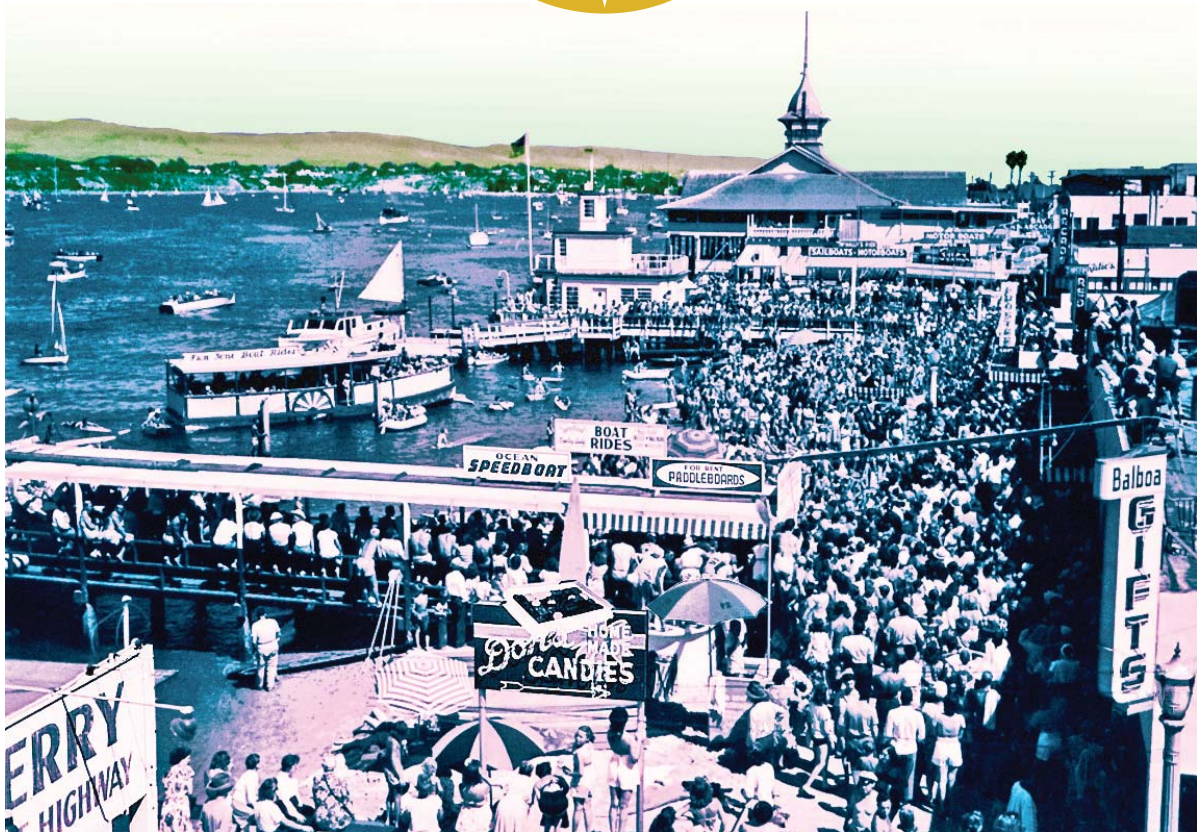


# Comprehensive Annual Financial Report



City of Newport Beach  
Fiscal Year Ended June 30, 2010





*Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2010*

*Prepared by the Administrative Services Department  
Tracy McCraner, 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, 2010

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 (Unaudited)

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# CITY OF NEWPORT BEACH

## ADMINISTRATIVE SERVICES Tracy M. McCraner, Director/Treasurer

December 22, 2010

Honorable Mayor and Members of the  
City Council,  
and Citizens of the City of Newport Beach  
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, 2010, 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 Mayer Hoffman McCann P.C., 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, 2010, 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, 2010, 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.

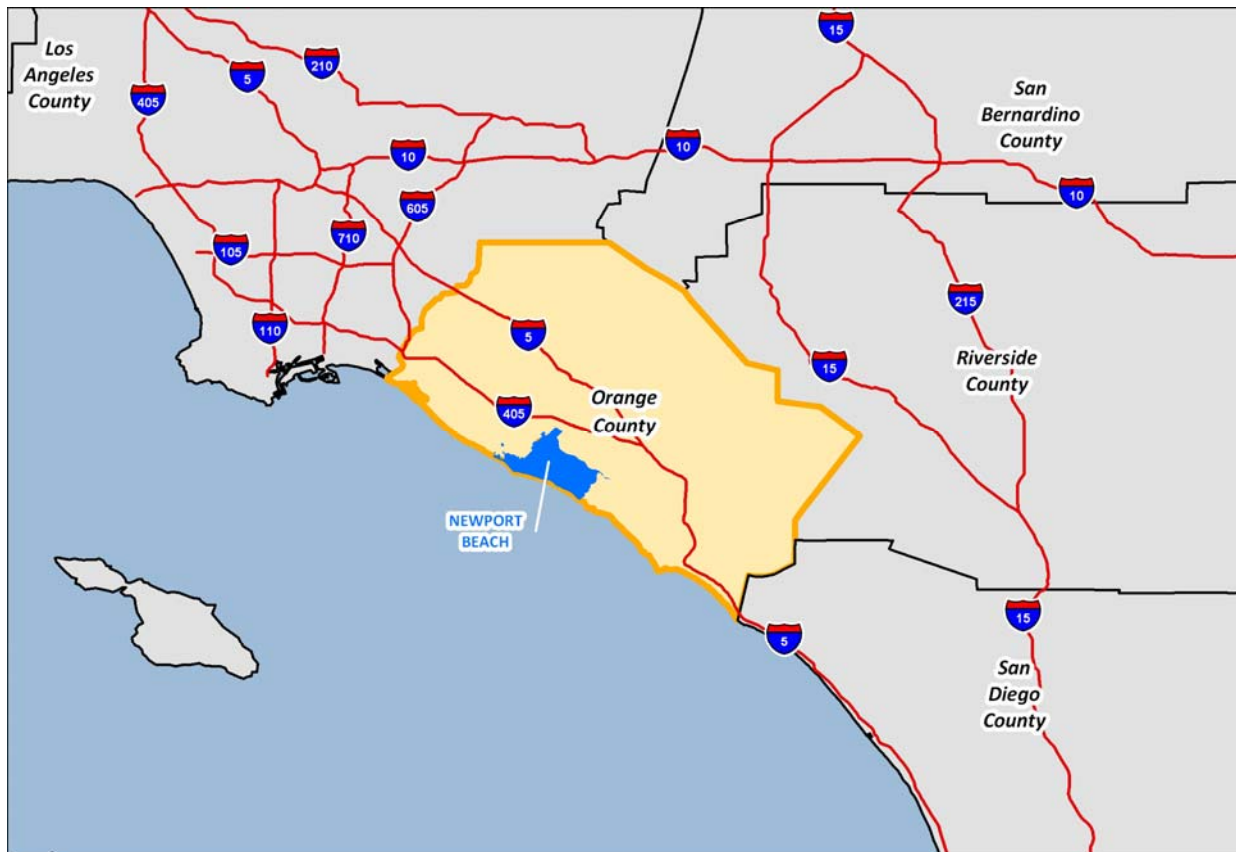
3300 Newport Boulevard • Post Office Box 1768 • Newport Beach, California 92658-8915  
Telephone: (949) 644-3127 • Fax: (949) 644-3339 • Website: [www.newportbeachca.us](http://www.newportbeachca.us)

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

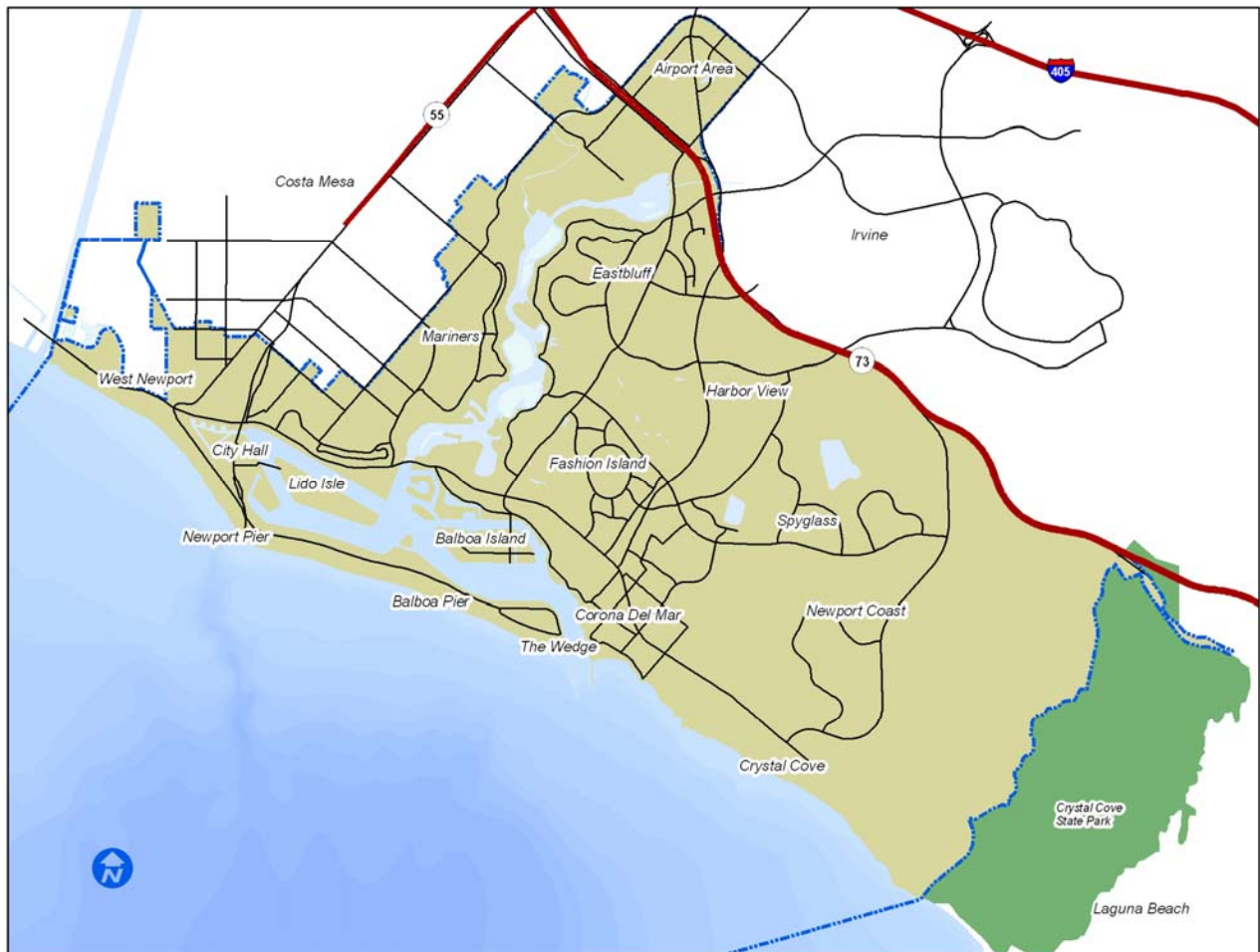
The City of Newport Beach is located in the coastal center of Orange County, in the heart of Southern California, with Los Angeles County to the north and San Diego County to the south. There are currently 34 cities within the County offering one of the finest climates in the United States. Orange County is now the second largest county in California trailing only Los Angeles and surpassing San Diego and is the sixth 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 86,738 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. A major campus of the University of California 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 City's bay, 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 current City Charter was adopted in 1954, updated in 1974 and recently amended in November 2010. 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, rubbish 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, electrical, or other utility service. Public elementary and secondary education is provided by school districts, which are separate government entities.

**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 have continuing accountability 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.

**Budget:** The annual budget serves as the foundation for the City of Newport Beach's financial planning and control. The Administrative Services Department, with City Manager direction, develops budget guidelines and appropriation limits for each department every year in January. The departments then submit revenue and expenditure appropriation requests which are summarized by the Administrative Services Department and presented to the City Manager for review. The City Manager then meets with each department and prepares a proposed budget document for the City Council. The City Council holds a budget hearing and adopts a budget on or before June 30, the close of the City's fiscal year.

Budgets are adopted for the General Fund and Special Revenue Funds. 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

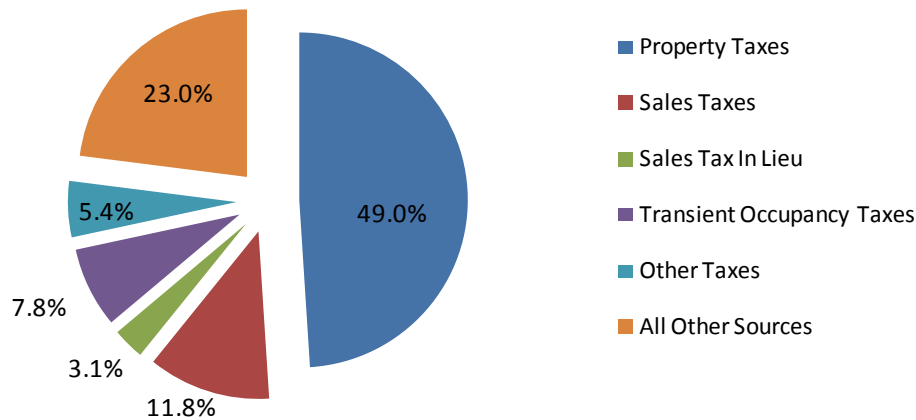
increase the total appropriations of any fund over \$10,000 must be approved by the City Council.

## LOCAL ECONOMIC MIX

From 1950 to 2009, the population of the City increased from 12,120 to 86,738. As vacant land becomes increasingly scarce, population growth is expected to flatten considerably as the City becomes relatively built-out. According to the Center for Demographic Research at California State University Fullerton, the City of Newport Beach will be home to an estimated 91,321 residents by the year 2015.

For FY 2009-2010, General Fund revenues approximated \$147 million. The top three individual revenue sources, Property Taxes, Sales Taxes and Sales Tax in Lieu, and Transient Occupancy Taxes (TOT), represent 71.6% of all General Fund revenues. Tax revenues in total, including business licenses, franchise fees and other taxes represent nearly 77% of all General Fund revenues while only 23% is generated by other revenue sources.

## General Fund Revenues

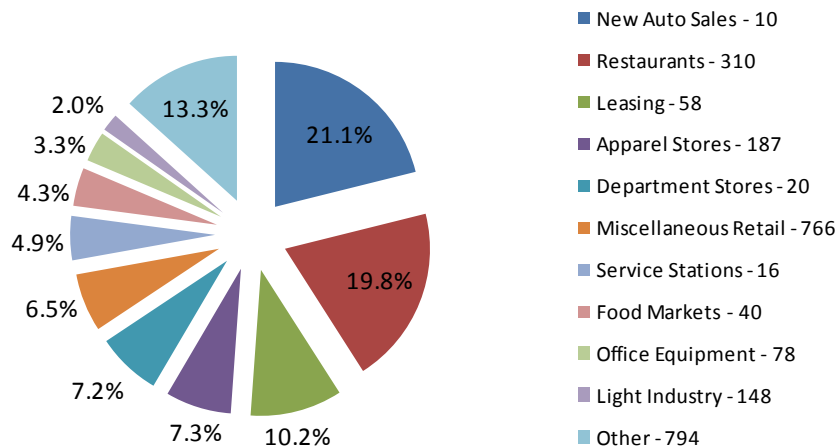


**Property Taxes:** Property taxes account for nearly 49% of all General Fund revenues. The City receives, on average, approximately 16.5% of the property taxes generated within City limits. The remainder goes to school districts, the County, and other government entities. In Fiscal Year 2009-10 the State borrowed 8 % of property tax revenues from counties, cities and special districts, all to be repaid within three years, in accordance with Proposition 1A (2004) approved by voters in 2004. The City's share of the borrowing was approximately \$6.2 million. The City recovered the full amount of the borrowing in Fiscal Year 2009-10 by participating in a securitization program through the California Statewide Communities Development Authority.

**Sales Taxes:** 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 materially impact the revenue category in total. Sales Taxes in total represent 14.9% 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, “New Auto Sales” accounts for 21.1% of total sales taxes and is represented by ten dealerships. The next largest segment, “Restaurants,” accounts for 19.8% of total sales taxes and is represented by 310 restaurants. The “Other” categorization accounts for another 13.3% and is represented by 794 businesses.

### Sales Tax by Business Segment



**Transient Occupancy Taxes (TOT):** The 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). 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 89% of TOT revenues. The residential category is made up of some 700 vacation rentals representing only 11% of TOT revenue. Together, they account for nearly \$11.4 million in annual TOT revenue.

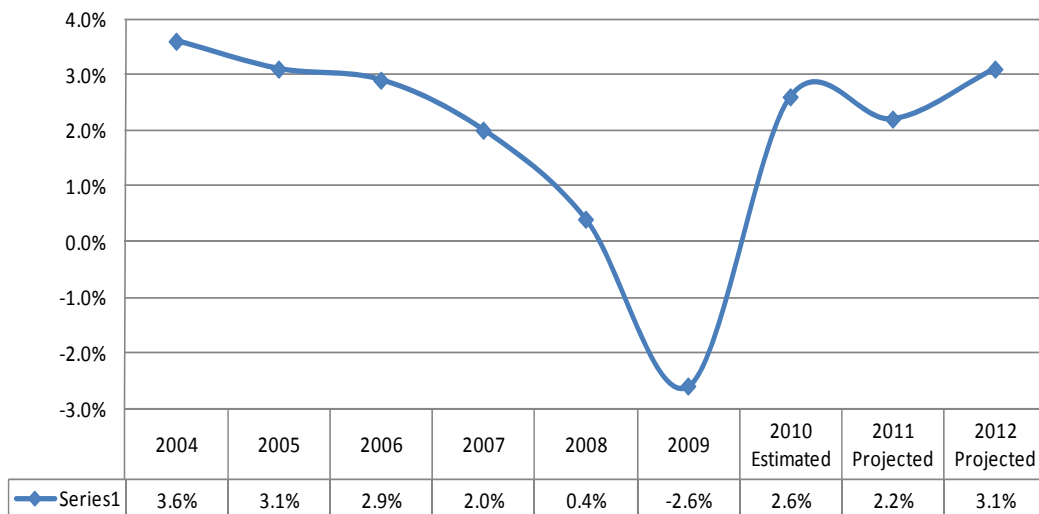


	Annual Revenue (In Millions)	Percent of Total
Commercial Property: Inns, Motels and Hotels	\$10.4	91.3%
Residential Property: Vacation Rentals	\$ 1.0	8.7%
	<u>\$11.4</u>	<u>100%</u>

## ECONOMIC OUTLOOK & FACTORS EFFECTING FISCAL PLANNING

**U.S. Economy:** The National Bureau of Economic Research (NBER) determined that the national recession that began in December 2007 and ended in June 2009 was the longest recession since World War II and the most severe since the Great Depression. Following the deep 1981-82 recession, the U.S. economy bounced right back with real Gross Domestic Product (GDP) growing 4.5% in 1983 and 7.2% in 1984. By contrast, current data and consensus amongst economists, suggests a slower recovery than previously expected. As illustrated below, the California Legislative Analyst Office (LAO), projects the GDP growth will be 2.6% in 2010, 2.2 % in 2011, and no higher than 3.1% in 2012. Unemployment currently at 9.6% nationally is forecast to remain above 9% through 2012.

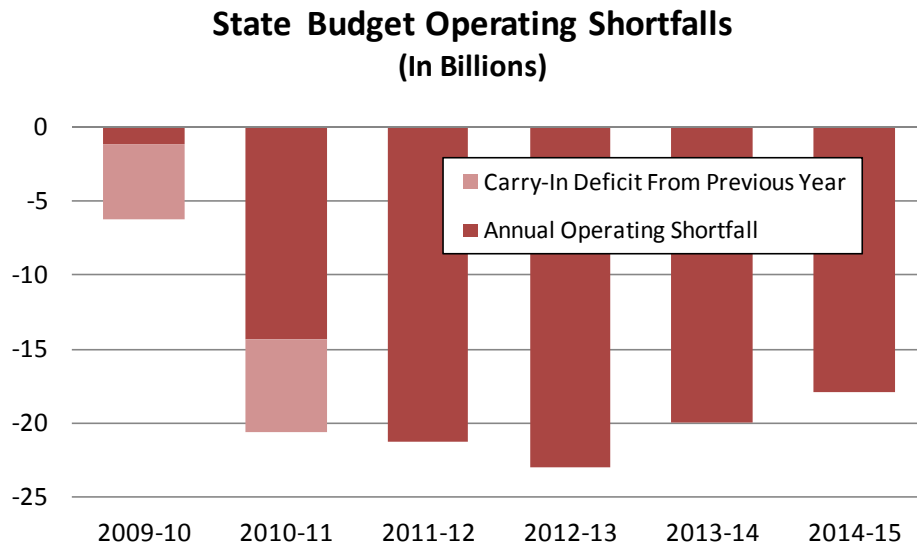
### U.S. Real GDP Growth



Source: LAO's Economic Forecast

**State of California Economic Recovery:** Though the economic outlook for the State mirrors that of the nation as a whole, problems in the job market appear to be more pronounced in California than the rest of the nation resulting in a much slower recovery. While the U.S. unemployment rate has increased 5 percentage points since 2007, unemployment in California has increased 9 percentage points and unemployment is projected to remain at over 10% through 2012. With a large ‘hidden inventory’ of homes in default or facing foreclosure, tight credit and a 40% employment decline in the construction section since 2007, recovery in the housing market is forecast to be slow.

**California State Budget:** The State budget is of great concern to all cities, including Newport Beach. The State’s inability to achieve meaningful on-going budget solutions has resulted in massive lingering budget problems in the coming months and into the foreseeable future. As depicted by the following chart, the LAO projects that absent corrective action, the State will have a \$6.1 billion deficit for 2010-11 and a \$19.2 billion shortfall between revenues and expenditures in 2011-12 with similar projections for the succeeding years.



Source: LAO’s California Fiscal Outlook

Three major budget-related measures were approved by voters at the November 2<sup>nd</sup> general election. Proposition 25 changes the vote threshold needed to send a budget bill to the Governor from two-thirds to a simple majority, which will help make it easier for the Legislature to pass an on-time budget each year. The effects of voters approving Proposition 22 and Proposition 26, which restrict the Legislature’s ability to use certain transportation special funds to help balance the budget and raise the vote threshold for passing certain fees from a simple majority to two-thirds respectively, will reduce General Fund solutions by nearly \$800 million, as estimated by the LAO.

Considering the projected annual shortfalls, the LAO recommends that the State consider a multi-year approach and minimize the use of risky budgetary measures that it believes contribute to fiscal year-end deficits.

## **LOCAL ECONOMY**

**Local Impact of the State's Budget Crisis** – On October 8, 2010, the Governor signed the 2010 Budget Act (the “2010-11 State Budget Act”) to address a then-projected \$19.3 billion shortfall in revenues. The funding provisions included in the 2010-11 State Budget Act are expected to have minor impacts on City operations.

The City has reviewed the 2010-11 Budget Act and reflected the reductions included therein in its Fiscal Year 2010-11 Adopted Budget. The primary impact to the City from the 2010-11 Budget Act is the delay of new Highway Users Tax Account payments. City monthly payments for the remainder of Fiscal Year 2010-11 will be increased and adjusted to compensate for the deferral. Given the current state of the State's economy and the projected imbalance in the State's budget, the City cannot fully anticipate the impact of the State's continuing budget challenges on the revenues or expenditures of the City. The City cannot predict the extent of any additional fiscal problems that will be encountered in this or in any future fiscal years, and, it is not clear what measures will be taken by the State or federal government to address the continuing economic downturn. Future State budgets could be affected by national economic conditions and the factors over which the City will have no control. Also, the City cannot predict what actions will be taken in the future by the State Legislature and the Governor to address the State's current and future budget deficits or the impact that such actions will have on the City's finances and operations. To the extent that the State budget process results in reduced revenues or increased expenses to the City, the City will be required to make adjustments to its budget.

**Property Taxes:** Unlike many cities, property taxes, not sales taxes, are the number one source of revenue for the City of Newport Beach, representing 46.7% of all General Fund revenues. Due to the limited supply of scenic coastal property and the unique access to the scenic Newport Bay and one of the best recreational yacht harbors, the Newport Beach community has been developed into affluent residential neighborhoods and high-end commercial districts.

