net of administrative expenses) |
| <i>Projected Salary Increases</i> | 3.55% to 14.45% depending on age, service, and type of employment | 3.55% to 13.15% depending on age, service, and type of employment |
| <i>Inflation Rate</i> | 3.00% | 3.00% |
| <i>Payroll Growth</i> | 3.25% | 3.25% |
| <i>Individual Salary Growth</i> | A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.0% and an annual production growth of 0.25% | A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.0% and an annual production growth of 0.25% |

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

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THREE-YEAR TREND INFORMATION FOR PERS (\$ Amount in Thousands)

| <u>Fiscal Year</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|--------------------|--------------------------------------|------------------------------------------|-----------------------------------|
| 6/30/10 | | | |
| Misc. | \$6,334 | 100% | \$0 |
| Safety | \$11,320 | 100% | \$0 |
| Total | <u>\$17,654</u> | <u>100%</u> | <u>\$0</u> |
| 6/30/11 | | | |
| Misc. | \$6,074 | 100% | \$0 |
| Safety | \$10,756 | 100% | \$0 |
| Total | <u>\$16,830</u> | <u>100%</u> | <u>\$0</u> |
| 6/30/12 | | | |
| Misc. | \$6,385 | 100% | \$0 |
| Safety | \$11,633 | 100% | \$0 |
| Total | <u>\$18,018</u> | <u>100%</u> | <u>\$0</u> |

The Schedule of Funding Progress, below, shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll. The Schedule of Funding Progress, below, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing overtime, relative to the actuarial accrued liability for benefits.

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SCHEDULE OF FUNDING PROGRESS FOR PERS (\$ Amount in Thousands)

| Valuation Date | Entry Age Normal Accrued Liability (A) | Actuarial Value of Assets (B) | Unfunded Liability (Excess Assets) (A - B) | Funded Status | | Annual Covered Payroll (C) | UAAL as a % of Payroll [(A-B) / C] |
|----------------|----------------------------------------|-------------------------------|--------------------------------------------|---------------|--------------|----------------------------|------------------------------------|
| | | | | AVA (B/A) | Market Value | | |
| 06/30/2009 | | | | | | | |
| Misc. | \$ 249,666 | \$ 207,818 | \$ 41,848 | 83.2% | 61.1% | \$ 42,893 | 97.564% |
| Safety | 366,918 | 274,649 | 92,269 | 74.9% | 54.8% | 30,253 | 304.991% |
| Total | <u>\$ 616,584</u> | <u>\$ 482,467</u> | <u>\$ 134,117</u> | <u>78.2%</u> | <u>57.4%</u> | <u>\$ 73,146</u> | <u>183.355%</u> |
| 06/30/2010 | | | | | | | |
| Misc. | \$ 269,463 | \$ 218,258 | \$ 51,205 | 81.0% | 63.8% | \$ 40,588 | 126.158% |
| Safety | 382,338 | 284,617 | 97,721 | 74.4% | 58.4% | 29,753 | 328.441% |
| Total | <u>\$ 651,801</u> | <u>\$ 502,875</u> | <u>\$ 148,926</u> | <u>77.2%</u> | <u>60.6%</u> | <u>\$ 70,341</u> | <u>211.720%</u> |
| 06/30/2011 | | | | | | | |
| Misc. | \$ 287,109 | \$ 228,755 | \$ 58,354 | 79.7% | 71.2% | \$ 40,787 | 143.070% |
| Safety | 405,879 | 295,076 | 110,803 | 72.7% | 64.8% | 28,820 | 384.466% |
| Total | <u>\$ 692,988</u> | <u>\$ 523,831</u> | <u>\$ 169,157</u> | <u>75.6%</u> | <u>67.4%</u> | <u>\$ 69,607</u> | <u>243.017%</u> |

More current information regarding actuarial data is not yet available from PERS.

Plan Description - Defined Contribution Plan

Pursuant to City Council Resolution No. 91-106, the City entered into a defined contribution plan administrated by the private administrator known as Public Agency Retirement System ("PARS") for all of its part-time employees, pursuant to the requirements of Section 11332 of the Social Security Act. The City Council has the authority for establishing and amending the plan's provisions per the Resolution. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. All part-time employees are eligible to participate from the date of employment. Federal legislation requires contributions of at least 7.5% to a retirement plan, and City Council resolved to match the employees' contributions of 3.75%. The City's contributions for each employee (and interest earned by the accounts) are fully vested immediately.

For the year ended June 30, 2012, the City's covered payroll for employees participating in the plan was \$2,699,973. Employees made contributions of \$101,249 (3.75% of current covered payroll), which was matched by the employer in the same amount. Assets of the plan totaled \$1,944,032 at June 30, 2012.

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(11) Early Retirement Incentive Program (ERIP)

In October 2009, the City Council approved Resolution 2009-73 authorizing an Early Retirement Incentive Program (ERIP) to eligible employees, under the condition the program would meet the immediate and future fiscal, managerial, and operational goals of the City to help mitigate declining General Fund revenues and institute long-term structural changes to avert future budget shortfalls and ensure that the City remains financially sound. There were 166 employees who met the following eligibility requirements:

- Full-time, miscellaneous (non- safety) employee
- 50 years of age or older as of January 31, 2010
- Eligible to retire from PERS with at least five years of service
- Have at least three years of service with the City as of January 31, 2010
- Would actually retire from the PERS system
- Not the City Manager, City Clerk, or the City Attorney

A total of 51 people participated and were approved by the City Council for the Early Retirement Incentive Program through the Public Agency Retirement Systems (“PARS”) Supplemental Retirement Program (“SRP”). The Supplemental Retirement Plan offered through PARS allowed the City to set the payment, eligibility, and refilling based on the City’s needs, as well as allowing the expense to be known and quantifiable. The benefit to the participating employee is paid via a 15-year annuity of 7% of Final Pay up to \$75,000 and 6% of amount of Final Pay over \$75,000. The SRP complements, and is in addition to, an employee’s CalPERS retirement benefit. The City is funding the cost of this annuity in annual installments over a five year period.

The total estimated cost to fund the ERIP benefit approximates \$950,000 for the first five years. After considering the costs of implementing the ERIP plan and the estimated reduction to the City payroll, the net savings are expected to reach nearly \$3.1 million annually. In accordance with GASB 47, a liability for the recognition of the accrued cost for this benefit has been recognized in the Compensated Absence, Internal Service Fund. This cost excludes a consideration of discounting the cash flows associated with the five year funding of the program due to the immateriality of such consideration. The outstanding obligation at June 30, 2012 was \$1,920,792.

(12) Post Employment Health Care Benefits (OPEB)

The following description of the City of Newport Beach Medical Expense Reimbursement Plan (the “Plan”) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan’s provisions.

Plan Description

Effective January 2006, the City and employee associations agreed to major changes in the Post Employment Healthcare Plan. All employees and eligible retirees will participate

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in a Health Reimbursement Arrangement (“HRA”) sponsored by the City, the single employer of the plan and held in trust and managed by OPTUM (Trustee), under IRS Revenue Ruling 2002-41 (June 26, 2002) and IRS Notice 2002-45 (June 26, 2002).

All employees hired after January 1, 2006, and certain employees hired prior to this date, as well as employees who elected to fully convert (Fully Converted) to a defined contribution formula, participate in a program that requires mandatory employee and employer contributions. However, once these contributions have been made to the employee’s account, the City has no further funding obligation to the Plan on their behalf.

Certain employees hired prior to January 1, 2006, had the option to retain a hybrid of the former defined benefit Plan, or to fully convert to the new Plan. Employees electing to retain a hybrid of the former defined benefit formula (Hybrid) participate in a program requiring mandatory defined contributions by employees and employer, as well as a defined benefit consisting of an ongoing contribution, from the City to the participant’s HRA account, each month after retirement. Additionally, these employees are eligible to receive health care benefits under the City’s group health care plans. However, in order to receive these benefits these employees are required to pay the City \$100 per month, up until their retirement, to offset the unfunded portion of post employment health benefits existing at the inception of the Plan.

Employees who retired prior to January 1, 2006, continue to receive an ongoing defined benefit consisting of a contribution made by the City to the participant’s HRA account each month. The defined benefit portion of the plan is closed to new participants.

Total participants involved in the plan were 1,430 as of June 30, 2012, consisting of 502 miscellaneous employees, 257 safety employees, and 671 retiree and/or termed and their beneficiaries. Copies of PERS’ annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Benefits Provided

The City provides post-employment medical, dental and vision benefits to its retirees, the same benefits as those afforded to active employees, with the general exception that once a retiree becomes eligible for Medicare (that is, reaches age 65), he or she must join a Medicare HMO or a Medicare Supplement plan, with Medicare becoming the primary payor. Employees become eligible to retire and receive City-paid healthcare benefits upon attaining age 50 (safety) or age 55 (miscellaneous) and 5 years of covered PERS service or upon disability before age 50. The payment of benefits, for the purpose of reimbursing eligible health care expenses, cease upon the earliest of the following: (1) the date of the participant’s, their spouse’s, or qualified dependant’s death; (2) the date the balance of any fully converted participant account reaches zero, if no further contributions will be made to said account; or (3) the date of termination of the Plan.

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Plan Contributions

Contributions to the Plan are based on the participant's status as "Fully Converted" or "Hybrid" as described above. All employees contribute 1% of their annual salary. Fully Converted employees also receive a contribution from the City of \$2.50 per month for each year of service and age, after five years of employment. Additionally, Fully Converted employees who previously participated in the defined benefit program receive a one-time contribution from the City upon retirement. This contribution consists of \$100 per month for every month paid into the defined benefit program, up to a maximum of 180 months. Further, the City contributes a percentage of any flexible leave bank conversions. The percentage contributed to the HRA account is based on the bargaining unit each employee is associated with.

Hybrid employees receive a one-time contribution of \$75 per month for every month paid into the defined benefit program, up to a maximum of 180 months. For Hybrid employees, the City also contributes a percentage of any flexible leave bank conversions. The percentage contributed to the HRA account is based on the bargaining unit each employee is associated with. Upon retirement, Hybrid employees receive a defined benefit consisting of a monthly contribution, made by the City, to the participant's HRA account of approximately \$400.

Employees who retired prior to January 1, 2006, continue to receive a defined benefit consisting of a monthly contribution, made by the City, to the participant's HRA account each month of approximately \$400 (approximately \$425 for certain retired Police employees). The defined benefit component of the plan is closed to new participants; however, an actuarial valuation is utilized to determine the accrued liability and funding requirements associated with this component of the plan.

Actuarial Valuation, Assumptions and Methods

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

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

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| | |
|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Valuation Date: | June 30, 2010 |
| Actuarial Cost Method: | Entry Age Normal Cost Method (same as CalPERS) |
| Amortization Method: | Level percent of payroll over fixed 20 years |
| Amortization Period: | Level contribution amount over fixed closed 20 years |
| Projected Salary Increases: | 3.25% per year |
| Discount Rate: | 7.25 % for cash subsidy, pre-funding through CalPERS OPEB Trust 4.25% for implied subsidy, no pre-funding, benefits paid from the City's General fund |
| Health Care Cost Trend Rate: | 8.9% grading down to 5.0% |

Implied Subsidy- Change in Accounting Estimate

Because one of the two health plans offered by the City is a non-community-rated plan and retirees are offered the same premium rates as active employees, GASB 45 requires that an implied subsidy (the difference between expected claims and premiums paid for retirees) be valued for the life of the retiree and accrued as a cost of the retiree health care plan. The City has elected to fund the implied subsidy on a pay-as-you-go basis since employer contributions to active and retiree medical plans are fixed, and significant uncertainty exists whether additional cash flows will occur in the future as a result of the implied subsidy. The resulting Net OPEB Obligation (NOO), at June 30, 2011 was \$8,484,000. During fiscal year 2012, the City determined to discontinue the non-community rated health plan, causing changes to actuarial assumptions and valuations for the City's Medical Expense Reimbursement Plan. GASB 62 requires that the effects of these changes in actuarial assumptions and valuations for other post employment retirement benefit plans be accounted for as a change in accounting estimate. Accordingly, the related liability for NOO has decreased, and non-operating revenue has increased by \$8,484,000, resulting in no impact to Net Assets and Fund Net Assets for the year ended June 30, 2012.

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Three-Year Annual Required Contribution (ARC) Trend

The 2011-12 Annual Required Contribution (ARC) includes the Normal Cost plus a 20-year amortization of the Unfunded AAL (in 000's):

| Fiscal Year | Beginning Balance | ARC ¹ | AOC | Actual Contribution | Current Year OPEB Obligation | Percentage Contributed | Annual Covered Payroll | ARC As a % of Payroll | Ending Balance |
|---------------------|-------------------|------------------|-----------------|---------------------|------------------------------|------------------------|------------------------|-----------------------|-----------------|
| 2009/10 | | | | | | | | | |
| Cash Subsidy | \$ - | \$ 2,016 | \$ 2,016 | \$ 2,016 | \$ - | 100% | \$ 73,308 | 2.8% | \$ - |
| Implied Subsidy | 4,408 | 2,603 | 2,477 | 413 | 2,064 | 15.9% | 73,308 | 3.6% | 6,472 |
| Net OPEB Obligation | <u>\$ 4,408</u> | <u>\$ 4,619</u> | <u>\$ 4,493</u> | <u>\$ 2,429</u> | <u>\$ 2,064</u> | <u>52.6%</u> | <u>\$ 73,308</u> | <u>6.3%</u> | <u>\$ 6,472</u> |
| 2010-11 | | | | | | | | | |
| Cash Subsidy | \$ - | \$ 2,128 | \$ 2,128 | \$ 2,128 | \$ - | 100% | \$ 75,691 | 2.8% | \$ - |
| Implied Subsidy | 6,472 | 2,686 | 2,502 | 490 | 2,012 | 18.2% | 75,691 | 3.5% | 8,484 |
| Net OPEB Obligation | <u>\$ 6,472</u> | <u>\$ 4,814</u> | <u>\$ 4,630</u> | <u>\$ 2,618</u> | <u>\$ 2,012</u> | <u>54.4%</u> | <u>\$ 75,691</u> | <u>6.4%</u> | <u>\$ 8,484</u> |
| 2011-12 | | | | | | | | | |
| Cash Subsidy | \$ - | \$ 2,614 | \$ 2,614 | \$ 2,614 | \$ - | 100% | \$ 72,611 | 3.6% | \$ - |
| Implied Subsidy | 8,484 | - | - | 8,484 | (8,484) | 0.0% | 68,112 | 0.0% | - |
| Net OPEB Obligation | <u>\$ 8,484</u> | <u>\$ 2,614</u> | <u>\$ 2,614</u> | <u>\$ 11,098</u> | <u>\$ (8,484)</u> | <u>424.6%</u> | <u>\$ 72,611</u> | <u>3.6%</u> | <u>\$ -</u> |

¹ AOC is equal to the ARC adjusted for interest and amortization of the NOO.

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Three-Year Net OPEB Obligation (NOO) Trend

The NOO is the historical difference between the ARC and actual contributions. If the City always contributes the entire ARC, then the NOO would equal zero. Benefit payments are considered contributions. Contributions in excess of benefit payments must be segregated in a trust for the sole purpose of paying Plan benefits in order to be considered Plan Assets for the purpose of GASB 45.

The June 30, 2012, NOO is determined as follows (in 000's):

| <u>Fiscal Year</u> | <u>July 1, NOO</u> | <u>AOC</u> | <u>Prefunding Contributions & Benefit Payments</u> | <u>June 30, NOO</u> |
|--------------------|--------------------|-----------------|--------------------------------------------------------------------|---------------------|
| 2009/10 | | | | |
| Cash Subsidy | \$ - | \$ 2,016 | \$ (2,016) | \$ - |
| Implied Subsidy | 4,408 | 2,477 | (413) ¹ | 6,472 |
| Total | <u>\$ 4,408</u> | <u>\$ 4,493</u> | <u>\$ (2,429)</u> | <u>\$ 6,472</u> |
| 2010/11 | | | | |
| Cash Subsidy | \$ - | \$ 2,128 | \$ (2,128) | \$ - |
| Implied Subsidy | 6,472 | 2,502 | (490) ² | 8,484 |
| Total | <u>\$ 6,472</u> | <u>\$ 4,630</u> | <u>\$ (2,618)</u> | <u>\$ 8,484</u> |
| 2011/12 | | | | |
| Cash Subsidy | \$ - | \$ 2,614 | \$ (2,614) | \$ - |
| Implied Subsidy | 8,484 | - | (8,484) ³ | - |
| Total | <u>\$ 8,484</u> | <u>\$ 2,614</u> | <u>\$ (11,098)</u> | <u>\$ -</u> |

1 - 2009-20109 estimated implied subsidy

2 - 2010-2011 estimated implied subsidy

3 - 2011-2012 full amortization for NOO and interest on NOO

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Annual OPEB Cost (AOC)

The AOC is equal to the ARC, except when the City has a Net OPEB Obligation (NOO) at the beginning of the year. In that case, the AOC will equal the ARC adjusted for expected interest on the NOO and reduced by an amortization of the NOO. The 2011-12 AOC is determined as follows (in 000's):

| | ARC | Interest on NOO | Amortization of NOO | Total AOC | AOC as % of Payroll |
|-----------------|-----------------|--------------------|------------------------|-----------------|---------------------------|
| Cash Subsidy | \$ 2,614 | \$ - | \$ - | \$ 2,614 | 3.6% |
| Implied Subsidy | - | - | - | - | 0.0% |
| Total | <u>\$ 2,614</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,614</u> | <u>3.6%</u> |

Three-Year Funding Status Trend

The schedule below shows the actuarial accrued liability (AAL), actuarial value of assets, funded status, and the relationship of the unfunded actuarial accrued liability (UAAL) to payroll as of the most recent valuation date.

| Valuation Date | Actuarial Accrued Liability | Actuarial Value of Assets | Unfunded AAL (UAAL) | Funded Status | Annual Covered Payroll | UAAL as a % of Payroll |
|-------------------|-----------------------------------|---------------------------------|---------------------------|------------------|------------------------------|------------------------------|
| 06/30/2006 | | | | | | |
| Cash Subsidy | \$29,639 | \$ - | \$29,639 | 0.0% | \$54,748 | 54.1% |
| Implied Subsidy | 26,409 | - | 26,409 | 0.0% | \$54,748 | 48.2% |
| Total | <u>\$56,048</u> | <u>\$ -</u> | <u>\$56,048</u> | <u>0.0%</u> | <u>\$54,748</u> | <u>102.4%</u> |
| 06/30/2008 | | | | | | |
| Cash Subsidy | \$28,842 | \$ 8,785 | \$20,057 | 30.5% | \$56,527 | 35.5% |
| Implied Subsidy | 20,173 | - | 20,173 | 0.0% | \$56,527 | 35.7% |
| Total | <u>\$49,015</u> | <u>\$8,785</u> | <u>\$40,230</u> | <u>17.9%</u> | <u>\$56,527</u> | <u>71.2%</u> |
| 06/30/2010 | | | | | | |
| Cash Subsidy | \$34,707 | \$ 7,476 | \$27,231 | 21.5% | \$68,112 | 40.0% |
| Implied Subsidy | - | - | - | 0.0% | \$68,112 | 0.0% |
| Total | <u>\$34,707</u> | <u>\$7,476</u> | <u>\$27,231</u> | <u>21.5%</u> | <u>\$68,112</u> | <u>40.0%</u> |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

(13) Interfund Receivables and Payables

At June 30, 2012, interfund advances receivable and payable were as follows:

| | <u>Advance from</u> | <u>Advance To</u> |
|-----------------------------------|---------------------|---------------------|
| General Fund | \$ 6,879,703 | \$ - |
| Tide and Submerged Land - Capital | - | 6,879,703 |
| Total | <u>\$ 6,879,703</u> | <u>\$ 6,879,703</u> |

The General Fund advance to the Tide and Submerged Land – Capital Fund is for expenditures for dredging projects within the City's Tidelands.

At June 30, 2012, interfund receivables and payable were as follows:

| | <u>Due from</u> | <u>Due to</u> |
|---------------------------|----------------------|---------------------|
| General Fund | \$ 8,511,346 | \$ - |
| Facilities Financing Plan | 5,369,296 | - |
| City Hall Improvements | - | 2,174,861 |
| Civic Center COP | - | 5,369,296 |
| Internal Service Funds | - | 2,371,806 |
| Nonmajor Funds | - | 3,964,679 |
| Total | <u>\$ 13,880,642</u> | <u>\$13,880,642</u> |

The above balances are primarily due to reclassification of negative cash balance in the city wide cash pool.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

(14) Interfund Transfers

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

| | | Transfers In | | | | | | | |
|---------------|-------------------------------------------|---------------------|----------------------------------------------|---------------------------|---------------------|---------------------|--------------------------|--------------------|----------------------|
| | | General Fund | Tide and Submerged Land - Operating | Facilities Replacement | Civic Center | Civic Center COP | Internal Service Fund | Non-Major Funds | Total |
| Transfers Out | General Fund | \$ - | \$ 3,027,839 | \$ 4,016,812 | \$ - | \$ - | \$ 313,449 | \$ 36,966 | \$ 7,395,066 |
| | Tide and Submerged Land - Operating | 4,772,752 | - | - | - | - | - | - | 4,772,752 |
| | Facilities Replacement | - | - | - | 3,231,281 | 8,191,020 | - | - | 11,422,301 |
| | Proprietary Fund | - | - | - | - | - | 7,352 | - | 7,352 |
| | Non-Major Funds | 69,511 | - | 1,040,773 | - | - | - | 253,364 | 1,363,648 |
| | Total | <u>\$ 4,842,263</u> | <u>\$ 3,027,839</u> | <u>\$ 5,057,585</u> | <u>\$ 3,231,281</u> | <u>\$ 8,191,020</u> | <u>\$ 320,801</u> | <u>\$ 290,330</u> | <u>\$ 24,961,119</u> |

The City typically uses transfers to fund ongoing subsidies. The General Fund transferred \$3,027,839 to subsidize for the maintenance and operation of the Tide and Submerged Land-Operating Fund, \$4,016,812 to the Facilities Replacement Fund to cash fund construction projects for General Fund supported facilities, \$313,449 to the Information Technology Fund for appropriations transferred from the Police Department and \$36,966 to non major funds for Assessment District costs. The Tide and Submerged Land-Operating Fund transferred \$4,772,752 to the General Fund for pre-funding the harbor dredging projects via the FY 2010-2011 subsidy which are now going to be funded by the Tide and Submerged Land-Capital Fund future revenues. The Water Fund transferred \$7,352 in Capital Assets to the Information Technology Fund. The Facilities Replacement Fund transferred \$8,191,020 for the debt service payment related to the Civic Center Certificates of Participation, and transferred \$3,231,281 to the Civic Center Fund to pay for furniture, fixtures, equipment and signage costs. As required by the pre-annexation agreement, interest accrued in the amount of \$69,511 in the Newport Coast Annexation fund is due, and was subsequently transferred to the General Fund.

(15) Joint Venture Agreements

Bonita Canyon Public Facilities Financing Authority

The Bonita Canyon Public Facilities Financing Authority (Authority) is a joint venture formed by the City of Newport Beach, Irvine Unified School District, and Newport-Mesa Unified School District. The Authority's Board is comprised of two members appointed by each of the member agencies. The Authority created Community Facilities District 98-1 to finance public facilities that will benefit the properties within their

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

boundaries. In 1998, the Authority issued \$45,000,000 of special tax bonds to be repaid by special assessments. The Authority paid the City \$30,577,712 (81.7%) to pay for the costs of acquiring and constructing public facilities including parks and road improvements. In Fiscal Year 2011-12, the Authority issued \$38,330,000 of special tax bonds to refinance the 1998 Series; the City is not obligated in any manner to repay the bonds. At June 30, 2012, the contributions from property owners have been fully spent and no funds are held in trust as cash with fiscal agent. The City does not make any annual contributions to this joint venture. The City does not include the Authority as a component unit, as the City is not financially accountable for the Authority's activities and the Authority is not fiscally dependent on the City. The City's equity interest in this joint venture is not readily determinable. Complete separate financial statements can be obtained at the Newport Mesa Unified School District, 2985 Bear Street, Suite 8M, Costa Mesa, California.

Air Borne Law Enforcement

The City is a participant in a joint venture agreement with the City of Costa Mesa for the operation of the Air Borne Law Enforcement program (ABLE). The oversight Board consists of the Chiefs of Police of Costa Mesa and Newport Beach and one appointee for each Member Agency for a total of four Board Members. The cities have a 50% interest in the venture, with each city having provided an initial investment of two helicopters and related equipment. The City of Newport Beach's cost of participating in the ABLE program is recorded in the General Fund, which provides for the maintenance and operation of the program as well as replacement of capital equipment used in the operation of the program. Annually, the amounts paid by the City to this joint venture are approximately \$1,000,000. Operation costs are offset by fees collected from surrounding cities that may subscribe to regular patrol or request assistance on an as-needed basis. Shared equally between the cities of Newport Beach and Costa Mesa, the City's share of net income from subscribers and other cities amounts to \$77,410 for fiscal year 2011-12. The City's 50% interest in the net equity of this joint venture at June 30, 2012, amounts to \$2,464,039. Complete separate financial statements can be obtained at the City of Costa Mesa at 77 Fair Drive, Costa Mesa, California. Effective July 1, 2011, the City of Newport Beach and the City of Costa Mesa jointly agreed to the dissolution of ABLE, terminating the Joint Power Agreement, selling off the helicopters, parts, vehicles and tools. As of June 30, 2012, the dissolution is still in progress.

Metro Cities Fire Authority

The City of Newport Beach is a member of a joint venture agreement with the cities of Anaheim, Fountain Valley, Fullerton, Garden Grove, Huntington Beach, and Orange for the operation of a communication network to provide fire suppression, emergency medical assistance, and rescue services. The oversight board consists of one voting member and one alternate appointed by the governing body of each member agency. The City of Newport Beach's costs are based each fiscal year upon the number of recorded incidents attributable to the City divided by the recorded incidents attributable to all members during the year and, are recorded in the General Fund as an expenditure for service. Upon termination of the agreement, the proceeds from the sale of the

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

property and assets of the joint venture will be paid to each member agency pursuant to their fair share percentage. Annually, the amounts paid by the City to this joint venture are approximately \$483,205. The City's 10.66% interest in the net equity of this joint venture at June 30, 2012, amounts to \$209,938. Complete separate financial statements can be obtained at the Metro Cities Fire Authority offices at 201 S. Anaheim Boulevard, Suite 302, Anaheim, California.

Integrated Law and Justice Agency of Orange County

The City is a participant in a joint venture agreement with the several other public agencies of Orange County for the operation of the Integrated Law and Justice Agency of Orange County (ILJAOC). The Integrated Law and Justice Agency of Orange County went into effect fiscal year 2007. The ILJAOC consists of 23 member agencies with an oversight board consisting of 12 members from the participating member agencies. The activities of the ILJAOC are recorded in an Agency Fund. Annually, each member agency pays a percentage of the operating and replacement costs for the ILJAOC. The City's annual contribution and interest in the net equity of this joint venture at June 30, 2012, was immaterial. Complete separate financial statements can be obtained at the City of Newport Beach, 3300 Newport Boulevard, Newport Beach, California.

(16) Commitments and Contingencies

Claims and Judgments

Numerous claims and suits have been filed against the City in the normal course of business. The estimated liability under such claims, based upon information received from the City Attorney, contracted attorneys and the Risk Manager, has been estimated and recorded as accrued claims and judgments payable (See Note 6).

Dissolution of the Airborne Law Enforcement (ABLE) Program

Effective July 1, 2011, the City of Newport Beach and the City of Costa Mesa jointly agreed to the dissolution of ABLE, terminating the Joint Power Agreement, selling off the helicopters, parts, vehicles and tools. As of June 30, 2012 the dissolution is still in progress.

Circulation Improvement and Open Space Agreement

The City entered into a Circulation Improvement and Open Space Agreement (CIOSA) with a developer whereby the City received a loan of \$14,395,572 to be used only for certain transportation and circulation improvements. The City agreed to match the contribution (without interest) by pledging 50% of future Fair Share Fees (developer impact fees) which are recorded in the Circulation and Transportation Special Revenue Fund. During the year ended June 30, 2012, the City received \$506,728 of Fair Share Fees, and \$253,364 was paid to the CIOSA Construction capital projects fund. Through June 30, 2012, \$4,601,013 of Fair Share Fees has been paid. No additional liability has

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

been recorded, because any future repayment is uncertain; any amounts not contributed by February 20, 2016, will be forgiven.

Newport Coast Pre-Annexation Agreement

In Fiscal Year 2001-02, the City entered into a Pre-Annexation Agreement with the Newport Coast Committee that stipulated certain terms and conditions for the annexation of property collectively known as Newport Coast.

In conjunction with the annexation, the City also agreed to sell the water service rights for the annexed area to Irvine Ranch Water District for \$25.0 million.

Among other basic provisions, the Pre-Annexation Agreement stipulates specific requirements for the use of proceeds from the sale of the water rights to Irvine Ranch Water District. The City has entered into an agreement to reimburse Newport Coast residents \$18.0 million of the \$25.0 million for certain public road and street improvements previously financed by property owner assessments. The assessment debt relief will be provided to Newport Coast residents in equal installments of \$1.2 million over 15 years. The remaining \$7.0 million was used in locating, planning, and constructing a Community Center within the annexed area. The outstanding Assessment debt relief balance at June 30, 2012 was \$6.0 million.

Operating Agreements

The City of Newport Beach first entered into an agreement with Visit Newport Beach Inc. (VNB), a legally separate non-profit marketing organization, in 1987. The primary responsibility of the VNB is to attract additional visitor business by promoting the City as the premier tourist and business destination in Orange County. The VNB is governed by an Executive Committee comprised of seven individuals not appointed by the City Council of the City of Newport Beach. The current agreement was entered into on May 12, 2004 and subsequently amended on March 10, 2009 extending the agreement through June 30, 2014. The City pays VNB 18% of the Total Transient Occupancy Tax collected during the fiscal year. For the Fiscal Year ending June 30, 2012, the City paid VNB \$2,898,798.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

Contractual Commitments

Construction and contractual commitments for major construction projects are as follows:

| | <u>Annual Budget</u> | <u>Project YTD Expenditures</u> | <u>Unexpended Commitments</u> |
|--------------------------------------|--------------------------|-------------------------------------|-----------------------------------|
| Civic Center | \$ 102,226,458 | \$ 56,046,453 | \$ 48,100,417 |
| Jamboree Road Widening over SR-73 | \$ 3,408,937 | \$ 2,710,006 | \$ 775,505 |
| Newport Coast ASBS Run-off Reduction | \$ 750,000 | \$ 319,370 | \$ 430,629 |
| Newport Coast ASBS Water Quality | \$ 563,000 | \$ 220,507 | \$ 342,493 |
| Marina Park | \$ 2,368,809 | \$ 687,586 | \$ 1,696,633 |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

(17) Fund Balance

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement was to enhance 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. This Statement was effective, and implemented by the City, for fiscal year ending June 30, 2011.

Governmental Fund Balance under Statement No. 54, at June 30, 2012, is classified as follows:

| | Governmental Fund Balance | | | | | | Non-Major Governmental Funds | | | Totals |
|--------------------------------------|---------------------------|-----------------------------------|---------------------------------|------------------------|------------------------|---------------------|------------------------------|-----------------------|---------------------|-----------------------|
| | General | Tide and Submerged Land Operating | Tide and Submerged Land Capital | Facilities Replacement | City Hall Improvements | Civic Center COP | Special Revenue Funds | Capital Project Funds | Permanent Funds | |
| Nonspendable: | | | | | | | | | | |
| Prepaid items | \$ 285,754 | \$ - | \$ - | \$ - | \$ 642,883 | \$ - | \$ 123,772 | \$ - | \$ - | \$ 1,052,409 |
| Inventories | 217,771 | - | - | - | - | - | - | - | - | 217,771 |
| Long-term loan receivable | 7,350,953 | - | - | - | - | - | - | - | - | 7,350,953 |
| Permanent endowment | - | - | - | - | - | - | - | - | 4,629,781 | 4,629,781 |
| Restricted: | | | | | | | | | | |
| Affordable housing | 2,128,289 | - | - | - | - | - | - | - | - | 2,128,289 |
| Hoag Hospital | 134,760 | - | - | - | - | - | - | - | - | 134,760 |
| Upper Newport bay restoration | - | 228,821 | - | - | - | - | - | - | 1,025,151 | 1,253,972 |
| Streets and highways | - | - | - | - | - | - | 6,085,154 | - | - | 6,085,154 |
| Public safety | - | - | - | - | - | - | 1,802,495 | - | - | 1,802,495 |
| Transportation | - | - | - | - | - | - | 1,063,719 | - | - | 1,063,719 |
| Air quality improvement | - | - | - | - | - | - | 571,340 | - | - | 571,340 |
| Environmental liability mitigation | - | - | - | - | - | - | 4,223,951 | - | - | 4,223,951 |
| Capital re-appropriations | - | 626,751 | - | - | - | - | - | 128,874 | - | 755,625 |
| Libraries | - | - | - | - | - | - | - | - | 178,353 | 178,353 |
| Scholarships | - | - | - | - | - | - | - | - | 228,996 | 228,996 |
| Debt service | - | - | - | - | - | 2,532,561 | 6,000,000 | - | - | 8,532,561 |
| Encumbrance reserve | - | 434,596 | - | - | - | - | 3,278,860 | 2,547,562 | - | 6,261,018 |
| Committed: | | | | | | | | | | |
| Contingency reserve | 21,582,798 | - | - | - | - | - | - | - | - | 21,582,798 |
| Facilities replacement | - | - | - | 33,149,725 | - | - | - | - | - | 33,149,725 |
| Oil and gas liabilities | - | 400,000 | - | - | - | - | - | - | - | 400,000 |
| Parks | 917,589 | - | - | - | - | - | - | - | - | 917,589 |
| Oceanfront encroachment | 548,448 | - | - | - | - | - | - | - | - | 548,448 |
| Recreation and senior services | 521,447 | - | - | - | - | - | - | - | - | 521,447 |
| Paramedics program | 479,366 | - | - | - | - | - | - | - | - | 479,366 |
| Cable franchise reserve | 1,514,574 | - | - | - | - | - | - | - | - | 1,514,574 |
| Public safety | 386,607 | - | - | - | - | - | - | - | - | 386,607 |
| Neighborhood enhancement | 297,612 | - | - | - | - | - | - | - | - | 297,612 |
| Encumbrance reserve | 3,424,892 | - | - | - | 36,950,431 | - | - | - | - | 40,375,323 |
| Assigned: | | | | | | | | | | |
| PERS rate reserve | 5,000,000 | - | - | - | - | - | - | - | - | 5,000,000 |
| Lower Newport bay dredging loan | 3,800,000 | - | - | - | - | - | - | - | - | 3,800,000 |
| Surplus to facilities financing plan | 5,043,503 | - | - | - | - | - | - | - | - | 5,043,503 |
| IT strategic fund | 3,000,000 | - | - | - | - | - | - | - | - | 3,000,000 |
| Capital improvement projects | 1,638,677 | - | - | - | - | - | - | - | - | 1,638,677 |
| Capital re-appropriations | 603,167 | - | - | - | - | - | - | - | - | 603,167 |
| Airport mitigation efforts | 100,000 | - | - | - | - | - | - | - | - | 100,000 |
| Fair value Adjustment Reserve | 246,118 | - | - | - | - | - | - | - | - | 246,118 |
| Unassigned: | | | | | | | | | | |
| | 20,570,033 | - | (6,879,703) | - | - | - | (400,254) | (4,059,714) | - | 9,230,362 |
| Total fund balances | \$ 79,792,358 | \$ 1,690,168 | \$ (6,879,703) | \$ 33,149,725 | \$ 37,593,314 | \$ 2,532,561 | \$ 22,749,037 | \$ (1,383,278) | \$ 6,062,281 | \$ 175,306,463 |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2012

(18) Subsequent Event

Reassessment District 2012

On July 2, 2012, the City issued \$13.58 million of bonds to refund and consolidate the following 14 existing Assessment Districts: No. 68, 69, 70, 74, 75, 78, 79, 82, 86, 92, 99-2, 100, 101 and 103 into one Reassessment District. All of the proceeds were escrowed for a period of 60 days and used in conjunction with \$4.04 million of existing funds from the districts to refund the prior bonds on September 2, 2012.

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FINANCIAL SECTION

FINANCIAL SECTION

SUPPLEMENTARY
INFORMATION

OTHER GOVERNMENTAL FUNDS

OTHER GOVERNMENTAL FUNDS

Other Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources which are legally restricted to expenditures for specified purposes. The City of Newport Beach Special Revenue Funds are as follows:

The ***State Gas Tax Fund*** accounts for all State Gas Tax related revenues and expenditures, including street repair, construction, and maintenance. State law requires that these funds be used exclusively for maintenance of the street and highway system.

The ***Asset Forfeiture Fund*** was established to account for all revenues resulting from the seizure of assets in conjunction with criminal cases (primarily drug trafficking). It is the City's policy that all such funds shall be used for enhancement of law enforcement programs.

The ***Office of the Traffic Safety (OTS) DUI Grant Fund*** is used to account for federal funding of the Selective Traffic Enforcement Program (STEP). These funds are used exclusively for DUI enforcement.

The ***Justice Assistance Grant Fund (JAG)*** is used to account for federal support of law enforcement activities.

The ***Circulation and Transportation Fund*** is used to account for fair share revenues collected from developers and restricted for capital improvement projects meeting the circulation element of the City's General Plan.

The ***Building Excise Tax Fund*** is used to account for revenues received from builders or developers on building or remodeling projects within the City. Expenditures from this fund are used exclusively for public safety, libraries, parks, beaches, or recreational activities.

The ***Combined Transportation Fund*** is used to account for the revenues and expenditures of funds received from the Orange County Combined Transportation Funding Program. Expenditures from this fund are used exclusively for transportation related purposes.

The ***Community Development Block Grant Fund*** is used to account for revenues and expenditures relating to the City's Community Development Block Grant program. These funds are received from the Federal Department of Housing and Urban Development and must be expended exclusively on programs for low or moderate income individuals/families.

The ***Air Quality Management District Fund*** is used to account for revenues received from the South Coast Air Quality Management District restricted for the use of reducing air pollution.

The ***Environmental Liability Fund*** is used to account for solid waste fees restricted for mitigation of future environmental liability relating to the handling of solid waste.

The ***Supplemental Law Enforcement Services Fund (SLESF)*** is used to account for revenues received from the county to be used exclusively for front line law enforcement services.

The ***Newport Coast Annexation Fund*** is used to account for revenues and expenditures related to the Newport Coast Annexation Agreement.

The **Contributions Fund** is used to account for revenues received from other government agencies or private developers and expended for specific streets, highway, construction, or water quality projects.

Other Capital Projects Funds

Capital Projects Funds are used to account for resources used for the acquisition and construction of capital facilities by the City, except those financed by Enterprise Funds. The City of Newport Beach Capital Projects Funds are as follows:

The **Assessment District Fund** is used to account for the receipt and expenditure of funds received from 1911 Act and 1915 Act Assessment Districts for capital improvement projects.

The **CIOSA Construction Fund** is used to account for the receipt and expenditure of funds for the Circulation Improvement and Open Space Agreement (CIOSA). The improvements include street and frontage improvements.

The **Bonita Canyon Development Fund** is used to account for the receipt and expenditure of funds for the Bonita Canyon Public Facilities Agreement. The improvements include certain public parks and recreation facilities, and street improvements and facilities.

The **Marine Science Center Fund** is used to account for the design and construction of a new Marine Science Center.

The **Oasis Senior Center Fund** is used to account for revenues and expenditures associated with the development and construction of the Oasis Senior Center.

The **Misc. Santa Ana Heights (SAH) Projects Fund** is used to account for various grants and projects associated with providing public works, parks and recreation opportunities within the part of the City known as Santa Ana Heights.

The **Marina Park Fund** is used to account for the design and construction of the Marina Park.

The **Sunset Ridge Park Fund** is used to account for the design and construction of the Sunset Ridge Park.

The **Police Facility Fund** is used to account for expenditures for the future space needs expected of the existing facility buildings, including detailed facility planning and budgetary guidelines for possible building rehabilitation and/or expansion projects.

The **Strategic Planning Fund** is used to account for expenditures for study and concept development needed to further refine the Major Facilities Financing Plan. It includes developing both interim and long-term use plans for the current City Hall site on Newport Boulevard.

The **Lifeguard Headquarters Fund** is used to account for expenditures for the future space needs expected of the existing headquarters buildings, including detailed facility planning and budgetary guidelines for possible building rehabilitation and/or expansion projects.