Despite the dramatic declines in the real estate market, sales data for the month of October, 2010, demonstrates the relatively high density of affluence throughout the residential communities. Median home sales prices in all areas of the City approach or exceed \$1 million.

CITY OF NEWPORT BEACH  
 Median Home Sales\*  
 Comparitive Month Ending October

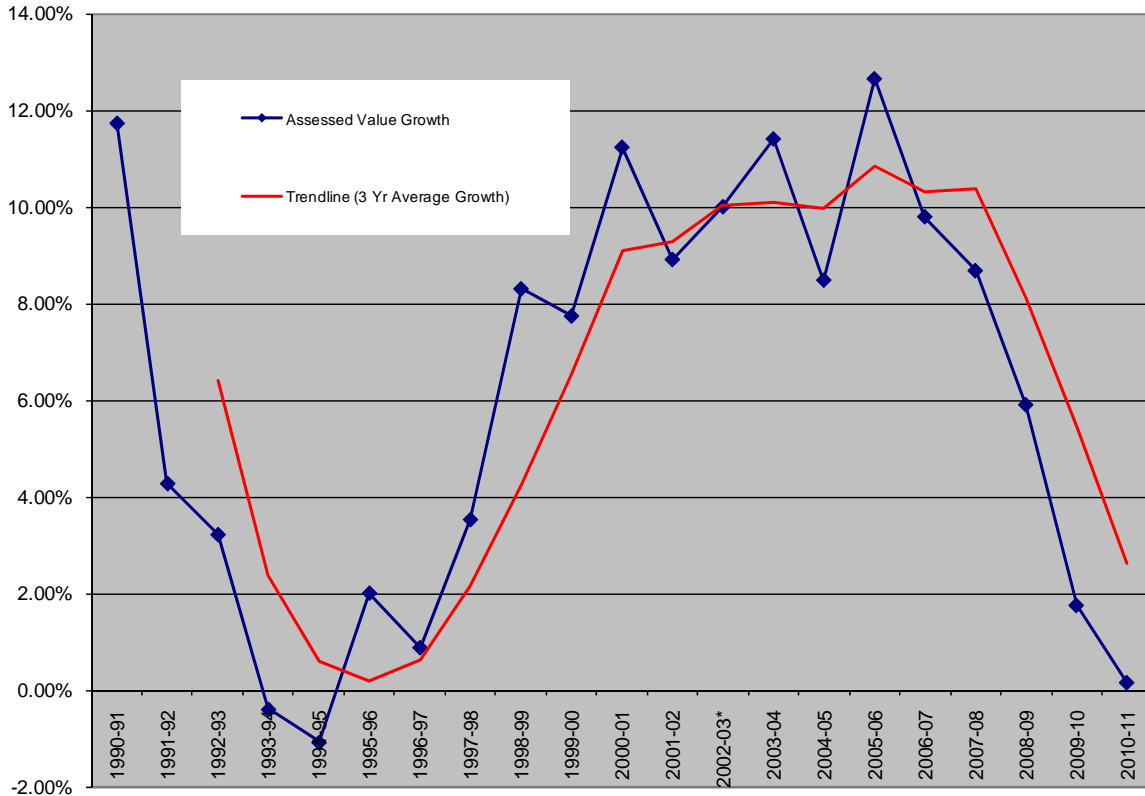
Newport Beach Zip Code	Median Sales Price 2009	Median Sales Price 2010	Number of Home Sales 2009	Number of Home Sales 2010
92625	\$ 1,410,000	\$ 1,550,000	26	19
92660	\$ 907,500	\$ 968,250	37	39
92661	\$ 2,000,000	\$ 1,737,500	5	6
92662	n/a	\$ 1,645,000	0	2
92663	\$ 950,000	\$ 1,300,000	30	19
92657	\$ 1,840,000	\$ 1,135,000	19	14
All Orange County	\$ 400,000	\$ 432,000	2,177	2,528

\* Source: DataQuick Information Systems

Due to a vigorous demand for coastal property, the City has enjoyed long-term growth trends with its number one revenue source. Over a ten-year period, assessed valuation increased an average of 8.88% per annum and 6.45% 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 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.

Although assessed value growth has slowed for the last several years and will likely continue to decrease in 2010-11, we are hopeful that assessed valuations will modestly rebound in years thereafter.

## 20 Year Assessed Property Value Growth



\*The 2000-03 datapoint was normalized to reduce the impact the Newport Coast Annexation had on the assessed valuation growth trendline.

Although the City has normally been any able to rely on steady growth in assessed valuation of 4% or more, it is probable the City will build the 2010-11 budget assumptions around a zero growth scenario with contingencies for a decline of assessed valuation.

**Sales and Transient Occupancy Revenues:** Because sales tax and TOT revenues follow consumer behavior, they are much more volatile than property taxes. The current economic recession, falling home prices and tightening credit policies have significantly depressed consumer spending patterns. Sales taxes were down by \$0.5 million during 2009-10 and are expected to remain flat in 2009-10 until employment conditions improve and consumer confidence is restored. Transient occupancy tax collections generally follow a similar trend as sales taxes and were just a tad up in 2009-10 due to a full year's operation of a luxury resort. TOT revenues are currently expected remain at 2009-10 revenue levels before modestly rebounding in 2011-12.

## LONG TERM FINANCIAL PLANNING

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. The City has a 30 year Facilities Replacement Plan (FFP) in place with a long-term comprehensive view of City facilities with annual contributions to FFP not to exceed 5 % of General Fund Operating Budget. The plan which was recognized by the League of California Cities with the prestigious Helen Putnam Award of Excellence in Internal Administration, had cash reserves of \$27.5 million as of June 30, 2010.

The City exercises prudent Risk Management maintaining excess liability coverage and retains actuaries to reliably predict and fund long-term liabilities including workers compensation, general claim liabilities, pension liabilities and post employment health care liabilities. Reserve levels and annual required funding contributions are set by Council policy. Except for the implied subsidy component of the City's post employment health care plan (OPEB liability), the City policy is to fund the cash subsidy of our OPEB liability and pension liabilities at 100% of the actuarially determined annual required contribution (ARC). Because the City pays the entire ARC each year, its net pension and net OPEB obligation at the end of each year is \$0 (except for the implied subsidy component of OPEB which is funded on a pay-as-you-go basis).

To close a projected deficit in FY 2009-10 General Fund, the City implemented an Early Retirement Incentive Program (ERIP) in December 2009 by providing eligible participating employees with a supplemental to their normal PERS retirement benefits through an additional payment from the City. Fifty-one employees elected to participate in the program, thus reducing the deficit by \$1.8 million. The program will help reduce annual payroll costs by \$3 million in the General Fund. See footnote 11 in the notes to the financial statements.

To mitigate the rising cost of pension plans, the City negotiated cost sharing agreements with certain safety employee associations to contribute 3.5% of base pay to offset the PERS member contribution. Regarding OPEB plan liabilities, the City closed the defined benefit component of the OPEB plan to new participants in 2006. The new plan resembles a defined contribution style plan through which once the contribution is made the employee account, the employer has no further funding obligation to the plan. See footnote 10 and 12 of the notes to the financial statements for further information on the funding status of the City's pension and OPEB plans.

**Stewardship:** 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 save, both during prosperous and difficult economic periods. While the current recession is much deeper than expected, management and the

Council were able to act swiftly to trim the operating budget at the midpoint of the 2009-10 fiscal year, averting a decline in the fund balance of the General Fund. The General Fund ended the year with a \$82.2 million fund balance, a net increase of \$2.5 million. Of this amount, \$5.5 million is reserved and is not available to finance new activities because it has already been committed to fulfill contractual obligations or is otherwise legally restricted beyond the City Council's control. Within the Council's discretion, the City Council has designated \$18.9 million for contingencies for unexpected emergencies, \$17.3 million for unspecified future appropriations, \$3.5 million for capital projects that were not completed during the fiscal year and \$37.0 million designated for other special purposes including \$27.5 million designated for the City's facilities replacement plan such as the new Civic Center and \$5.0 million designated to offset unexpected increases in PERS pension costs.

**2010-11 Cost Saving Measures:** The City has taken various measures to reduce budget shortfalls in 2010-11. The City entered a second phase restructuring effort to affect additional long-term cost savings and improved efficiencies; outsourcing their Street Sweeping Program, saving \$0.5 million a year, and in partnership with fire, lifeguards, and police associations, negotiated for public safety to pick up \$0.9 million in annual pension expense, up from zero last year. In December 2010, the City reached agreements with some non-safety employee bargaining units requiring employees to pay more for their retirement cost. The City will continue to look at various additional sharing arrangements pertaining to pension.

**Major Initiative: 2010 Civic Center Certificates of Participation (COPs) Issued**

In November 2010, the City entered the capital markets issuing nearly \$128 million of Certificates of Participation (COPs), made up of \$20.1 million in 2010A Certificates of Tax Exempt bonds and \$106.6 million in 2010B Certificates of federally taxable direct pay Build America Bonds (BABS). All Three rating agencies (S& P, Fitch and Moody's) rated the City of Newport Beach as an AAA underlying City rating, making it one of only five California cities and the first Orange County city to receive this triple award from all three rating agencies. The City COPs were very well received by both the tax-exempt and taxable markets. General investor sentiment cited several reasons for the strong demand: the City's top ratings and well known name, the City's solid credit story, the lease structure and project, as well as a long history of conservative fiscal management and policies. A portion of the proceeds was used to refinance the City's 1998 outstanding Library COPs. Construction proceeds of \$123 million will be used to make construction progress payments so that progress already made on the Civic Center site can continue and remain on schedule for the anticipated completion in late 2012.

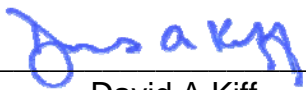
## AWARDS AND ACKNOWLEDGMENTS

**Awards:** The City has prepared a comprehensive annual financial report for the past 18 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, 2009. 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.

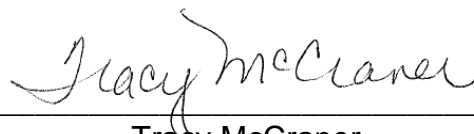
A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to conform to the Certificate of Achievement program requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

**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 Administrative Services 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, Mayer Hoffman McCann P.C., 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



---

Tracy McCraner  
Administrative Services Director



# 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, 2009

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.



A stylized, handwritten signature in black ink, appearing to read "JEFFREY R. EMER".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

# NEWPORT BEACH CITY OFFICIALS



L to R: Mayor Pro Tem Michael F. Henn, Mayor Keith D. Curry, Council Members: Edward D. Selich, Leslie J. Daigle, Nancy Gardner, Steven Rosansky and Don Webb



City Attorney  
David R. Hunt

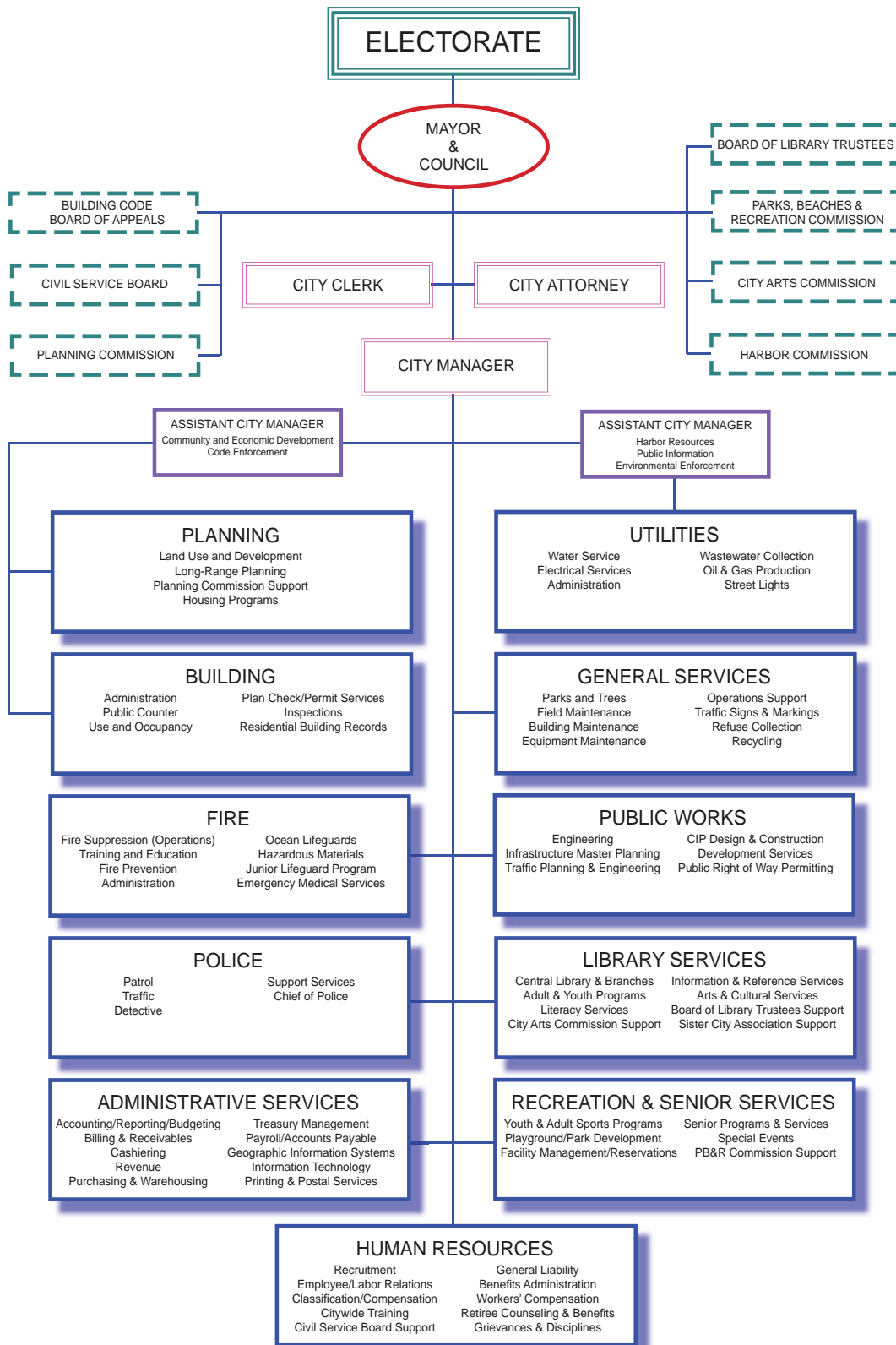


City Manager  
Dave Kiff



City Clerk  
Leilani Brown

- Dana M. Smith..... Assistant City Manager
- Tracy M. McCraner .....Administrative Services Director/Treasurer
- Jay Elbettar ..... Building Director
- Steven Parker..... Interim Fire Chief
- Mark Harmon..... General Services Director
- Terri L. Cassidy ..... Human Resources Director
- Cynthia Cowell .....Library Services Director
- Vacant ..... Planning Director
- Jay Johnson ..... Police Chief
- Steve Badum .....Public Works Director
- Laura Detweiler ..... Recreation & Senior Services Director
- George Murdoch ..... Utilities Director



  
ELECTED OFFICIALS

  
COUNCIL APPOINTED BOARDS & COMMISSIONS

  
COUNCIL APPOINTED POSITIONS

  
CITY DEPARTMENTS

Fiscal Year 2009-2010

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# FINANCIAL SECTION

INDEPENDENT  
AUDITORS' REPORT

FINANCIAL SECTION





## Mayer Hoffman McCann P.C.

An Independent CPA Firm

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City Council  
City of Newport Beach  
Newport Beach, California

### **INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying basic 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, 2010, 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'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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 basic 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, as of June 30, 2010, 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 fund and major special revenue funds of the City for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* and *required supplementary information* is not a required part of the basic financial statements, but is supplementary information required by the accounting standards generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

City Council  
City of Newport Beach  
Newport Beach, California

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Newport Beach's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 23, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our 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.

*Mayer Hoffman McLean P.C.*

Irvine, California  
December 23, 2010



# 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, 2010. This analysis should be read in conjunction with the Transmittal Letter at the front of this report and the accompanying Basic Financial Statements.

### FINANCIAL HIGHLIGHTS

**Long-term Economic Resource (Government-wide) Focus** – Economic resources are differentiated from financial resources in that the economic measurement focus measures changes in net assets as soon as the event occurs regardless of the timing of related cash flows. Therefore, this measurement focus includes both current spendable resources and fixed non-spendable assets, and long-term claims against these assets. The resulting net assets utilizing this measurement focus provides one measure of the City's overall long-term financial condition.

- The assets of the City exceeded liabilities at the close of the most recent fiscal year by \$2.324 billion. The vast majority of this figure is represented by illiquid capital assets including land and infrastructure. Capital assets net of accumulated depreciation and any related debt totaled \$2.193 billion, while the remaining balance of net assets totaled \$130.5 million. Of this amount, \$96.1 million represents unrestricted net assets that may be used to meet the City's ongoing obligations to citizens and creditors for both governmental and business-type activities.
- The City's total net assets increased \$1.8 million (0.08%) to \$2.324 billion as a result of current year activities. The increase is attributable to a half-year's savings in payroll due to the implementation of an Early Retirement Incentive Program and stronger tightening by the City Manager for all General Fund expenditures.
- The City's total liabilities increased by \$1.2 million, from \$50.6 million to \$51.8 million, during the current fiscal year. The increase is the net result of regular debt service payments of \$3.4 million offset by a net increase in our estimate of our OPEB liability of \$2.0 million, an addition of \$4.4 million for an Early Retirement Incentive Program and \$1.5 million to Purchase Agreement Payable as well as an increase of \$5.7 million in various internal service fund liabilities.

**Short-term Financial Resources (Fund) Focus** – The financial resources focus measures 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.

- At the close of the current fiscal year, the City's Governmental Funds reported a combined ending fund balance of \$110.2 million, a decrease of \$10.9 million. Approximately \$95.4 million is unreserved fund balance available to fund current obligations at the City Council's discretion. Of the \$95.4 million unreserved fund balance, City Council has designated \$18.9 million for contingencies in unexpected financial emergencies, \$17.3 million for unspecified future appropriations, \$4.3 million for capital projects that were not completed during the fiscal year, and \$37.0 million designated for other special purposes including \$27.5 million for facilities identified for replacement in the City's facilities replacement plan. The remaining \$17.5 million is made up of smaller amounts designated across various funds.
- The General Fund reported an increase of \$2.5 million in fund balance after transferring \$20.7 million to other funds. Of this transfer, \$20.1 million represented a routine transfer to subsidize the operations of the Tide and Submerged Land Fund and a \$0.5 million transfer to the Debt Service Fund.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$76.7 million, or 52.3% of total General Fund expenditures and Tidelands subsidy. Although unreserved and available to fund current obligations, 100% of this balance is designated for contingencies, capital projects, appropriations, and other special purposes.

## **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 are intended to provide a “Big Picture” view of the City as a whole using accounting methods similar to those used by private sector companies. 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 two 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.

The City utilizes three broad categories of funds:

**Governmental Funds** – Governmental Funds are used to account for essentially the same functions reported as Governmental Activities in the Government-wide Financial Statements. However, unlike the 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, 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.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Assets** – Net assets may serve as a useful indicator of a government's overall financial condition over time. The City's combined net assets for the year ended June 30, 2010, as shown in Table 1, were \$2.324 billion, increasing \$1.8 million over the prior year due to the implementation of an Early Retirement Incentive Program and stronger fiscal constraints mandated by the City Manager for all General Fund Departmental expenditures.

**Table 1**  
**Net Assets**  
**(in thousands)**

	Governmental Activities		Business-Type Activities		Total	
	2009	2010	2009	2010	2009	2010
Current and other assets	\$ 182,934	\$ 175,006	\$ 15,234	\$ 12,257	\$ 198,168	\$ 187,263
Capital assets	2,084,794	2,101,052	108,642	108,450	2,193,436	2,209,502
Total assets	2,267,728	2,276,058	123,876	120,707	2,391,604	2,396,765
Other liabilities	16,594	19,094	2,346	2,084	18,940	21,178
Long-term liabilities outstanding	49,009	51,766	1,585	-	50,594	51,766
Total liabilities	65,603	70,860	3,931	2,084	69,534	72,944
Net assets						
Invested in capital assets, net of debt	2,061,636	2,084,912	108,510	108,450	2,170,146	2,193,362
Restricted	44,213	34,237	-	-	44,213	34,237
Unrestricted	96,276	86,049	11,435	10,174	107,711	96,223
Total net assets	\$ 2,202,125	\$ 2,205,198	\$ 119,945	\$ 118,624	\$ 2,322,070	\$ 2,323,822

**Invested in Capital Assets** – By far the largest component of net assets, \$2.193 billion (94.4%), 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. The City’s capital assets do not represent a financial resource and consequently are not readily available for funding current obligations.

**Restricted Assets** – An additional portion of the City’s net assets, \$34.2 million (1.5%), represents resources that are subject to external restrictions on how they may be used.

**Unrestricted Assets** – The remaining balance of unrestricted net assets, \$96.2 million (4.1%), may be used to meet the City’s ongoing obligations to citizens and creditors.

- Overall, the City’s net assets increased \$1.8 million in the current fiscal year. Total net assets increased \$1.8 million (0.08%) to \$2.324 billion as a result of current year activities. The increase is attributable to a half-year’s savings in payroll due to the implementation of an Early Retirement Incentive Program. Other key financial activity for the year ended June 30, 2010, is shown in Table 2.

**Table 2**  
**Changes in Net Assets**  
**(in thousands)**

	Governmental Activities		Business-Type Activities		Total	
	2009	2010	2009	2010	2009	2010
Revenues:						
Program Revenues:						
Charges for services	\$ 36,739	\$ 37,789	\$ 20,446	\$ 20,781	\$ 57,185	\$ 58,570
Operating grants and capital contributions	13,404	15,678	-	-	13,404	15,678
Capital grants and contributions	24,634	12,350	-	-	24,634	12,350
General Revenues:						
Taxes:						
Property taxes	70,127	72,000	-	-	70,127	72,000
Sales tax	17,926	17,441	-	-	17,926	17,441
Sales tax in-lieu	7,503	4,540	-	-	7,503	4,540
Transient occupancy taxes	11,171	11,401	-	-	11,171	11,401
Other taxes	8,465	7,943	-	-	8,465	7,943
Intergovernmental (Unrestricted):						
Motor Vehicle License Tax	356	315	-	-	356	315
Investment related income	2,862	1,414	511	229	3,373	1,643
Miscellaneous	1,863	1,820	-	-	1,863	1,820
Total revenues	195,050	182,691	20,957	21,010	216,007	203,701
Expenses:						
General government	16,431	17,083	-	-	16,431	17,083
Public safety	79,301	79,403	-	-	79,301	79,403
Public works	45,600	55,445	-	-	45,600	55,445
Community development	10,284	10,082	-	-	10,284	10,082
Community services	20,589	17,232	-	-	20,589	17,232
Interest	437	373	-	-	437	373
Water	-	-	18,211	18,733	18,211	18,733
Wastewater	-	-	3,753	3,599	3,753	3,599
Total expenses	172,642	179,618	21,964	22,332	194,606	201,950
Increases in net assets	22,408	3,073	(1,007)	(1,322)	21,401	1,751
Net asset at beginning of year	2,179,717	2,202,125	120,953	119,946	2,300,670	2,322,071
Net assets at end of year	\$2,202,125	\$ 2,205,198	\$119,946	\$ 118,624	\$2,322,071	\$2,323,822

**Governmental Activities** – The cost of all governmental activities in the current fiscal year was \$179.6 million. As shown in the statement of activities, \$37.8 million of the cost was paid by those who directly benefited from the programs, \$28 million was financed by contributions and grants received from other governmental organizations, developers, and property owners for both capital and operating activities, and \$113.8 million was subsidized through general City revenues.

Net assets for governmental activities of the City at the beginning of the year were \$2.2 billion, and increased by \$3.1 million by the end of the year. The increase is attributable to a half-year's savings in salaries and benefits due to the implementation of an Early Retirement Incentive Program and City Manager mandated cost reduction across all General Fund departments.



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 Administrative Services) 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 General Services) 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.