Other Permanent Funds

Permanent Funds are used to report resources that are legally restricted for the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs. The City of Newport Beach Permanent Funds are as follows:

The ***Bay Dredging Fund*** is used to account for the receipt of permanent endowments intended to fund the ongoing cost of maintaining and dredging of the Upper Newport Bay.

The ***Ackerman Fund*** is used to account for the receipt of permanent endowments intended as follows: 75% of the fund's investment proceeds will be used for the purchase of High Tech Library Equipment while the remaining 25% will be used for Scholarships for needy students.

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CITY OF NEWPORT BEACH
Combining Balance Sheet
Other Governmental Funds
June 30, 2012

Special Revenue

| | <u>State Gas Tax</u> | <u>Asset Forfeiture</u> | <u>OTS DUI Grant</u> | <u>JAG</u> |
|----------------------------------------|--------------------------|-----------------------------|--------------------------|-------------|
| Assets | | | | |
| Cash and investments | \$ 6,041,945 | \$ 1,192,858 | \$ - | \$ - |
| Receivables: | | | | |
| Accounts | - | - | 103,403 | - |
| Intergovernmental receivables | - | - | 71,604 | - |
| Prepaid items | - | - | - | - |
| | <u>6,041,945</u> | <u>1,192,858</u> | <u>175,007</u> | <u>-</u> |
| Total Assets | <u>\$ 6,041,945</u> | <u>\$ 1,192,858</u> | <u>\$ 175,007</u> | <u>\$ -</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 447,684 | \$ 15,718 | \$ 1,080 | \$ - |
| Unearned revenue | - | - | - | - |
| Unavailable revenue | - | - | 71,604 | - |
| Due to other funds | - | - | 124,662 | - |
| | <u>447,684</u> | <u>15,718</u> | <u>197,346</u> | <u>-</u> |
| Total Liabilities | <u>447,684</u> | <u>15,718</u> | <u>197,346</u> | <u>-</u> |
| Fund balances (deficits): | | | | |
| Nonspendable: | | | | |
| Prepaid Items | - | - | - | - |
| Permanent Endowment | - | - | - | - |
| Restricted: | 5,594,261 | 1,177,140 | - | - |
| Unassigned: | - | - | (22,339) | - |
| | <u>5,594,261</u> | <u>1,177,140</u> | <u>(22,339)</u> | <u>-</u> |
| Total fund balances (deficits) | <u>5,594,261</u> | <u>1,177,140</u> | <u>(22,339)</u> | <u>-</u> |
| Total liabilities and fund balances | <u>\$ 6,041,945</u> | <u>\$ 1,192,858</u> | <u>\$ 175,007</u> | <u>\$ -</u> |

Special Revenue

| <u>Circulation and Transportation</u> | <u>Building Excise Tax</u> | <u>Combined Transportation</u> | <u>Community Development Block Grant</u> | <u>Air Quality Management District</u> |
|---------------------------------------|----------------------------|--------------------------------|------------------------------------------|----------------------------------------|
| \$ - | \$ 649,716 | \$ 3,934,029 | \$ - | \$ 571,340 |
| - | - | 727,076 | - | - |
| - | - | 290,157 | 31,425 | - |
| - | - | - | - | - |
| <u>\$ -</u> | <u>\$ 649,716</u> | <u>\$ 4,951,262</u> | <u>\$ 31,425</u> | <u>\$ 571,340</u> |
| | | | | |
| \$ 364,778 | \$ 1,408 | \$ 766,998 | \$ 26,499 | \$ - |
| - | - | 1,404,465 | - | - |
| - | - | 32,433 | - | - |
| 13,137 | - | - | 4,926 | - |
| <u>377,915</u> | <u>1,408</u> | <u>2,203,896</u> | <u>31,425</u> | <u>-</u> |
| | | | | |
| - | - | - | - | - |
| - | - | - | - | - |
| - | 648,308 | 2,747,366 | - | 571,340 |
| (377,915) | - | - | - | - |
| <u>(377,915)</u> | <u>648,308</u> | <u>2,747,366</u> | <u>-</u> | <u>571,340</u> |
| | | | | |
| <u>\$ -</u> | <u>\$ 649,716</u> | <u>\$ 4,951,262</u> | <u>\$ 31,425</u> | <u>\$ 571,340</u> |

(continued)

CITY OF NEWPORT BEACH
Combining Balance Sheet
Other Governmental Funds
June 30, 2012
(continued)

Special Revenue

| | <u>Environmental Liability</u> | <u>Supplemental Law Enforcement</u> | <u>Newport Coast Annexation</u> | <u>Contributions</u> |
|----------------------------------------|------------------------------------|---------------------------------------------|-----------------------------------------|----------------------|
| Assets | | | | |
| Cash and investments | \$ 4,233,548 | \$ - | \$ 6,026,190 | \$ 2,302,282 |
| Receivables: | | | | |
| Accounts | - | - | - | 170,000 |
| Intergovernmental receivables | - | 19,607 | - | 2,493,588 |
| Prepaid items | 123,772 | - | - | - |
| | <u>4,357,320</u> | <u>19,607</u> | <u>6,026,190</u> | <u>4,965,870</u> |
| Total Assets | <u>\$ 4,357,320</u> | <u>\$ 19,607</u> | <u>\$ 6,026,190</u> | <u>\$ 4,965,870</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 9,597 | \$ - | \$ 26,190 | \$ 103,603 |
| Unearned revenue | - | - | - | 326,166 |
| Unavailable revenue | - | - | - | 2,472,948 |
| Due to other funds | - | 19,607 | - | - |
| | <u>9,597</u> | <u>19,607</u> | <u>26,190</u> | <u>2,902,717</u> |
| Total Liabilities | <u>9,597</u> | <u>19,607</u> | <u>26,190</u> | <u>2,902,717</u> |
| Fund balances (deficits): | | | | |
| Nonspendable: | | | | |
| Prepaid Items | 123,772 | - | - | - |
| Permanent Endowment | - | - | - | - |
| Restricted: | 4,223,951 | - | 6,000,000 | 2,063,153 |
| Unassigned: | - | - | - | - |
| | <u>4,347,723</u> | <u>-</u> | <u>6,000,000</u> | <u>2,063,153</u> |
| Total fund balances (deficits) | <u>4,347,723</u> | <u>-</u> | <u>6,000,000</u> | <u>2,063,153</u> |
| Total liabilities and fund balances | <u>\$ 4,357,320</u> | <u>\$ 19,607</u> | <u>\$ 6,026,190</u> | <u>\$ 4,965,870</u> |

Capital Projects

| <u>Assessment District</u> | <u>CIOSA Construction</u> | <u>Bonita Canyon Development</u> | <u>Marine Science Center</u> |
|----------------------------|---------------------------|----------------------------------|------------------------------|
| \$ 2,906,323 | \$ - | \$ - | \$ - |
| 563 | - | - | - |
| - | - | - | - |
| - | - | - | - |
| <u>\$ 2,906,886</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| | | | |
| \$ 230,450 | \$ - | \$ - | \$ - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | 125,421 |
| <u>230,450</u> | <u>-</u> | <u>-</u> | <u>125,421</u> |
| | | | |
| - | - | - | - |
| - | - | - | - |
| 2,676,436 | - | - | - |
| - | - | - | (125,421) |
| <u>2,676,436</u> | <u>-</u> | <u>-</u> | <u>(125,421)</u> |
| | | | |
| <u>\$ 2,906,886</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

(continued)

CITY OF NEWPORT BEACH
Combining Balance Sheet
Other Governmental Funds
June 30, 2012
(continued)

| | Capital Projects | | |
|--------------------------------------|--------------------------------|------------------------------|------------------------|
| | Oasis Senior Center | Misc SAH Projects | Marina Park |
| Assets | | | |
| Cash and investments | \$ - | \$ 1,241,899 | \$ - |
| Receivables: | | | |
| Accounts | - | 36,266 | - |
| Intergovernmental receivables | - | - | - |
| Prepaid items | - | - | - |
| | - | - | - |
| Total Assets | \$ - | \$ 1,278,165 | \$ - |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ - | \$ - | \$ 188,870 |
| Unearned revenue | - | 1,296,947 | - |
| Unavailable revenue | - | 35,953 | - |
| Due to other funds | - | - | 2,024,132 |
| | - | - | 2,024,132 |
| Total Liabilities | - | 1,332,900 | 2,213,002 |
| Fund balances (deficits): | | | |
| Nonspendable: | | | |
| Prepaid Items | - | - | - |
| Permanent Endowment | - | - | - |
| Restricted: | | | |
| Unassigned: | - | (54,735) | (2,213,002) |
| | - | (54,735) | (2,213,002) |
| Total fund balances (deficits) | - | (54,735) | (2,213,002) |
| Total liabilities and fund balances | \$ - | \$ 1,278,165 | \$ - |

Capital Projects

| <u>Sunset Ridge Park</u> | <u>Police Facility</u> | <u>Strategic Planning</u> | <u>Lifeguard Headquarters</u> |
|------------------------------|----------------------------|-------------------------------|-----------------------------------|
| \$ - | \$ - | \$ - | \$ - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| | | | |
| \$ 13,762 | \$ - | \$ - | \$ - |
| - | - | - | - |
| - | - | - | - |
| 1,514,775 | 2,175 | 105,665 | 30,179 |
| <u>1,528,537</u> | <u>2,175</u> | <u>105,665</u> | <u>30,179</u> |
| | | | |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| (1,528,537) | (2,175) | (105,665) | (30,179) |
| <u>(1,528,537)</u> | <u>(2,175)</u> | <u>(105,665)</u> | <u>(30,179)</u> |
| | | | |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

(continued)

CITY OF NEWPORT BEACH
Combining Balance Sheet
Other Governmental Funds
June 30, 2012
(continued)

| | <u>Permanent Fund</u> | | Total Other Governmental Funds |
|------------------------------------------|-----------------------------|------------------------------|---------------------------------------------------|
| | <u>Bay Dredging</u> | <u>Ackerman Donation</u> | |
| Assets | | | |
| Cash and investments | \$ 4,882,150 | \$ 1,181,631 | \$ 35,163,911 |
| Receivables: | | | |
| Accounts | - | - | 1,037,308 |
| Intergovernmental receivables | - | - | 2,906,381 |
| Prepaid items | - | - | 123,772 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total Assets | <u>\$ 4,882,150</u> | <u>\$ 1,181,631</u> | <u>\$ 39,231,372</u> |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ - | \$ 1,500 | \$ 2,198,137 |
| Unearned revenue | - | - | 3,027,578 |
| Unavailable revenue | - | - | 2,612,938 |
| Due to other funds | - | - | 3,964,679 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total Liabilities | <u>-</u> | <u>1,500</u> | <u>11,803,332</u> |
| Fund balances (deficits): | | | |
| Nonspendable: | | | |
| Prepaid Items | - | - | 123,772 |
| Permanent Endowment | 3,857,000 | 772,781 | 4,629,781 |
| Restricted: | 1,025,150 | 407,350 | 27,134,455 |
| Unassigned: | - | - | (4,459,968) |
| | <u> </u> | <u> </u> | <u> </u> |
| Total fund balances (deficits) | <u>4,882,150</u> | <u>1,180,131</u> | <u>27,428,040</u> |
| Total liabilities and fund balances | <u>\$ 4,882,150</u> | <u>\$ 1,181,631</u> | <u>\$ 39,231,372</u> |

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CITY OF NEWPORT BEACH
Other Governmental Fund Types
Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
For the Year ended June 30, 2012

Special Revenue

| | <u>State Gas Tax</u> | <u>Asset Forfeiture</u> | <u>OTS DUI Grant</u> | <u>JAG</u> |
|------------------------------------------------------|--------------------------|-----------------------------|--------------------------|---------------|
| Revenues: | | | | |
| Other taxes | \$ - | \$ - | \$ - | \$ - |
| Intergovernmental | 2,427,091 | 367,690 | 154,698 | 10,976 |
| Licenses, permits and fees | - | - | - | - |
| Investment income | 22,443 | 3,880 | - | - |
| Net increase in fair value of investments | 30,560 | 5,284 | - | - |
| Donations | - | - | - | - |
| Other | - | - | - | - |
| Total revenues | <u>2,480,094</u> | <u>376,854</u> | <u>154,698</u> | <u>10,976</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Public safety | - | 72,793 | 176,657 | 10,976 |
| Public works | - | - | - | - |
| Community development | - | - | - | - |
| Capital outlay | 2,123,375 | - | - | - |
| Debt service: | | | | |
| Principal | - | - | - | - |
| Interest and fiscal charges | - | - | - | - |
| Total expenditures | <u>2,123,375</u> | <u>72,793</u> | <u>176,657</u> | <u>10,976</u> |
| Excess (deficiency) of revenues over expenditures | <u>356,719</u> | <u>304,061</u> | <u>(21,959)</u> | <u>-</u> |
| Other financing sources (uses): | | | | |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | <u>356,719</u> | <u>304,061</u> | <u>(21,959)</u> | <u>-</u> |
| Fund balances (deficits), beginning | <u>5,237,542</u> | <u>873,079</u> | <u>(380)</u> | <u>-</u> |
| Fund balances (deficits), ending | <u>\$ 5,594,261</u> | <u>\$ 1,177,140</u> | <u>\$ (22,339)</u> | <u>\$ -</u> |

Special Revenue

| Circulation and Transportation | Building Excise Tax | Combined Transportation | Community Development Block Grant | Air Quality Management District |
|---------------------------------------|----------------------------|--------------------------------|------------------------------------------|----------------------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | 2,578,564 | 355,654 | 264,047 |
| 506,728 | 307,975 | - | - | - |
| 6,749 | 2,361 | 18,817 | - | 1,747 |
| 9,053 | 3,215 | 25,624 | - | 2,379 |
| - | - | - | - | - |
| - | - | - | - | - |
| <u>522,530</u> | <u>313,551</u> | <u>2,623,005</u> | <u>355,654</u> | <u>268,173</u> |
| - | - | - | - | - |
| - | - | - | - | 4,010 |
| - | - | - | 112,632 | - |
| 3,974,204 | - | 4,102,232 | - | 27,958 |
| - | - | - | 102,000 | - |
| - | - | - | 99,653 | - |
| <u>3,974,204</u> | <u>-</u> | <u>4,102,232</u> | <u>314,285</u> | <u>31,968</u> |
| <u>(3,451,674)</u> | <u>313,551</u> | <u>(1,479,227)</u> | <u>41,369</u> | <u>236,205</u> |
| - | - | - | - | - |
| <u>(253,364)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>(253,364)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| (3,705,038) | 313,551 | (1,479,227) | 41,369 | 236,205 |
| <u>3,327,123</u> | <u>334,757</u> | <u>4,226,593</u> | <u>(41,369)</u> | <u>335,135</u> |
| <u>\$ (377,915)</u> | <u>\$ 648,308</u> | <u>\$ 2,747,366</u> | <u>\$ -</u> | <u>\$ 571,340</u> |

(continued)

CITY OF NEWPORT BEACH
Other Governmental Fund Types
Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
For the Year ended June 30, 2012
(continued)

Special Revenue

| | <u>Environmental Liability</u> | <u>Supplemental Law Enforcement</u> | <u>Newport Coast Annexation</u> | <u>Contributions</u> |
|--------------------------------------------------------------|------------------------------------|---------------------------------------------|-----------------------------------------|----------------------|
| Revenues: | | | | |
| Other taxes | \$ 483,627 | \$ - | \$ - | \$ - |
| Intergovernmental | - | 141,453 | - | 1,097,828 |
| Licenses, permits and fees | - | - | - | - |
| Investment income | 16,483 | 211 | 29,434 | 17,777 |
| Net increase in fair value of investments | 22,444 | 287 | 40,077 | 24,206 |
| Donations | - | - | - | 44,370 |
| Other | 31,745 | - | - | - |
| | <u>554,299</u> | <u>141,951</u> | <u>69,511</u> | <u>1,184,181</u> |
| Total revenues | | | | |
| | 554,299 | 141,951 | 69,511 | 1,184,181 |
| Expenditures: | | | | |
| Current: | | | | |
| Public safety | - | 141,951 | - | - |
| Public works | 141,454 | - | - | - |
| Community development | - | - | - | - |
| Capital outlay | - | - | - | 1,568,670 |
| Debt service: | | | | |
| Principal | - | - | 1,200,000 | - |
| Interest and fiscal charges | - | - | - | - |
| | <u>141,454</u> | <u>141,951</u> | <u>1,200,000</u> | <u>1,568,670</u> |
| Total expenditures | | | | |
| | 141,454 | 141,951 | 1,200,000 | 1,568,670 |
| Excess (deficiency) of revenues over expenditures | <u>412,845</u> | <u>-</u> | <u>(1,130,489)</u> | <u>(384,489)</u> |
| | 412,845 | - | (1,130,489) | (384,489) |
| Other financing sources (uses): | | | | |
| Transfers in | - | - | - | - |
| Transfers out | - | - | (69,511) | - |
| | <u>-</u> | <u>-</u> | <u>(69,511)</u> | <u>-</u> |
| Total other financing sources (uses) | | | | |
| | - | - | (69,511) | - |
| Net change in fund balances | 412,845 | - | (1,200,000) | (384,489) |
| | 412,845 | - | (1,200,000) | (384,489) |
| Fund balances (deficits), beginning | <u>3,934,878</u> | <u>-</u> | <u>7,200,000</u> | <u>2,447,642</u> |
| | 3,934,878 | - | 7,200,000 | 2,447,642 |
| Fund balances (deficits), ending | <u>\$ 4,347,723</u> | <u>\$ -</u> | <u>\$ 6,000,000</u> | <u>\$ 2,063,153</u> |
| | \$ 4,347,723 | \$ - | \$ 6,000,000 | \$ 2,063,153 |

Capital Projects

| Assessment District | CIOSA Construction | Bonita Canyon Development | Marine Science Center |
|----------------------------|---------------------------|----------------------------------|------------------------------|
| \$ - | \$ - | \$ - | \$ - |
| - | - | - | - |
| - | - | - | - |
| 16,191 | - | - | - |
| 21,500 | - | - | - |
| - | - | - | - |
| 8,432 | - | - | - |
| <u>46,123</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| - | - | - | - |
| 3,066,624 | - | - | - |
| - | - | - | - |
| - | 253,364 | 23,703 | - |
| - | - | - | - |
| - | - | - | - |
| <u>3,066,624</u> | <u>253,364</u> | <u>23,703</u> | <u>-</u> |
| <u>(3,020,501)</u> | <u>(253,364)</u> | <u>(23,703)</u> | <u>-</u> |
| 35,463 | 253,364 | 1,503 | - |
| - | - | - | - |
| <u>35,463</u> | <u>253,364</u> | <u>1,503</u> | <u>-</u> |
| (2,985,038) | - | (22,200) | - |
| <u>5,661,474</u> | <u>-</u> | <u>22,200</u> | <u>(125,421)</u> |
| <u>\$ 2,676,436</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (125,421)</u> |

(continued)

CITY OF NEWPORT BEACH
Other Governmental Fund Types
Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
For the Year ended June 30, 2012
(continued)

| | Capital Projects | | |
|------------------------------------------------------|--------------------------------|------------------------------|------------------------|
| | Oasis Senior Center | Misc SAH Projects | Marina Park |
| Revenues: | | | |
| Other taxes | \$ - | \$ - | \$ - |
| Intergovernmental | - | - | - |
| Licenses, permits and fees | - | - | - |
| Investment income | - | - | - |
| Net increase in fair value of investments | - | - | - |
| Donations | - | - | - |
| Other | - | - | - |
| | - | - | - |
| Total revenues | - | - | - |
| Expenditures: | | | |
| Current: | | | |
| Public safety | - | - | - |
| Public works | - | - | - |
| Community development | - | - | - |
| Capital outlay | - | 6,352 | 687,587 |
| Debt service: | | | |
| Principal | - | - | - |
| Interest and fiscal charges | - | - | - |
| | - | - | - |
| Total expenditures | - | 6,352 | 687,587 |
| Excess (deficiency) of revenues over expenditures | - | (6,352) | (687,587) |
| Other financing sources (uses): | | | |
| Transfers in | - | - | - |
| Transfers out | (1,040,773) | - | - |
| | (1,040,773) | - | - |
| Total other financing sources (uses) | (1,040,773) | - | - |
| Net change in fund balances | (1,040,773) | (6,352) | (687,587) |
| Fund balances (deficits), beginning | 1,040,773 | (48,383) | (1,525,415) |
| Fund balances (deficits), ending | \$ - | \$ (54,735) | \$ (2,213,002) |