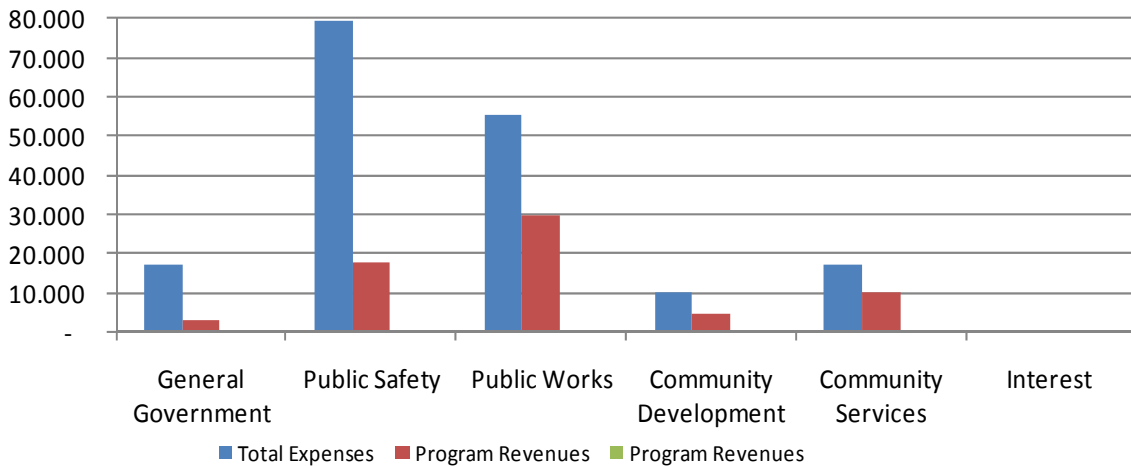
Business Enterprise Operations are overseen by one department (Utilities) providing water and wastewater services.

Each program's net cost (total cost less revenues generated by the activities) is presented in Tables 3 and 4. The net cost shows the extent to which the City's general taxes support each of the City's programs.

**Table 3**  
**Governmental Activities**  
**(in thousands)**

	2009		2010	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
General government	\$ 16,431	\$ (13,773)	\$ 17,083	\$ (14,078)
Public safety	79,301	(62,513)	79,403	(61,456)
Public works	45,600	(14,666)	55,445	(27,170)
Community development	10,284	(5,431)	10,082	(5,276)
Community services	20,589	(1,045)	17,232	(5,449)
Interest	437	(437)	373	(373)
	<u>\$ 172,642</u>	<u>\$ (97,865)</u>	<u>\$ 179,618</u>	<u>\$ (113,801)</u>

**Table 4**  
**Program Expenses and Revenue - Governmental Activities**  
**Year Ended June 30, 2010**  
**(in millions)**

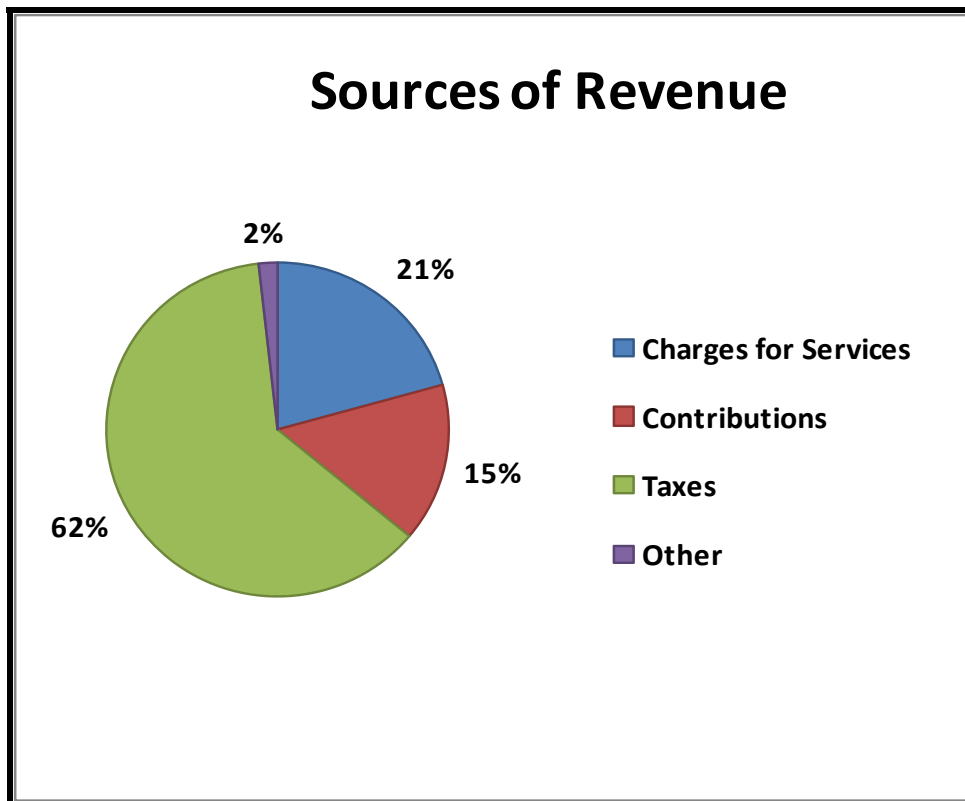


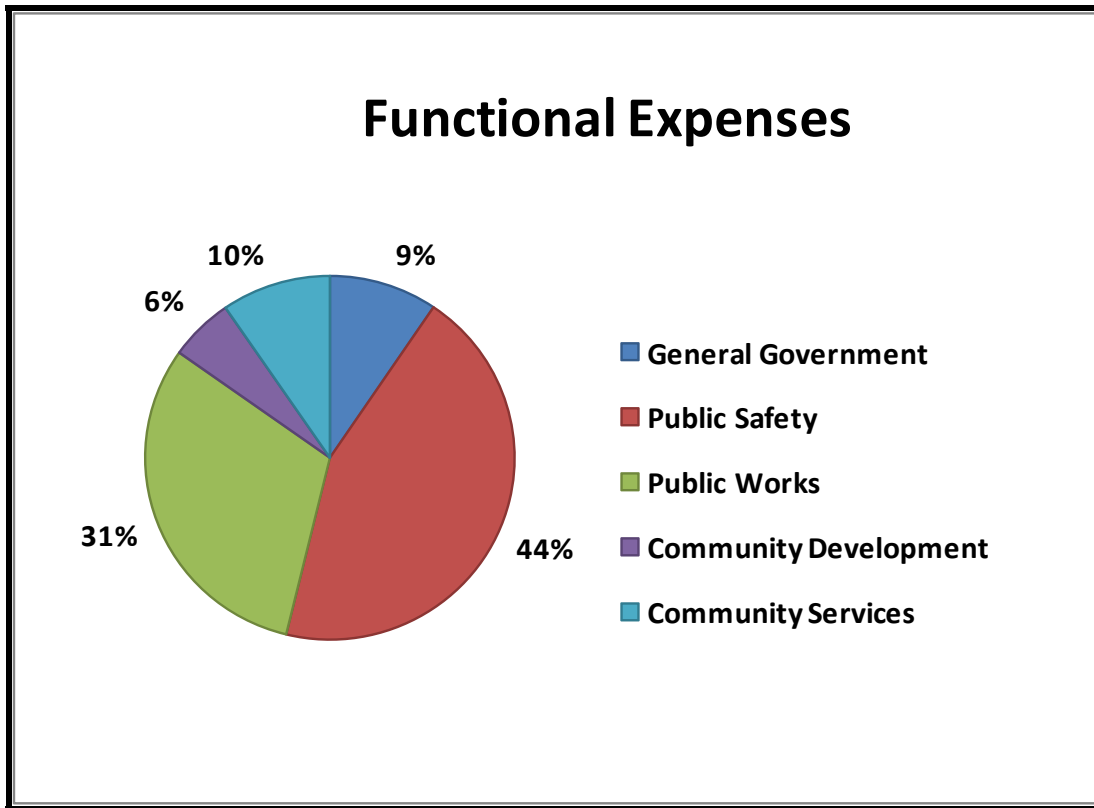
Of the \$113.8 million net cost, general revenues were used to finance the following governmental activities, \$61.5 million was utilized for public safety, \$27.2 million was utilized for public works, \$14.0 million was utilized for general government, \$5.4 million was utilized for community services, \$5.3 million was utilized for community development and \$0.4 million was utilized for interest on long-term debt.

The net cost of funding Public Works activities increased dramatically over 2009 by \$12.5 million. This was primarily attributed to the following factors: \$7.0 million in one-time contributions from community fund raising was received during FY 2009 for the

OASIS Senior Center, which opened in September 2010; due to timing differences in revenue collections and expenses for the Assessment Districts, 2009 revenues were greater than expenses causing net cost to be lower compared to FY 2010; and finally, there was a one-time transfer to the Newport Mesa Unified School District (NMUSD) from the Bonita Canyon Development Fund of \$1.0 million which was used to finance school district construction related projects.

**Table 5**  
**Governmental Activities**  
**Year Ended June 30, 2010**





Major Governmental Activities in the current fiscal year included the following:

Revenues:

- Excluding transfers, total program and general revenues in the current year amounted to \$182.7 million. Of this amount, 36.0% represents program generated revenue (20.7% charges for services and 15.3% capital grants and contributions), while the remaining 64.0% represents general revenue sources (62.2% taxes and 1.8% from other sources).
- The City reported capital contributions of \$10.6 million in public works program revenues and \$1.8 million in community services program revenues for a total of \$12.4 million in capital contributions. The majority of these contributions are related to the property owner contributions associated with the new assessment district, the funding from OC RDA for the utility underground project in the West Santa Ana Heights and donations related to the construction of the OASIS Senior Center.
- The \$3.4 million decrease in General Revenues over the prior year is a combination of a few key factors:
  - In spite of the poor economy, the City, unlike most other cities, has enjoyed long-term stability in its number one revenue source at \$72.0 million, due to a constant demand for coastal property. Over the past ten years, assessed values have increased an average of 8.88% per year. Assessed property values increased only 1.76% in the current

year versus 5.91% in the prior year. Property tax collections, in total, including unsecured property and prior year collections, increased \$1.9 million or 2.7% in the current year. Sales tax in-lieu however, decreased \$2.9 million, or 39.5% due to a \$1.2 million correction from the State for an over advance in 2009, as well as a result of reduced consumer spending.

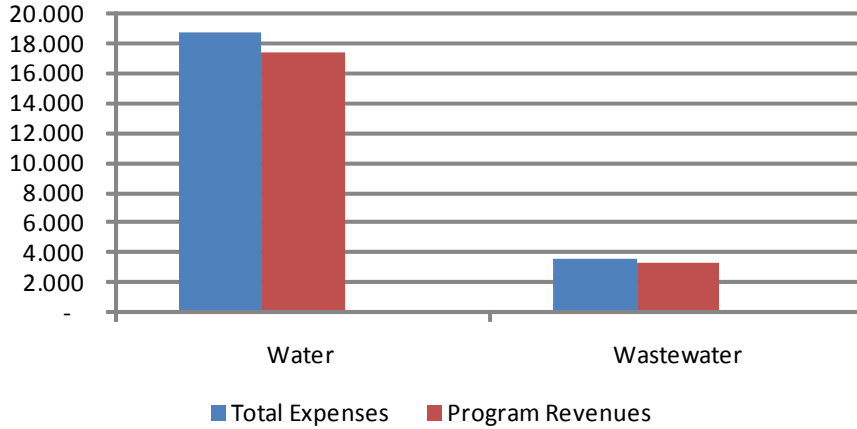
- At nearly \$17.4 million and \$11.4 million respectively, sales taxes and transient occupancy taxes represent the number two and three top individual revenue sources for the City. Due to the depressed economic activity, sales taxes decreased \$0.5 million, or 2.7% from the prior year while transient occupancy taxes increased just slightly by \$0.2 million or 2.1% from the prior year, due to a full year's operations of a luxury resort which opened in FY 2009.
- Investment income decreased \$1.4 million or 50.6% from the prior year due to lower interest rates offset by an increase in fair value of investments in the current year. An increase in the fair value of investments usually occurs in a falling interest rate environment when the stated rate of return exceeds the current market rate.

#### Expenses:

- In the current year, expenses for all governmental activities totaled \$179.6 million. Overall, an increase of \$7.0 million, 4.0%, over the prior year, this is primarily attributable to the following factors:
  - Public Works expenses increased \$9.8 million, 22 %, when compared to prior year primarily due to utility undergrounding activities in both the West Santa Ana Heights community and in Assessment District. Also, there was a one-time transfer to the Newport Mesa Unified School District (NMUSD) from the Bonita Canyon Development Fund of \$1.0 million which was used to finance school district capital improvements.
  - Community Services expenses decreased \$3.4 million, 16 %, due to a decrease in maintenance costs for libraries and community recreation and senior centers in the current year.

**Business-type Activities** – Business-type activities are financed primarily by fees charged to external parties for goods and services. The City's two business-type activities, water and wastewater utilities, produced a \$1.3 million decrease in net assets. The decrease in net assets was comprised of an operating loss of \$1.5 million primarily due to an increase in cost of purchase of water offset by a decrease in sale of water due to water conservation measures placed by the City, non-operating revenues of \$224,502, and an off-setting (\$22,199) consolidation adjustment related to internal service fund activities.

**Table 6**  
**Program Expense & Revenue - Business-type Activities**  
**Year Ended June 30, 2010**  
(in millions)



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

Water

Of the \$18.7 million in water related expenses, \$8.2 million (43.9%) is for the purchase of water, \$3.8 million (20.4%) covers employee related costs, \$3.2 million (17.3%) is for maintenance, supplies, and depreciation of the water system, \$1.7 million (9.2%) is for professional services, and the remaining \$1.8 million (9.2%) is collectively attributable to other miscellaneous expenses.

Wastewater

Of the \$3.6 million in wastewater related expenses, \$1.5 million (42.0%) is for maintenance, supplies, and depreciation of the wastewater system, \$1.5 million (41.8%) is for employee related costs, and the remaining \$582,297 (16.2%) 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. In particular, unreserved fund balance 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 \$110.2 million, a decrease of \$10.9 million from the prior year. The General Fund represented \$82.2 million or 74.6% of the combined fund balances of the Governmental Funds.

**Reserved Fund Balance** – The City has \$14.8 million in fund balance that is reserved to indicate it is not available to finance new activities because it has already been committed: 1) to fulfill contractual obligations and purchase orders approximating \$6.3 million, 2) for permanent endowment approximating \$4.6 million, 3) as a reserve for affordable housing approximating \$1.6 million, and 4) for a variety of other restrictions that make these resources unavailable for spending approximating \$2.3 million.

**Unreserved Fund Balance** – The remaining \$95.4 million is classified as unreserved fund balance, which is available for spending at the City Council's discretion but may be designated for special purposes. Of the \$95.4 million unreserved fund balance, City Council has designated \$18.9 million for contingencies for unexpected financial emergencies, \$17.3 million for unspecified future appropriations as approved by Council, \$4.3 million for capital projects that were not completed during the fiscal year, and \$37.0 million designated for other special purposes including \$27.5 million for facilities identified for replacement in the City's facilities replacement plan. The remaining \$17.5 million is made up of smaller amounts designated across various funds.

Major activities in the Governmental Funds in the current fiscal year included the following:

- The General Fund ended the year with a \$82.2 million fund balance, a net increase of \$2.5 million after transferring \$20.7 million to other funds (\$20.1 million represented a routine transfer to subsidize the operations of the Tide and Submerged Land Fund and \$0.6 million represented various nonrecurring transfers to other funds). The net increase in fund balance of \$2.5 million was higher than last year's net change in fund balance of \$0.6 million due to the implementation of the Early Retirement Incentive Program (ERIP) resulting in

cost savings to the City of \$1.4 million, a reduction in annual pension costs of \$167 thousand related to employee contribution, and stronger tightening by the City Manager for all General Fund expenditures.

- The activities of the Tide and Submerged Land Fund are routinely subsidized by the General Fund. At year end, the General Fund transferred sufficient resources (\$20.1 million) to cover the Tide and Submerged Land Fund's deficit and other outstanding commitments and designations of fund balance. The Tide and Submerged Land Fund ended the current year with \$2.4 million in fund balance.
- The Civic Center commenced with grading and excavation costs contributing to expenditures of \$10.5 million in the City Hall Improvement Fund.

**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.

Major activities in the Enterprise Funds in the current fiscal year included the following:

- Despite a \$0.4 million increase in charges for services in the Water Fund, net assets decreased \$1.1 million due to increase in cost of purchase of water offset by a decrease in sale of water due to water conservation measures placed by the City in the sale of water. Net assets in Wastewater Fund decreased by \$0.2 million. Unrestricted net assets at year end were \$6.5 million for the Water Fund, and \$3.8 million in the Wastewater Fund.
- Other factors concerning the finances of these two funds have already been addressed above in the discussion of the City's business-type activities.

Major activities in the Internal Service Funds in the current fiscal year included the following:

- Net assets in the Internal Service Funds decreased \$2.1 million in the current year. The decrease was primarily due to the implementation of ERIP and the recognition of the liability in the current year.



## GENERAL FUND BUDGETARY HIGHLIGHTS

### Changes to Original Budget

Final budgeted revenues for the General Fund increased \$0.7 million from the original budget during the year ended June 30, 2010. Significant factors contributing to this fluctuation are highlighted as follows:

- Final budgeted intergovernmental revenues increased \$0.24 million from the original budget, \$0.25 million in charges for services and \$0.21 million in unexpected other revenues due to increase in public safety grants and staff service charges related to these grants, and higher than expected other revenues.

Final budgeted expenditures for the General Fund decreased \$28.3 million from the original budget during the year ended June 30, 2010. Significant factors contributing to this fluctuation are highlighted as follows:

- Budgeted expenditures for general government decreased \$0.8 million due to a combination of salary savings from the implementation of ERIP, City Manager mandated budget reductions and a routine allocation of expenditures from General Fund cost centers to the Tideland Fund for code enforcement services utilized in support of tidelands operations.
- Public safety and public works functions were decreased by \$21.0 million and \$4.0 million respectively. This budget reduction was primarily due to 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. Other factors contributing were City Manager mandated budget reductions in both functions and salary savings from the implementation of ERIP in the public works function.
- Budgeted expenditures for community development decreased \$0.2 million due to City Manager mandated budget reductions.
- Final budgeted capital outlays from the General Fund decreased \$2.4 million from the original budget during the year ended June 30, 2010 due to Council approved reductions of \$0.4 million and budgetary reductions to reflect project timing differences which are re-budgeted in the following fiscal year for 1) Prop 50 Buck Gully Stabilization, 2) Streetlight Conversion Program, 3) Ocean Front Alley Replacement, 4) China Cove Slope and Drainage Improvements, 5) Newport Coast Community Center Air Conditioner Replacement, as well as 6) various smaller budgetary decreases.
- During the current year, final transfers out budgeted for the General Fund varied from the original budget by approximately \$17.4 million primarily due to the expenditure allocation to the Tidelands Fund.

## Variance with Final Budget

Actual revenues were \$4.2 million below final budgeted revenues for the year ended June 30, 2010, due to the continued economic recession. Significant factors contributing to this negative variance are summarized as follows:

- A \$0.8 million positive variance was realized due to higher than expected property tax revenues. Newport Beach has not been as significantly impacted with housing troubles.
- Lower than expected sales and sales in-lieu tax due to the lower economy as well as a \$1.2 million State correction for a 2009 advance approximated \$5.4 million reduction compared to the original budget
- Transient Occupancy tax revenues were lower than expected by \$1.6 million due to the recession as travelers are staying home
- A \$1.0 million positive variance in other revenue was realized due to a one-time recognition of revenues allowed in customer deposits for a reduction in related liability.

Actual General Fund expenditures of \$126.7 million were significantly less than final budgetary estimates of \$132.4 million. Significant factors contributing to the \$5.7 million positive variances are summarized as follows:

- A \$0.6 million negative variance was realized from capital improvement projects due to higher maintenance costs.
- A total of \$6.3 million in positive variances was realized in Public Safety, Public Works, Community Services, Community Development and General Government due to implementation of ERIP, managerial action to reduce operating expenditures, temporary vacancies and under-filling of positions to ensure budgetary control for lower anticipated revenues.

In spite of the \$4.2 million lower than expected revenues, conservative budgeting, implementation of ERIP, managerial action, increased fiscal discipline, timing of expenditures, strong fiscal policies and continued streamlining contributed to the \$2.5 million net increase in General Fund, fund balance.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The City's investment in capital assets for governmental and business-type activities as of June 30, 2010, amounts to \$2.21 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 and bridges. The total net increase (including additions and

deletions) of \$16.1 million represents a 0.7% increase over last year. The \$16.1 million net increase is the result of additions of \$24.8 million, and deletions of \$8.7 million.

**Table 7**  
**Capital Assets at Year End**  
**(net of depreciation, in thousands)**

	Governmental Activities		Business-Type Activities		Total	
	2009	2010	2009	2010	2009	2010
Land	\$ 1,815,781	\$ 1,819,673	\$ 2,016	\$ 2,016	\$ 1,817,797	\$ 1,821,689
Structures	54,515	54,663	89	83	54,604	54,746
Equipment	8,365	7,836	107	83	8,472	7,919
Infrastructure	192,966	191,656	105,515	105,585	298,481	297,241
Work in progress	13,167	27,224	915	683	14,082	27,907
Totals	<u>\$ 2,084,794</u>	<u>\$ 2,101,052</u>	<u>\$ 108,642</u>	<u>\$ 108,450</u>	<u>\$ 2,193,436</u>	<u>\$ 2,209,502</u>

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

- The City capitalized \$24.8 million in capital assets in the current year. Of the \$24.8 million, \$17.5 million net was paid for through current year expenses and the remaining \$7.3 million represents additions from work in progress started in previous years.
- Of the \$24.3 million capitalized as governmental assets in the current year, \$6.6 million represents additions from work in progress started in previous years.

The \$0.5 million capitalized in the current year as business-type assets represented additions for infrastructure consisting of major repairs and upgrades to the water mains and water wells.

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 \$16.7 million for all governmental and business-type activities.

**Table 8**  
**Outstanding Debt at Year-End**  
**(in thousands)**

	Governmental Activities		Business-Type Activities		Total	
	2009	2010	2009	2010	2009	2010
Certificates of participation	\$ 4,335	\$ 3,990	\$ -	\$ -	\$ 4,335	\$ 3,990
Note payable	1,120	933	-	-	1,120	933
Pre-annexation agreement	9,600	8,400	-	-	9,600	8,400
CDBG Loan	1,972	1,883	-	-	1,972	1,883
Purchase Installment Agreement	-	1,500	-	-	-	1,500
Revenue bonds	-	-	1,585	-	1,585	-
Totals	<u>\$ 17,027</u>	<u>\$ 16,706</u>	<u>\$ 1,585</u>	<u>\$ -</u>	<u>18,612</u>	<u>\$ 16,706</u>

The City's total debt decreased \$1.9 million during the current fiscal year. The cumulative decrease is the result of expected debt service payments and the addition of \$1.5 million to Purchase Agreement Payable for the two adjacent parcels of land located at 608 East Balboa Boulevard and 209 Washington Street which the City intends to convert to a parking lot. 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

- Each January, the City Council establishes priorities for the coming year(s). The financial implications of these priorities are considered when the budget is developed. The 2010 priorities include an array of goals including minimizing the adverse impacts of John Wayne Airport, implementing group home regulations, adopting a 15-point Fiscal Sustainability Plan, enhancing public safety services, updating the City's harbor fees, updating the City Charter, breaking ground on the Civic Center Project, including the park, starting construction of the Sunset Ridge Park and the Marina Park, achieving the highest bond rating, dredging the Lower Bay and the Rhine Channel and initiating a results-based budgeting system.
- After the date of this report's balance sheet but prior to the issuance of this report, the City issued nearly \$128 million of Certificates of Participation (COPs) in Tax Exempt Bonds and Build America Bonds (BABS). See Note (17) in the Notes to financial statements. All three rating agencies (S&P, Fitch and Moody's) rated the City of Newport Beach as an AAA underlying City rating, making it one of only five California cities to receive this triple award.