Capital Projects

| <u>Sunset Ridge Park</u> | <u>Police Facility</u> | <u>Strategic Planning</u> | <u>Lifequard Headquarters</u> |
|------------------------------|----------------------------|-------------------------------|-----------------------------------|
| \$ - | \$ - | \$ - | \$ - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| 313,757 | - | 105,665 | - |
| - | - | - | - |
| - | - | - | - |
| 313,757 | - | 105,665 | - |
| (313,757) | - | (105,665) | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| (313,757) | - | (105,665) | - |
| (1,214,780) | (2,175) | - | (30,179) |
| <u>\$ (1,528,537)</u> | <u>\$ (2,175)</u> | <u>\$ (105,665)</u> | <u>\$ (30,179)</u> |

(continued)

CITY OF NEWPORT BEACH
Other Governmental Fund Types
Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
For the Year ended June 30, 2012
(continued)

| | <u>Permanent Funds</u> | | <u>Total Other Governmental Funds</u> |
|------------------------------------------------------|------------------------|------------------------------|---------------------------------------------------|
| | <u>Bay Dredging</u> | <u>Ackerman Donation</u> | |
| Revenues: | | | |
| Other taxes | \$ - | \$ - | \$ 483,627 |
| Intergovernmental | - | - | 7,398,001 |
| Licenses, permits and fees | - | - | 814,703 |
| Investment income | 19,766 | 4,889 | 160,748 |
| Net increase in fair value of investments | 26,916 | 6,656 | 218,201 |
| Donations | - | - | 44,370 |
| Other | - | - | 40,177 |
| | <u>46,682</u> | <u>11,545</u> | <u>9,159,827</u> |
| Expenditures: | | | |
| Current: | | | |
| Public safety | - | - | 402,377 |
| Public works | - | - | 3,212,088 |
| Community development | - | 29,000 | 141,632 |
| Capital outlay | - | - | 13,186,867 |
| Debt service: | | | |
| Principal | - | - | 1,302,000 |
| Interest and fiscal charges | - | - | 99,653 |
| | <u>-</u> | <u>29,000</u> | <u>18,344,617</u> |
| Excess (deficiency) of revenues over expenditures | <u>46,682</u> | <u>(17,455)</u> | <u>(9,184,790)</u> |
| Other financing sources (uses): | | | |
| Transfers in | - | - | 290,330 |
| Transfers out | - | - | (1,363,648) |
| | <u>-</u> | <u>-</u> | <u>(1,073,318)</u> |
| Net change in fund balances | 46,682 | (17,455) | (10,258,108) |
| Fund balances (deficits), beginning | <u>4,835,468</u> | <u>1,197,586</u> | <u>37,686,148</u> |
| Fund balances (deficits), ending | <u>\$ 4,882,150</u> | <u>\$ 1,180,131</u> | <u>\$ 27,428,040</u> |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
State Gas Tax Special Revenue Fund
For the Year Ended June 30, 2012

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|-------------------------------------------|-------------------------|---------------------|---------------------|-----------------------------------------------------------------------|
| | Original | Final | | |
| Revenues: | | | | |
| Intergovernmental | \$ 2,263,569 | \$ 2,263,569 | \$ 2,427,091 | \$ 163,522 |
| Investment income | 15,000 | 15,000 | 22,443 | 7,443 |
| Net increase in fair value of investments | - | - | 30,560 | 30,560 |
| Total revenues | <u>2,278,569</u> | <u>2,278,569</u> | <u>2,480,094</u> | <u>201,525</u> |
| Expenditures: | | | | |
| Capital outlay | <u>4,557,238</u> | <u>2,521,186</u> | <u>2,123,375</u> | <u>397,811</u> |
| Net change in fund balance | (2,278,669) | (242,617) | 356,719 | 599,336 |
| Fund balance, beginning | <u>5,237,542</u> | <u>5,237,542</u> | <u>5,237,542</u> | <u>-</u> |
| Fund balance, ending | <u>\$ 2,958,873</u> | <u>\$ 4,994,925</u> | <u>\$ 5,594,261</u> | <u>\$ 599,336</u> |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Asset Forfeiture Special Revenue Fund
For the Year Ended June 30, 2012

| | Budget Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|-------------------------------------------|--------------------------|--------------------------|----------------------------|-----------------------------------------------------------------------|
| | Original | Final | | |
| Revenues: | | | | |
| Intergovernmental | \$ 20,000 | \$ 20,000 | \$ 367,690 | \$ 347,690 |
| Investment income | 60 | 60 | 3,880 | 3,820 |
| Net increase in fair value of investments | - | - | 5,284 | 5,284 |
| | <u>20,060</u> | <u>20,060</u> | <u>376,854</u> | <u>356,794</u> |
| Expenditures | | | | |
| Public safety | 39,060 | 39,060 | 72,793 | (33,733) |
| | (19,000) | (19,000) | 304,061 | 323,061 |
| Fund balance, beginning | <u>873,079</u> | <u>873,079</u> | <u>873,079</u> | <u>-</u> |
| Fund balance, ending | <u><u>\$ 854,079</u></u> | <u><u>\$ 854,079</u></u> | <u><u>\$ 1,177,140</u></u> | <u><u>\$ 323,061</u></u> |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
OTS DUI Grant Special Revenue Fund
For the Year Ended June 30, 2012

| | <u>Budget Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|-----------------------------------|-----------------------|-----------------|--------------------|-----------------------------------------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Intergovernmental | \$ - | \$ 242,399 | \$ 154,698 | \$ (87,701) |
| Expenditures | | | | |
| Public safety | - | 242,399 | 176,657 | 65,742 |
| Net change in fund balance | - | - | (21,959) | (21,959) |
| Fund balance (deficit), beginning | (380) | (380) | (380) | - |
| Fund balance (deficit), ending | <u>\$ (380)</u> | <u>\$ (380)</u> | <u>\$ (22,339)</u> | <u>\$ (21,959)</u> |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
JAG Special Revenue Fund
For the Year Ended June 30, 2012

| | <u>Budget Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|----------------------------|-----------------------|--------------|---------------|-----------------------------------------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Intergovernmental | \$ - | \$ 10,977 | \$ 10,976 | \$ (1) |
| Expenditures | | | | |
| Public safety | - | 10,977 | 10,976 | 1 |
| Net change in fund balance | - | - | - | - |
| Fund balance, beginning | - | - | - | - |
| Fund balance, ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Circulation and Transportation Special Revenue Fund
For the Year Ended June 30, 2012

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|------------------------------------------------------|-------------------------|-----------------------|---------------------|-----------------------------------------------------------------------|
| | Original | Final | | |
| Revenues: | | | | |
| Licenses, permits and fees | \$ 275,000 | \$ 275,000 | \$ 506,728 | \$ 231,728 |
| Investment income | 30,000 | 30,000 | 6,749 | (23,251) |
| Net increase in fair value of investments | - | - | 9,053 | 9,053 |
| Total revenues | 305,000 | 305,000 | 522,530 | 217,530 |
| Expenditures: | | | | |
| Capital outlay | 5,701,212 | 5,617,282 | 3,974,204 | 1,643,078 |
| Excess (deficiency) of revenues over expenditures | (5,396,212) | (5,312,282) | (3,451,674) | 1,860,608 |
| Other financing uses: | | | | |
| Transfers out | (80,000) | (80,000) | (253,364) | (173,364) |
| Net change in fund balance | (5,476,212) | (5,392,282) | (3,705,038) | 1,687,244 |
| Fund balance, beginning | 3,327,123 | 3,327,123 | 3,327,123 | - |
| Fund balance (deficit), ending | <u>\$ (2,149,089)</u> | <u>\$ (2,065,159)</u> | <u>\$ (377,915)</u> | <u>\$ 1,687,244</u> |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Building Excise Tax Special Revenue Fund
For the Year Ended June 30, 2012

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|-------------------------------------------|--------------------------|--------------------------|--------------------------|-----------------------------------------------------------------------|
| | Original | Final | | |
| Revenues: | | | | |
| Licenses, permits and fees | \$ 75,000 | \$ 75,000 | \$ 307,975 | \$ 232,975 |
| Investment income | 2,000 | 2,000 | 2,361 | 361 |
| Net increase in fair value of investments | - | - | 3,215 | 3,215 |
| Total revenues | <u>77,000</u> | <u>77,000</u> | <u>313,551</u> | <u>236,551</u> |
| Expenditures: | | | | |
| Capital outlay | 4,039 | 4,039 | - | 4,039 |
| Net change in fund balance | 72,961 | 72,961 | 313,551 | 240,590 |
| Fund balance, beginning | <u>334,757</u> | <u>334,757</u> | <u>334,757</u> | <u>-</u> |
| Fund balance, ending | <u><u>\$ 407,718</u></u> | <u><u>\$ 407,718</u></u> | <u><u>\$ 648,308</u></u> | <u><u>\$ 240,590</u></u> |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Combined Transportation Special Revenue Fund
For the Year Ended June 30, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|-------------------------------------------|-------------------------|---------------------|---------------------|-----------------------------------------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Intergovernmental | \$ 3,902,994 | \$ 3,902,994 | \$ 2,578,564 | \$ (1,324,430) |
| Investment income | 25,000 | 25,000 | 18,817 | (6,183) |
| Net increase in fair value of investments | - | - | 25,624 | 25,624 |
| | <u>3,927,994</u> | <u>3,927,994</u> | <u>2,623,005</u> | <u>(1,304,989)</u> |
| Expenditures: | | | | |
| Capital outlay | <u>7,890,801</u> | <u>4,939,686</u> | <u>4,102,232</u> | <u>837,454</u> |
| Net change in fund balance | (3,962,807) | (1,011,692) | (1,479,227) | (467,535) |
| Fund balance, beginning | <u>4,226,593</u> | <u>4,226,593</u> | <u>4,226,593</u> | <u>-</u> |
| Fund balance, ending | <u>\$ 263,786</u> | <u>\$ 3,214,901</u> | <u>\$ 2,747,366</u> | <u>\$ (467,535)</u> |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Community Development Block Grant Special Revenue Fund
For the Year Ended June 30, 2012

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|-----------------------------------|-------------------------|--------------------|-----------------|-----------------------------------------------------------------------|
| | Original | Final | | |
| Revenues: | | | | |
| Intergovernmental | \$ 360,000 | \$ 323,777 | \$ 355,654 | \$ 31,877 |
| Expenditures: | | | | |
| Community development | 136,927 | 113,320 | 112,632 | 688 |
| Debt service: | | | | |
| Principal | 102,000 | 102,000 | 102,000 | - |
| Interest and fiscal charges | 99,653 | 99,653 | 99,653 | - |
| Total expenditures | <u>338,580</u> | <u>314,973</u> | <u>314,285</u> | <u>688</u> |
| Net change in fund balance | 21,420 | 8,804 | 41,369 | 32,565 |
| Fund balance (deficit), beginning | <u>(41,369)</u> | <u>(41,369)</u> | <u>(41,369)</u> | <u>-</u> |
| Fund balance, ending | <u>\$ (19,949)</u> | <u>\$ (32,565)</u> | <u>\$ -</u> | <u>\$ 32,565</u> |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Air Quality Management District Special Revenue Fund
For the Year Ended June 30, 2012

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|-------------------------------------------|--------------------------|--------------------------|--------------------------|-----------------------------------------------------------------------|
| | Original | Final | | |
| Revenues: | | | | |
| Intergovernmental | \$ 80,000 | \$ 80,000 | \$ 264,047 | \$ 184,047 |
| Investment income | 3,700 | 3,700 | 1,747 | (1,953) |
| Net increase in fair value of investments | - | - | 2,379 | 2,379 |
| | <u>83,700</u> | <u>83,700</u> | <u>268,173</u> | <u>184,473</u> |
| Expenditures: | | | | |
| Public works | 9,000 | 9,000 | 4,010 | 4,990 |
| Capital outlay | 35,963 | 35,963 | 27,958 | 8,005 |
| Total expenditures | <u>44,963</u> | <u>44,963</u> | <u>31,968</u> | <u>12,995</u> |
| Net change in fund balance | 38,737 | 38,737 | 236,205 | 197,468 |
| Fund balance, beginning | <u>335,135</u> | <u>335,135</u> | <u>335,135</u> | <u>-</u> |
| Fund balance, ending | <u><u>\$ 373,872</u></u> | <u><u>\$ 373,872</u></u> | <u><u>\$ 571,340</u></u> | <u><u>\$ 197,468</u></u> |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Environmental Liability Special Revenue Fund
For the Year Ended June 30, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|-------------------------------------------|-------------------------|---------------------|---------------------|-----------------------------------------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Other taxes | \$ 500,000 | \$ 500,000 | \$ 483,627 | \$ (16,373) |
| Investment income | 60,000 | 60,000 | 16,483 | (43,517) |
| Net increase in fair value of investments | - | - | 22,444 | 22,444 |
| Other Revenue | - | - | 31,745 | 31,745 |
| Total revenues | <u>560,000</u> | <u>560,000</u> | <u>554,299</u> | <u>(5,701)</u> |
| Expenditures: | | | | |
| Public works | <u>146,508</u> | <u>167,688</u> | <u>141,454</u> | <u>26,234</u> |
| Net change in fund balance | 413,492 | 392,312 | 412,845 | 20,533 |
| Fund balance, beginning | <u>3,934,878</u> | <u>3,934,878</u> | <u>3,934,878</u> | <u>-</u> |
| Fund balance, ending | <u>\$ 4,348,370</u> | <u>\$ 4,327,190</u> | <u>\$ 4,347,723</u> | <u>\$ 20,533</u> |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Supplemental Law Enforcement Special Revenue Fund
For the Year Ended June 30, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|-------------------------------------------|-------------------------|--------------------|--------------------|-----------------------------------------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Intergovernmental | \$ - | \$ 141,453 | \$ 141,453 | \$ - |
| Investment income | - | - | 211 | 211 |
| Net decrease in fair value of investments | - | - | 287 | 287 |
| Total revenues | <u>-</u> | <u>141,453</u> | <u>141,951</u> | <u>498</u> |
| Expenditures: | | | | |
| Public safety | - | 141,453 | 141,951 | (498) |
| Net change in fund balance | - | - | - | - |
| Fund balance, beginning | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balance, ending | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |

CITY OF NEWPORT BEACH
Newport Coast Annexation Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2012

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|------------------------------------------------------|----------------------------|----------------------------|----------------------------|-----------------------------------------------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Investment income | \$ 85,000 | \$ 85,000 | \$ 29,434 | \$ (55,566) |
| Net increase in fair value of investments | - | - | 40,077 | 40,077 |
| Total revenues | <u>85,000</u> | <u>85,000</u> | <u>69,511</u> | <u>(15,489)</u> |
| Expenditures | | | | |
| Debt service: | | | | |
| Principal | <u>1,200,000</u> | <u>1,200,000</u> | <u>1,200,000</u> | <u>-</u> |
| Excess (deficiency) of revenues over expenditures | <u>(1,115,000)</u> | <u>(1,115,000)</u> | <u>(1,130,489)</u> | <u>(15,489)</u> |
| Other financing uses | | | | |
| Transfers out | <u>(1,285,000)</u> | <u>(85,000)</u> | <u>(69,511)</u> | <u>15,489</u> |
| Net change in fund balance | (2,400,000) | (1,200,000) | (1,200,000) | - |
| Fund balance, beginning | <u>7,200,000</u> | <u>7,200,000</u> | <u>7,200,000</u> | <u>-</u> |
| Fund balance, ending | <u><u>\$ 4,800,000</u></u> | <u><u>\$ 6,000,000</u></u> | <u><u>\$ 6,000,000</u></u> | <u><u>\$ -</u></u> |

CITY OF NEWPORT BEACH
Contributions Fund Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with Final Budget Positive (Negative) |
|-------------------------------------------|----------------------------|----------------------------|----------------------------|-----------------------------------------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Intergovernmental | \$ 3,015,884 | \$ 3,772,784 | \$ 1,097,828 | \$ (2,674,956) |
| Investment income | - | - | 17,777 | 17,777 |
| Net increase in fair value of investments | - | - | 24,206 | 24,206 |
| Donations | - | - | 44,370 | 44,370 |
| Total revenues | <u>3,015,884</u> | <u>3,772,784</u> | <u>1,184,181</u> | <u>(2,588,603)</u> |
| Expenditures: | | | | |
| Capital outlay | <u>4,377,670</u> | <u>3,118,540</u> | <u>1,568,670</u> | <u>1,549,870</u> |
| Net change in fund balance | (1,361,786) | 654,244 | (384,489) | (1,038,733) |
| Fund balance, beginning | <u>2,447,642</u> | <u>2,447,642</u> | <u>2,447,642</u> | <u>-</u> |
| Fund balance, ending | <u><u>\$ 1,085,856</u></u> | <u><u>\$ 3,101,886</u></u> | <u><u>\$ 2,063,153</u></u> | <u><u>\$ (1,038,733)</u></u> |

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FINANCIAL SECTION

FINANCIAL SECTION

SUPPLEMENTARY
INFORMATION

INTERNAL SERVICE FUNDS

INTERNAL SERVICE FUNDS

The Internal Service Funds are used to allocate the cost of providing goods and services by one department to other departments on a cost reimbursement basis.

The City of Newport Beach Internal Service Funds are listed below:

The ***Insurance Reserve Fund*** is used to account for the City's self-insured general liability and workers' compensation program.

The ***Compensated Absences Fund*** is used to account for the City's accumulated liability for compensated absences.

The ***Retiree Insurance Fund*** is used to account for the cost of providing post-employment Health Care Benefit.

The ***Equipment Maintenance Fund*** is used to account for the cost of maintaining and replacing the City's rolling stock fleet and the rental of the fleet to operating departments.

The ***Information Technology Fund*** is used to account for the cost of maintaining and replacing the City's computers, printers, copiers and telecommunication services to other departments.

CITY OF NEWPORT BEACH
All Internal Service Funds
Combining Statement of Net Assets
June 30, 2012

| Assets | Insurance Reserve | Compensated Absences | Retiree Insurance | Equipment Maintenance | Information Technology | Total Internal Service Funds |
|--------------------------------------------------------|------------------------------|---------------------------------|------------------------------|----------------------------------|-----------------------------------|---------------------------------------------|
| Current assets: | | | | | | |
| Cash and investments | \$ 23,419,321 | \$ 1,723,667 | \$ - | \$ 21,652,397 | \$ 1,707,008 | \$ 48,502,393 |
| Receivables: | | | | | | |
| Accounts | 31,686 | - | 2,110,268 | 14,918 | - | 2,156,872 |
| Inventories | - | - | - | 364,457 | - | 364,457 |
| Prepaid items | - | - | 267,099 | - | 30,668 | 297,767 |
| Total current assets | <u>23,451,007</u> | <u>1,723,667</u> | <u>2,377,367</u> | <u>22,031,772</u> | <u>1,737,676</u> | <u>51,321,489</u> |
| Non-current assets: | | | | | | |
| Capital assets: | | | | | | |
| Equipment | - | - | - | 23,527,846 | 2,166,452 | 25,694,298 |
| Software | - | - | - | - | 182,021 | 182,021 |
| Less accumulated depreciation | - | - | - | <u>(17,597,487)</u> | <u>(1,876,636)</u> | <u>(19,474,123)</u> |
| Total capital assets (net of accumulated depreciation) | <u>-</u> | <u>-</u> | <u>-</u> | <u>5,930,359</u> | <u>471,837</u> | <u>6,402,196</u> |
| Total assets | <u>23,451,007</u> | <u>1,723,667</u> | <u>2,377,367</u> | <u>27,962,131</u> | <u>2,209,513</u> | <u>57,723,685</u> |
| Liabilities | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | 116,182 | - | 507 | 619,048 | 185,569 | 921,306 |
| Accrued payroll | - | - | - | 46,548 | 101,138 | 147,686 |
| Due to other funds | - | - | 2,371,806 | - | - | 2,371,806 |
| Workers' compensation - current | 3,328,702 | - | - | - | - | 3,328,702 |
| General liability - current | 1,315,727 | - | - | - | - | 1,315,727 |
| Compensated absences - current | - | 2,166,153 | - | - | - | 2,166,153 |
| Early retirement incentive program - current | - | 960,396 | - | - | - | 960,396 |
| Total current liabilities | <u>4,760,611</u> | <u>3,126,549</u> | <u>2,372,313</u> | <u>665,596</u> | <u>286,707</u> | <u>11,211,776</u> |
| Non-current liabilities: | | | | | | |
| Workers' compensation | 12,348,078 | - | - | - | - | 12,348,078 |
| General liability | 3,004,846 | - | - | - | - | 3,004,846 |
| Compensated absences | - | 6,765,645 | - | - | - | 6,765,645 |
| Early retirement incentive program | - | 960,396 | - | - | - | 960,396 |
| Total Noncurrent liabilities | <u>15,352,924</u> | <u>7,726,041</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>23,078,965</u> |
| Total liabilities | <u>20,113,535</u> | <u>10,852,590</u> | <u>2,372,313</u> | <u>665,596</u> | <u>286,707</u> | <u>34,290,741</u> |
| Net Assets (deficit) | | | | | | |
| Invested in capital assets | - | - | - | 5,930,359 | 471,837 | 6,402,196 |
| Unrestricted | 3,337,472 | (9,128,923) | 5,054 | 21,366,176 | 1,450,969 | 17,030,748 |
| Total net assets (deficit) | <u>\$ 3,337,472</u> | <u>\$ (9,128,923)</u> | <u>\$ 5,054</u> | <u>\$ 27,296,535</u> | <u>\$ 1,922,806</u> | <u>\$ 23,432,944</u> |

CITY OF NEWPORT BEACH
Internal Service Funds
Combining Statement of Revenues, Expenses
and Changes in Net Assets
For the Year Ended June 30, 2012

| | Insurance Reserve | Compensated Absences | Retiree Insurance | Equipment Maintenance | Information Technology | Total Internal Service Funds |
|---------------------------------------------------|------------------------------|---------------------------------|------------------------------|----------------------------------|-----------------------------------|---------------------------------------------|
| Operating revenues: | | | | | | |
| Charges for services | \$ 5,864,108 | \$ 2,233,841 | \$ 2,314,000 | \$ 5,569,971 | \$ 5,816,581 | \$ 21,798,501 |
| Retiree reimbursements | - | - | 1,205,896 | - | - | 1,205,896 |
| Employee contributions | - | - | 235,642 | - | - | 235,642 |
| Other | 279,568 | - | 49,071 | 25,369 | 1,447 | 355,455 |
| Total operating revenues | 6,143,676 | 2,233,841 | 3,804,609 | 5,595,340 | 5,818,028 | 23,595,494 |
| Operating expenses: | | | | | | |
| Salaries and wages | - | - | - | 1,262,961 | 2,684,276 | 3,947,237 |
| Depreciation | - | - | - | 2,138,511 | 149,546 | 2,288,057 |
| Professional services | - | - | - | 36,382 | 71,218 | 107,600 |
| Maintenance and supplies | - | - | - | 230,658 | 1,063,351 | 1,294,009 |
| Fleet parts and supplies | - | - | - | 504,918 | - | 504,918 |
| Telecommunication | - | - | - | - | 247,588 | 247,588 |
| Hardware | - | - | - | - | 298,806 | 298,806 |
| Software | - | - | - | - | 97,728 | 97,728 |
| Workers' compensation | 3,852,825 | - | - | - | - | 3,852,825 |
| Claims and judgments | 2,940,047 | - | - | - | - | 2,940,047 |
| Compensated absences | - | 1,876,529 | - | - | - | 1,876,529 |
| OPEB ARC- Cash subsidy | - | - | 2,314,000 | - | - | 2,314,000 |
| Other | - | - | 1,615,762 | - | - | 1,615,762 |
| Total operating expenses | 6,792,872 | 1,876,529 | 3,929,762 | 4,173,430 | 4,612,513 | 21,385,106 |
| Operating income (loss) | (649,196) | 357,312 | (125,153) | 1,421,910 | 1,205,515 | 2,210,388 |
| Nonoperating revenues: | | | | | | |
| Change in accounting estimates | - | - | 8,484,000 | - | - | 8,484,000 |
| Investment income | 89,782 | 7,391 | - | 82,898 | 3,407 | 183,478 |
| Net Increase in fair value of investments | 122,249 | 10,063 | - | 112,875 | 4,640 | 249,827 |
| Gain on sale of capital assets | - | - | - | 19,012 | 550 | 19,562 |
| Total nonoperating revenues | 212,031 | 17,454 | 8,484,000 | 214,785 | 8,597 | 8,936,867 |
| Income (loss) before transfers | (437,165) | 374,766 | 8,358,847 | 1,636,695 | 1,214,112 | 11,147,255 |
| Transfers in | - | - | - | - | 320,801 | 320,801 |
| Net gain (loss) before contributed capital | (437,165) | 374,766 | 8,358,847 | 1,636,695 | 1,534,913 | 11,468,056 |
| Contributed Capital | - | - | - | - | 387,893 | 387,893 |
| Change in net assets | (437,165) | 374,766 | 8,358,847 | 1,636,695 | 1,922,806 | 11,855,949 |
| Net assets (accumulated deficit), beginning | 3,774,637 | (9,503,689) | (8,353,793) | 25,659,840 | - | 11,576,995 |
| Net assets, (accumulated deficit), ending | \$ 3,337,472 | \$ (9,128,923) | \$ 5,054 | \$ 27,296,535 | \$ 1,922,806 | \$ 23,432,944 |

CITY OF NEWPORT BEACH
Combining Statement of Cash Flows - Internal Service Funds
For the Year Ended June 30, 2012

| | Insurance Reserve | Compensated Absences | Retiree Insurance | Equipment Maintenance | Information Technology | Total Internal Service Funds |
|-----------------------------------------------------------------------------------------------------------|----------------------|-------------------------|----------------------|--------------------------|---------------------------|------------------------------------|
| Cash flows from operating activities | | | | | | |
| Receipts from user departments | \$ 5,878,990 | \$ 2,233,841 | \$ 3,519,896 | \$ 5,630,607 | \$ 5,816,581 | \$ 23,079,915 |
| Payments to employees | (2,796,045) | (2,813,721) | - | (1,260,017) | (2,583,138) | (9,452,921) |
| Payments to suppliers | (1,718,122) | - | (4,754,917) | (408,937) | (1,623,789) | (8,505,765) |
| Other operating cash receipts | 279,568 | - | 284,713 | 25,369 | 1,447 | 591,097 |
| Net cash provided (used) for operating activities | <u>1,644,391</u> | <u>(579,880)</u> | <u>(950,308)</u> | <u>3,987,022</u> | <u>1,611,101</u> | <u>5,712,326</u> |
| Cash flows from noncapital financing activities | | | | | | |
| Cash received from other funds | - | - | 950,308 | - | 313,449 | 1,263,757 |
| Cash paid to other funds | - | - | - | - | - | - |
| Net cash provided by noncapital financing activities | <u>-</u> | <u>-</u> | <u>950,308</u> | <u>-</u> | <u>313,449</u> | <u>1,263,757</u> |
| Cash flows from capital and related financing activities: | | | | | | |
| Acquisition of capital assets | - | - | - | (1,194,580) | (226,139) | (1,420,719) |
| Proceeds from sale of capital assets | - | - | - | 81,767 | 550 | 82,317 |
| Net cash used for capital and related financing activities | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,112,813)</u> | <u>(225,589)</u> | <u>(1,338,402)</u> |
| Cash flows from investing activities: | | | | | | |
| Interest on investments | 212,031 | 17,454 | - | 195,773 | 8,047 | 433,305 |
| Net cash provided by investing activities | <u>212,031</u> | <u>17,454</u> | <u>-</u> | <u>195,773</u> | <u>8,047</u> | <u>433,305</u> |
| Net increase (decrease) in cash and cash equivalents | 1,856,422 | (562,426) | - | 3,069,982 | 1,707,008 | 6,070,986 |
| Cash and cash equivalents, beginning | 21,562,899 | 2,286,093 | - | 18,582,415 | - | 42,431,407 |
| Cash and cash equivalents, ending | <u>\$ 23,419,321</u> | <u>\$ 1,723,667</u> | <u>\$ -</u> | <u>\$ 21,652,397</u> | <u>\$ 1,707,008</u> | <u>\$ 48,502,393</u> |
| Reconciliation of cash equivalents to the statement of net assets | | | | | | |
| Cash and investments reported on statement of net assets | 23,419,321 | 1,723,667 | - | 21,652,397 | 1,707,008 | 48,502,393 |
| Cash and cash equivalents | <u>\$ 23,419,321</u> | <u>\$ 1,723,667</u> | <u>\$ -</u> | <u>\$ 21,652,397</u> | <u>\$ 1,707,008</u> | <u>\$ 48,502,393</u> |
| Reconciliation of operating income to net cash provided by (used) for operating activities: | | | | | | |
| Cash flows from operating activities | | | | | | |
| Operating income (loss) | <u>\$ (649,196)</u> | <u>\$ 357,312</u> | <u>\$ (125,153)</u> | <u>\$ 1,421,910</u> | <u>\$ 1,205,515</u> | <u>\$ 2,210,388</u> |
| Adjustments to reconcile operating income (loss) to net cash provided by (used) for operating activities: | | | | | | |
| Depreciation | - | - | - | 2,138,511 | 149,546 | 2,288,057 |
| Changes in operating assets and liabilities | | | | | | |
| (Increase) decrease in accounts receivable | 14,882 | - | (824,736) | 60,636 | - | (749,218) |
| (Increase) in inventories | - | - | - | (59,471) | - | (59,471) |
| (Increase) decrease in prepaid items | 991,565 | - | (926) | - | (30,668) | 959,971 |
| Increase (decrease) in accounts payable and accrued payroll | (132,082) | (2,998) | 507 | 425,436 | 286,708 | 577,571 |
| Increase in workers' compensation | 1,056,780 | - | - | - | - | 1,056,780 |
| Increase in general liability | 362,442 | - | - | - | - | 362,442 |
| Increase in compensated absences | - | 26,202 | - | - | - | 26,202 |
| (Decrease) in early retirement incentive program | - | (960,396) | - | - | - | (960,396) |
| Total adjustments | <u>2,293,587</u> | <u>(937,192)</u> | <u>(825,155)</u> | <u>2,565,112</u> | <u>405,586</u> | <u>3,501,938</u> |
| Net cash provided (used) by operating activities | <u>\$ 1,644,391</u> | <u>\$ (579,880)</u> | <u>\$ (950,308)</u> | <u>\$ 3,987,022</u> | <u>\$ 1,611,101</u> | <u>\$ 5,712,326</u> |
| Non-cash investing, capital, and financing activities | | | | | | |
| Net increase in fair value of investments | \$ 122,249 | \$ 10,063 | \$ - | \$ 112,875 | \$ 4,640 | \$ 249,827 |
| Change in accounting estimates | - | - | 8,484,000 | - | - | 8,484,000 |
| Transfer of contributed capital from water fund | - | - | - | - | 7,352 | 7,352 |
| Contributed capital from governmental funds | - | - | - | - | 387,893 | 387,893 |
| Gain on sale of capital assets | - | - | - | 19,012 | 550 | 19,562 |
| Total of non-cash activities | <u>\$ 122,249</u> | <u>\$ 10,063</u> | <u>\$ 8,484,000</u> | <u>\$ 131,887</u> | <u>\$ 400,435</u> | <u>\$ 9,148,634</u> |

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FINANCIAL SECTION

FINANCIAL SECTION

SUPPLEMENTARY
INFORMATION
FIDUCIARY FUNDS

FIDUCIARY FUNDS

Fiduciary Funds are used to account for assets held by the City in a trustee capacity, or as an agent for other government entities, private organizations, or individuals.

The City of Newport Beach Fiduciary Funds are listed below:

The ***Special Assessment District Fund*** is used to account for funds received from affected property owners and payable to holders of 1911 Act, 1915 Act and other special assessment bonds.

The ***Business Improvement District Fund*** is used to account for monies collected from local business districts for district property improvements and business enhancement.

The ***Integrated Law and Justice Agency for Orange County (ILJAOC) Fund*** is used to account for monies collected from member agencies for the operation of ILJAOC.

CITY OF NEWPORT BEACH
Agency Funds
Combining Statement of Fiduciary Assets and Liabilities
June 30, 2012

| Assets | Special Assessment District | Business Improvement | ILJAO | Totals |
|------------------------------|----------------------------------------|---------------------------------|-------------------|---------------------|
| Cash and investments | \$ 255,771 | \$ 320,633 | \$ - | \$ 576,404 |
| Cash with fiscal agent | 6,993,845 | - | - | 6,993,845 |
| Intergovernmental receivable | - | - | 448,190 | 448,190 |
| Total assets | <u>\$ 7,249,616</u> | <u>\$ 320,633</u> | <u>\$ 448,190</u> | <u>\$ 8,018,439</u> |
| | | | | |
| Liabilities | | | | |
| Due to bondholders | \$ 7,188,967 | \$ - | \$ - | \$ 7,188,967 |
| Due to others | - | 320,633 | - | 320,633 |
| Due to City of Newport Beach | 60,649 | - | 9,215 | 69,864 |
| Due to ILJAO | - | - | 438,975 | 438,975 |
| Total liabilities | <u>\$ 7,249,616</u> | <u>\$ 320,633</u> | <u>\$ 448,190</u> | <u>\$ 8,018,439</u> |

CITY OF NEWPORT BEACH
Statement of Changes in Fiduciary Net Assets
All Agency Funds
For the Year Ended June 30, 2012

| | <u>Balance June 30, 2011</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance June 30, 2012</u> |
|---------------------------------------|----------------------------------|----------------------|------------------------|----------------------------------|
| Special Assessment District: | | | | |
| Assets | | | | |
| Cash and investments | \$ 3,009,278 | \$ 4,515,525 | \$ (7,269,032) | \$ 255,771 |
| Cash with fiscal agent | <u>4,397,355</u> | <u>5,902,237</u> | <u>(3,305,747)</u> | <u>6,993,845</u> |
| Total Assets | <u>\$ 7,406,633</u> | <u>\$ 10,417,762</u> | <u>\$ (10,574,779)</u> | <u>\$ 7,249,616</u> |
| Liabilities | | | | |
| Due to bondholders | \$ 7,406,633 | \$ 10,357,113 | \$ (10,574,779) | \$ 7,188,967 |
| Due to City of Newport Beach | <u>-</u> | <u>60,649</u> | <u>-</u> | <u>60,649</u> |
| Total Liabilities | <u>\$ 7,406,633</u> | <u>\$ 10,417,762</u> | <u>\$ (10,574,779)</u> | <u>\$ 7,249,616</u> |
| Business Improvement District: | | | | |
| Assets | | | | |
| Cash and investments | <u>\$ 251,437</u> | <u>\$ 2,090,780</u> | <u>\$ (2,021,584)</u> | <u>\$ 320,633</u> |
| Liabilities | | | | |
| Due to others | <u>\$ 251,437</u> | <u>\$ 2,090,780</u> | <u>\$ (2,021,584)</u> | <u>\$ 320,633</u> |
| ILJAOC: | | | | |
| Assets | | | | |
| Cash and investments | \$ 2,129,166 | \$ - | \$ (2,129,166) | \$ - |
| Prepaid items | 950 | - | (950) | - |
| Intergovernmental receivable | <u>69,396</u> | <u>448,190</u> | <u>(69,396)</u> | <u>448,190</u> |
| Total Assets | <u>\$ 2,199,512</u> | <u>\$ 448,190</u> | <u>\$ (2,199,512)</u> | <u>\$ 448,190</u> |
| Liabilities | | | | |
| Due to others | \$ 180,995 | \$ - | \$ (180,995) | \$ - |
| Due to City of Newport Beach | - | 9,215 | - | 9,215 |
| Due to ILJAOC | <u>2,018,517</u> | <u>438,975</u> | <u>(2,018,517)</u> | <u>438,975</u> |
| Total Liabilities | <u>\$ 2,199,512</u> | <u>\$ 448,190</u> | <u>\$ (2,199,512)</u> | <u>\$ 448,190</u> |
| Totals - All Agency Funds: | | | | |
| Assets | | | | |
| Cash and investments | \$ 5,389,881 | \$ 6,606,305 | \$ (11,419,782) | \$ 576,404 |
| Cash with fiscal agent | 4,397,355 | 5,902,237 | (3,305,747) | 6,993,845 |
| Prepaid items | 950 | - | (950) | - |
| Intergovernmental receivable | <u>69,396</u> | <u>448,190</u> | <u>(69,396)</u> | <u>448,190</u> |
| Total Assets | <u>\$ 9,857,582</u> | <u>\$ 12,956,732</u> | <u>\$ (14,795,875)</u> | <u>\$ 8,018,439</u> |
| Liabilities | | | | |
| Due to bondholders | \$ 7,406,633 | \$ 10,357,113 | \$ (10,574,779) | \$ 7,188,967 |
| Due to others | 432,432 | 2,090,780 | (2,202,579) | 320,633 |
| Due to City of Newport Beach | - | 69,864 | - | 69,864 |
| Due to ILJAOC | <u>2,018,517</u> | <u>438,975</u> | <u>(2,018,517)</u> | <u>438,975</u> |
| Total Liabilities | <u>\$ 9,857,582</u> | <u>\$ 12,956,732</u> | <u>\$ (14,795,875)</u> | <u>\$ 8,018,439</u> |

STATISTICAL SECTION

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FINANCIAL TRENDS

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

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

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

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

CITY OF NEWPORT BEACH
Net Assets by Component
Last Ten Fiscal Years
(accrual basis of accounting)

| | Fiscal Year | | | |
|----------------------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2003 | 2004 | 2005 ¹ | 2006 |
| Governmental activities: | | | | |
| Invested in capital assets, net of related debt | \$ 1,412,372,465 | \$ 1,512,651,096 | \$ 1,915,348,883 | \$ 2,005,643,651 |
| Restricted | 37,650,692 | 45,494,082 | 54,285,743 | 51,901,103 |
| Unrestricted | 49,322,283 | 46,772,913 | 61,894,956 | 56,662,229 |
| Total governmental activities | <u>\$ 1,499,345,440</u> | <u>\$ 1,604,918,091</u> | <u>\$ 2,031,529,582</u> | <u>\$ 2,114,206,983</u> |
| Business-type activities: | | | | |
| Invested in capital assets, net of related debt | \$ 91,912,205 | \$ 94,206,704 | \$ 99,641,411 | \$ 104,602,266 |
| Restricted | - | - | - | - |
| Unrestricted | 24,227,579 | 21,493,528 | 19,665,535 | 16,907,367 |
| Total business-type activities | <u>\$ 116,139,784</u> | <u>\$ 115,700,232</u> | <u>\$ 119,306,946</u> | <u>\$ 121,509,633</u> |
| Primary government: | | | | |
| Invested in capital assets, net of related debt | \$ 1,504,284,670 | \$ 1,606,857,800 | \$ 2,014,990,294 | \$ 2,110,245,917 |
| Restricted | 37,650,692 | 45,494,082 | 54,285,743 | 51,901,103 |
| Unrestricted | 73,549,862 | 68,266,441 | 81,560,491 | 73,569,596 |
| Total primary government | <u>\$ 1,615,485,224</u> | <u>\$ 1,720,618,323</u> | <u>\$ 2,150,836,528</u> | <u>\$ 2,235,716,616</u> |

¹ 2005 data varies from trend because of increased capital assets related to PCH Relinquishment

The City of Newport Beach implemented GASB 34 for the fiscal year ended June 30, 2002.