- Management projects that the Fiscal Year 2010-11 General Fund revenues will decrease approximately \$1.0 million from Fiscal Year 2009-10 actual revenues. Property Tax revenues are budgeted to decrease by approximately \$1.4 million in Fiscal Year 2010-11. However, updated assessed valuation information from the Auditor Controller's Office reflects a projected 0.16 % increase in net taxable value in the City. Management expects sales tax revenues to remain the same as Fiscal Year 2009-10 at \$17.4 million and transient occupancy tax revenues estimated at \$11.6 million, a slight increase of 1.4% over Fiscal Year 2009-10 actual revenues.
- Management has also been advised by CalPERS that pension costs are likely to increase substantially by 2011-12 due to recent losses in the equities markets. In order to reduce the pension costs, the City negotiated with fire, lifeguard and police associations to pick up \$0.9 million in annual pension costs and is evaluating other measures to help reduce the annual cost to the City.
- In May, 2010, the City Council amended Resolutions 2000-38 and 2004-43 increasing parking meter fees and parking lot fees for an estimated increase to projected General Fund parking revenues of approximately \$2.0 million.
- In December, 2010, the City Council also approved Harbor Fee increases for Moorings and the Balboa Yacht Basin. Rates will be effective January 2011 and March 2011 respectively. The estimated annual increases to revenues are \$400,000 and \$180,000 respectively.

### **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 Administrative Services Department, 3300 Newport Boulevard, Newport Beach, CA 92663-3884, (949) 644-3146. 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](http://www.NewportBeachCA.gov/financialinfo).

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# FINANCIAL SECTION

GOVERNMENT-WIDE  
FINANCIAL STATEMENTS

FINANCIAL SECTION





**CITY OF NEWPORT BEACH**  
**Statement of Net Assets**  
**June 30, 2010**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Cash and investments (note 4)	\$ 152,980,445	\$ 7,902,104	\$ 160,882,549
Receivables:			
Accounts	6,069,942	4,438,984	10,508,926
Notes	471,250	-	471,250
Interest	981,924	-	981,924
Intergovernmental receivables	7,685,901	-	7,685,901
Cash with fiscal agent (note 4)	2,156,931	-	2,156,931
Internal balances	83,530	(83,530)	-
Investment in joint venture (note 15)	2,778,443	-	2,778,443
Prepaid items	1,303,478	-	1,303,478
Inventory	493,704	-	493,704
Capital assets, (note 5):			
Non-depreciable	1,846,897,368	2,699,137	1,849,596,505
Depreciable	408,164,533	158,641,076	566,805,609
Accumulated depreciation	(154,009,401)	(52,890,366)	(206,899,767)
 Total assets	 2,276,058,048	 120,707,405	 2,396,765,453
<b>Liabilities:</b>			
Accounts payable	8,462,700	1,869,627	10,332,327
Accrued salaries and benefits	4,281,432	150,738	4,432,170
Accrued interest payable	99,804	-	99,804
Deposits payable	2,587,984	63,281	2,651,265
Unearned revenue	3,661,845	-	3,661,845
Noncurrent liabilities (note 6):			
Due within one year	9,360,999	-	9,360,999
Due in more than one year	42,404,642	-	42,404,642
 Total liabilities	 70,859,406	 2,083,646	 72,943,052
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	2,084,912,221	108,449,847	2,193,362,068
Restricted for:			
Public safety	694,675	-	694,675
Public works	27,051,894	-	27,051,894
Debt Service	565,655	-	565,655
Permanent Funds:			
Nonexpendable	4,629,781	-	4,629,781
Expendable	1,294,924	-	1,294,924
Unrestricted	86,049,492	10,173,912	96,223,404
 Total net assets	 \$ 2,205,198,642	 \$ 118,623,759	 \$ 2,323,822,401

See accompanying notes to basic financial statements

**CITY OF NEWPORT BEACH**  
**Statement of Activities**  
**Year Ended June 30, 2010**

<b>Functions/Programs</b>	<b>Program Revenues</b>				<b>Total Program Revenues</b>
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
Primary government:					
Governmental activities:					
General government	\$ 17,082,705	\$ 2,909,603	\$ 95,091	\$ -	\$ 3,004,694
Public safety	79,402,600	15,006,601	2,939,996	-	17,946,597
Public works	55,445,327	6,392,877	11,306,707	10,575,912	28,275,496
Community development	10,082,454	4,806,745	-	-	4,806,745
Community services	17,232,357	8,673,465	1,335,823	1,774,188	11,783,476
Interest on long-term debt	372,502	-	-	-	-
Total governmental activities	<u>179,617,945</u>	<u>37,789,291</u>	<u>15,677,617</u>	<u>12,350,100</u>	<u>65,817,008</u>
Business-type activities:					
Water	18,732,351	17,412,634	-	-	17,412,634
Wastewater	3,599,034	3,368,327	-	-	3,368,327
Total business-type activities	<u>22,331,385</u>	<u>20,780,961</u>	<u>-</u>	<u>-</u>	<u>20,780,961</u>
Total primary government	<u>\$ 201,949,330</u>	<u>\$ 58,570,252</u>	<u>\$ 15,677,617</u>	<u>\$ 12,350,100</u>	<u>\$ 86,597,969</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
- Other

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**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (14,078,011)	\$ -	\$ (14,078,011)
(61,456,003)	-	(61,456,003)
(27,169,831)	-	(27,169,831)
(5,275,709)	-	(5,275,709)
(5,448,881)	-	(5,448,881)
(372,502)	-	(372,502)
<u>(113,800,937)</u>	<u>-</u>	<u>(113,800,937)</u>
-	(1,319,717)	(1,319,717)
-	(230,707)	(230,707)
-	(1,550,424)	(1,550,424)
<u>\$ (113,800,937)</u>	<u>\$ (1,550,424)</u>	<u>\$ (115,351,361)</u>
71,999,680	-	71,999,680
17,440,736	-	17,440,736
4,539,946	-	4,539,946
11,400,710	-	11,400,710
4,026,614	-	4,026,614
3,715,946	-	3,715,946
201,893	-	201,893
314,957	-	314,957
706,855	128,399	835,254
707,200	100,117	807,317
1,820,272	-	1,820,272
<u>116,874,809</u>	<u>228,516</u>	<u>117,103,325</u>
3,073,872	(1,321,908)	1,751,964
<u>2,202,124,770</u>	<u>119,945,667</u>	<u>2,322,070,437</u>
<u>\$ 2,205,198,642</u>	<u>\$ 118,623,759</u>	<u>\$ 2,323,822,401</u>

See accompanying notes to basic financial statements

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# FINANCIAL SECTION

FUND  
FINANCIAL STATEMENTS  
GOVERNMENTAL FUNDS

FINANCIAL SECTION

# GOVERNMENTAL FUNDS

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

## Non-major Funds

Non-major 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, 2010**

<b>Assets</b>	<b>General</b>	<b>Tide and Submerged Land</b>	<b>City Hall Improvements</b>	<b>Other Governmental Funds</b>	<b>Totals</b>
Cash and investments	\$ 69,651,676	\$ 3,049,169	\$ -	\$ 39,535,506	\$ 112,236,351
Receivables:					
Accounts	4,138,979	438,280	-	597,277	5,174,536
Notes	471,250	-	-	-	471,250
Interest	981,924	-	-	-	981,924
Intergovernmental receivables	4,948,641	-	-	2,737,260	7,685,901
Cash with fiscal agent	-	-	-	2,156,931	2,156,931
Due from other funds (note13)	12,760,751	-	-	-	12,760,751
Prepaid items	932,148	-	-	-	932,148
Inventory	238,274	-	-	-	238,274
<b>Total assets</b>	<b>\$ 94,123,643</b>	<b>\$ 3,487,449</b>	<b>\$ -</b>	<b>\$ 45,026,974</b>	<b>\$ 142,638,066</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 3,403,362	\$ 860,640	\$ 2,427,210	\$ 1,484,759	\$ 8,175,971
Accrued payroll	4,204,908	32,615	-	-	4,237,523
Deposits payable	2,427,955	160,029	-	-	2,587,984
Unearned revenue	1,904,552	-	-	1,757,293	3,661,845
Unavailable revenue	25,000	-	-	1,790,674	1,815,674
Due to other funds (note 13)	-	-	8,100,127	3,840,229	11,940,356
<b>Total liabilities</b>	<b>11,965,777</b>	<b>1,053,284</b>	<b>10,527,337</b>	<b>8,872,955</b>	<b>32,419,353</b>
Fund balances:					
Reserved for encumbrances	2,273,036	1,187,264	-	2,843,245	6,303,545
Reserved for debt service	-	-	-	565,655	565,655
Reserved for permanent endowment	-	-	-	4,629,781	4,629,781
Reserved for affordable housing	1,557,773	-	-	-	1,557,773
Reserved for prepaid items	932,148	-	-	137,728	1,069,876
Reserved for inventories	238,274	-	-	-	238,274
Reserved for long-term receivable	471,250	-	-	-	471,250
Unreserved:					
Designated for special purposes	37,001,474	404,361	-	-	37,405,835
Designated, reported in:					
Special revenue funds	-	-	-	26,770,037	26,770,037
Capital projects funds	-	-	-	5,279,056	5,279,056
Permanent funds	-	-	-	1,294,924	1,294,924
Designated for contingencies	18,895,125	-	-	-	18,895,125
Designated for capital projects	3,495,487	842,540	-	-	4,338,027
Designated for appropriations	17,293,299	-	-	-	17,293,299
Undesignated, reported in:					
Special Revenue Funds	-	-	-	(43,410)	(43,410)
Capital projects funds	-	-	(10,527,337)	(5,322,997)	(15,850,334)
<b>Total fund balances</b>	<b>82,157,866</b>	<b>2,434,165</b>	<b>(10,527,337)</b>	<b>36,154,019</b>	<b>110,218,713</b>
<b>Total liabilities and and fund balances</b>	<b>\$ 94,123,643</b>	<b>\$ 3,487,449</b>	<b>\$ -</b>	<b>\$ 45,026,974</b>	<b>\$ 142,638,066</b>

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, 2010**

Fund balances of governmental funds	\$	110,218,713
<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>		2,094,702,395
<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		(3,990,000)
Note payable		(932,934)
Pre-annexation agreement		(8,400,000)
CDBG loan		(1,883,000)
Purchase Agreement Payable		(1,500,000)
<p>Accrued interest payable for the current portion of interest due on long-term debt has not been reported in the governmental funds.</p>		(99,804)
<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>		1,815,674
<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 assets (including capital assets) and liabilities of the internal service funds must be added to the statement of net assets.</p>		12,405,625
<p>Investment in joint ventures is not a current financial resource and therefore not reported in the governmental funds.</p>		2,778,443
<p>Internal balance created by the consolidation of internal service fund activities related to enterprise funds is not reported in the governmental funds.</p>		83,530
Net assets of governmental activities	\$	<u><u>2,205,198,642</u></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, 2010**

	<u>General</u>	<u>Tide and Submerged Land</u>	<u>City Hall Improvements</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<b>Revenues</b>					
Taxes and assessments:					
Property tax	\$ 71,999,679	\$ -	\$ -	\$ -	\$ 71,999,679
Sales tax	17,440,736	-	-	-	17,440,736
Sales tax in-lieu	4,539,946	-	-	-	4,539,946
Transient occupancy tax	11,400,710	-	-	-	11,400,710
Other taxes	7,976,309	-	-	452,063	8,428,372
Intergovernmental	2,693,785	-	-	12,685,913	15,379,698
Licenses and permits	2,603,618	1,272,402	-	74,947	3,950,967
Charges for services	15,210,962	82,400	-	-	15,293,362
Fines and forfeitures	3,739,303	242	-	366,087	4,105,632
Investment income	706,855	37,846	-	545,189	1,289,890
Net increase in fair value of investments	707,200	38,947	-	409,216	1,155,363
Property income	6,080,577	8,544,346	-	-	14,624,923
Donations	124,703	-	-	5,372,937	5,497,640
Other	1,690,499	-	-	5,955,775	7,646,274
<b>Total revenues</b>	<b>146,914,882</b>	<b>9,976,183</b>	<b>-</b>	<b>25,862,127</b>	<b>182,753,192</b>
<b>Expenditures</b>					
Current:					
General government	15,086,125	83,421	-	-	15,169,546
Public safety	56,108,046	20,654,193	-	440,206	77,202,445
Public works	25,681,411	3,995,923	-	10,245,072	39,922,406
Community development	8,097,847	338,125	-	1,120,094	9,556,066
Community services	13,109,514	1,806,716	-	-	14,916,230
Capital outlay	8,627,010	1,197,037	8,776,524	18,196,082	36,796,653
Debt service (note 6):					
Principal	-	186,679	-	1,634,000	1,820,679
Interest and fiscal charges	-	50,383	-	332,914	383,297
<b>Total expenditures</b>	<b>126,709,953</b>	<b>28,312,477</b>	<b>8,776,524</b>	<b>31,968,368</b>	<b>195,767,322</b>
Excess (deficiency) of revenues over expenditures	20,204,929	(18,336,294)	(8,776,524)	(6,106,241)	(13,014,130)
<b>Other financing sources (uses)</b>					
Transfers in (note 14)	1,519,725	20,130,495	-	730,301	22,380,521
Transfers out (note 14)	(20,677,752)	-	-	(1,102,769)	(21,780,521)
Issuance of debt	1,500,000	-	-	-	1,500,000
<b>Total other financing sources (uses)</b>	<b>(17,658,027)</b>	<b>20,130,495</b>	<b>-</b>	<b>(372,468)</b>	<b>2,100,000</b>
<b>Net change in fund balances</b>	<b>2,546,902</b>	<b>1,794,201</b>	<b>(8,776,524)</b>	<b>(6,478,709)</b>	<b>(10,914,130)</b>
Fund balances, beginning	79,610,964	639,964	(1,750,813)	42,632,728	121,132,843
<b>Fund balances, ending</b>	<b>\$ 82,157,866</b>	<b>\$ 2,434,165</b>	<b>\$ (10,527,337)</b>	<b>\$ 36,154,019</b>	<b>\$ 110,218,713</b>

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, 2010**

Net change in fund balances - total governmental funds	\$ (10,914,130)
Amounts reported for governmental activities in the statement of activities differ from the amounts reported in the statement of activities because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	16,716,517
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.	1,820,679
Issuance of debt	(1,500,000)
Accrued Interest for debt service. This is the net change in accrued interest for the current period.	10,795
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.	(1,063,460)
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.	(2,113,119)
Investment in joint ventures creates an explicit, measurable equity interest reported only in the statement of activities.	94,391
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.	<u>22,199</u>
Change in net assets of governmental activities	<u>\$ 3,073,872</u>

See accompanying notes to basic financial statements

**CITY OF NEWPORT BEACH**  
**General Fund**  
**Budgetary Comparison Statement**  
**For the Year Ended June 30, 2010**

	<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>
<b>Revenues</b>				
Taxes and assessments:				
Property	\$ 71,119,504	\$ 71,119,504	\$ 71,999,679	\$ 880,175
Sales	19,656,428	19,656,428	17,440,736	(2,215,692)
Sales tax in-lieu	7,690,691	7,690,691	4,539,946	(3,150,745)
Transient occupancy	13,000,000	13,000,000	11,400,710	(1,599,290)
Other taxes	7,634,000	7,634,000	7,976,309	342,309
Intergovernmental	2,258,512	2,503,190	2,693,785	190,595
Licenses and permits	2,947,790	2,947,790	2,603,618	(344,172)
Charges for services	14,445,353	14,697,021	15,210,962	513,941
Fines and forfeitures	3,645,000	3,645,000	3,739,303	94,303
Investment income	1,400,000	1,400,000	706,855	(693,145)
Net increase in fair value of investments	-	-	707,200	707,200
Property income	6,018,404	6,018,404	6,080,577	62,173
Donations	100,000	131,926	124,703	(7,223)
Other	495,600	710,618	1,690,499	979,881
	<u>150,411,282</u>	<u>151,154,572</u>	<u>146,914,882</u>	<u>(4,239,690)</u>
<b>Total revenues</b>				
<b>Expenditures</b>				
General government:				
City council	1,279,249	1,167,130	1,163,486	3,644
City clerk	381,140	401,466	382,393	19,073
City attorney	2,430,349	2,888,766	2,688,217	200,549
City manager	1,655,746	1,259,664	1,163,956	95,708
Administrative services	8,383,109	7,759,152	7,356,232	402,920
Human resources	2,430,349	2,301,035	2,331,841	(30,806)
Total General government	<u>16,559,943</u>	<u>15,777,213</u>	<u>15,086,125</u>	<u>691,088</u>
Public safety:				
Police	45,223,429	36,761,928	35,374,156	1,387,772
Fire	34,073,227	21,530,337	20,733,890	796,447
Total Public safety	<u>79,296,656</u>	<u>58,292,265</u>	<u>56,108,046</u>	<u>2,184,219</u>
Public works:				
General services	23,903,433	20,455,263	19,445,196	1,010,067
Public works	5,867,705	5,361,403	5,077,221	284,182
Utilities	1,467,754	1,372,929	1,158,994	213,935
Total Public works	<u>31,238,891</u>	<u>27,189,595</u>	<u>25,681,411</u>	<u>1,508,184</u>

**CITY OF NEWPORT BEACH**  
**General Fund**  
**Budgetary Comparison Statement**  
(continued)

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Community development:				
Planning	3,584,870	3,595,785	3,126,090	469,695
Building	4,858,614	4,602,820	4,408,215	194,605
Code and Water Quality Enforcement	768,329	780,411	563,542	216,869
Total Community development	<u>9,211,813</u>	<u>8,979,016</u>	<u>8,097,847</u>	<u>881,169</u>
Community services:				
Library Services	6,793,449	6,905,280	6,554,183	351,097
Recreation and senior services	7,246,217	7,225,823	6,555,331	670,492
Total Community services	<u>14,039,666</u>	<u>14,131,103</u>	<u>13,109,514</u>	<u>1,021,589</u>
Capital outlay	<u>10,377,688</u>	<u>8,015,598</u>	<u>8,627,010</u>	<u>(611,412)</u>
Total expenditures	<u>160,724,658</u>	<u>132,384,790</u>	<u>126,709,953</u>	<u>5,674,837</u>
Excess (deficiency) of revenues over expenditures	<u>(10,313,376)</u>	<u>18,769,782</u>	<u>20,204,929</u>	<u>1,435,147</u>
<b>Other financing sources (uses)</b>				
Transfers in	-	600,000	1,519,725	919,725
Transfers out	(3,295,698)	(21,273,450)	(20,677,752)	595,698
Issuance of debt	-	-	1,500,000	1,500,000
Total other financing sources (uses)	<u>(3,295,698)</u>	<u>(20,673,450)</u>	<u>(17,658,027)</u>	<u>3,015,423</u>
Net change in fund balance	(13,609,074)	(1,903,668)	2,546,902	4,450,570
Fund balance, beginning	<u>79,610,964</u>	<u>79,610,964</u>	<u>79,610,964</u>	<u>-</u>
Fund balance, ending	<u>\$ 66,001,890</u>	<u>\$ 77,707,296</u>	<u>\$ 82,157,866</u>	<u>\$ 4,450,570</u>

**CITY OF NEWPORT BEACH**  
**Tide and Submerged Land**  
**Budgetary Comparison Statement**  
**For the Year Ended June 30, 2010**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Licenses and permits	1,309,600	1,309,600	1,272,402	(37,198)
Charges for services	41,000	41,000	82,400	41,400
Fines and forfeitures	1,000	1,000	242	(758)
Investment income	75,000	75,000	37,846	(37,154)
Net increase in fair value of investments			38,947	38,947
Property income	8,109,110	8,109,110	8,544,346	435,236
<b>Total revenues</b>	<b>9,535,710</b>	<b>9,535,710</b>	<b>9,976,183</b>	<b>440,473</b>
<b>Expenditures</b>				
General government	-	83,421	83,421	-
Public safety	-	20,654,193	20,654,193	-
Public works	793,720	4,056,131	3,995,923	60,208
Community services	1,924,804	2,305,708	1,806,716	498,992
Community development	-	396,565	338,125	58,440
Capital outlay	5,642,538	2,013,331	1,197,037	816,294
Debt service:				
Principal	186,679	186,679	186,679	-
Interest and fiscal charges	50,383	50,383	50,383	-
<b>Total expenditures</b>	<b>8,598,124</b>	<b>29,746,411</b>	<b>28,312,477</b>	<b>1,433,934</b>
Excess (deficiency) of revenues over expenditures	937,586	(20,210,701)	(18,336,294)	1,874,407
<b>Other financing sources (uses)</b>				
Transfers in	-	19,984,366	20,130,495	146,129
Transfers out	(5,346,685)	-	-	-
<b>Total other financing sources (uses)</b>	<b>(5,346,685)</b>	<b>19,984,366</b>	<b>20,130,495</b>	<b>146,129</b>
Net change in fund balance	(4,409,099)	(226,335)	1,794,201	2,020,536
Fund balance, beginning	639,964	639,964	639,964	-
Fund balance, ending	<u>\$ (3,769,135)</u>	<u>\$ 413,629</u>	<u>\$ 2,434,165</u>	<u>\$ 2,020,536</u>

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# FINANCIAL SECTION

FUND  
FINANCIAL STATEMENTS  
PROPRIETARY FUNDS

FINANCIAL SECTION

# PROPRIETARY FUNDS

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## **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, 2010**

	<u>Enterprise Funds</u>			<u>Governmental</u>
	<u>Water</u>	<u>Wastewater</u>	<u>Total Enterprise Funds</u>	<u>Activities Internal Service Funds</u>
<b>Assets</b>				
Current assets:				
Cash and investments	\$ 4,579,953	\$ 3,322,151	\$ 7,902,104	\$ 40,744,094
Receivables:				
Accounts	3,778,832	660,152	4,438,984	895,406
Inventories	-	-	-	255,430
Prepaid items	-	-	-	371,330
Total current assets	<u>8,358,785</u>	<u>3,982,303</u>	<u>12,341,088</u>	<u>42,266,260</u>
Non-current assets:				
Capital assets (note 5):				
Land	2,016,450	-	2,016,450	-
Structures	205,793	-	205,793	-
Equipment	291,888	-	291,888	23,022,523
Infrastructure	115,518,007	42,625,388	158,143,395	-
Work in progress	454,696	227,991	682,687	-
Less accumulated depreciation	<u>(39,242,601)</u>	<u>(13,647,765)</u>	<u>(52,890,366)</u>	<u>(16,672,418)</u>
Total capital assets (net of accumulated depreciation)	<u>79,244,233</u>	<u>29,205,614</u>	<u>108,449,847</u>	<u>6,350,105</u>
Total noncurrent assets	<u>79,244,233</u>	<u>29,205,614</u>	<u>108,449,847</u>	<u>6,350,105</u>
Total assets	<u>87,603,018</u>	<u>33,187,917</u>	<u>120,790,935</u>	<u>48,616,365</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	1,716,159	153,468	1,869,627	286,729
Accrued payroll	111,860	38,878	150,738	43,909
Deposits payable	63,257	24	63,281	-
Due to General fund	-	-	-	820,395
Workers' compensation - current	-	-	-	3,080,500
General liability - current	-	-	-	1,260,729
Compensated absences - current	-	-	-	1,557,331
Early retirement incentive program - current	-	-	-	938,520
Total current liabilities	<u>1,891,276</u>	<u>192,370</u>	<u>2,083,646</u>	<u>7,988,113</u>
Non-current liabilities (note 6):				
Workers' compensation	-	-	-	9,241,500
General liability	-	-	-	2,559,662
Compensated absences	-	-	-	7,438,548
Early retirement incentive program	-	-	-	2,510,917
Net OPEB obligation	-	-	-	6,472,000
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,222,627</u>
Total liabilities	<u>1,891,276</u>	<u>192,370</u>	<u>2,083,646</u>	<u>36,210,740</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	79,244,233	29,205,614	108,449,847	6,350,105
Unrestricted	<u>6,467,509</u>	<u>3,789,933</u>	<u>10,257,442</u>	<u>6,055,520</u>
Total Net Assets	<u>\$ 85,711,742</u>	<u>\$ 32,995,547</u>	<u>118,707,289</u>	<u>\$ 12,405,625</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(83,530)	
Net assets of business-type activities			<u>\$ 118,623,759</u>	