CITY OF NEWPORT BEACH
Net Assets by Component
Last Ten Fiscal Years
(accrual basis of accounting)

| Fiscal Year | | | | | |
|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| \$ 2,027,026,053 | \$ 2,050,925,370 | \$ 2,061,635,642 | \$ 2,084,912,221 | \$ 2,087,403,003 | \$ 2,098,349,998 |
| 35,017,831 | 40,988,923 | 44,212,747 | 34,236,929 | 63,940,282 | 61,923,719 |
| 75,989,169 | 87,802,996 | 96,276,381 | 86,049,492 | 67,500,916 | 83,647,401 |
| <u>\$ 2,138,033,053</u> | <u>\$ 2,179,717,289</u> | <u>\$ 2,202,124,770</u> | <u>\$ 2,205,198,642</u> | <u>\$ 2,218,844,201</u> | <u>\$ 2,243,921,118</u> |
| | | | | | |
| \$ 107,231,308 | \$ 107,313,603 | \$ 108,510,361 | \$ 108,449,847 | \$ 108,976,459 | \$ 108,981,237 |
| - | - | - | - | - | - |
| 15,808,357 | 13,639,027 | 11,435,306 | 10,173,912 | 9,442,988 | 15,089,798 |
| <u>\$ 123,039,665</u> | <u>\$ 120,952,630</u> | <u>\$ 119,945,667</u> | <u>\$ 118,623,759</u> | <u>\$ 118,419,447</u> | <u>\$ 124,071,035</u> |
| | | | | | |
| \$ 2,134,257,361 | \$ 2,158,238,973 | \$ 2,170,146,003 | \$ 2,193,362,068 | \$ 2,196,379,462 | \$ 2,207,331,235 |
| 35,017,831 | 40,988,923 | 44,212,747 | 34,236,929 | 63,940,282 | 61,923,719 |
| 91,797,526 | 101,442,023 | 107,711,687 | 96,223,404 | 76,943,904 | 98,737,199 |
| <u>\$ 2,261,072,718</u> | <u>\$ 2,300,669,919</u> | <u>\$ 2,322,070,437</u> | <u>\$ 2,323,822,401</u> | <u>\$ 2,337,263,648</u> | <u>\$ 2,367,992,153</u> |

CITY OF NEWPORT BEACH
Changes in Net Assets
Last Ten Fiscal Years
(accrual basis of accounting)

| | Fiscal Year | | | | | | | | | |
|--------------------------------------------------------|------------------------|------------------------|-------------------------|-------------------------|------------------------|-------------------------|------------------------|-------------------------|-------------------------|-------------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Expenses: | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| General government | \$ 10,799,630 | \$ 11,428,379 | \$ 11,378,609 | \$ 14,509,827 | \$ 14,166,168 | \$ 15,556,657 | \$ 16,430,529 | \$ 17,082,705 | \$ 15,857,397 | \$ 14,325,966 |
| Public safety | 56,521,871 | 58,178,633 | 63,214,291 | 67,789,121 | 69,795,386 | 75,821,082 | 79,301,600 | 79,402,600 | 78,128,006 | 75,696,570 |
| Public works | 32,089,038 | 38,127,832 | 46,359,871 | 33,870,359 | 39,179,844 | 42,631,401 | 45,600,429 | 55,445,327 | 40,341,323 | 48,913,412 |
| Community development | 5,782,215 | 6,229,785 | 6,437,006 | 8,157,925 | 9,020,868 | 10,052,871 | 10,283,528 | 10,082,454 | 8,637,525 | 9,365,676 |
| Community services | 10,404,285 | 14,741,504 | 13,073,215 | 13,803,755 | 23,304,053 | 19,146,588 | 20,589,094 | 17,232,357 | 17,272,374 | 21,554,696 |
| Interest on long-term debt | 673,944 | 542,126 | 508,869 | 479,529 | 523,401 | 532,569 | 437,207 | 372,502 | 5,078,881 | 8,204,928 |
| Total governmental activities expenses | 116,270,983 | 129,248,259 | 140,971,861 | 138,610,516 | 155,989,720 | 163,741,168 | 172,642,387 | 179,617,945 | 165,315,506 | 178,061,248 |
| Business-type activities: | | | | | | | | | | |
| Water | 14,540,036 | 17,185,034 | 14,467,233 | 16,228,213 | 17,399,900 | 20,148,517 | 18,210,789 | 18,732,351 | 19,824,996 | 18,358,646 |
| Wastewater | 3,115,136 | 3,363,954 | 2,740,908 | 3,143,629 | 3,259,637 | 3,423,592 | 3,753,042 | 3,599,034 | 3,936,949 | 3,360,418 |
| Total business-type activities expenses | 17,655,172 | 20,548,988 | 17,208,141 | 19,371,842 | 20,659,737 | 23,572,109 | 21,963,831 | 22,331,385 | 23,761,945 | 21,719,064 |
| Total primary government expenses | 133,926,155 | 149,797,247 | 158,180,002 | 157,982,358 | 176,649,457 | 187,313,277 | 194,606,218 | 201,949,330 | 189,077,451 | 199,780,312 |
| Program revenues: | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| General government | 3,008,162 | 2,109,141 | 2,412,769 | 2,623,272 | 2,944,100 | 3,055,982 | 2,543,880 | 2,909,603 | 2,722,527 | 2,593,741 |
| Public safety | 11,603,584 | 15,739,912 | 16,264,493 | 13,669,509 | 15,756,327 | 16,649,400 | 14,757,266 | 15,006,601 | 15,686,314 | 16,240,135 |
| Public works | 5,009,048 | 5,481,464 | 6,031,248 | 5,133,728 | 5,482,167 | 5,616,118 | 5,532,871 | 6,392,877 | 2,938,315 | 4,576,208 |
| Community development | 4,022,904 | 5,196,276 | 5,129,856 | 5,667,289 | 5,682,636 | 5,597,309 | 4,852,534 | 4,806,745 | 5,599,737 | 6,202,080 |
| Community services | 6,039,226 | 3,846,566 | 3,952,862 | 9,433,276 | 9,054,504 | 9,203,513 | 9,052,330 | 8,673,465 | 8,962,818 | 14,119,869 |
| Interest on long-term debt | - | - | - | - | - | - | - | - | - | - |
| Operating Grants and Contributions: | | | | | | | | | | |
| Contributions: | 8,750,565 | 10,681,329 | 17,480,834 | 12,772,599 | 16,172,023 | 15,778,851 | 13,404,286 | 15,677,617 | 10,710,266 | 11,418,147 |
| Capital Grants and Contributions: | 4,146,728 | 674,815 | 20,205,948 ¹ | 69,473,891 ² | 6,904,716 | 31,037,915 ³ | 24,633,716 | 12,350,100 | 11,101,239 | 14,838,783 |
| Total governmental activities program revenues | 42,580,217 | 43,729,503 | 71,478,012 | 118,773,566 | 61,996,473 | 86,939,088 | 74,776,883 | 65,817,008 | 57,721,216 | 69,988,962 |
| Business-type activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| Water | 16,489,284 | 18,430,000 | 17,573,196 | 17,923,523 | 17,918,968 | 17,270,511 | 16,966,621 | 17,412,634 | 20,097,227 | 23,877,685 |
| Wastewater | 2,768,941 | 2,882,793 | 2,900,672 | 3,311,089 | 3,535,050 | 3,552,780 | 3,479,565 | 3,368,327 | 3,348,433 | 3,382,905 |
| Total business-type activities program revenues | 19,258,225 | 21,312,793 | 20,473,868 | 21,234,612 | 21,454,018 | 20,823,291 | 20,446,186 | 20,780,961 | 23,445,660 | 27,260,590 |
| Total primary government program revenues | 61,838,442 | 65,042,296 | 91,951,880 | 140,008,178 | 83,450,491 | 107,762,379 | 95,223,069 | 86,597,969 | 81,166,876 | 97,249,552 |
| Net revenues (expenses): | | | | | | | | | | |
| Governmental activities | (73,690,766) | (85,518,756) | (69,493,849) | (19,836,950) | (93,993,247) | (76,802,080) | (97,865,504) | (113,800,937) | (107,594,290) | (108,072,286) |
| Business-type activities | 1,603,053 | 763,805 | 3,265,727 | 1,862,770 | 794,281 | (2,748,818) | (1,517,645) | (1,550,424) | (316,285) | 5,541,526 |
| Total net revenues (expenses) | \$ (72,087,713) | \$ (84,754,951) | \$ (66,228,122) | \$ (17,974,180) | \$ (93,198,966) | \$ (79,550,898) | \$ (99,383,149) | \$ (115,351,361) | \$ (107,910,575) | \$ (102,530,760) |

¹ 2005 data varies from trend because of increased capital assets related to PCH Relinquishment.

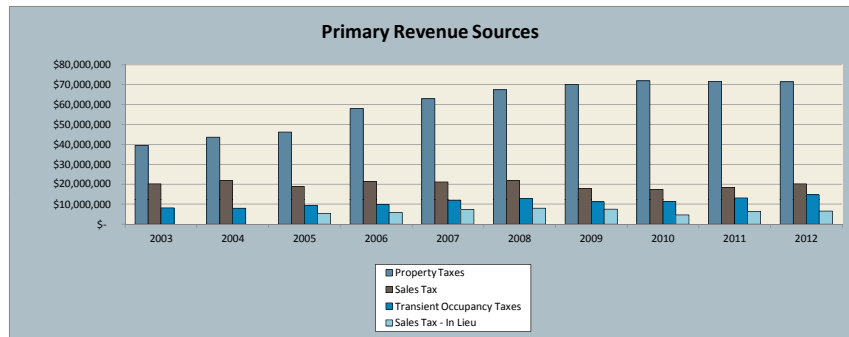
² 2006 data varies from trend because of increased capital assets related mostly to Bristol St. Relinquishment, Newport Coast Community Center, and Fire Station # 7.

³ 2008 data varies from trend because of increased capital assets related to Santa Ana Heights Annexation.

The City of Newport Beach implemented GASB 34 for the fiscal year ended June 30, 2002.

CITY OF NEWPORT BEACH
Changes in Net Assets
Last Ten Fiscal Years
(accrual basis of accounting)

| | Fiscal Year | | | | | | | | | |
|---------------------------------------------------|---------------|----------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| General revenues and other changes in net assets: | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Taxes: | | | | | | | | | | |
| Property taxes | \$ 39,474,864 | \$ 43,631,829 | \$ 46,303,366 | \$ 57,888,545 | \$ 63,003,057 | \$ 67,388,838 | \$ 70,126,680 | \$ 71,999,680 | \$ 71,630,345 | \$ 71,546,249 |
| Sales tax | 20,133,598 | 21,843,884 | 18,977,828 | 21,465,557 | 21,088,118 | 21,855,242 | 17,925,956 | 17,440,736 | 18,455,181 | 20,107,597 |
| Sales tax in-lieu | - | - | 5,339,827 | 5,720,028 | 7,348,253 | 8,017,539 | 7,503,113 | 4,539,946 | 6,284,266 | 6,523,492 |
| Transient occupancy taxes | 8,055,266 | 8,045,132 | 9,215,862 | 9,832,729 | 12,059,008 | 12,751,518 | 11,170,956 | 11,400,710 | 13,082,451 | 14,798,191 |
| Business license | 2,030,845 | 2,830,127 | 3,458,165 | 3,848,381 | 3,770,172 | 4,119,108 | 4,273,642 | 4,026,614 | 4,090,634 | 4,073,725 |
| Franchise taxes | 2,465,584 | 2,765,519 | 3,029,476 | 3,162,588 | 4,613,932 | 3,853,119 | 3,961,634 | 3,715,946 | 3,730,819 | 3,845,901 |
| Motor vehicle license fees | 3,970,103 | 3,624,917 | 6,395,860 | 300,751 | 391,559 | 304,920 | 356,237 | 314,957 | 403,042 | 42,911 |
| Motor vehicle fines | 742,957 | - | - | - | - | - | - | - | - | - |
| Other taxes | 314,725 | 266,642 | 240,534 | 508,331 | 515,128 | 373,350 | 230,115 | 201,893 | 226,257 | 278,521 |
| Investment income | 2,111,451 | 584,415 | 1,209,074 | 1,939,941 | 3,175,582 | 3,655,314 | 1,764,827 | 706,855 | 366,081 | 405,674 |
| Net increase in fair value of investments | 318,686 | (360,586) | (258,125) | (715,615) | (545,533) | 508,485 | 1,096,848 | 707,200 | 369,235 | 246,119 |
| Gain on sale of assets | 130,954 | - | - | - | - | - | - | - | - | - |
| Other | 1,294,628 | 214,536 | 761,111 | 776,907 | 2,232,070 | 1,858,883 | 1,862,977 | 1,820,272 | 2,601,538 | 2,789,471 |
| Property income | - | - | - | - | - | - | - | - | - | - |
| Share of joint venture net income | 389,418 | 146,819 | 100,325 | (513,791) | 253,207 | - | - | - | - | - |
| Change in accounting estimates | - | - | - | - | - | - | - | - | - | 8,484,000 |
| Capital contributions | 17,836,792 | 102,713,421 | 213,779,060 | - | - | - | - | - | - | 7,352 |
| Sale of service rights | - | - | - | - | - | - | - | - | - | - |
| Transfers | 33,277 | 57,783 | - | 40,000 | - | - | - | - | - | - |
| Total governmental activities | 99,303,148 | 186,364,438 | 308,552,363 | 104,254,352 | 117,904,553 | 124,686,316 | 120,272,985 | 116,874,809 | 121,238,849 | 133,149,203 |
| Business-type activities: | | | | | | | | | | |
| Investment income | 505,619 | 203,041 | 424,157 | 549,012 | 792,936 | 588,870 | 374,893 | 128,399 | 52,996 | 49,718 |
| Net increase in fair value of investments | 440,697 | (87,078) | (87,921) | (169,095) | (57,185) | 72,913 | 135,789 | 100,117 | 58,977 | 67,696 |
| Property income | 29,880 | 29,280 | 26,970 | - | - | - | - | - | - | - |
| Capital contributions | - | 215,331 | - | - | - | - | - | - | - | (7,352) |
| Transfers | (33,277) | (57,783) | - | (40,000) | - | - | - | - | - | - |
| Total business-type activities | 942,919 | 302,791 | 363,206 | 339,917 | 735,751 | 661,783 | 510,682 | 228,516 | 111,973 | 110,062 |
| Total primary government | 100,246,067 | 186,667,229 | 308,915,569 | 104,594,269 | 118,640,304 | 125,348,099 | 120,783,667 | 117,103,325 | 121,351,822 | 133,259,265 |
| Changes in net assets | | | | | | | | | | |
| Governmental activities | 25,612,382 | 100,845,682 | 239,058,514 | 84,417,402 | 23,911,306 | 47,884,236 | 22,407,481 | 3,073,872 | 13,645,559 | 25,076,917 |
| Business-type activities | 2,545,972 | 1,066,596 | 3,628,933 | 2,202,687 | 1,530,032 | (2,087,035) | (1,006,963) | (1,321,908) | (204,312) | 5,651,588 |
| Total primary government | \$ 28,158,354 | \$ 101,912,278 | \$ 242,687,447 | \$ 86,620,089 | \$ 25,441,338 | \$ 45,797,201 | \$ 21,400,518 | \$ 1,751,964 | \$ 13,441,247 | \$ 30,728,505 |



CITY OF NEWPORT BEACH
Fund Balances of Governmental Funds¹
Last Ten Fiscal Years
(modified accrual basis of accounting)

| | Fiscal Year ² | | | |
|------------------------------------|--------------------------|------|------|------|
| | 2003 | 2004 | 2005 | 2006 |
| General fund: | | | | |
| Nonspendable | | | | |
| Restricted | | | | |
| Committed | | | | |
| Assigned | | | | |
| Unassigned | | | | |
| Total general fund | | | | |
| All other governmental funds: | | | | |
| Nonspendable | | | | |
| Restricted | | | | |
| Committed | | | | |
| Assigned | | | | |
| Unassigned | | | | |
| Total all other governmental funds | | | | |
| Total all governmental funds | | | | |

| | Fiscal Year | | | |
|------------------------------------|---------------|---------------|----------------|----------------|
| | 2003 | 2004 | 2005 | 2006 |
| General fund: | | | | |
| Reserved | \$ 4,393,418 | \$ 6,678,579 | \$ 4,673,198 | \$ 9,374,722 |
| Unreserved | 31,929,366 | 37,765,801 | 49,814,197 | 45,212,339 |
| Total general fund | \$ 36,322,784 | \$ 44,444,380 | \$ 54,487,395 | \$ 54,587,061 |
| All other governmental funds: | | | | |
| Reserved | \$ 5,174,296 | \$ 4,889,031 | \$ 13,000,882 | \$ 36,134,686 |
| Unreserved, reported in: | | | | |
| Special revenue funds | 33,042,712 | 34,194,332 | 26,391,109 | 7,533,654 |
| Capital projects funds | - | - | 6,076,969 | 2,077,124 |
| Permanent funds | - | - | 285,506 | 404,771 |
| Total all other governmental funds | \$ 38,217,008 | \$ 39,083,363 | \$ 45,754,466 | \$ 46,150,235 |
| Total all governmental funds | \$ 74,539,792 | \$ 83,527,743 | \$ 100,241,861 | \$ 100,737,296 |

¹ The City of Newport Beach implemented Governmental Accounting Standards Board Statement No. 54 (GASB 54) for the fiscal year ending June 30, 2011.

² Information prior to the implementation of GASB 54 is not available.

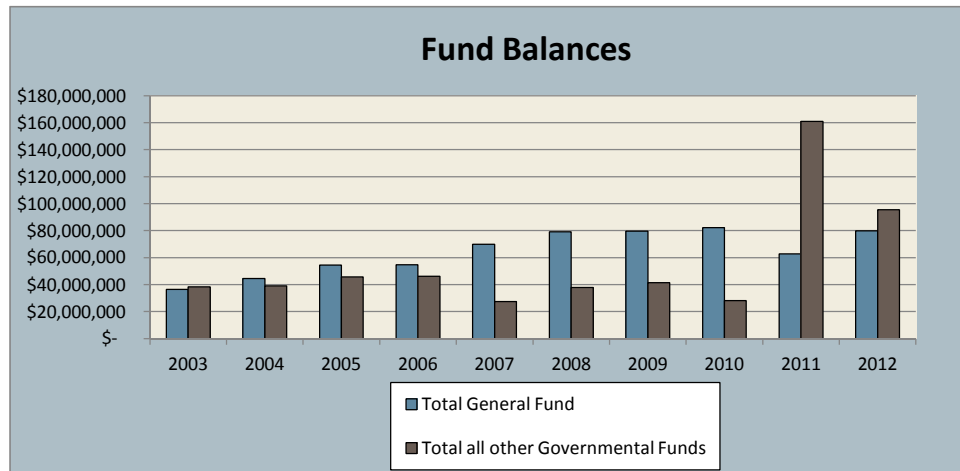
³ 2011 general fund data varies from trend due to \$31.3 million transfer from General Fund to Facilities Replacement Fund.

⁴ 2011 other governmental funds data varies from trend due to issuance of Civic Center COPs.

CITY OF NEWPORT BEACH
Fund Balances of Governmental Funds¹
Last Ten Fiscal Years
(modified accrual basis of accounting)

| Fiscal Year ² | | | | | |
|--------------------------|------|------|------|------------------------------------|-----------------------|
| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| | | | | \$ 1,031,742 | \$ 7,854,478 |
| | | | | 1,681,333 | 2,263,049 |
| | | | | 27,619,902 | 29,673,333 |
| | | | | 11,865,835 | 19,431,475 |
| | | | | <u>20,570,033</u> | <u>20,570,023</u> |
| | | | | <u>\$ 62,768,845</u> ³ | <u>\$ 79,792,358</u> |
| | | | | \$ 5,898,234 | \$ 5,396,436 |
| | | | | 36,445,842 | 30,957,184 |
| | | | | 115,923,344 | 70,500,156 |
| | | | | 5,633,558 | - |
| | | | | <u>(2,988,102)</u> | <u>(11,339,671)</u> |
| | | | | <u>\$ 160,912,876</u> ⁴ | <u>\$ 95,514,105</u> |
| | | | | <u>\$ 223,681,721</u> | <u>\$ 175,306,463</u> |

| Fiscal Year | | | |
|----------------------|-----------------------|-----------------------|-----------------------|
| 2007 | 2008 | 2009 | 2010 |
| \$ 7,233,703 | \$ 6,807,094 | \$ 5,907,205 | \$ 5,472,481 |
| <u>62,679,499</u> | <u>72,252,045</u> | <u>73,703,759</u> | <u>76,685,385</u> |
| <u>\$ 69,913,202</u> | <u>\$ 79,059,139</u> | <u>\$ 79,610,964</u> | <u>\$ 82,157,866</u> |
| \$ 11,168,955 | \$ 12,060,365 | \$ 8,831,229 | \$ 9,363,673 |
| 18,917,308 | 21,670,956 | 23,849,191 | 27,973,528 |
| (3,258,201) | 3,271,954 | 7,671,450 | (10,571,278) |
| 660,029 | 934,648 | 1,170,009 | 1,294,924 |
| <u>\$ 27,488,091</u> | <u>\$ 37,937,923</u> | <u>\$ 41,521,879</u> | <u>\$ 28,060,847</u> |
| <u>\$ 97,401,293</u> | <u>\$ 116,997,062</u> | <u>\$ 121,132,843</u> | <u>\$ 110,218,713</u> |



CITY OF NEWPORT BEACH
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

| | Fiscal Year | | | |
|----------------------------------------------------------------|---------------------|---------------------|----------------------------|--------------------|
| | 2003 | 2004 | 2005 | 2006 |
| Revenues: | | | | |
| Taxes | \$ 72,864,836 | \$ 79,874,751 | \$ 91,606,863 ¹ | \$ 102,737,810 |
| Intergovernmental | 10,379,792 | 16,108,023 | 19,513,589 | 14,842,994 |
| Licenses and permits | 4,397,520 | 5,429,632 | 4,968,234 | 5,708,965 |
| Charges for services | 11,156,294 | 11,516,782 | 13,104,478 | 13,135,366 |
| Fines and forfeitures | 3,448,826 | 3,605,963 | 3,422,735 | 3,841,843 |
| Investment income | 1,941,046 | 887,513 | 2,356,747 | 3,847,982 |
| Net increase (decrease) in fair value of investments | 1,468,682 | (360,586) | (493,879) | (1,325,211) |
| Property income | 10,947,021 | 11,857,671 | 12,337,339 | 13,625,142 |
| Donations | 1,819,159 | 2,704,367 | 1,087,826 | 883,405 |
| Contributions from property owners | - | - | 14,779,013 | - |
| Other | 2,590,504 | 478,200 | 980,446 | 1,042,882 |
| Total revenues | 121,013,680 | 132,102,316 | 163,663,391 | 158,341,178 |
| Expenditures | | | | |
| Current: | | | | |
| General government | 9,689,275 | 11,024,256 | 10,920,667 | 12,531,200 |
| Public safety | 53,035,377 | 56,849,718 | 59,482,134 | 65,262,069 |
| Public works | 21,259,782 | 22,780,896 | 24,365,996 | 26,430,751 |
| Community development | 5,457,498 | 5,723,031 | 6,144,917 | 7,900,503 |
| Community services | 9,382,608 | 10,827,346 | 10,351,414 | 12,730,727 |
| Capital outlay | 14,684,897 | 15,188,550 | 33,486,048 | 24,811,237 |
| Debt service: | | | | |
| Principal retirement | 1,822,913 | 1,668,350 | 1,688,801 | 1,715,542 |
| Interest and fiscal charges | 529,808 | 520,228 | 499,077 | 480,909 |
| Issuance of debt costs | - | - | - | - |
| Total expenditures | 115,862,158 | 124,582,375 | 146,939,054 | 151,862,938 |
| Excess (deficiency) of revenues over (under) expenditures | 5,151,522 | 7,519,941 | 16,724,337 | 6,478,240 |
| Other financing sources (uses): | | | | |
| Transfers in | 14,376,167 | 16,553,395 | 20,601,957 | 25,194,920 |
| Transfers out | (14,342,890) | (18,495,612) | (20,612,176) | (31,177,725) |
| Proceeds from issuance of debt | 2,630,736 | - | - | - |
| Issuance of debt premium | - | - | - | - |
| Total other financing sources (uses) | 2,664,013 | (1,942,217) | (10,219) | (5,982,805) |
| Net change in fund balances | \$ 7,815,535 | \$ 5,577,724 | \$ 16,714,118 | \$ 495,435 |
| Debt service as a percentage of noncapital expenditures | | | | |
| | 2.2% | 1.8% | 1.7% | 1.7% |

¹ Adjusted to include Property Tax-in lieu of VLF which was previously reported as intergovernmental revenue.

CITY OF NEWPORT BEACH
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

| Fiscal Year | | | | | |
|-----------------------|----------------------|---------------------|------------------------|-----------------------|------------------------|
| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| \$ 112,230,054 | \$ 118,758,201 | \$ 115,711,574 | \$ 113,809,443 | \$ 117,983,765 | \$ 121,710,955 |
| 18,866,929 | 21,005,429 | 11,434,885 | 15,379,698 | 11,467,471 | 12,122,963 |
| 4,574,659 | 6,474,789 | 5,883,515 | 3,950,967 | 5,198,986 | 6,691,125 |
| 14,452,723 | 15,073,178 | 14,498,120 | 15,293,362 | 15,285,813 | 16,020,825 |
| 4,126,351 | 4,662,442 | 4,572,611 | 4,105,632 | 3,545,229 | 3,795,787 |
| 5,431,137 | 5,463,066 | 3,245,677 | 1,289,890 | 1,045,592 | 1,142,935 |
| (626,881) | 720,488 | 1,472,335 | 1,155,363 | 882,317 | 704,656 |
| 13,965,815 | 15,217,803 | 14,032,342 | 14,624,923 | 15,538,387 | 17,458,143 |
| 1,379,461 | 2,159,637 | 6,760,140 | 5,497,640 | 1,790,073 | 13,977,850 |
| - | - | - | - | - | - |
| 1,967,465 | 4,205,095 | 8,501,014 | 7,646,274 | 5,091,527 | 691,125 |
| <u>176,367,713</u> | <u>193,740,128</u> | <u>186,112,213</u> | <u>182,753,192</u> | <u>177,829,160</u> | <u>194,316,364</u> |
| 13,706,061 | 14,508,103 | 15,567,654 | 15,169,546 | 15,424,734 | 12,896,492 |
| 68,843,947 | 73,486,413 | 78,554,344 | 77,202,445 | 74,947,173 | 75,377,871 |
| 28,352,293 | 30,108,941 | 30,619,405 | 39,922,406 | 31,442,076 | 32,399,178 |
| 7,753,035 | 8,703,841 | 9,971,536 | 9,556,066 | 8,430,813 | 8,939,825 |
| 13,988,589 | 14,478,146 | 17,485,605 | 14,916,230 | 15,662,011 | 19,296,505 |
| 45,615,169 | 20,524,638 | 26,002,338 | 36,796,653 | 37,645,882 | 80,617,948 |
| 3,736,587 | 3,263,948 | 3,292,641 | 1,820,679 | 6,230,080 | 4,529,854 |
| 458,035 | 577,299 | 482,908 | 383,297 | 1,179,612 | 8,320,500 |
| - | - | - | - | 1,219,071 | - |
| <u>182,453,716</u> | <u>165,651,329</u> | <u>181,976,431</u> | <u>195,767,322</u> | <u>192,181,452</u> | <u>242,378,173</u> |
| (6,086,003) | 28,088,799 | 4,135,782 | (13,014,130) | (14,352,292) | (48,061,809) |
| 20,271,396 | 27,583,922 | 23,354,366 | 22,380,521 | 58,763,620 | 24,640,318 |
| (22,521,396) | (36,076,952) | (23,354,366) | (21,780,521) | (58,763,620) | (24,953,767) |
| 5,000,000 | - | - | 1,500,000 | 126,660,000 | - |
| - | - | - | - | 1,155,300 | - |
| <u>2,750,000</u> | <u>(8,493,030)</u> | <u>-</u> | <u>2,100,000</u> | <u>127,815,300</u> | <u>(313,449)</u> |
| <u>\$ (3,336,003)</u> | <u>\$ 19,595,769</u> | <u>\$ 4,135,782</u> | <u>\$ (10,914,130)</u> | <u>\$ 113,463,008</u> | <u>\$ (48,375,258)</u> |
| 2.8% | 2.5% | 2.3% | 1.3% | 4.8% | 7.4% |

REVENUE CAPACITY

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

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

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

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

CITY OF NEWPORT BEACH
Assessed Value and Estimated Actual Value of Taxable Property
Last Eleven Fiscal Years

| Fiscal Year Ended June 30 | City | | | Taxable Assessed Value | Change | Total Direct Tax Rate |
|---------------------------------|----------------|-------------------|------------------|---------------------------|--------|--------------------------|
| | Public Utility | Secured | Unsecured | | | |
| 2003 | \$ 16,531,505 | \$ 21,339,270,499 | \$ 1,085,951,066 | \$ 22,425,221,565 | 28.67% | 1.000% |
| 2004 | 16,531,505 | 23,219,166,299 | 1,372,432,950 | 24,591,599,249 | 9.66% | 1.000% |
| 2005 | 53,310 | 25,193,662,254 | 1,484,019,033 | 26,677,681,287 | 8.48% | 1.000% |
| 2006 | 53,310 | 28,136,607,566 | 1,914,106,993 | 30,050,714,559 | 12.64% | 1.000% |
| 2007 | 53,310 | 31,423,473,042 | 1,569,867,249 | 32,993,340,291 | 9.79% | 1.000% |
| 2008 | 53,310 | 34,188,568,583 | 1,668,015,342 | 35,856,583,925 | 8.68% | 1.000% |
| 2009 | 699,230 | 36,436,106,070 | 1,538,539,482 | 37,974,645,552 | 5.91% | 1.000% |
| 2010 | 699,230 | 37,078,595,810 | 1,564,808,312 | 38,643,404,122 | 1.76% | 1.000% |
| 2011 | 699,230 | 37,080,217,275 | 1,626,947,910 | 38,707,165,185 | 0.16% | 1.000% |
| 2012 | 699,230 | 37,550,413,836 | 1,556,752,313 | 39,107,166,149 | 1.03% | 1.000% |
| 2013 | 53,310 | 38,638,269,438 | 1,517,072,450 | 40,155,341,888 | 2.68% | 1.000% |

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 re-assessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

The City of Newport Beach has elected to show eleven years of data for this schedule as Fiscal year 2013 data was readily available when compiling this schedule.

Source: County of Orange Auditor-Controller's Office

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

| | Fiscal Year | | | | | | | | | |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| City Direct Rates: | | | | | | | | | | |
| City basic rate | \$ 1.000 | \$ 1.000 | \$ 1.000 | \$ 1.000 | \$ 1.000 | \$ 1.000 | \$ 1.000 | \$ 1.000 | \$ 1.000 | \$ 1.000 |
| Total City Direct Rate | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| Overlapping Rates: | | | | | | | | | | |
| Water Districts | 0.007 | 0.006 | 0.006 | 0.069 | 0.078 | 0.096 | 0.096 | 0.110 | 0.110 | 0.110 |
| School Districts | 0.0682 | 0.1019 | 0.1439 | 0.1137 | 0.1103 | 0.1092 | 0.1009 | 0.1521 | 0.1548 | 0.1546 |
| Total Overlapping Rate | 0.075 | 0.108 | 0.150 | 0.182 | 0.189 | 0.205 | 0.197 | 0.262 | 0.265 | 0.264 |
| Total Direct & Overlapping Rate | <u>\$ 1.075</u> | <u>\$ 1.108</u> | <u>\$ 1.150</u> | <u>\$ 1.182</u> | <u>\$ 1.189</u> | <u>\$ 1.205</u> | <u>\$ 1.197</u> | <u>\$ 1.262</u> | <u>\$ 1.265</u> | <u>\$ 1.264</u> |

NOTE:

In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of other debt obligations.

Source: HdL, Coren & Cone

CITY OF NEWPORT BEACH
Principal Property Taxpayers
Current Year and Nine Years Ago

| Taxpayer | 2012 | | | 2003 | | |
|------------------------------|-------------------------|------|----------------------------------------------|-------------------------|------|----------------------------------------------|
| | Taxable Assessed Value | Rank | Percent of Total City Taxable Assessed Value | Taxable Assessed Value | Rank | Percent of Total City Taxable Assessed Value |
| The Irvine Company | \$ 1,869,769,413 | 1 | 4.78% | \$ 1,321,107,047 | 1 | 5.89% |
| Newport Bluffs LLC | 138,854,048 | 2 | 0.36% | N/A | | 0.00% |
| UDR Newport Beach North LP | 118,405,791 | 3 | 0.30% | N/A | | 0.00% |
| Coronado South Apartments LP | 115,254,573 | 4 | 0.29% | N/A | | 0.00% |
| Newport Healthcare Center | 106,432,013 | 5 | 0.27% | N/A | | 0.00% |
| Jazz Semiconductor Inc | 105,594,078 | 6 | 0.27% | N/A | | 0.00% |
| Balboa Bay Club Inc. | 103,052,382 | 7 | 0.26% | 130,527,619 | 4 | 0.58% |
| 100 Bayview LLC | 95,012,774 | 8 | 0.24% | N/A | | 0.00% |
| HHR Newport Beach LLC | 87,384,336 | 9 | 0.22% | N/A | | 0.00% |
| EO MacArthur LLC | 75,319,965 | 10 | 0.19% | N/A | | 0.00% |
| | <u>\$ 2,815,079,373</u> | | <u>7.20%</u> | <u>\$ 1,451,634,666</u> | | <u>6.47%</u> |

Source: HdL, Coren and Cone Co.

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

| Fiscal Year Ended June 30 | Taxes Levied for the Fiscal Year | Collected within the Fiscal Year of Levy | | Collections in Subsequent Years ² | Total Collections to Date | |
|---------------------------------|-------------------------------------|---------------------------------------------|----------------------|----------------------------------------------------|---------------------------|----------------------|
| | | Amount ¹ | Percent of Levy | | Amount | Percent of Levy |
| 2003 | \$ 37,092,528 | \$ 36,351,026 | 98.00% | \$ 529,986 | \$ 36,881,012 | 99.43% |
| 2004 | 42,469,238 | 41,420,410 | 97.53% | 670,685 | 42,091,095 | 99.11% |
| 2005 | 45,111,328 | 54,063,951 ³ | 119.85% ³ | 483,804 | 54,547,755 ³ | 120.92% ³ |
| 2006 | 47,286,816 | 45,558,039 | 96.34% | 728,365 | 46,286,404 | 97.88% |
| 2007 | 70,194,492 | 68,820,402 | 98.04% | 1,307,043 | 70,127,445 | 99.90% |
| 2008 | 69,315,116 | 66,675,541 | 96.19% | 2,163,679 | 68,839,220 | 99.31% |
| 2009 | 71,006,357 | 68,266,624 | 96.14% | 2,123,097 | 70,389,721 | 99.13% |
| 2010 | 68,412,731 | 66,282,513 ⁴ | 96.89% | 1,507,391 | 67,789,904 | 99.09% |
| 2011 | 70,476,893 | 68,577,472 | 97.30% | 1,069,122 | 69,646,594 | 98.82% |
| 2012 | 71,157,295 | 69,435,794 | 97.58% | - ⁵ | 69,435,794 | 97.58% |

¹ Net collections reflect deductions for refunds and Impoundments.

² Exclusive of penalty charges

³ Collections include nearly \$10 million of Property Tax in lieu of Sales Tax and Vehicle License Fees not included in the levy.

⁴ In Fiscal Year 2009-10 the State borrowed approximately \$6.2 million of property tax revenue in accordance with Proposition 1A (2004). Collections include the full amount of the borrowing as the City recovered the \$6.2 million in Fiscal Year 2009-10 by participating in a securitization program through the California Statewide Communities Development Authority.

⁵ The total amount of Fiscal Year 2012 delinquent taxes collected in subsequent years was not available as of the date the information was collected for the City's Comprehensive Annual Financial Report.

Source: Orange County Auditor Controller's Office

DEBT CAPACITY

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

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

- Ratios of Outstanding Debt by Type
- Ratios of General Bonded Debt Outstanding
- Direct and Overlapping Debt
- Legal Debt Margin Information

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

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

| Fiscal Year Ended June 30 | Governmental Activities | | | | | |
|------------------------------------|-----------------------------------------------|--------------|---------------------------------|--------------|----------------|----------------------------------|
| | Certificates of Participation ¹ | Note Payable | Pre- Annexation Agreement | CDBG Loan | Capital Leases | Purchase Agreement Payable |
| 2003 | \$ 6,110,000 | \$ 2,082,483 | \$ 16,800,000 | \$ 2,400,000 | \$ 1,293,586 | N/A |
| 2004 | 5,845,000 | 1,939,133 | 15,600,000 | 2,340,000 | 862,975 | N/A |
| 2005 | 5,570,000 | 1,789,332 | 14,400,000 | 2,276,000 | 420,773 | N/A |
| 2006 | 5,280,000 | 1,632,789 | 13,200,000 | 2,207,000 | 166,056 | N/A |
| 2007 | 4,980,000 | 1,469,202 | 12,000,000 | 2,134,000 | 49,490 | 3,000,000 |
| 2008 | 4,665,000 | 1,298,254 | 10,800,000 | 2,056,000 | - | 1,500,000 |
| 2009 | 4,335,000 | 1,119,613 | 9,600,000 | 1,972,000 | - | N/A |
| 2010 | 3,990,000 | 932,934 | 8,400,000 | 1,883,000 | - | 1,500,000 |
| 2011 | 126,660,000 | 737,854 | 7,200,000 | 1,788,000 | - | 750,000 |
| 2012 | 124,920,000 | - | 6,000,000 | 1,686,000 | - | - |

Note: This schedule excludes claims and judgements, employee compensated absence, OPEB and Early Retirement Incentive Plan Liabilities. Details regarding the City's outstanding debt can be found in the notes to the financial statements.

¹ Amount does not include bond premium.

² These ratios are calculated using personal income and population for the prior calendar year.

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

| Total Governmental Activities | Business-type Activities | | Total Primary Government | Percentage of Personal Income ² | Debt Per Capita ² |
|-------------------------------------|--------------------------|------------------------------------|-----------------------------|--------------------------------------------------|---------------------------------|
| | Water Revenue Bonds | Total Business- type Activities | | | |
| \$ 28,686,069 | \$ 9,765,000 | \$ 9,765,000 | \$ 38,451,069 | 0.72% | \$ 484 |
| 26,587,108 | 8,535,000 | 8,535,000 | 35,122,108 | 0.65% | 435 |
| 24,456,105 | 7,255,000 | 7,255,000 | 31,711,105 | 0.56% | 382 |
| 22,485,845 | 5,925,000 | 5,925,000 | 28,410,845 | 0.45% | 341 |
| 23,632,692 | 4,540,000 | 4,540,000 | 28,172,692 | 0.43% | 335 |
| 20,319,254 | 3,095,000 | 3,095,000 | 23,414,254 | 0.33% | 277 |
| 17,026,613 | 1,585,000 | 1,585,000 | 18,611,613 | 0.25% | 216 |
| 16,705,934 | - | - | 16,705,934 | 0.25% | 193 |
| 137,135,854 | - | - | 137,135,854 | 2.32% | 1,606 |
| 132,606,000 | - | - | 132,606,000 | 2.28% | 1,542 |

CITY OF NEWPORT BEACH
Ratios of General Bonded Debt
Last Ten Fiscal Years

| Fiscal Year Ended June 30 | Certificates of Participation | Total | Percent of Assessed Value ¹ | General Bonded Debt Per Capita |
|------------------------------|----------------------------------|--------------|----------------------------------------------|--------------------------------------|
| 2003 | \$ 6,110,000 | \$ 6,110,000 | 0.03% | \$ 77 |
| 2004 | 5,845,000 | 5,845,000 | 0.02% | 72 |
| 2005 | 5,570,000 | 5,570,000 | 0.02% | 67 |
| 2006 | 5,280,000 | 5,280,000 | 0.02% | 63 |
| 2007 | 4,980,000 | 4,980,000 | 0.02% | 59 |
| 2008 | 4,665,000 | 4,665,000 | 0.01% | 55 |
| 2009 | 4,335,000 | 4,335,000 | 0.01% | 50 |
| 2010 | 3,990,000 | 3,990,000 | 0.01% | 46 |
| 2011 | 126,660,000 | 126,660,000 | 0.33% | 1,484 |
| 2012 | 124,920,000 | 124,920,000 | 0.32% | 1,453 |

¹ Assessed value was used because the actual value of taxable property is not readily available in the State of California.