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, 2010**

	<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	\$ 17,269,587	\$ -	\$ 17,269,587	-
Charges for services			-	16,298,899
Sewer service and connection fees	-	3,363,459	3,363,459	-
Retiree Reimbursements	-	-	-	1,119,262
Employee Contributions	-	-	-	329,234
Other	143,047	4,868	147,915	217,901
Total operating revenues	<u>17,412,634</u>	<u>3,368,327</u>	<u>20,780,961</u>	<u>17,965,296</u>
Operating expenses:				
Purchase of water	8,221,667	-	8,221,667	-
Salaries and benefits	3,824,526	1,506,063	5,330,589	1,459,423
Depreciation	1,540,875	566,182	2,107,057	1,814,442
Professional services	1,727,920	334,666	2,062,586	51,431
Maintenance and supplies	1,585,478	646,030	2,231,508	813,819
System maintenance	121,900	298,462	420,362	452,466
Fleet parts and supplies	-	-	-	3,530,130
Workers' compensation	-	-	-	201,308
Claims and judgments	-	-	-	2,022,943
Compensated absences	-	-	-	4,409,833
OPEB ARC - Cash subsidy	-	-	-	2,016,000
OPEB ARC - Implied subsidy	-	-	-	2,477,000
Other	1,686,515	244,888	1,931,403	1,115,115
Total operating expenses	<u>18,708,881</u>	<u>3,596,291</u>	<u>22,305,172</u>	<u>20,363,910</u>
Operating income (loss)	<u>(1,296,247)</u>	<u>(227,964)</u>	<u>(1,524,211)</u>	<u>(2,398,614)</u>
Nonoperating revenues (expenses):				
Investment income	93,511	34,888	128,399	444,227
Net increase in fair value of investments	64,215	35,902	100,117	457,145
(Loss) on removal of capital assets	(2,764)	-	(2,764)	(15,877)
Other fiscal charges	(1,250)	-	(1,250)	-
Total nonoperating revenues	<u>153,712</u>	<u>70,790</u>	<u>224,502</u>	<u>885,495</u>
Income (loss) before transfers	<u>(1,142,535)</u>	<u>(157,174)</u>	<u>(1,299,709)</u>	<u>(1,513,119)</u>
Transfers in (note 14)	-	-	-	-
Transfers out (note 14)	-	-	-	(600,000)
Change in net assets	<u>(1,142,535)</u>	<u>(157,174)</u>	<u>(1,299,709)</u>	<u>(2,113,119)</u>
Net assets, beginning of year	86,854,277	33,152,721		14,518,744
Net assets, end of year	<u>\$ 85,711,742</u>	<u>\$ 32,995,547</u>		<u>\$ 12,405,625</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(22,199)	
Change in net assets of business-type activities			<u>\$ (1,321,908)</u>	

See accompanying notes to basic financial statements

**CITY OF NEWPORT BEACH**  
**Proprietary Fund**  
**Statement of Cash Flows**  
**For the Year ended June 30, 2010**

	<u>Enterprise Funds</u>			<u>Governmental</u>
	<u>Water</u>	<u>Wastewater</u>	<u>Total</u> <u>Enterprise</u> <u>Funds</u>	<u>Activities</u> <u>Internal Service</u> <u>Funds</u>
<b>Cash flows from operating activities:</b>				
Cash received from customers or user departments	\$ 17,317,363	\$ 3,459,786	\$ 20,777,149	\$ 17,593,471
Cash payments to employees for services	(3,827,292)	(1,512,077)	(5,339,369)	(8,331,566)
Cash payments to suppliers for goods and services	(11,944,684)	(1,218,015)	(13,162,699)	(7,838,657)
Cash received (payments made) for other operating activities	(1,543,468)	(240,020)	(1,783,488)	547,135
Net cash provided by operating activities	<u>1,919</u>	<u>489,674</u>	<u>491,593</u>	<u>1,970,383</u>
<b>Cash flows from noncapital financing activities:</b>				
Cash received from other funds	-	-	-	358,208
Cash paid to other funds	-	-	-	(600,000)
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(241,792)</u>
<b>Cash flows from capital related financing activities:</b>				
Acquisition of capital assets	(1,716,744)	(200,831)	(1,917,575)	(1,478,229)
Proceeds from sale of capital assets	-	-	-	105,934
Principal payments on long-term liabilities	(1,585,000)	-	(1,585,000)	-
Other fiscal charges	(1,250)	-	(1,250)	-
Net cash (used) for capital related financing activities	<u>(3,302,994)</u>	<u>(200,831)</u>	<u>(3,503,825)</u>	<u>(1,372,295)</u>
<b>Cash flows from investing activities:</b>				
Interest on investments	157,726	70,790	228,516	901,372
Net cash provided by investing activities	<u>157,726</u>	<u>70,790</u>	<u>228,516</u>	<u>901,372</u>
Net increase (decrease) in cash and cash equivalents	(3,143,349)	359,633	(2,783,716)	1,257,668
Cash and cash equivalents, beginning	<u>7,723,302</u>	<u>2,962,518</u>	<u>10,685,820</u>	<u>39,486,426</u>
Cash and cash equivalents, ending	<u>\$ 4,579,953</u>	<u>\$ 3,322,151</u>	<u>\$ 7,902,104</u>	<u>\$ 40,744,094</u>
<b>Reconciliation of cash equivalents to the statement of net assets</b>				
Cash and investments reported on statement of net assets	<u>\$ 4,579,953</u>	<u>\$ 3,322,151</u>	<u>\$ 7,902,104</u>	<u>40,744,094</u>
Cash and cash equivalents	<u>\$ 4,579,953</u>	<u>\$ 3,322,151</u>	<u>\$ 7,902,104</u>	<u>\$ 40,744,094</u>
<b>Reconciliation of operating income to net cash used for operating activities:</b>				
Operating income (loss)	\$ (1,296,247)	\$ (227,964)	\$ (1,524,211)	\$ (2,398,614)
Adjustments to reconcile operating income to net cash used for operating activities:				
Depreciation	1,540,875	566,182	2,107,057	1,814,442
(Increase) decrease in accounts receivable	49,889	96,327	146,216	(5,359)
Decrease in inventories	-	-	-	4,301
(Increase) decrease in prepaid items	25,000	-	25,000	(209,751)
Increase (decrease) in accounts payable and accrued payroll	(279,822)	55,129	(224,693)	(311,521)
(Decrease) in accrued interest payable	(35,663)	-	(35,663)	-
(Decrease) in deposits payable	(2,113)	-	(2,113)	-
Increase in workers' compensation	-	-	-	429,000
(Decrease) in general liability	-	-	-	(2,077,346)
(Decrease) in compensated absences	-	-	-	(788,206)
Increase in early retirement incentive program	-	-	-	3,449,437
Increase in net OPEB obligation	-	-	-	2,064,000
Total adjustments	<u>1,298,166</u>	<u>717,638</u>	<u>2,015,804</u>	<u>4,368,997</u>
Net cash used for operating activities	<u>\$ 1,919</u>	<u>\$ 489,674</u>	<u>\$ 491,593</u>	<u>\$ 1,970,383</u>
<b>Non-cash investing, capital and financing activities:</b>				
Net increase in fair value of investments	\$ 64,215	\$ 35,903	\$ 100,117	\$ 457,145
(Loss) on disposal of capital assets	(2,764)	-	(2,764)	\$ (15,877)
Total of non-cash activities	<u>\$ 61,451</u>	<u>\$ 35,903</u>	<u>\$ 97,353</u>	<u>\$ 441,268</u>

See accompanying notes to basic financial statements

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# FINANCIAL SECTION

FUND  
FINANCIAL STATEMENTS  
FIDUCIARY FUNDS

FINANCIAL SECTION

## **FIDUCIARY FUNDS**

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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, 2010**

<b>Assets</b>	<b>Totals</b>
Cash and investments (note 4)	\$ 4,370,075
Cash with fiscal agent (note 4)	4,618,481
Prepaid items	75,085
Intergovernmental receivable	88,344
Total assets	<u><u>\$ 9,151,985</u></u>
<b>Liabilities</b>	
Due to bondholders	\$ 7,301,247
Due to others	304,031
Due to ILJAOC	1,546,707
Total liabilities	<u><u>\$ 9,151,985</u></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, 2010

**(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, see Subsequent Events note for additional disclosure. 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

CITY OF NEWPORT BEACH  
Notes to Basic Financial Statements  
June 30, 2010

library and most recently the new civic center project. The Corporation is governed by a Board of Directors which is comprised of the seven City Councilmembers 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

Financial reporting is based upon all GASB pronouncements, as well as the FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins that were issued on or after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

**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

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Notes to Basic Financial Statements  
June 30, 2010

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 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

CITY OF NEWPORT BEACH  
Notes to Basic Financial Statements  
June 30, 2010

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 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. Non-current portions of other long-term receivables are offset by fund balance reserve accounts. 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

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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 earnings, and not principal, may be used for purposes that support City programs. The amount of investment earnings available for expenditure is reported as Designated Fund Balance in the fund level financial statements. The endowment principal is reported as Restricted 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.

#### 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.

CITY OF NEWPORT BEACH  
Notes to Basic Financial Statements  
June 30, 2010

**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:

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.

Tide and Submerged Land

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

City Hall Improvements Fund

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

**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, and the cost of maintaining and replacing the City's rolling stock fleet. 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.



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Notes to Basic Financial Statements  
June 30, 2010

**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 \$2,723,956 at June 30, 2010. 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-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.

CITY OF NEWPORT BEACH  
Notes to Basic Financial Statements  
June 30, 2010

**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, 2010, the balance of this account was \$7,685,901.

**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. For debt-financed capital assets, interest incurred during the construction phase is reflected in the capitalization value of the asset constructed, net of interest earned on the invested proceeds over the same period. 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:

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

CITY OF NEWPORT BEACH  
Notes to Basic Financial Statements  
June 30, 2010

**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	March 1
Levy date	July 1
Due dates	November 1 – 1 <sup>st</sup> installment March 1 – 2 <sup>nd</sup> installment
Collection dates	December 10 – 1 <sup>st</sup> installment April 10 – 2 <sup>nd</sup> 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 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.

CITY OF NEWPORT BEACH  
Notes to Basic Financial Statements  
June 30, 2010

**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. Reserved and Designated Fund Balances**

The City has set up “reserves” of fund equity to segregate fund balances which are not appropriable for expenditure in future periods, or which are legally set aside for a specific future use. Fund “designations” also may be established to indicate tentative plans for financial resource utilization in a future period.

The following provides explanations as to the nature and purpose of each reserve and designation.

**Reserved for encumbrances**

Amounts reserved for encumbrances are commitments for materials and services on purchase orders and contracts that are legally committed but not expended by fiscal year end.

**Reserved for debt service**

This account sets aside a portion of fund balance to meet the annual debt service requirements.

**Reserved for permanent endowment**

This account reflects a permanent endowment established for the maintenance and dredging of Upper Newport Bay.

CITY OF NEWPORT BEACH  
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Reserved for affordable housing

This account reflects amounts collected from developers to build affordable housing to all income levels in compliance with State planning laws.

Reserved for prepaid items

This account reflects prepaid items which are not available, spendable resources.

Reserved for inventories

This account reflects the value of inventories purchased by the City but not yet issued to the operating departments.

Reserved for long-term receivable

This account reflects the value of the note receivable which is not an available and spendable resource.

Designated for special purposes

This account reflects funds that have been designated for special projects which vary in nature.

Designated for contingencies

Contingency designations represent funds for unexpected emergencies.

Designated for capital projects

This account reflects unspent appropriations committed to capital projects in the prior year.

Designation for appropriations

This account reflects unspent appropriations that may be utilized to augment the operating budget.

Designated for Special Revenue Funds

This account reflects unspent appropriations committed to special revenue funds in the prior year.

Designated for Permanent Funds

This account reflects both the spendable amount of investment earnings available as well as the non-spendable amount of endowment principal.

CITY OF NEWPORT BEACH  
Notes to Basic Financial Statements  
June 30, 2010

**(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 \$110,218,713 differs from “net assets” of governmental activities \$2,205,198,642 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.

**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	\$2,232,039,378
Accumulated depreciation	<u>(137,336,983)</u>
Total capital assets, net*	<u>\$2,094,702,395</u>

\*Amount excludes net capital assets of \$6,350,105 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, 2010 were:

Certificates of participation	\$ 3,990,000
Note payable	932,934
Pre-annexation agreement	8,400,000
CDBG Loan	1,883,000
Purchase Agreement Payable	<u>1,500,000</u>
Total	<u>\$16,705,934</u>

CITY OF NEWPORT BEACH  
Notes to Basic Financial Statements  
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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>\$99,804</u>
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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>\$2,778,443</u>
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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.

Unavailable revenue	<u>\$1,815,674</u>
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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>\$12,405,625</u>
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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.

Investments in joint ventures are not a current financial resource and are not reported in the governmental funds. Therefore, it is added for the statement of net assets. Interfund balance created due to the consolidation of internal service activities to governmental and enterprise funds is not reported in the fund statements and must be added to the statement of net assets.

CITY OF NEWPORT BEACH  
Notes to Basic Financial Statements  
June 30, 2010

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

<b>Assets</b>	<b>Total Governmental Funds</b>	<b>Capital Related Items</b>	<b>Accumulated Depreciation</b>	<b>Long-term Debt Transactions</b>
Cash and investments	112,236,351	\$ -	\$ -	\$ -
Receivables:				
Accounts	5,174,536	-	-	-
Notes	471,250	-	-	-
Interest	981,924	-	-	-
Intergovernmental receivables	7,685,901	-	-	-
Cash with fiscal agent	2,156,931	-	-	-
Interfund balances	12,760,751	-	-	-
Investment in joint venture		-	-	-
Prepaid items	932,148	-	-	-
Inventory	238,274	-	-	-
Capital assets	-	2,232,039,378	-	-
Accumulated depreciation	-	-	(137,336,983)	-
	<u>112,236,351</u>	<u>2,232,039,378</u>	<u>(137,336,983)</u>	<u>-</u>
Total assets	<u>\$ 142,638,066</u>	<u>\$ 2,232,039,378</u>	<u>\$ (137,336,983)</u>	<u>\$ -</u>
 <b>Liabilities and Fund Balances / Net Assets</b>				
Liabilities:				
Accounts payable	8,175,971	-	-	-
Accrued payroll	4,237,523	-	-	-
Accrued interest payable	-	-	-	-
Deposits payable	2,587,984	-	-	-
Claims payable	-	-	-	-
Workers' compensation payable	-	-	-	-
Compensated absences payable	-	-	-	-
Early retirement incentive program	-	-	-	-
Unearned revenue	3,661,845	-	-	-
Unavailable revenue	1,815,674	-	-	-
Due to other funds	11,940,356	-	-	-
Long-term liabilities	-	-	-	16,705,934
	<u>32,419,353</u>	<u>-</u>	<u>-</u>	<u>16,705,934</u>
Total liabilities	<u>32,419,353</u>	<u>-</u>	<u>-</u>	<u>16,705,934</u>
Fund balances / net assets	<u>110,218,713</u>	<u>2,232,039,378</u>	<u>(137,336,983)</u>	<u>(16,705,934)</u>
Total liabilities and and fund balances / net assets	<u>\$ 142,638,066</u>	<u>\$ 2,232,039,378</u>	<u>\$ (137,336,983)</u>	<u>\$ -</u>



CITY OF NEWPORT BEACH  
Notes to Basic Financial Statements  
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<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>
\$ -	\$ -	\$ -	\$ 40,744,094	\$ -	\$ 152,980,445
-	-	-	895,406	-	6,069,942
-	-	-	-	-	471,250
-	-	-	-	-	981,924
-	-	-	-	-	7,685,901
-	-	-	-	-	2,156,931
-	-	-	-	(12,677,221)	83,530
-	2,778,443	-	-	-	2,778,443
-	-	-	371,330	-	1,303,478
-	-	-	255,430	-	493,704
-	-	-	23,022,523	-	2,255,061,901
-	-	-	(16,672,418)	-	(154,009,401)
<u>\$ -</u>	<u>\$ 2,778,443</u>	<u>\$ -</u>	<u>\$ 48,616,365</u>	<u>\$ (12,677,221)</u>	<u>\$ 2,276,058,048</u>
\$ -	-	-	\$ 286,729	-	\$ 8,462,700
-	-	-	43,909	-	4,281,432
99,804	-	-	-	-	99,804
-	-	-	-	-	2,587,984
-	-	-	1,260,729	-	1,260,729
-	-	-	3,080,500	-	3,080,500
-	-	-	1,557,331	-	1,557,331
-	-	-	938,520	-	938,520
-	-	-	-	-	3,661,845
-	-	(1,815,674)	-	-	-
-	-	-	820,395	(12,760,751)	-
-	-	-	28,222,627	-	44,928,561
<u>99,804</u>	<u>-</u>	<u>(1,815,674)</u>	<u>36,210,740</u>	<u>(12,760,751)</u>	<u>70,859,406</u>
<u>(99,804)</u>	<u>2,778,443</u>	<u>1,815,674</u>	<u>12,405,625</u>	<u>83,530</u>	<u>2,205,198,642</u>
<u>\$ -</u>	<u>\$ 2,778,443</u>	<u>\$ -</u>	<u>\$ 48,616,365</u>	<u>\$ (12,677,221)</u>	<u>\$ 2,276,058,048</u>

CITY OF NEWPORT BEACH  
Notes to Basic Financial Statements  
June 30, 2010

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

Total net assets of the City's Enterprise Funds of \$118,707,289 differs from net assets of the business-type activities of \$118,623,759 reported in the government-wide statement of net assets. The difference, (\$83,530), 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**

<b>Assets</b>	<b>Total Enterprise Funds</b>	<b>Internal Service Funds</b>	<b>Government wide Statement of Net Assets</b>
Cash and investments	\$ 7,902,104	\$ -	\$ 7,902,104
Receivables:			
Accounts	4,438,984	-	4,438,984
Interfund balances	-	(83,530)	(83,530)
Capital assets, net	<u>108,449,847</u>	<u>-</u>	<u>108,449,847</u>
 Total assets	 <u>\$ 120,790,935</u>	 <u>\$ (83,530)</u>	 <u>\$ 120,707,405</u>
 <b>Liabilities and Fund Balances / Net Assets</b>			
Liabilities:			
Accounts payable	\$ 1,869,627	\$ -	\$ 1,869,627
Accrued payroll	150,738	-	150,738
Deposits payable	<u>63,281</u>	<u>-</u>	<u>63,281</u>
 Total liabilities	 <u>2,083,646</u>	 <u>-</u>	 <u>2,083,646</u>
 <b>Net Assets</b>			
Invested in capital assets, net of related debt	\$ 108,449,847	-	\$ 108,449,847
Unrestricted	<u>10,257,442</u>	<u>(83,530)</u>	<u>10,173,912</u>
	<u>\$ 118,707,289</u>	<u>\$ (83,530)</u>	<u>\$ 118,623,759</u>

CITY OF NEWPORT BEACH  
Notes to Basic Financial Statements  
June 30, 2010

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

The “net change in fund balances” for governmental funds (\$10,914,130) differs from the “change in net assets” for governmental activities \$3,073,872 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 for the statement of net assets.

Capital Outlay	\$	34,329,714
Transfers out of WIP		(6,634,505)
Capital Outlays expended		27,695,209
Internal Service funds - asset additions		(1,478,229)
Governmental funds - asset additions		(3,279,632)
Net change in capital related items	\$	22,937,348
Depreciation expense		(\$10,002,880)
Deletions in IS accumulated depreciation		1,814,442
Deletions in Governmental funds accumulated depreciation		1,967,607
Net change in accumulated depreciation	\$	(6,220,831)

CITY OF NEWPORT BEACH  
Notes to Basic Financial Statements  
June 30, 2010

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.

Certificates of Participation	\$ 345,000
Note payable	186,679
Pre-annexation agreement	1,200,000
CDBG loan	89,000
Purchase Agreement Payable	<u>(1,500,000)</u>
Total principal payments made	<u>\$ 320,679</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>\$10,795</u>
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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>\$94,391</u>
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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>\$1,063,460</u>
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CITY OF NEWPORT BEACH  
Notes to Basic Financial Statements  
June 30, 2010

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>\$2,113,119</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, 2010

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

	<b>Total Governmental Funds</b>	<b>Capital Related Items</b>	<b>Accumulated Depreciation</b>	<b>Long-term Debt Transactions</b>
Revenues:				
Taxes and assessments	\$ 113,809,443	\$ -	\$ -	\$ -
Intergovernmental	15,379,698	-	-	-
Licenses and permits	3,950,967	-	-	-
Charges for services	15,293,362	-	-	-
Fines and forfeitures	4,105,632	-	-	-
Investment income	1,289,890	-	-	-
Net increase in fair value of investments	1,155,363	-	-	-
Property income	14,624,923	-	-	-
Share of joint venture net gain	-	-	-	-
Donations	5,497,640	-	-	-
Loss on sale of capital assets	-	-	-	-
Other	7,646,274	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	182,753,192	-	-	-
Expenditures:				
Current:				
General government	15,169,546	-	307,422	-
Public safety	77,202,445	1,478,229	(592,357)	-
Public works	39,922,406	3,152,068	5,213,292	-
Community development	9,556,066	-	105,731	-
Community services	14,916,230	127,564	1,186,743	-
Capital outlay	36,796,653	(27,695,209)	-	-
Debt service:				
Principal retirement	1,820,679	-	-	(1,820,679)
Interest and fiscal charges	383,297	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	195,767,322	(22,937,348)	6,220,831	(1,820,679)
Other financing sources (uses):				
Transfers in	22,380,521	-	-	-
Transfers out	(21,780,521)	-	-	-
Issuance of debt	1,500,000	-	-	(1,500,000)
Total other financing sources (uses)	2,100,000	-	-	(1,500,000)
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balances / net assets	(10,914,130)	22,937,348	(6,220,831)	320,679
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances / net assets beginning of year	121,132,843	2,209,102,030	(131,116,152)	(17,026,613)
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances / net assets end of year	\$ 110,218,713	\$ 2,232,039,378	\$ (137,336,983)	\$ (16,705,934)

CITY OF NEWPORT BEACH  
Notes to Basic Financial Statements  
June 30, 2010

<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>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 113,809,443
-	-	(1,063,460)	-	-	14,316,238
-	-	-	-	-	3,950,967
-	-	-	-	22,199	15,315,561
-	-	-	-	-	4,105,632
-	-	-	444,227	-	1,734,117
-	-	-	457,145	-	1,612,508
-	-	-	-	-	14,624,923
-	94,391	-	-	-	94,391
-	-	-	-	-	5,497,640
-	-	-	(15,877)	-	(15,877)
-	-	-	-	-	7,646,274
-	94,391	(1,063,460)	885,495	22,199	182,691,817
-	-	-	609,478	996,259	17,082,705
-	-	-	1,200,755	113,528	79,402,600
-	-	-	(231,501)	7,389,062	55,445,327
-	-	-	407,392	13,265	10,082,454
-	-	-	412,490	589,330	17,232,357
-	-	-	-	(9,101,444)	-
(10,795)	-	-	-	-	372,502
(10,795)	-	-	2,398,614	-	179,617,945
-	-	-	-	(22,380,521)	-
-	-	-	(600,000)	22,380,521	-
-	-	-	-	-	-
-	-	-	(600,000)	-	-
10,795	94,391	(1,063,460)	(2,113,119)	22,199	3,073,872
(110,599)	2,684,052	2,879,134	14,518,744	61,331	2,202,124,770
<u>\$ (99,804)</u>	<u>\$ 2,778,443</u>	<u>\$ 1,815,674</u>	<u>\$ 12,405,625</u>	<u>\$ 83,530</u>	<u>\$ 2,205,198,642</u>

CITY OF NEWPORT BEACH  
Notes to Basic Financial Statements  
June 30, 2010

**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 (\$1,299,709) differs from the change in net assets of the business-type activities (\$1,321,908) reported in the government-wide statement of activities. The difference, (\$22,199), 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**

	<b>Total Enterprise Funds</b>	<b>Internal Service Fund</b>	<b>Business-type activities Statement of Activities</b>
Operating revenues:			
Charges for sales and services:			
Water sales	\$ 17,269,587	\$ -	\$ 17,269,587
Sewer service and connection fees	3,363,459	-	3,363,459
Other	147,915	-	147,915
Total operating revenues	<u>20,780,961</u>	<u>-</u>	<u>20,780,961</u>
Operating expenses:			
Purchase of Water	8,221,667	-	8,221,667
Salaries and wages	5,330,589	-	5,330,589
Depreciation	2,107,057	-	2,107,057
Professional Services	2,062,586	-	2,062,586
Maintenance and supplies	2,231,508	22,199	2,253,707
System maintenance	420,362	-	420,362
Other	1,931,403	-	1,931,403
Total operating expenses	<u>22,305,172</u>	<u>22,199</u>	<u>22,327,371</u>
Operating income	(1,524,211)	(22,199)	(1,546,410)
Nonoperating revenues (expenses):			
Investment income	128,399	-	128,399
Net decrease in fair value of investments	100,117	-	100,117
Loss on removal of capital assets	(2,764)	-	(2,764)
Other	(1,250)	-	(1,250)
Total nonoperating revenues (expenses)	<u>224,502</u>	<u>-</u>	<u>224,502</u>
Change in net assets	(1,299,709)	(22,199)	(1,321,908)
Net assets, beginning of year	<u>120,006,998</u>	<u>(61,331)</u>	<u>119,945,667</u>
Net assets, end of year	<u>\$ 118,707,289</u>	<u>\$ (83,530)</u>	<u>\$ 118,623,759</u>



CITY OF NEWPORT BEACH  
Notes to Basic Financial Statements  
June 30, 2010

**(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.
- 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 reservations of 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, 2010

Expenditures exceeded appropriations in the following governmental funds.

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Justice Assistance Grant	\$ 67,197	\$ 67,957	\$ (760)
Contributions	\$ -	\$ 1,648,609	\$ (1,648,609)

The following funds reported deficit fund balances:

Special Revenue Funds

OTS DUI Grant	\$ 39,952
Community Development Block Grant	\$ 3,458

Capital Projects

City Hall Improvements	\$ 10,527,337
Marine Science Center	\$ 125,421
OASIS Senior Center	\$ 2,598,614
Misc SAH Projects	\$ 367,847
Marina Park	\$ 1,178,259
Sunset Ridge Park	\$ 903,158
Police Facility	\$ 2,175
Lifeguard Headquarters	\$ 30,179

Internal Service Funds

Compensated Absences	\$ 10,593,629
Retiree Insurance	\$ 6,249,249

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

**(4) Cash and Investments**

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 160,882,549
Cash with fiscal agent	2,156,931
Fiduciary funds:	
Cash and investments	4,370,075
Cash with fiscal agent	4,618,481
Total cash and investments	<u>\$ 172,028,036</u>

CITY OF NEWPORT BEACH  
Notes to Basic Financial Statements  
June 30, 2010

Cash and investments as of June 30, 2010 consist of the following:

Cash on hand	\$ 52,244
Deposits with financial institutions	6,542,589
Investments	<u>165,433,203</u>
Total cash and investments	<u><u>\$ 172,028,036</u></u>

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, where 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	5 years	15%	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	30%	10%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	1 year	30%	10%
Repurchase Agreements	30 days	None	None
Reverse Repurchase Agreements	30 days	10% of base value	None
Medium-Term Notes	4 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
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.

CITY OF NEWPORT BEACH  
Notes to Basic Financial Statements  
June 30, 2010

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	None	None	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

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.

CITY OF NEWPORT BEACH  
Notes to Basic Financial Statements  
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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	\$ 2,088,513	\$ 2,088,513	\$ -	\$ -	\$ -	2,088,513
U.S. Treasury Notes	25,215,191	5,953,444	16,895,968	2,365,779	-	25,215,191
U.S. Agencies	82,172,015	17,637,490	55,208,089	9,326,436	-	82,172,015
Corporate Notes	36,017,254	11,059,122	24,958,132	-	-	36,017,254
Certificate of Deposit	1,600,032	1,600,032	-	-	-	1,600,032
Commercial Paper	6,548,099	6,548,099	-	-	-	6,548,099
LAIF	2,723,956	2,723,956	-	-	-	2,723,956
Foreign Bonds	2,021,480	1,402,352	619,128	-	-	2,021,480
Mortgage -backed Securities	271,251	271,251	-	-	-	271,251
Cash with Fiscal Agent:						
Money Market Funds	5,594,836	5,594,836	-	-	-	5,594,836
Investment Agreements	1,180,576	-	-	-	1,180,576	1,180,576
<b>Total</b>	<b>\$ 165,433,203</b>	<b>\$ 54,879,095</b>	<b>\$ 97,681,317</b>	<b>\$ 11,692,215</b>	<b>\$ 1,180,576</b>	<b>\$ 165,433,203</b>

\* 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, 2010 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  
June 30, 2010

Disclosures Relating to Credit Risk

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

Investment Type	Fair Value	Minimum	Exempt											Not Rated		
		Legal Rating	From Disclosure	AAA	AA+	AA	AA-	A+	A	A-	A-1+	A-1				
Money Market Funds	2,088,513	AAA	\$ -	\$ 1,916,831	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 171,682
U.S. Treasury Notes	25,215,191	N/A	12,673,157	6,350,337	-	-	-	-	-	-	-	-	-	-	-	6,191,697
U.S. Agencies	82,172,015	N/A	-	64,709,287	-	-	-	-	-	-	-	-	1,124,716	-	-	16,338,012
Corporate Notes	36,017,254	A	-	8,705,684	6,086,149	3,318,427	5,351,738	4,977,454	5,868,550	1,709,252	-	-	-	-	-	-
Certificate of Deposit	1,600,032	A-1	-	-	-	-	-	799,784	-	-	800,248	-	-	-	-	-
Commercial Paper	6,548,099	A-1	-	1,000,000	-	-	-	-	-	-	-	-	449,828	5,098,270	-	-
Local Agency Investment Fund	2,723,956	N/A	-	-	-	-	-	-	-	-	-	-	-	-	-	2,723,956
Foreign Bonds	2,021,480	N/A	-	619,128	-	595,448	806,904	-	-	-	-	-	-	-	-	-
Mortgage-backed Securities	271,251	AAA	-	271,251	-	-	-	-	-	-	-	-	-	-	-	-
Cash with Fiscal Agent:																
Money Market Funds	5,594,836	AAA	-	5,594,836	-	-	-	-	-	-	-	-	-	-	-	-
Investment Agreements	1,180,576	N/A	-	-	-	1,180,576	-	-	-	-	-	-	-	-	-	-
	\$ 165,433,203		\$ 12,673,157	\$ 89,167,354	\$ 6,086,149	\$ 5,094,451	\$ 6,958,426	\$ 4,977,454	\$ 5,868,550	\$ 2,509,500	\$ 1,574,544	\$ 5,098,270	\$ 25,425,346			

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:

Issuer	Investment Type	Reported Amount
FFCB	Federal agency securities	\$ 10,758,239
FHLB	Federal agency securities	\$ 19,869,601
FHLMC	Federal agency securities	\$ 28,401,497
FNMA	Federal agency securities	\$ 22,109,216

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The

CITY OF NEWPORT BEACH  
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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, 2010, none of the City's deposits with financial institutions in excess of federal depository amounts were held in uncollateralized accounts. As of June 30, 2010, City investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the City to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
Money Market Funds	\$ 1,822,947
U.S. Treasury Notes	10,384,282
U.S. Agencies	21,324,599
Certificate of Deposit	1,600,032
Corporate Notes	13,885,608
Mortgage backed Securities	271,251
Foreign Bonds	2,021,480
Commercial Paper	6,548,099

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.

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**(5) Capital Assets**

Capital asset activity for the year ended June 30, 2010 was as follows:

Governmental Activities:

	Beginning Balance	Additions	Deletions	Balance June 30, 2010
Non-depreciable:				
Land and rights of way	\$ 1,815,781,269	\$ 3,891,844	\$ -	\$ 1,819,673,113
Work in progress	13,167,176	20,691,584	(6,634,505)	27,224,255
Depreciable:				
Structures	68,279,097	1,530,756	(127,564)	69,682,289
Equipment	27,760,801	1,760,332	(1,147,158)	28,373,975
Infrastructure	<u>306,805,139</u>	<u>6,455,198</u>	<u>(3,152,068)</u>	<u>310,108,269</u>
	2,231,793,482	34,329,714	(11,061,295)	2,255,061,901
Less accumulated depreciation for:				
Structures	(13,764,261)	(1,370,077)	115,052	(15,019,286)
Equipment	(19,396,158)	(2,167,125)	1,025,347	(20,537,936)
Infrastructure	<u>(113,839,057)</u>	<u>(6,465,678)</u>	<u>1,852,556</u>	<u>(118,452,179)</u>
	(146,999,476)	(10,002,880)	2,992,955	(154,009,401)
Net Capital Assets	<u>\$ 2,084,794,006</u>	<u>\$ 24,326,834</u>	<u>\$ (8,068,340)</u>	<u>\$ 2,101,052,500</u>

Governmental Activities capital assets net of accumulated depreciation at June 30, 2010 are comprised of the following:

General Capital Assets, net	\$ 2,094,702,395
Internal Service Fund Capital Assets, net	<u>6,350,105</u>
	<u>\$ 2,101,052,500</u>



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Business-type Activities:

	Beginning Balance	Additions	Deletions	Balance June 30, 2010
Non-depreciable:				
Land	\$ 2,016,450	\$ -	\$ -	\$ 2,016,450
Work in progress	915,153	479,687	(712,153)	682,687
Depreciable:				
Structures	205,793	-	-	205,793
Equipment	291,888	-	-	291,888
Infrastructure	156,002,130	2,150,041	(8,776)	158,143,395
	<u>159,431,414</u>	<u>2,629,728</u>	<u>(720,929)</u>	<u>161,340,213</u>
Less accumulated depreciation for:				
Structures	(117,320)	(5,145)	-	(122,465)
Equipment	(184,944)	(24,310)	-	(209,254)
Infrastructure	(50,487,057)	(2,077,602)	6,012	(52,558,647)
	<u>(50,789,321)</u>	<u>(2,107,057)</u>	<u>6,012</u>	<u>(52,890,366)</u>
Net	<u>\$ 108,642,093</u>	<u>522,671</u>	<u>\$ (714,917)</u>	<u>\$ 108,449,847</u>

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

	Governmental Activities*	Business-type Activities
General government	\$ 307,422	\$ -
Public safety	1,222,084	-
Public works	7,065,848	-
Community development	105,731	-
Community service	1,301,795	-
Water	-	1,540,875
Wastewater	-	566,182
	<u>\$ 10,002,880</u>	<u>\$ 2,107,057</u>

\*Internal Service Fund depreciation of \$1,814,442 is allocated to governmental functions above.

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**(6) Long-Term Debt**

Changes in Long-Term Liabilities

Long-term liability for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Certificates of participation payable	\$ 4,335,000	\$ -	\$ (345,000)	\$ 3,990,000	\$ 360,000
Note payable	1,119,613	-	(186,679)	932,934	195,080
Pre-annexation agreement	9,600,000	-	(1,200,000)	8,400,000	1,200,000
CDBG Loan	1,972,000	-	(89,000)	1,883,000	95,000
Purchase Agreement Payable	-	1,500,000	-	1,500,000	750,000
Workers' compensations payable	11,893,000	3,530,130	(3,101,130)	12,322,000	3,080,500
Claims and judgements payable	5,897,737	201,308	(2,278,654)	3,820,391	1,260,729
Compensated absences	9,784,085	2,022,943	(2,811,149)	8,995,879	1,557,331
Early Retirement Incentive Program (see note 11)	-	4,409,833	(960,396)	3,449,437	862,359
Net OPEB obligation	4,408,000	4,493,000	(2,429,000)	6,472,000	-
<b>Total governmental activities</b>	<b>49,009,435</b>	<b>16,157,214</b>	<b>(13,401,008)</b>	<b>51,765,641</b>	<b>9,360,999</b>
Business-type activities:					
Water Revenue Bonds payable	1,585,000	-	(1,585,000)	-	-
<b>Total</b>	<b>\$ 50,594,435</b>	<b>\$ 16,157,214</b>	<b>\$ (14,986,008)</b>	<b>\$ 51,765,641</b>	<b>\$ 9,360,999</b>

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.

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Governmental Activities

- Certificates of Participation

In Fiscal Year 1998-99, the Newport Beach Public Facilities Corporation issued \$7,330,000 of Refunding Certificates of Participation to advance refund the 1992 Certificates of Participation used to finance the construction of the Central Library. The refunding was undertaken to reduce total debt service payments over the next twenty years by \$690,228 and resulted in an economic gain of \$495,745. The Refunded Certificates were executed and delivered pursuant to the Prior Trust Agreement. The City has previously entered into a project lease with the Newport Beach Public Facilities Corporation to lease certain property, facilities, improvements, and equipment.

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 May 15, 1994, and are in amounts sufficient to cover the payment of principal and interest of the Certificates. The 1998 Certificates consist of \$2,995,000 of Serial Certificates with interest rates from 3.6% to 4.55% and \$4,335,000 of Term Certificates with interest rates from 5.05% to 5.15%. Interest on the Certificates is payable semiannually on June 1 and December 1 of each year. Future principal payments range from \$360,000 to \$535,000 through June 1, 2019. Principal payments are payable annually on June 1 of each year. At June 30, 2010, the City has a required cash reserve balance for debt service of \$565,778, which is recorded as a restricted asset and reservation of fund balance in the Debt Service Fund. The outstanding balance at June 30, 2010, amounted to \$3,990,000.

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

Year Ending June 30	Principal	Interest	Total
2011	360,000	203,025	563,025
2012	380,000	184,845	564,845
2013	400,000	165,655	565,655
2014	420,000	145,455	565,455
2015	440,000	175,258	615,258
2016-2019	1,990,000	211,177	2,201,177
	<u>\$ 3,990,000</u>	<u>\$ 1,085,415</u>	<u>\$ 5,075,415</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

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beginning August 1, 1987. The outstanding balance at June 30, 2010, amounted to \$932,934.

The annual amortization requirements for the Note Payable are as follows:

Year Ending June 30	Principal	Interest	Total
2011	195,080	41,982	237,062
2012	203,859	33,203	237,062
2013	213,032	24,030	237,062
2014	222,609	14,443	237,052
2015	48,095	4,426	52,521
2016	50,259	2,262	52,521
	<u>\$ 932,934</u>	<u>\$ 120,346</u>	<u>\$ 1,053,280</u>

- 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, 2010, amounted to \$8,400,000.

- 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 \$95,000 to \$208,000 through June 30, 2023. The outstanding balance at June 30, 2010, amounted to \$1,883,000.

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

Year Ending June 30	Principal	Interest	Total
2011	95,000	104,345	199,345
2012	102,000	99,653	201,653
2013	108,000	94,485	202,485
2014	116,000	88,722	204,722
2015	123,000	82,315	205,315
2016-2019	583,000	252,565	835,565
2020-2023	756,000	95,595	851,595
	<u>\$ 1,883,000</u>	<u>\$ 817,680</u>	<u>\$ 2,700,680</u>

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- 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 outstanding balance at June 30, 2010 amounted to \$1,500,000. The annual amortization requirements for the Purchase Agreement are as follows:

Year Ending June 30	Principal	Interest	Total
2011	750,000	30,000	780,000
2012	750,000	30,000	780,000
	\$ 1,500,000	\$ 60,000	\$ 1,560,000

- 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, 2010, is dependent on future developments, based upon information from the City's attorneys, 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, 2010, for general liability amounted to \$3,820,391 and for workers' compensation was \$12,322,000.

- 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, 2010, is \$8,995,879.

- Early Retirement Incentive Program (ERIP)

In Fiscal year 2009-10, the City approved and implemented and 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, 2010 is \$3,449,437. See Note (11) in the notes to financial statements.

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- Net OPEB Obligation (NOO)

The net OPEB obligation is the difference between the ARC and the actual contributions made. The City has elected to fund the cash subsidy portion \$2,016,000 of the ARC. As for the implied subsidy \$4,408,000, the City has elected to fund it on a pay-as-you-go basis, thus resulting in net OPEB obligation of \$6,472,000.

Business-type activities

- Water Revenue Bonds

In Fiscal Year 1998-99, the City issued \$14,225,000 of Refunding Water Revenue Bonds to refund the 1994 Water Revenue Bonds used to finance the construction and acquisition of water storage and transmission facilities. The refunding was undertaken to reduce total debt service payments over a ten-year period by \$481,153 and resulted in an economic gain of \$418,469. The bonds are secured by a pledge of net revenues of the water fund. The 1998 Serial Bonds bear interest ranging from 3.6% to 4.5%. The bonds have been paid off and there is no outstanding balance at June 30, 2010.

**(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, 2010, for each district under the Bond Acts of 1911 and 1915, and other special assessments, are as follows:

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<u>Assessment District</u>	<u>Original Issue</u>	<u>Bonds Outstanding June 30, 2010</u>
No. 68 Newport Shores	3,813,562	2,610,000
No. 69 West Newport	4,978,498	3,350,000
No. 70 Bay Shores	1,380,996	880,000
No. 71 Balboa Boulevard	796,942	105,000
No. 74 Island Avenue	222,629	115,000
No. 75 Balboa Business	821,204	570,000
No. 78 Little Balboa Island	1,348,196	395,000
No. 79 Beacon Bay	1,215,134	575,000
No. 82 Corona del Mar	274,967	115,000
No. 86 Balboa Peninsula	300,174	160,000
No. 92 Coast Highway	1,425,000	1,375,000
No. 99-2 Ocean Front	1,953,952	1,928,952
No. 101 Central Balboa	2,467,597	2,290,000
No. 103 Peninsula Point	3,295,700	3,250,700
No. 95-1 CIOSA Refunding Series A	15,495,000	7,380,000

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.

Bonds outstanding at June 30, 2010, 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 2009B	\$36,605,000
Series 2009C	\$36,605,000
Series 2009D	\$35,490,000
Series 2009E	\$35,490,000

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

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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.

**(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 \$26 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.

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 \$16,142,391 which represents the discounted present value at June 30, 2010; the claims were discounted using an interest rate of five percent.



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	<u>General Liability</u>		<u>Workers' Compensation</u>	
	<u>June 30, 2009</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2010</u>
Unpaid claims, beginning of fiscal year	\$ 5,613,525	\$ 5,897,737	\$ 11,334,000	\$ 11,893,000
Incurred claims (including IBNR)	3,589,622	201,308	3,216,337	3,530,130
Claim payments	<u>(3,305,410)</u>	<u>(2,278,654)</u>	<u>(2,657,337)</u>	<u>(3,101,130)</u>
Unpaid claims, end of fiscal year	<u>\$ 5,897,737</u>	<u>\$ 3,820,391</u>	<u>\$ 11,893,000</u>	<u>\$ 12,322,000</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 \$62,439,165 at June 30, 2010.

**(10) Pension Plan**

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 January 2008, non-safety employees modified their PERS benefits and agreed to contribute 1% of the required 8% of annual salary for the participant contribution and 2.42% of the City's employer contribution which is discussed below. Benefit provisions and all other requirements are established by State statutes and City contract with employee bargaining groups.

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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, 2009 to June 30, 2010 has been determined by an actuarial valuation of the plan as of June 30, 2005. The contribution rate indicated for the period is 9.055% for non-safety employees and 29.67% for safety employees of annual covered payroll. Without the cost sharing agreement with non-safety employees, the contribution rate would be 11.475% for non-safety employees. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2010, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2009 to June 30, 2010.

Annual Pension Cost

For 2010, the City's annual pension cost of \$17,821,702 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, 2007	June 30, 2007
<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	31 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>	3.25% to 14.45% depending on age, service, and type of employment	3.25% 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%

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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.

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>
6/30/08	\$16,454	100%	\$0
6/30/09	\$18,405	100%	\$0
6/30/10	\$17,822	100%	\$0

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		
06/30/2007							
Misc.	\$ 192,178	\$ 178,524	\$ 13,654	92.9%	107.7%	\$ 36,795	37.108%
Safety	308,552	250,062	58,490	81.0%	94.7%	25,035	233.633%
Total	<u>\$ 500,730</u>	<u>\$ 428,586</u>	<u>\$ 72,144</u>	<u>85.6%</u>	<u>99.7%</u>	<u>\$ 61,830</u>	<u>116.681%</u>
06/30/2008							
Misc.	\$ 217,378	\$ 195,954	\$ 21,424	90.1%	95.2%	\$ 41,148	52.066%
Safety	336,061	264,634	71,427	78.7%	86.9%	28,056	254.587%
Total	<u>\$ 553,439</u>	<u>\$ 460,588</u>	<u>\$ 92,851</u>	<u>83.2%</u>	<u>90.2%</u>	<u>\$ 69,204</u>	<u>134.170%</u>
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>

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, 2010, the City's covered payroll for employees participating in the plan was \$2,963,110. Employees made contributions of \$111,117 (3.75% of current covered payroll), which was matched by the employer in the same amount. Assets of the plan totaled \$1,615,399 at June 30, 2010.

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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 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, and it 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 accrual cost for this benefit has been recognized in the amount of \$4.4 million. 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.

**(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 in a Health Reimbursement Arrangement (“HRA”) sponsored by the City, the single

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employer of the plan and held in trust and managed by ING (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 1,181 as of June 30, 2010, consisting of 462 miscellaneous employees, 271 safety employees, and 448 retirees 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 \$1.50 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, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

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

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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.

Valuation Date:	June 30, 2008
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 20 years
Projected Salary Increases:	3.25% per year
Discount Rate:	7.75 % for cash subsidy, pre-funding through CalPERS OPEB Trust  5% for implied subsidy, no pre-funding, benefits paid from the City's General fund

Health Care Cost Trend Rate: 9.3% grading down to 4.5%

**Implied Subsidy**

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.