CITY OF NEWPORT BEACH
Direct and Overlapping Debt
June 30, 2012

| | |
|---------------------------------------------|--------------------------|
| City Assessed Valuation: | \$ 39,107,166,149 |
| Redevelopment Agency Incremental Valuation: | 806,157,333 |
| Adjusted Assessed Valuation: | <u>\$ 38,301,008,816</u> |

| | Percentage Applicable ¹ | Outstanding Debt 6/30/12 | Estimated Share of Overlapping Debt |
|--------------------------------------------------------------------------------------------|---------------------------------------|-----------------------------|----------------------------------------|
| OVERLAPPING TAX AND ASSESSMENT DEBT: | | | |
| Metropolitan Water District | 2.123% | 196,545,000 | 4,172,650 |
| Coast Community College District | 35.471% | 317,803,867 | 112,728,210 |
| Rancho Santiago Community College District | 3.073% | 302,555,660 | 9,297,535 |
| Laguna Beach Unified School District | 14.906% | 30,480,000 | 4,543,349 |
| Laguna Beach U.S.D. Community Facilities District No. 98-1 | 100.000% | 9,505,000 | 9,505,000 |
| Newport Mesa Unified School District | 72.851% | 246,399,150 | 179,504,245 |
| Newport Mesa U.S.D. Community Facilities District No. 90-1 | 100.000% | 11,650,000 | 11,650,000 |
| Santa Ana Unified School District | 7.481% | 302,027,117 | 22,594,649 |
| Irvine Ranch Water District Improvement Districts | 17.189% - 100.000% | 77,510,210 | 47,149,580 |
| Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1 | 100.000% | 38,330,000 | 38,330,000 |
| City of Newport Beach Special Improvement District No. 95-1 | 100.000% | 5,185,000 | 5,185,000 |
| City of Newport Beach 1915 Act Bonds | 100.000% | 16,090,000 | 16,090,000 |
| Orange County Assessment District No. 88-1 | 100.000% | 32,093,296 | 32,093,296 |
| Orange County Reassessment District No. 99-1R | 100.000% | 11,310,000 | 11,310,000 |
| Orange County Assessment District No. 01-1 | 100.000% | 44,730,000 | 44,730,000 |
| Orange County Reassessment District No. 01-1R | 100.000% | 5,195,000 | 5,195,000 |
| TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT | | <u>1,647,409,300</u> | <u>554,078,514</u> |
| DIRECT AND OVERLAPPING GENERAL FUND DEBT: | | | |
| <u>DIRECT GENERAL FUND DEBT:</u> | | | |
| City of Newport Beach Certificates of Participation | 100.000% | 124,920,000 | 124,920,000 |
| TOTAL DIRECT GENERAL FUND DEBT | | <u>124,920,000</u> | <u>124,920,000</u> |
| <u>OVERLAPPING GENERAL FUND DEBT:</u> | | | |
| Orange County General Fund Obligations | 10.166% | \$ 233,751,000 | \$ 23,763,127 |
| Orange County Pension Obligations | 10.166% | 214,405,353 | 21,796,448 |
| Orange County Board of Education Certificates of Participation | 10.166% | 16,000,000 | 1,626,560 |
| Municipal Water District of O.C. Water Facilities Corporation | 12.014% | 12,145,000 | 1,459,100 |
| Coast Community College District Certificates of Participation | 35.471% | 20,240,000 | 7,179,330 |
| Santa Ana Unified School District Certificates of Participation | 7.481% | 50,672,741 | 3,790,828 |
| Irvine Ranch Water District Certificates of Participation | 11.169% | 77,190,000 | 8,621,351 |
| TOTAL GROSS OVERLAPPING GENERAL FUND DEBT | | <u>624,404,094</u> | <u>68,236,744</u> |
| TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT | | 749,324,094 | 193,156,744 |
| Less: MWDOC Water Facilities Corporation (100% self-supporting) | | | (1,459,100) |
| TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT | | | <u>\$ 191,697,644</u> |
| GROSS COMBINED TOTAL DEBT (2) | | | \$ 747,235,258 |
| NET COMBINED TOTAL DEBT | | | \$ 745,776,158 |

¹ The percentage of overlapping agency's assessed valuation located within boundaries of the city.

² Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and nonbonded capital lease obligations.

Ratios to 2011-12 Assessed Valuation:

Total Overlapping Tax and Assessment Debt 1.42%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$124,920,000) 0.33%
Gross Combined Total Debt 1.95%
Net Combined Total Debt 1.95%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/12: \$0

Source: California Municipal Statistics, Inc.

CITY OF NEWPORT BEACH
Legal Debt Margin Information
Last Ten Fiscal Years

| | Fiscal Year | | | |
|---------------------------------------------------------------------|-----------------------|-----------------------|-------------------------|-------------------------|
| | 2003 | 2004 | 2005 | 2006 |
| Assessed valuation | \$ 22,425,221,565 | \$ 24,591,599,249 | \$ 26,677,681,287 | \$ 30,050,714,559 |
| Conversion percentage | 25% | 25% | 25% | 25% |
| Adjusted assessed valuation | 5,606,305,391 | 6,147,899,812 | 6,669,420,322 | 7,512,678,640 |
| Debt limit percentage | 15% | 15% | 15% | 15% |
| Debt limit | 840,945,809 | 922,184,972 | 1,000,413,048 | 1,126,901,796 |
| Total net debt applicable to limit: General obligation bonds | - | - | - | - |
| Legal debt margin | <u>\$ 840,945,809</u> | <u>\$ 922,184,972</u> | <u>\$ 1,000,413,048</u> | <u>\$ 1,126,901,796</u> |
| Total debt applicable to the limit as a percentage of debt limit | 0.0% | 0.0% | 0.0% | 0.0% |

NOTE:

The State of California Government Code Section 43605 provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the state.

Source: City Finance Department

CITY OF NEWPORT BEACH
Legal Debt Margin Information
Last Ten Fiscal Years

| Fiscal Year | | | | | |
|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| \$ 32,993,340,291 | \$ 35,856,583,925 | \$ 37,974,645,552 | \$ 38,643,404,122 | \$ 38,707,165,185 | \$ 39,107,166,149 |
| 25% | 25% | 25% | 25% | 25% | 25% |
| 8,248,335,073 | 8,964,145,981 | 9,493,661,388 | 9,660,851,031 | 9,676,791,296 | 9,776,791,537 |
| 15% | 15% | 15% | 15% | 15% | 15% |
| 1,237,250,261 | 1,344,621,897 | 1,424,049,208 | 1,449,127,655 | 1,451,518,694 | 1,466,518,731 |
| - | - | - | - | - | - |
| <u>\$ 1,237,250,261</u> | <u>\$ 1,344,621,897</u> | <u>\$ 1,424,049,208</u> | <u>\$ 1,449,127,655</u> | <u>\$ 1,451,518,694</u> | <u>\$ 1,466,518,731</u> |
| 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |

DEMOGRAPHIC AND ECONOMIC INFORMATION

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

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

- Demographic and Economic Statistics
- Principal Employers

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

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

| Fiscal Year | Population ¹ | Personal Income (in thousands) | Per Capita Income ² | Unemployment Rate ³ |
|-------------|-------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| 2003 | 79,392 | \$ 5,325,060 | \$ 67,073 | 2.4% |
| 2004 | 80,800 | 5,434,285 | 67,256 | 1.9% |
| 2005 | 83,120 | 5,635,370 | 67,798 | 2.4% |
| 2006 | 83,361 | 6,335,186 | 75,997 | 2.1% |
| 2007 | 84,218 | 6,518,052 | 77,395 | 2.6% |
| 2008 | 84,554 | 7,059,752 | 83,494 | 2.4% |
| 2009 | 86,252 | 7,468,216 | 86,586 | 6.1% |
| 2010 | 86,738 | 6,676,484 | 76,973 | 6.0% |
| 2011 | 85,376 | 5,916,215 | 69,296 | 5.8% |
| 2012 | 85,990 | 5,809,828 | 67,564 | 5.1% |

¹ Population estimates are as of January 1 of the year shown and do not reflect revised estimates made available after the date the information was collected for the City's Comprehensive Annual Financial Report.

Sources:

⁽¹⁾ California State Department of Finance, E-4 Population Estimates for Cities, Counties and State 2001-2010; and, E-1 Population Estimates for Cities, Counties and State January 1, 2011 and 2012

⁽²⁾ U.S. Census Bureau - American Community Survey 1-Year Estimates

⁽³⁾ State of California, Employment Development Department

CITY OF NEWPORT BEACH
Principal Employers¹
Current Year and 7 years ago

| Employer | 2012 | | | 2005 ² | | |
|--------------------------------------|---------------------|------|-----------------------------|---------------------|------|-----------------------------|
| | Number of Employees | Rank | Percent of Total Employment | Number of Employees | Rank | Percent of Total Employment |
| Hoag Memorial Hospital | 3,987 | 1 | 4.89% | 3,640 | 1 | 4.37% |
| PIMCO Advisors | 1,103 | 2 | 1.35% | 530 | 7 | 0.64% |
| Glidewell Dental | 1,100 | 3 | 1.35% | N/A ³ | - | N/A |
| Pacific Life Insurance | 1,013 | 4 | 1.24% | 2,788 | 2 | 3.35% |
| Newport-Mesa Unified School District | 791 | 5 | 0.97% | N/A ³ | - | N/A |
| City of Newport Beach | 763 | 6 | 0.93% | 788 | 4 | 0.95% |
| Resort at Pelican Hill | 750 | 7 | 0.92% | N/A ³ | - | N/A |
| Jazz Semi-Conductor | 690 | 8 | 0.85% | 730 | 5 | 0.88% |
| The Island Hotel | 480 | 9 | 0.59% | 525 ⁴ | 8 | 0.63% |
| Balboa Bay Club and Resort | 463 | 10 | 0.57% | N/A ³ | - | N/A |
| Fletcher Jones Motor Cars Inc. | 458 | 11 | 0.56% | N/A ³ | - | N/A |
| Marriott-Newport Beach | 319 | 12 | 0.39% | 475 | 9 | 0.57% |

¹ Figures reflect number of employees of employer at the time the information was collected.

² Information for nine years ago is not available.

³ Company listed was unable to provide reliable employee data for 2005.

⁴ The Island Hotel was formerly the Four Seasons Hotel.

Source: Data obtained from companies listed and compiled by City Finance Department.

OPERATING INFORMATION

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

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

- Full Time City Employees by Functions
- Operating Indicators by Function
- Capital Asset Statistics by Function
- Water Sold by Customer Type
- Water Rates
- Major Water Customers

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

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

| Function | Full-Time Employees as of June 30 | | | | | | | | | |
|-----------------------|-----------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| General government | 77 | 84 | 86 | 90 | 93 | 93 | 99 | 100 | 94 | 95 |
| Public safety | 384 | 385 | 385 | 388 | 393 | 397 | 397 | 397 | 381 | 359 |
| Community development | 46 | 46 | 47 | 48 | 52 | 56 | 57 | 57 | 51 | 58 |
| Public works | 164 | 162 | 162 | 163 | 163 | 165 | 160 | 160 | 144 | 130 |
| Community services | 58 | 57 | 60 | 65 | 66 | 68 | 71 | 71 | 70 | 68 |
| Balboa yacht basin | 1 | 1 | 1 | - | - | - | - | - | - | - |
| Water | 33 | 33 | 34 | 34 | 34 | 35 | 35 | 35 | 37 | 38 |
| Wastewater | 12 | 13 | 13 | 13 | 13 | 13 | 13 | 13 | 15 | 15 |
| Total | <u>775</u> | <u>781</u> | <u>788</u> | <u>801</u> | <u>814</u> | <u>827</u> | <u>832</u> | <u>833</u> | <u>792</u> | <u>763</u> |

Source: City Finance Department

CITY OF NEWPORT BEACH
Operating Indicators by Function
Last Ten Fiscal Years

| | Fiscal Year | | | |
|-----------------------------------------------|-------------|-----------|-----------|-----------|
| | 2003 | 2004 | 2005 | 2006 |
| Police: | | | | |
| Adult Arrests | 3,485 | 3,201 | 3,079 | 2,999 |
| Parking Citations Issued | 68,907 | 71,076 | 72,665 | 74,780 |
| Fire: | | | | |
| Fire Responses | 442 | 423 | 228 | 214 |
| Fire Inspections | 4,460 | 4,500 | 4,550 | 6,470 |
| General Services: | | | | |
| Street Patching (tons of mix) | 5,500 | 5,000 | 4,500 | 4,600 |
| Sidewalk Repair (square feet) | 55,000 | 50,000 | 50,000 | 55,000 |
| Recreation & Senior Services: | | | | |
| Co-Sponsored Youth Organizations | 200,077 | 185,627 | 194,749 | 194,722 |
| Senior Transportation Services | 12,094 | 12,041 | 11,936 | 12,628 |
| Water: | | | | |
| New connections | 99 | 53 | 55 | 52 |
| Average daily consumption (hundred cubic ft.) | 17 | 17 | 17 | 17 |
| Sewer: | | | | |
| New connections | 50 | 25 | 24 | 24 |
| Miles of Pipe Cleaned | 262 | 293 | 205 | 335 |
| Library Services: | | | | |
| Library Circulation of Materials | 1,347,583 | 1,392,346 | 1,475,025 | 1,443,078 |

Source: City of Newport Beach

CITY OF NEWPORT BEACH
Operating Indicators by Function
Last Ten Fiscal Years

| Fiscal Year | | | | | |
|-------------|-----------|-----------|-----------|-----------|-----------|
| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| 3,289 | 3,196 | 3,245 | 2,967 | 3,093 | 2,982 |
| 67,170 | 70,150 | 65,176 | 66,310 | 67,459 | 55,418 |
| 175 | 393 | 371 | 172 | 165 | 220 |
| 7,136 | 7,250 | 6,912 | 7,000 | 7,100 | 7,280 |
| 4,980 | 4,644 | 3,882 | 3,467 | 2,580 | 2,246 |
| 59,459 | 58,000 | 49,644 | 49,540 | 39,972 | 34,000 |
| 201,258 | 318,779 | 318,000 | 350,000 | 322,000 | 335,000 |
| 14,728 | 15,279 | 16,035 | 15,458 | 15,063 | 15,264 |
| 95 | 60 | 26 | 19 | 28 | 35 |
| 17 | 17 | 17 | 17.25 | 17.25 | 15.15 |
| 45 | 45 | 12 | 9 | 6 | 15 |
| 226 | 212 | 209 | 200 | 235 | 248 |
| 1,622,573 | 1,701,476 | 1,575,518 | 1,819,122 | 1,770,683 | 1,582,953 |

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

| | Fiscal Year | | | |
|-----------------------------------------------|-------------|--------|--------|--------|
| | 2003 | 2004 | 2005 | 2006 |
| Police: | | | | |
| Stations | 1 | 1 | 1 | 1 |
| Fire: | | | | |
| Fire stations | 7 | 7 | 8 | 8 |
| Lifeguard Headquarters | 1 | 1 | 1 | 1 |
| Public works: | | | | |
| Streets (miles) | 333 | 333 | 333 | 333 |
| Streetlights | 7,277 | 7,277 | 7,277 | 7,277 |
| Traffic signals | 131 | 131 | 144 | 147 |
| Recreation & Senior Services: | | | | |
| Parks | 47 | 47 | 47 | 47 |
| Community centers | 11 | 11 | 11 | 11 |
| Aquatic Center | 1 | 1 | 1 | 1 |
| Water: | | | | |
| Water mains (miles) | 294.81 | 294.81 | 298.42 | 299.88 |
| Maximum daily capacity (thousands of gallons) | 21,291 | 20,092 | 20,633 | 19,369 |
| Wastewater: | | | | |
| Sanitary sewers (miles) | 178.40 | 179.15 | 179.15 | 179.15 |
| Storm sewers (miles) | 53.50 | 57.60 | 57.60 | 57.60 |
| Library Services: | | | | |
| Libraries | 4 | 4 | 4 | 4 |

Source: City of Newport Beach

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

| Fiscal Year | | | | | |
|-------------|--------|--------|--------|--------|--------|
| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| 1 | 1 | 1 | 1 | 1 | 1 |
| 8 | 8 | 8 | 8 | 8 | 8 |
| 1 | 1 | 1 | 1 | 1 | 1 |
| 395 | 395 | 395 | 395 | 395 | 395 |
| 7,278 | 7,278 | 7,278 | 7,278 | 7,278 | 7,277 |
| 147 | 148 | 148 | 148 | 148 | 153 |
| 47 | 48 | 49 | 49 | 49 | 49 |
| 12 | 13 | 13 | 13 | 13 | 13 |
| 1 | 1 | 1 | 1 | 1 | 1 |
| 300.35 | 300.17 | 300.31 | 303.27 | 303.25 | 303.25 |
| 20,392 | 20,365 | 19,707 | 19,341 | 28,540 | 27,508 |
| 202.80 | 202.80 | 202.80 | 202.80 | 202.40 | 202.40 |
| 95.50 | 95.50 | 95.50 | 95.50 | 95.40 | 95.40 |
| 4 | 4 | 4 | 4 | 4 | 4 |

CITY OF NEWPORT BEACH
Water Sold by Type of Customer
Last Ten Fiscal Years
(in hundred cubic feet)

| | Fiscal Year | | | | | | | | | |
|----------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Type of Customer: | | | | | | | | | | |
| Residential | \$ 4,430,485 | \$ 4,362,402 | \$ 4,289,629 | \$ 4,190,791 | \$ 4,492,489 | \$ 4,046,969 | \$ 3,989,816 | \$ 4,251,996 | \$ 3,656,705 | \$ 4,001,344 |
| Commercial | 1,604,931 | 1,659,565 | 1,568,462 | 1,440,377 | 1,302,578 | 1,184,904 | 1,188,553 | 1,165,128 | 1,145,843 | 2,369,492 |
| Government | 597,395 | 486,051 | 487,189 | 607,650 | 601,659 | 361,457 | 420,697 | 349,334 | 320,821 | 374,091 |
| Total | \$ 6,632,811 | \$ 6,508,018 | \$ 6,345,280 | \$ 6,238,818 | \$ 6,396,726 | \$ 5,593,330 | \$ 5,599,066 | \$ 5,766,458 | \$ 5,123,369 | \$ 6,744,927 |
| Total direct rate per 100 cubic ft. | \$ 2.00 | \$ 2.00 | \$ 2.00 | \$ 2.08 | \$ 2.08 | \$ 2.08 | \$ 2.08 | \$ 2.20 | \$ 2.46 | \$ 2.73 |

Source: City Utilities Department

CITY OF NEWPORT BEACH

Water Rates

Last Ten Fiscal Years

| <u>Fiscal Year Ended June 30</u> | <u>Monthly Base Rate</u> | <u>Rate per 100 cubic ft</u> |
|------------------------------------------|------------------------------|----------------------------------|
| 2003 | \$ 10.00 | \$ 2.25 |
| 2004 | 10.20 | 2.25 |
| 2005 | 10.35 | 2.25 |
| 2006 | 12.37 | 2.43 |
| 2007 | 12.37 | 2.43 |
| 2008 | 12.37 | 2.43 |
| 2009 | 12.37 | 2.43 |
| 2010 | 14.59 | 2.55 |
| 2011 | 21.03 | 2.81 |
| 2012 | 23.05 | 3.08 |

Note: Rates are based on 3/4" meter, which is the standard household meter size. The City charges an excess-use rate above normal demand.

CITY OF NEWPORT BEACH
Major Water Customers
Current Year and Nine Years Ago

| Water Customer | 2012 | | | 2003 | | |
|-------------------------------------|---------------------|------|---------------------------------|---------------------|------|---------------------------------|
| | Water Charges | Rank | Percent of Total Water Revenues | Water Charges | Rank | Percent of Total Water Revenues |
| The Irvine Company | \$ 303,096 | 1 | 1.27% | \$ 244,013 | 1 | 1.44% |
| Hoag Memorial Hospital | 174,311 | 2 | 0.73% | 74,278 | 13 | 0.44% |
| Big Canyon Country Club | 155,940 | 3 | 0.65% | 165,491 | 3 | 0.98% |
| Newport Beach Country Club | 122,674 | 4 | 0.51% | 120,710 | 5 | 0.71% |
| UDR Newport Beach | 85,736 | 5 | 0.36% | N/A | - | 0.00% |
| Park Newport Ltd | 82,656 | 6 | 0.35% | 104,878 | 7 | 0.62% |
| Irvine Company Retail Property | 75,510 | 7 | 0.32% | 182,266 | 2 | 1.08% |
| Newport-Mesa USD | 75,353 | 8 | 0.32% | 72,785 | 14 | 0.43% |
| Bluffs Homeowners Association | 74,528 | 9 | 0.31% | 145,843 | 4 | 0.86% |
| Pacific View - Pierce Bros. | 54,657 | 10 | 0.23% | 39,436 | 20 | 0.23% |
| Hyatt Newporter | 48,609 | 11 | 0.20% | N/A | - | 0.00% |
| IOIC/PMS Engineering Department | 42,306 | 12 | 0.18% | 37,262 | 22 | 0.22% |
| Newport Dunes Resort | 38,096 | 13 | 0.16% | 32,965 | 24 | 0.19% |
| Spyglass Hill Community Association | 35,917 | 14 | 0.15% | 90,601 | 10 | 0.54% |
| Balboa Bay Club | 34,351 | 15 | 0.14% | N/A | - | 0.00% |
| | <u>\$ 1,403,740</u> | | <u>5.87%</u> | <u>\$ 1,066,515</u> | | <u>6.31%</u> |

Source: City Revenue Division

City of Newport Beach
3300 Newport Blvd.
Newport Beach, CA 92663
(949) 644-3123
www.newportbeachca.gov/financialinfo