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**Three-Year Annual Required Contribution (ARC) Trend**

The 2009-10 Annual Required Contribution (ARC) includes the Normal Cost plus a 20-year amortization of the Unfunded AAL (in 000's):

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>ARC<sup>1</sup></u>	<u>AOC</u>	<u>Actual Contribution</u>	<u>Current Year OPEB Obligation</u>	<u>Percentage Contributed</u>	<u>Annual Covered Payroll</u>	<u>ARC As a % of Payroll</u>	<u>Ending Balance</u>
2007/08									
Cash Subsidy	\$ -	\$ 2,629	\$ 2,629	\$ 2,629	\$ -	100%	\$ 54,748	4.8%	\$ -
Implied Subsidy	-	2,648	427	427	2,221	16.1%	54,748	4.8%	2,221
Net OPEB Obligation	<u>\$ -</u>	<u>\$ 5,277</u>	<u>\$ 3,056</u>	<u>\$ 3,056</u>	<u>\$ 2,221</u>	<u>57.9%</u>	<u>\$ 54,748</u>	<u>9.6%</u>	<u>\$ 2,221</u>
2008/09									
Cash Subsidy	\$ -	\$ 2,720	\$ 2,720	\$ 2,720	\$ -	100%	\$ 56,527	4.8%	\$ -
Implied Subsidy	2,221	2,734	2,703	516	2,218	18.9%	56,527	4.8%	4,408
Net OPEB Obligation	<u>\$ 2,221</u>	<u>\$ 5,454</u>	<u>\$ 5,423</u>	<u>\$ 3,236</u>	<u>\$ 2,218</u>	<u>59.3%</u>	<u>\$ 56,527</u>	<u>9.6%</u>	<u>\$ 4,408</u>
2009/10									
Cash Subsidy	\$ -	\$ 2,016	\$ 2,016	\$ 2,016	\$ -	100%	\$ 73,308	2.8%	\$ -
Implied Subsidy	4,408	2,603	2,477	413	2,190	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>\$ 2,190</u>	<u>52.6%</u>	<u>\$ 73,308</u>	<u>6.3%</u>	<u>\$ 6,472</u>

<sup>1</sup> 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, 2010, NOO is determined as follows (in 000's):

<u>Fiscal Year</u>	<u>July 1, NOO</u>	<u>AOC</u>	<u>Prefunding Contributions &amp; Benefit Payments</u>	<u>June 30, NOO</u>
2007/08				
Cash Subsidy	\$ 6,200 <sup>1</sup>	\$ 2,629	\$ (8,829) <sup>2</sup>	\$ -
Implied Subsidy	-	2,648	(427) <sup>3</sup>	2,221
Total	<u>\$ 6,200</u>	<u>\$ 5,277</u>	<u>\$ (9,256)</u>	<u>\$ 2,221</u>
2008/09				
Cash Subsidy	\$ -	\$ 2,720	\$ (2,720)	\$ -
Implied Subsidy	2,221	2,703	(516) <sup>4</sup>	4,408
Total	<u>\$ 2,221</u>	<u>\$ 5,423</u>	<u>\$ (3,236)</u>	<u>\$ 4,408</u>
2009/10				
Cash Subsidy	\$ -	\$ 2,016	\$ (2,016)	\$ -
Implied Subsidy	4,408	2,477	(413) <sup>5</sup>	6,472
Total	<u>\$ 4,408</u>	<u>\$ 4,493</u>	<u>\$ (2,429)</u>	<u>\$ 6,472</u>

1 - Based on a prior period adjustment to the cash subsidy component of the NOO

2 - 2007-2008 AOC and \$6.2 million payment on retroactive NOO

3 - 2007-2008 estimated implied subsidy

4 - 2008-2009 estimated implied subsidy

5 - 2009-2010 estimated implied subsidy

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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 2009-10 AOC is determined as follows (in 000's):

	ARC	Interest on NOO	Amortization of NOO	Total AOC	AOC as % of Payroll
Cash Subsidy	\$ 2,016			\$ 2,016	3.6%
Implied Subsidy	2,603	220	(346)	2,477	4.4%
Total	<u>\$ 4,619</u>	<u>\$ 220</u>	<u>\$ (346)</u>	<u>\$ 4,493</u>	<u>7.9%</u>

**Two-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>0.0%</u>	<u>\$56,527</u>	<u>71.2%</u>

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**(13) Interfund Receivables and Payables**

At June 30, 2010, interfund receivables and payable were as follows:

	Due from	Due to
General Fund	\$12,760,751	\$ -
Internal Service Funds	-	820,395
Nonmajor Funds	-	3,840,229
City Hall Improvements (Major fund)	-	8,100,127
Total	\$12,760,751	12,760,751

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

**(14) Interfund Transfers**

Interfund transfers at June 30, 2010, consisted of the following:

		Transfers In			
		General Fund	Tide and Submerged Land	Non-Major Funds	
Transfers Out	General Fund	\$ -	\$ 20,130,495	547,257	\$ 20,677,752
	Contributions Fund	160,000	-	-	160,000
	Internal Service Fund	600,000	-	-	600,000
	Non-Major Funds	759,725	-	183,044	942,769
	Total	\$ 1,519,725	\$ 20,130,495	\$ 730,301	\$ 22,380,521

The City typically uses transfers to fund ongoing subsidies. The general fund transferred \$20,130,495 to subsidize for the maintenance and operation of the Tide and Submerged Land Fund. As required by the pre-annexation agreement, interest accrued in the amount of \$201,059 in the Newport Coast Annexation fund, is due to and was subsequently transferred to the General Fund.

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**(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 boundaries. The Authority issued \$45,000,000 of special tax bonds that will be repaid by special assessments; the City is not obligated in any manner to repay the bonds. 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. At June 30, 2010, the contributions from property owners are held in trust as cash with fiscal agent totaling \$100,000. 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 \$86,929 for fiscal year 2009-10. The City's 50% interest in the net equity of this joint venture at June 30, 2010, amounts to \$2,626,770. Complete separate financial statements can be obtained at the City of Costa Mesa at 77 Fair Drive, Costa Mesa, California.

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.

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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 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 \$536,500. The City's 10.61% interest in the net equity of this joint venture at June 30, 2010, amounts to \$151,673. 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 City acts as a treasurer for the ILJAOC and as such 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, 2010, 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).

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, 2010, the City received \$366,087 of Fair Share Fees, and \$183,044 was paid to the CIOSA Construction capital projects fund. Through June 30, 2010, \$4,158,408 of Fair Share Fees has been paid. No additional liability has been recorded, because any future repayment is uncertain; any amounts not contributed by February 20, 2016, will be forgiven.

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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.

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, 2010, the City paid VNB \$2,661,176.

Contractual commitments

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

	<u>Total Project Budget</u>	<u>Project To Date Expenditures</u>	<u>Unexpended Commitments</u>
Civic Center	\$28,949,982	\$8,776,524	\$20,298,251
OASIS Senior Center	\$13,440,285	\$9,654,411	\$3,866,721
Sewer Pump Station Master Plan Improvements	\$2,507,640	\$343,494	\$2,168,473
Traffic Signal Modernization Phases 4 & 7	\$1,201,000	\$376,959	\$823,203
Lido Isle Street Rehabilitation	\$750,000	\$98,797	\$595,263

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**(17) Subsequent Events**

2010 Civic Center Certificates of Participation (COPs)

Subsequent to year end, the City issued nearly \$128 million of Certificates of Participation (COPs), made up of \$20.1 million in 2010A Certificates of Tax Exempt bonds and \$106.6 million in 2010B Certificates of federally taxable direct pay Build America Bonds (BABS). A portion of the proceeds was used to refinance the City's 1998 \$3.9 million outstanding Library COPs and pay \$1.3 million cost of issuance of the Bonds. The rest of the proceeds will be used to make construction progress payments so that progress already made on the Civic Center site can continue and remain on schedule for the anticipated completion in late 2012.

Charter Amendments

On November 2, 2010, Voters approved Measure V amending 14 different parts of the Newport Beach city charter. The Newport Beach city charter was originally adopted in 1955 and was updated in 1974. The most specific changes to the city charter are summaries, rather than the full text of new ordinances to be published to meet the city's publication requirements; sales of city-owned waterfront land would no longer be listed in the city's charter and would continue to be subject to a public vote; a committee considering whether the city's voting districts needed to be redrawn to meet every 4 years instead of every 10 years; the current requirement that the city manager live in the city to be deleted among others. The full amendment can be viewed on the city's website.

Fiscal Year 2010-11 State Budget

The City receives a significant portion of its funding from the State. Changes in the revenues received by the State can affect the amount of funding, if any, to be received from the State by the City and other counties in the State. The City has reviewed the State's 2010-11 Budget Act and reflected the reductions included therein in its Fiscal Year 2010-11 Adopted Budget. The primary impact to the City from the 2010-11 Budget Act, is the delay of new Highway Users Tax Account payments.



# FINANCIAL SECTION

FINANCIAL SECTION

SUPPLEMENTARY  
INFORMATION

NON-MAJOR GOVERNMENTAL FUNDS

## NON-MAJOR GOVERNMENTAL FUNDS

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### Non-major 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 DUI Grant Fund (OTS)*** 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 ***Traffic Congestion Relief Fund*** is used to account for all revenues received from the State Treasury related to Assembly Bill 2928. State law requires that these funds be used exclusively for maintenance or reconstruction costs on public streets and roads.

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

The **Prop 1 B Fund** is used to account for all revenues and expenditures related to the Prop 1 B fund. State law requires that these funds be used exclusively for all transportation related projects, including state highway safety and rehabilitation projects, local street and road improvements, congestion relief, traffic reduction and traffic safety.

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.

## **Non-major Debt Service Funds**

**Debt Service Funds are used to account for debt service transactions including revenue collections and payments of principal and interest on long-term obligations of the City. The City of Newport Beach Debt Service Fund is as follows:**

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

## **Non-major 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 **Oil Spill Remediation Fund** is used to account for the receipt of the settlement proceeds from the American Trader Company. These funds must be used on projects affecting the areas damaged by the spill.

The **Fire Station 7 Fund** is used to account for the property acquisition, design and construction of a new fire station which will replace a temporary fire station that provides service in the northern part of the city.

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

The **Mariners Library Fund** is a Special Revenue Fund used to account for revenues and expenditures of funds for the Mariners Library Capital Project.

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 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 **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.

### **Non-major 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 Fund is 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**  
**Non-Major Governmental Funds**  
**June 30, 2010**

**Special Revenue**

	<u>State Gas Tax</u>	<u>Asset Forfeiture</u>	<u>OTS DUI Grant</u>	<u>JAG</u>	<u>Circulation and Transportation</u>
<b>Assets</b>					
Cash and investments	\$ 3,585,591	\$ 526,531	\$ -	\$ -	\$ 5,361,656
Receivables:					
Accounts	-	-	-	-	-
Intergovernmental receivables	-	12,834	-	16,654	-
Cash with fiscal agent	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 3,585,591</u>	<u>\$ 539,365</u>	<u>\$ -</u>	<u>\$ 16,654</u>	<u>\$ 5,361,656</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 157,005
Unearned revenue	-	-	-	-	-
Unavailable revenue	-	-	-	-	-
Due to other funds	-	-	39,952	16,654	-
	<u>-</u>	<u>-</u>	<u>39,952</u>	<u>16,654</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>39,952</u>	<u>16,654</u>	<u>157,005</u>
Fund balances:					
Reserved for encumbrances	1,124,312	-	-	-	737,890
Reserved for debt service	-	-	-	-	-
Reserved for permanent endowment	-	-	-	-	-
Reserved for prepaid items	-	-	-	-	-
Unreserved:					
Designated for special purposes	2,461,279	539,365	-	-	4,466,761
Undesignated	-	-	(39,952)	-	-
	<u>-</u>	<u>-</u>	<u>(39,952)</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>3,585,591</u>	<u>539,365</u>	<u>(39,952)</u>	<u>-</u>	<u>5,204,651</u>
Total liabilities and fund balances	<u>\$ 3,585,591</u>	<u>\$ 539,365</u>	<u>\$ -</u>	<u>\$ 16,654</u>	<u>\$ 5,361,656</u>

**Special Revenue**

<b>Building Excise Tax</b>	<b>Combined Transportation</b>	<b>Community Development Block Grant</b>	<b>Air Quality Management District</b>	<b>Environmental Liability</b>
\$ 287,899	\$ 3,370,938	\$ -	\$ 402,526	\$ 3,512,295
-	173,213	-	-	12,355
-	298,412	38,585	-	-
-	-	-	-	-
<u>\$ 287,899</u>	<u>\$ 3,842,563</u>	<u>\$ 38,585</u>	<u>\$ 402,526</u>	<u>\$ 3,524,650</u>
\$ -	\$ 21,288	\$ 17,723	\$ -	\$ 16,483
-	108,290	-	-	-
-	107,363	3,458	-	-
-	-	20,862	-	-
-	236,941	42,043	-	16,483
4,600	385,877	-	-	21,016
-	-	-	-	-
-	-	-	-	-
-	-	-	-	137,728
283,299	3,219,745	-	402,526	3,349,423
-	-	(3,458)	-	-
<u>287,899</u>	<u>3,605,622</u>	<u>(3,458)</u>	<u>402,526</u>	<u>3,508,167</u>
<u>\$ 287,899</u>	<u>\$ 3,842,563</u>	<u>\$ 38,585</u>	<u>\$ 402,526</u>	<u>\$ 3,524,650</u>

(continued)

**CITY OF NEWPORT BEACH**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**June 30, 2010**  
(continued)

	<b>Special Revenue</b>			
	<b>Supplemental Law Enforcement</b>	<b>Traffic Congestion Relief</b>	<b>Newport Coast Annexation</b>	<b>Prop 1B Transportation</b>
<b>Assets</b>				
Cash and investments	\$ -	\$ 321,930	\$ 8,400,000	\$ 485,469
Receivables:				
Accounts	-	-	-	-
Intergovernmental receivables	31,231	217,219	-	-
Cash with fiscal agent	-	-	-	-
Total Assets	<u>\$ 31,231</u>	<u>\$ 539,149</u>	<u>\$ 8,400,000</u>	<u>\$ 485,469</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ 103,193
Unearned revenue	-	-	-	-
Unavailable revenue	-	-	-	-
Due to other funds	31,231	-	-	-
Total Liabilities	<u>31,231</u>	<u>-</u>	<u>-</u>	<u>103,193</u>
Fund balances:				
Reserved for encumbrances	-	-	-	6,730
Reserved for debt service	-	-	-	-
Reserved for permanent endowment	-	-	-	-
Reserved for prepaid items	-	-	-	-
Unreserved:				
Designated for special purposes	-	539,149	8,400,000	375,546
Undesignated	-	-	-	-
Total fund balances	<u>-</u>	<u>539,149</u>	<u>8,400,000</u>	<u>382,276</u>
Total liabilities and fund balances	<u>\$ 31,231</u>	<u>\$ 539,149</u>	<u>\$ 8,400,000</u>	<u>\$ 485,469</u>



Contributions	Debt Service	Capital Projects		
	Library COP	Assessment District	CIOSA Construction	Bonita Canyon Development
\$ 2,559,284	\$ -	\$ 3,384,936	\$ 450,330	\$ -
44,415	-	-	-	-
2,122,325	-	-	-	-
	565,655	1,491,276	-	100,000
<u>\$ 4,726,024</u>	<u>\$ 565,655</u>	<u>\$ 4,876,212</u>	<u>\$ 450,330</u>	<u>\$ 100,000</u>
\$ 50,000	\$ -	\$ 5,991	\$ -	\$ -
380,027	-	-	-	-
1,312,559	-	-	-	-
-	-	-	-	-
<u>1,742,586</u>	<u>-</u>	<u>5,991</u>	<u>-</u>	<u>-</u>
250,494	-	194,982	-	-
-	565,655	-	-	-
-	-	-	-	-
-	-	-	-	-
2,732,944	-	4,675,239	450,330	100,000
-	-	-	-	-
<u>2,983,438</u>	<u>565,655</u>	<u>4,870,221</u>	<u>450,330</u>	<u>100,000</u>
<u>\$ 4,726,024</u>	<u>\$ 565,655</u>	<u>\$ 4,876,212</u>	<u>\$ 450,330</u>	<u>\$ 100,000</u>

(continued)

**CITY OF NEWPORT BEACH**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**June 30, 2010**  
(continued)

**Capital Projects**

	<u>Fire Station 7</u>	<u>Marine Science Center</u>	<u>Mariners Library</u>	<u>Oasis Senior Center</u>
<b>Assets</b>				
Cash and investments	\$ 53,487	\$ -	\$ -	\$ -
Receivables:				
Accounts	-	-	-	-
Intergovernmental receivables	-	-	-	-
Cash with fiscal agent	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	<u>\$ 53,487</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ 1,058,294
Unearned revenue	-	-	-	-
Unavailable revenue	-	-	-	-
Due to other funds	-	125,421	-	1,540,320
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities	<u>-</u>	<u>125,421</u>	<u>-</u>	<u>2,598,614</u>
Fund balances:				
Reserved for encumbrances	-	-	-	-
Reserved for debt service	-	-	-	-
Reserved for permanent endowment	-	-	-	-
Reserved for prepaid items	-	-	-	-
Unreserved:				
Designated for special purposes	53,487	-	-	-
Undesignated	-	(125,421)	-	(2,598,614)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>53,487</u>	<u>(125,421)</u>	<u>-</u>	<u>(2,598,614)</u>
Total liabilities and fund balances	<u>\$ 53,487</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Capital Projects**

<u>Misc SAH Projects</u>	<u>Marina Park</u>	<u>Sunset Ridge Park</u>	<u>Police Facility</u>	<u>Lifeguard Headquarters</u>
\$ 907,929	\$ -	\$ -	\$ -	\$ -
367,294	-	-	-	-
-	-	-	-	-
<u>\$ 1,275,223</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 6,800	\$ 42,877	\$ 5,105	\$ -	\$ -
1,268,976	-	-	-	-
367,294	-	-	-	-
-	1,135,382	898,053	2,175	30,179
<u>1,643,070</u>	<u>1,178,259</u>	<u>903,158</u>	<u>2,175</u>	<u>30,179</u>
-	117,344	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
(367,847)	(1,295,603)	(903,158)	(2,175)	(30,179)
<u>(367,847)</u>	<u>(1,178,259)</u>	<u>(903,158)</u>	<u>(2,175)</u>	<u>(30,179)</u>
<u>\$ 1,275,223</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(continued)

**CITY OF NEWPORT BEACH**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**June 30, 2010**  
(continued)

	<u>Permanent Fund</u>		<b>Total Other Governmental Funds</b>
	<u>Bay Dredging</u>	<u>Ackerman Donation</u>	
<b>Assets</b>			
Cash and investments	\$ 4,762,727	\$ 1,161,978	\$ 39,535,506
Receivables:			
Accounts	-	-	597,277
Intergovernmental receivables	-	-	2,737,260
Cash with fiscal agent	-	-	2,156,931
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Assets	<u>\$ 4,762,727</u>	<u>\$ 1,161,978</u>	<u>\$ 45,026,974</u>
 <b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ 1,484,759
Unearned revenue	-	-	1,757,293
Unavailable revenue	-	-	1,790,674
Due to other funds	-	-	3,840,229
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>8,872,955</u>
Fund balances:			
Reserved for encumbrances	-	-	2,843,245
Reserved for debt service	-	-	565,655
Reserved for permanent endowment	3,857,000	772,781	4,629,781
Reserved for prepaid items	-	-	137,728
Unreserved:			
Designated for special purposes	905,727	389,197	33,344,017
Undesignated	-	-	(5,366,407)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total fund balances	<u>4,762,727</u>	<u>1,161,978</u>	<u>36,154,019</u>
Total liabilities and fund balances	<u>\$ 4,762,727</u>	<u>\$ 1,161,978</u>	<u>\$ 45,026,974</u>

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**CITY OF NEWPORT BEACH**  
**Non-Major Governmental Fund Types**  
**Combining Statement of Revenues,**  
**Expenditures and Changes in Fund Balances**  
**For the Year ended June 30, 2010**

**Special Revenue**

	<b>State Gas Tax</b>	<b>Asset Forfeiture</b>	<b>OTS DUI Grant</b>	<b>JAG</b>
<b>Revenues:</b>				
Other taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	1,384,963	316,650	183,537	67,672
Licenses, permits and fees	-	-	-	-
Fines and forfeitures	-	-	-	-
Investment income	33,195	3,700	-	285
Net increase in fair value of investments	34,160	3,808	-	-
Donations	-	-	-	-
Other	-	-	-	-
<b>Total revenues</b>	<b>1,452,318</b>	<b>324,158</b>	<b>183,537</b>	<b>67,957</b>
<b>Expenditures:</b>				
Current:				
Public safety	-	71,789	180,640	67,957
Public works	-	-	-	-
Community development	-	-	-	-
Community services	-	-	-	-
Capital outlay	471,280	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total expenditures</b>	<b>471,280</b>	<b>71,789</b>	<b>180,640</b>	<b>67,957</b>
Excess (deficiency) of revenues over expenditures	981,038	252,369	2,897	-
<b>Other financing sources (uses):</b>				
Transfers in	-	-	-	-
Transfers out	(160,000)	-	-	-
<b>Total other financing sources (uses)</b>	<b>(160,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>821,038</b>	<b>252,369</b>	<b>2,897</b>	<b>-</b>
Fund balances (deficit), beginning	2,764,553	286,996	(42,849)	-
Fund balances (deficit), ending	<u>\$ 3,585,591</u>	<u>\$ 539,365</u>	<u>\$ (39,952)</u>	<u>\$ -</u>

**Special Revenue**

<b>Circulation and Transportation</b>	<b>Building Excise Tax</b>	<b>Combined Transportation</b>	<b>Community Development Block Grant</b>	<b>Air Quality Management District</b>	<b>Environmental Liability</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 452,063
-	-	1,797,798	470,499	97,868	-
-	74,947	-	-	-	-
366,087	-	-	-	-	-
45,761	3,188	38,710	-	5,238	36,172
47,092	3,281	39,836	-	5,389	37,224
3,675,000	-	-	-	-	-
-	-	-	-	-	-
<u>4,133,940</u>	<u>81,416</u>	<u>1,876,344</u>	<u>470,499</u>	<u>108,495</u>	<u>525,459</u>
-	-	-	-	-	-
-	-	-	-	14,342	108,537
-	-	-	134,720	-	-
-	-	-	-	-	-
684,073	56,052	2,087,816	141,702	154,000	-
-	-	-	89,000	-	-
-	-	-	108,535	-	-
<u>684,073</u>	<u>56,052</u>	<u>2,087,816</u>	<u>473,957</u>	<u>168,342</u>	<u>108,537</u>
<u>3,449,867</u>	<u>25,364</u>	<u>(211,472)</u>	<u>(3,458)</u>	<u>(59,847)</u>	<u>416,922</u>
-	-	-	-	-	-
<u>(263,044)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(263,044)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3,186,823	25,364	(211,472)	(3,458)	(59,847)	416,922
<u>2,017,828</u>	<u>262,535</u>	<u>3,817,094</u>	<u>-</u>	<u>462,373</u>	<u>3,091,245</u>
<u>\$ 5,204,651</u>	<u>\$ 287,899</u>	<u>\$ 3,605,622</u>	<u>\$ (3,458)</u>	<u>\$ 402,526</u>	<u>\$ 3,508,167</u>

(continued)

**CITY OF NEWPORT BEACH**  
**Non-Major Governmental Fund Types**  
**Combining Statement of Revenues,**  
**Expenditures and Changes in Fund Balances**  
**For the Year ended June 30, 2010**  
(continued)

	<b>Special Revenue</b>			
	<b>Supplemental Law Enforcement</b>	<b>Traffic Congestion Relief</b>	<b>Newport Coast Annexation</b>	<b>Prop 1B Transportation</b>
<b>Revenues:</b>				
Other taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	119,072	781,202	-	-
Licenses, permits and fees	-	-	-	-
Fines and forfeitures	-	-	-	-
Investment income	748	1,634	99,089	11,882
Net increase in fair value of investments	-	1,682	101,970	12,227
Donations	-	-	-	-
Other	-	-	-	-
<b>Total revenues</b>	<b>119,820</b>	<b>784,518</b>	<b>201,059</b>	<b>24,109</b>
<b>Expenditures:</b>				
Current:				
Public safety	119,820	-	-	-
Public works	-	-	-	-
Community development	-	-	-	-
Community services	-	-	-	-
Capital outlay	-	638,840	-	945,210
Debt service:				
Principal	-	-	1,200,000	-
Interest and fiscal charges	-	-	-	-
<b>Total expenditures</b>	<b>119,820</b>	<b>638,840</b>	<b>1,200,000</b>	<b>945,210</b>
Excess (deficiency) of revenues over expenditures	-	145,678	(998,941)	(921,101)
<b>Other financing sources (uses):</b>				
Transfers in	-	-	-	-
Transfers out	-	-	(201,059)	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>(201,059)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>145,678</b>	<b>(1,200,000)</b>	<b>(921,101)</b>
Fund balances, beginning	-	393,471	9,600,000	1,303,377
Fund balances (deficit), ending	<u>\$ -</u>	<u>\$ 539,149</u>	<u>\$ 8,400,000</u>	<u>\$ 382,276</u>



	Debt Service		Capital Projects			
Contributions	Library COP	Assessment District	CIOSA Construction	Bonita Canyon Development	Fire Station 7	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
1,903,669	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
47,127	21,999	26,063	19,854	51	576	
48,498	-	26,823	20,431	-	593	
174,020	-	-	-	-	-	
-	-	5,801,904	-	153,871	-	
<u>2,173,314</u>	<u>21,999</u>	<u>5,854,790</u>	<u>40,285</u>	<u>153,922</u>	<u>1,169</u>	
-	-	-	-	-	-	
-	-	4,195,274	-	1,031,884	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
1,648,609	-	-	1,708,817	-	-	
-	345,000	-	-	-	-	
-	224,379	-	-	-	-	
<u>1,648,609</u>	<u>569,379</u>	<u>4,195,274</u>	<u>1,708,817</u>	<u>1,031,884</u>	<u>-</u>	
<u>524,705</u>	<u>(547,380)</u>	<u>1,659,516</u>	<u>(1,668,532)</u>	<u>(877,962)</u>	<u>1,169</u>	
-	547,257	-	183,044	-	-	
<u>(160,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
<u>(160,000)</u>	<u>547,257</u>	<u>-</u>	<u>183,044</u>	<u>-</u>	<u>-</u>	
364,705	(123)	1,659,516	(1,485,488)	(877,962)	1,169	
<u>2,618,733</u>	<u>565,778</u>	<u>3,210,705</u>	<u>1,935,818</u>	<u>977,962</u>	<u>52,318</u>	
<u>\$ 2,983,438</u>	<u>\$ 565,655</u>	<u>\$ 4,870,221</u>	<u>\$ 450,330</u>	<u>\$ 100,000</u>	<u>\$ 53,487</u>	

(continued)

**CITY OF NEWPORT BEACH**  
**Non-Major Governmental Fund Types**  
**Combining Statement of Revenues,**  
**Expenditures and Changes in Fund Balances**  
**For the Year ended June 30, 2010**  
(continued)

	<b>Capital Projects</b>			
	<b>Marine Science Center</b>	<b>Mariners Library</b>	<b>Oasis Senior Center</b>	<b>Misc SAH Projects</b>
<b>Revenues:</b>				
Other taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	300,000	318,074	-	4,944,909
Licenses, permits and fees	-	-	-	-
Fines and forfeitures	-	-	-	-
Investment income	-	592	45,962	-
Net increase in fair value of investments	-	-	-	-
Donations	-	-	1,523,917	-
Other	-	-	-	-
<b>Total revenues</b>	<b>300,000</b>	<b>318,666</b>	<b>1,569,879</b>	<b>4,944,909</b>
<b>Expenditures:</b>				
Current:				
Public safety	-	-	-	-
Public works	-	-	-	4,895,035
Community development	-	-	-	-
Community services	-	-	-	-
Capital outlay	5,273	-	9,654,410	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total expenditures</b>	<b>5,273</b>	<b>-</b>	<b>9,654,410</b>	<b>4,895,035</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>294,727</b>	<b>318,666</b>	<b>(8,084,531)</b>	<b>49,874</b>
<b>Other financing sources (uses):</b>				
Transfers in	-	-	-	-
Transfers out	-	(318,666)	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(318,666)</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>294,727</b>	<b>-</b>	<b>(8,084,531)</b>	<b>49,874</b>
Fund balances, beginning	(420,148)	-	5,485,917	(417,721)
Fund balances (deficit), ending	<u>\$ (125,421)</u>	<u>\$ -</u>	<u>\$ (2,598,614)</u>	<u>\$ (367,847)</u>



**CITY OF NEWPORT BEACH**  
**Non-Major Governmental Fund Types**  
**Combining Statement of Revenues,**  
**Expenditures and Changes in Fund Balances**  
**For the Year ended June 30, 2010**  
(continued)

	<b>Permanent Funds</b>		<b>Total Other Governmental Funds</b>
	<b>Bay Dredging</b>	<b>Ackerman Donation</b>	
<b>Revenues:</b>			
Other taxes	\$ -	\$ -	\$ 452,063
Intergovernmental	-	-	12,685,913
Licenses, permits and fees	-	-	74,947
Fines and forfeitures	-	-	366,087
Investment income	51,291	12,573	505,690
Net increase in fair value of investments	52,783	12,918	448,715
Donations	-	-	5,372,937
Other	-	-	5,955,775
<b>Total revenues</b>	<b>104,074</b>	<b>25,491</b>	<b>25,862,127</b>
<b>Expenditures:</b>			
Current:			
Public safety	-	-	440,206
Public works	-	-	10,245,072
Community development	-	4,650	1,120,094
Community services	-	-	-
Capital outlay	-	-	18,196,082
Debt service:			
Principal	-	-	1,634,000
Interest and fiscal charges	-	-	332,914
<b>Total expenditures</b>	<b>-</b>	<b>4,650</b>	<b>31,968,368</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>104,074</b>	<b>20,841</b>	<b>(6,106,241)</b>
<b>Other financing sources (uses):</b>			
Transfers in	-	-	730,301
Transfers out	-	-	(1,102,769)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>(372,468)</b>
<b>Net change in fund balances</b>	<b>104,074</b>	<b>20,841</b>	<b>(6,478,709)</b>
Fund balances, beginning	4,658,653	1,141,137	42,632,728
Fund balances (deficit), ending	<u>\$ 4,762,727</u>	<u>\$ 1,161,978</u>	<u>\$ 36,154,019</u>

**CITY OF NEWPORT BEACH**  
**Budgetary Comparison Schedule**  
**State Gas Tax Special Revenue Fund**  
**For the Year Ended June 30, 2010**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Intergovernmental	\$ 1,361,251	\$ 1,361,251	\$ 1,384,963	\$ 23,712
Investment income	40,000	40,000	33,195	(6,805)
Net increase in fair value of investments	-	-	34,160	34,160
Total revenues	<u>1,401,251</u>	<u>1,401,251</u>	<u>1,452,318</u>	<u>51,067</u>
<b>Expenditures:</b>				
Capital outlay	<u>2,982,087</u>	<u>689,337</u>	<u>471,280</u>	<u>218,057</u>
Total Expenditures	<u>2,982,087</u>	<u>689,337</u>	<u>471,280</u>	<u>(218,057)</u>
Excess (deficiency) of revenues over expenditures	(1,580,836)	711,914	981,038	269,124
<b>Other financing uses:</b>				
Transfers out	<u>(160,000)</u>	<u>(160,000)</u>	<u>(160,000)</u>	<u>-</u>
Net change in fund balance	(1,740,836)	551,914	821,038	269,124
Fund balance, beginning	<u>2,764,553</u>	<u>2,764,553</u>	<u>2,764,553</u>	<u>-</u>
Fund balance (deficit), ending	<u>\$ 1,023,717</u>	<u>\$ 3,316,467</u>	<u>3,585,591</u>	<u>\$ 269,124</u>

**CITY OF NEWPORT BEACH**  
**Budgetary Comparison Schedule**  
**Asset Forfeiture Special Revenue Fund**  
**For the Year Ended June 30, 2010**

	<b>Budget Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Intergovernmental	\$ 40,000	\$ 40,000	\$ 316,650	\$ 276,650
Investment income	3,000	3,000	3,700	700
Net increase in fair value of investments	-	-	3,808	3,808
<b>Total revenues</b>	<b>43,000</b>	<b>43,000</b>	<b>324,158</b>	<b>281,158</b>
<b>Expenditures</b>				
Public safety	106,072	106,072	71,789	34,283
<b>Net change in fund balance</b>	<b>(63,072)</b>	<b>(63,072)</b>	<b>252,369</b>	<b>315,441</b>
Fund balance, beginning	286,996	286,996	286,996	-
<b>Fund balance, ending</b>	<b>\$ 223,924</b>	<b>\$ 223,924</b>	<b>\$ 539,365</b>	<b>\$ 315,441</b>

**CITY OF NEWPORT BEACH**  
**Budgetary Comparison Schedule**  
**OTS DUI Grant Special Revenue Fund**  
**For the Year Ended June 30, 2010**

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Intergovernmental	\$ 105,643	\$ 297,643	\$ 183,537	\$ (114,106)
Total revenues	105,643	297,643	183,537	(114,106)
<b>Expenditures</b>				
Public safety	\$ 64,167	\$ 256,167	\$ 180,640	75,527
Net change in fund balance	41,476	41,476	2,897	(38,579)
Fund balance (deficit), beginning	(42,849)	(42,849)	(42,849)	-
Fund balance (deficit), ending	<u>\$ (1,373)</u>	<u>\$ (1,373)</u>	<u>\$ (39,952)</u>	<u>\$ (38,579)</u>

**CITY OF NEWPORT BEACH**  
**Budgetary Comparison Schedule**  
**JAG Special Revenue Fund**  
**For the Year Ended June 30, 2010**

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Intergovernmental	\$ 67,197	\$ 67,197	\$ 67,672	\$ 475
Investment income	-	-	285	285
Total revenues	67,197	67,197	67,957	760
<b>Expenditures</b>				
Public safety	67,197	67,197	67,957	(760)
Net change in fund balance	-	-	-	-
Fund balance (deficit), beginning	-	-	-	-
Fund balance (deficit), 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, 2010**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Licenses, permits and fees	\$ 615,000	\$ 615,000	\$ 366,087	\$ (248,913)
Investment income	36,500	36,500	45,761	9,261
Net increase in fair value of investments	-	-	47,092	47,092
Donations	-	-	3,675,000	3,675,000
Total revenues	<u>651,500</u>	<u>651,500</u>	<u>4,133,940</u>	<u>3,482,440</u>
<b>Expenditures:</b>				
Capital outlay	<u>2,105,201</u>	<u>1,541,311</u>	<u>684,073</u>	<u>857,238</u>
Excess (deficiency) of revenues over expenditures	(1,453,701)	(889,811)	3,449,867	4,339,678
<b>Other financing uses:</b>				
Transfers out	<u>(80,000)</u>	<u>(80,000)</u>	<u>(263,044)</u>	<u>(183,044)</u>
Net change in fund balance	(1,533,701)	(969,811)	3,186,823	4,156,634
Fund balance, beginning	<u>2,017,828</u>	<u>2,017,828</u>	<u>2,017,828</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 484,127</u></u>	<u><u>\$ 1,048,017</u></u>	<u><u>\$ 5,204,651</u></u>	<u><u>\$ 4,156,634</u></u>

**CITY OF NEWPORT BEACH**  
**Budgetary Comparison Schedule**  
**Building Excise Tax Special Revenue Fund**  
**For the Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Licenses, permits and fees	\$ 100,000	\$ 100,000	\$ 74,947	\$ (25,053)
Investment income	500	500	3,188	2,688
Net increase in fair value of investments	-	-	3,281	3,281
Total revenues	<u>100,500</u>	<u>100,500</u>	<u>81,416</u>	<u>(19,084)</u>
<b>Expenditures:</b>				
Capital outlay	<u>90,200</u>	<u>69,800</u>	<u>56,052</u>	<u>13,748</u>
Net change in fund balance	10,300	30,700	25,364	(5,336)
Fund balance, beginning	<u>262,535</u>	<u>262,535</u>	<u>262,535</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 272,835</u></u>	<u><u>\$ 293,235</u></u>	<u><u>\$ 287,899</u></u>	<u><u>\$ (5,336)</u></u>

**CITY OF NEWPORT BEACH**  
**Budgetary Comparison Schedule**  
**Combined Transportation Special Revenue Fund**  
**For the Year Ended June 30, 2010**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Intergovernmental	\$ 2,757,977	\$ 2,757,977	\$ 1,797,798	\$ (960,179)
Investment income	70,000	70,000	38,710	(31,290)
Net increase in fair value of investments	-	-	39,836	39,836
Total revenues	<u>2,827,977</u>	<u>2,827,977</u>	<u>1,876,344</u>	<u>(951,633)</u>
<b>Expenditures:</b>				
Capital outlay	<u>6,446,632</u>	<u>4,000,279</u>	<u>2,087,816</u>	<u>1,912,463</u>
Net change in fund balance	(3,618,655)	(1,172,302)	(211,472)	960,830
Fund balance, beginning	<u>3,817,094</u>	<u>3,817,094</u>	<u>3,817,094</u>	<u>-</u>
Fund balance (deficit), ending	<u>\$ 198,439</u>	<u>\$ 2,644,792</u>	<u>\$ 3,605,622</u>	<u>\$ 960,830</u>

**CITY OF NEWPORT BEACH**  
**Budgetary Comparison Schedule**  
**Community Development Block Grant Special Revenue Fund**  
**For the Year Ended June 30, 2010**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Intergovernmental	\$ 473,957	\$ 453,957	\$ 470,499	\$ 16,542
Total revenues	473,957	453,957	470,499	16,542
<b>Expenditures:</b>				
Community development	134,720	134,720	134,720	-
Capital outlay	141,702	141,702	141,702	-
Debt service:				
Principal	89,000	89,000	89,000	-
Interest and fiscal charges	108,535	108,535	108,535	-
Total expenditures	473,957	473,957	473,957	-
Net change in fund balance	-	(20,000)	(3,458)	16,542
Fund balance (deficit), beginning	-	-	-	-
Fund balance (deficit), ending	\$ -	\$ (20,000)	\$ (3,458)	\$ 16,542

**CITY OF NEWPORT BEACH**  
**Budgetary Comparison Schedule**  
**Air Quality Management District Special Revenue Fund**  
**For the Year Ended June 30, 2010**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 97,868	\$ (2,132)
Investment income	6,000	6,000	5,238	(762)
Net increase in fair value of investments	-	-	5,389	5,389
	<u>106,000</u>	<u>106,000</u>	<u>108,495</u>	<u>2,495</u>
<b>Expenditures:</b>				
Public works	26,415	26,415	14,342	12,073
Capital outlay	-	154,000	154,000	-
	<u>26,415</u>	<u>180,415</u>	<u>168,342</u>	<u>12,073</u>
Net change in fund balance	79,585	(74,415)	(59,847)	14,568
Fund balance, beginning	<u>462,373</u>	<u>462,373</u>	<u>462,373</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 541,958</u></u>	<u><u>\$ 387,958</u></u>	<u><u>\$ 402,526</u></u>	<u><u>\$ 14,568</u></u>

**CITY OF NEWPORT BEACH**  
**Budgetary Comparison Schedule**  
**Environmental Liability Special Revenue Fund**  
**For the Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Taxes	\$ 420,000	\$ 420,000	\$ 452,063	\$ 32,063
Investment income	45,000	45,000	36,172	(8,828)
Net increase in fair value of investments	-	-	37,224	37,224
Other Revenue	40,000	40,000	-	(40,000)
Total revenues	<u>505,000</u>	<u>505,000</u>	<u>525,459</u>	<u>20,459</u>
<b>Expenditures:</b>				
Public works	\$ 152,473	\$ 152,473	\$ 108,537	\$ 43,936
Total expenditures	<u>152,473</u>	<u>152,473</u>	<u>108,537</u>	<u>43,936</u>
Net change in fund balance	352,527	352,527	416,922	64,395
Fund balance, beginning	<u>3,091,245</u>	<u>3,091,245</u>	<u>3,091,245</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 3,443,772</u></u>	<u><u>\$ 3,443,772</u></u>	<u><u>\$ 3,508,167</u></u>	<u><u>\$ 64,395</u></u>

**CITY OF NEWPORT BEACH**  
**Budgetary Comparison Schedule**  
**Supplemental Law Enforcement Special Revenue Fund**  
**For the Year Ended June 30, 2010**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Intergovernmental	\$ 160,000	\$ 160,000	\$ 119,072	\$ (40,928)
Investment income	750	750	748	(2)
Total revenues	<u>160,750</u>	<u>160,750</u>	<u>119,820</u>	<u>(40,930)</u>
<b>Expenditures:</b>				
Public safety	<u>160,750</u>	<u>160,750</u>	<u>119,820</u>	<u>40,930</u>
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**  
**Budgetary Comparison Schedule**  
**Traffic Congestion Special Revenue Fund**  
**For the Year Ended June 30, 2010**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Intergovernmental	\$ 803,268	\$ 1,000,612	\$ 781,202	\$ (219,410)
Investment income	4,000	4,000	1,634	(2,366)
Net increase in fair value of investments	-	-	1,682	1,682
Total revenues	<u>807,268</u>	<u>1,004,612</u>	<u>784,518</u>	<u>(220,094)</u>
<b>Expenditures:</b>				
Capital outlay	<u>1,342,058</u>	<u>1,342,058</u>	<u>638,840</u>	<u>703,218</u>
Net change in fund balance	(534,790)	(337,446)	145,678	483,124
Fund balance, beginning	<u>393,471</u>	<u>393,471</u>	<u>393,471</u>	<u>-</u>
Fund balance, ending	<u><u>\$ (141,319)</u></u>	<u><u>\$ 56,025</u></u>	<u><u>\$ 539,149</u></u>	<u><u>\$ 483,124</u></u>



**CITY OF NEWPORT BEACH**  
**Newport Coast Annexation**  
**Budgetary Comparison Statement**  
**For the Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Investment income	\$ 250,000	\$ 250,000	\$ 99,089	\$ (150,911)
Net increase in fair value of investments	-	-	101,970	101,970
<b>Total revenues</b>	<u>250,000</u>	<u>250,000</u>	<u>201,059</u>	<u>(48,941)</u>
<b>Expenditures</b>				
Debt service:				
Principal	1,200,000	1,200,000	1,200,000	-
<b>Total expenditures</b>	<u>1,200,000</u>	<u>1,200,000</u>	<u>1,200,000</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>(950,000)</u>	<u>(950,000)</u>	<u>(998,941)</u>	<u>(48,941)</u>
<b>Other financing uses</b>				
Transfers in	-	-	-	-
Transfers out	(1,400,000)	(200,000)	(201,059)	(1,059)
<b>Total other financing (uses)</b>	<u>(1,400,000)</u>	<u>(200,000)</u>	<u>(201,059)</u>	<u>(1,059)</u>
Net change in fund balance	(2,350,000)	(1,150,000)	(1,200,000)	(50,000)
Fund balance, beginning	<u>9,600,000</u>	<u>9,600,000</u>	<u>9,600,000</u>	<u>-</u>
Fund balance, ending	<u>\$ 7,250,000</u>	<u>\$ 8,450,000</u>	<u>\$ 8,400,000</u>	<u>\$ (50,000)</u>

**CITY OF NEWPORT BEACH**  
**Budgetary Comparison Schedule**  
**Proposition 1B Transportation Special Revenue Fund**  
**For the Year Ended June 30, 2010**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Investment income	\$ 27,000	\$ 27,000	\$ 11,882	\$ (15,118)
Net increase in fair value of investments	-	-	12,227	12,227
Total revenues	<u>27,000</u>	<u>27,000</u>	<u>24,109</u>	<u>(2,891)</u>
<b>Expenditures:</b>				
Capital outlay	-	1,252,014	943,845	308,169
Net change in fund balance	27,000	(1,225,014)	(919,736)	305,278
Fund balance, beginning	<u>1,303,377</u>	<u>1,303,377</u>	<u>1,303,377</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 1,330,377</u></u>	<u><u>\$ 78,363</u></u>	<u><u>\$ 383,641</u></u>	<u><u>\$ 305,278</u></u>

**CITY OF NEWPORT BEACH  
Contributions Fund  
Budgetary Comparison Statement  
For the Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Intergovernmental	\$ 1,774,624	\$ 3,479,294	\$ 1,903,669	\$ (1,575,625)
Investment income	75,000	75,000	47,127	(27,873)
Net increase in fair value of investments	-	-	48,498	48,498
Donations	121,000	123,787	174,020	50,233
Total revenues	<u>1,970,624</u>	<u>3,678,081</u>	<u>2,173,314</u>	<u>(1,504,767)</u>
<b>Expenditures:</b>				
Capital outlay	4,136,227	-	1,648,609	(1,648,609)
Excess (deficiency) of revenues over expenditures	(2,165,603)	3,678,081	524,705	(3,153,376)
<b>Other financing sources (uses):</b>				
Transfers in	-	-	-	-
Transfers out	-	-	(160,000)	(160,000)
Net change in fund balance	(2,165,603)	3,678,081	364,705	(3,313,376)
Fund balance, beginning	<u>2,618,733</u>	<u>2,618,733</u>	<u>2,618,733</u>	<u>-</u>
Fund balance, ending	<u>\$ 453,130</u>	<u>\$ 6,296,814</u>	<u>\$ 2,983,438</u>	<u>\$ (3,313,376)</u>

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# FINANCIAL SECTION

FINANCIAL SECTION

SUPPLEMENTARY  
INFORMATION

INTERNAL SERVICE FUNDS

## INTERNAL SERVICE FUNDS

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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 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.

**CITY OF NEWPORT BEACH**  
**All Internal Service Funds**  
**Combining Statement of Net Assets**  
**June 30, 2010**

<b>Assets</b>	<b>Insurance Reserve</b>	<b>Compensated Absence</b>	<b>Retiree Insurance</b>	<b>Equipment Maintenance</b>	<b>Total Internal Service Funds</b>
<b>Current assets:</b>					
Cash and investments	\$ 21,834,597	\$ 1,841,034	\$ -	\$ 17,068,463	\$ 40,744,094
<b>Receivables:</b>					
Accounts	130,059	12,116	749,816	3,415	895,406
Inventories	-	-	-	255,430	255,430
Prepaid items	78,000	-	293,330	-	371,330
Total current assets	<u>22,042,656</u>	<u>1,853,150</u>	<u>1,043,146</u>	<u>17,327,308</u>	<u>42,266,260</u>
<b>Non-current assets:</b>					
<b>Capital assets:</b>					
Equipment	-	-	-	23,022,523	23,022,523
Less accumulated depreciation	-	-	-	(16,672,418)	(16,672,418)
Total capital assets (net of accumulated depreciation)	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,350,105</u>	<u>6,350,105</u>
Total assets	<u>22,042,656</u>	<u>1,853,150</u>	<u>1,043,146</u>	<u>23,677,413</u>	<u>48,616,365</u>
<b>Liabilities</b>					
<b>Current liabilities:</b>					
Accounts payable and accrued liabilities	\$ 168,001	\$ 1,463	\$ -	\$ 117,265	\$ 286,729
Accrued payroll	-	-	-	43,909	43,909
Due to general fund	-	-	820,395	-	820,395
Workers' compensation - current	3,080,500	-	-	-	3,080,500
General liability - current	1,260,729	-	-	-	1,260,729
Compensated absences - current	-	1,557,331	-	-	1,557,331
Early retirement incentive program - current	-	938,520	-	-	938,520
Total current liabilities	<u>4,509,230</u>	<u>2,497,314</u>	<u>820,395</u>	<u>161,174</u>	<u>7,988,113</u>
<b>Non-current liabilities:</b>					
Workers' compensation	9,241,500	-	-	-	9,241,500
General liability	2,559,662	-	-	-	2,559,662
Compensated absences	-	7,438,548	-	-	7,438,548
Early retirement incentive program - current	-	2,510,917	-	-	2,510,917
Net OPEB obligation	-	-	6,472,000	-	6,472,000
Total Noncurrent liabilities	<u>11,801,162</u>	<u>9,949,465</u>	<u>6,472,000</u>	<u>-</u>	<u>28,222,627</u>
Total liabilities	<u>16,310,392</u>	<u>12,446,779</u>	<u>7,292,395</u>	<u>161,174</u>	<u>36,210,740</u>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	-	-	-	6,350,105	6,350,105
Unrestricted	5,732,264	(10,593,629)	(6,249,249)	17,166,134	6,055,520
Total net assets	<u>\$ 5,732,264</u>	<u>\$ (10,593,629)</u>	<u>\$ (6,249,249)</u>	<u>\$ 23,516,239</u>	<u>\$ 12,405,625</u>

**CITY OF NEWPORT BEACH**  
**Internal Service Funds**  
**Combining Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**For the Year Ended June 30, 2010**

	<u>Insurance Reserve</u>	<u>Compensated Absence</u>	<u>Retiree Insurance</u>	<u>Equipment Maintenance</u>	<u>Total Internal Service Funds</u>
Operating revenues:					
Charges for services	\$ 5,909,794	\$ 2,383,307	\$ 2,016,000	\$ 5,989,798	\$ 16,298,899
Retiree reimbursements	-	-	1,119,262	-	1,119,262
Employee contributions	-	-	329,234	-	329,234
Other	158,499	12,116	47,286	-	217,901
Total operating revenues	<u>6,068,293</u>	<u>2,395,423</u>	<u>3,511,782</u>	<u>5,989,798</u>	<u>17,965,296</u>
Operating expenses:					
Salaries and wages	-	-	-	1,459,423	1,459,423
Depreciation	-	-	-	1,814,442	1,814,442
Professional services	-	-	-	51,431	51,431
Maintenance and supplies	-	-	-	813,819	813,819
Fleet parts and supplies	-	-	-	452,466	452,466
Workers' compensation	3,530,130	-	-	-	3,530,130
Claims and judgments	201,308	-	-	-	201,308
Compensated absences	-	2,022,943	-	-	2,022,943
Early Retirement Incentive Program	-	4,409,833	-	-	4,409,833
OPEB ARC- Cash subsidy	-	-	2,016,000	-	2,016,000
OPEB ARC- Implied subsidy	-	-	2,477,000	-	2,477,000
Other	-	-	1,115,115	-	1,115,115
Total operating expenses	<u>3,731,438</u>	<u>6,432,776</u>	<u>5,608,115</u>	<u>4,591,581</u>	<u>20,363,910</u>
Operating income (loss)	<u>2,336,855</u>	<u>(4,037,353)</u>	<u>(2,096,333)</u>	<u>1,398,217</u>	<u>(2,398,614)</u>
Nonoperating revenues (expenses):					
Investment income	235,872	24,673	-	183,682	444,227
Net Increase in fair value of investments	242,731	25,390	-	189,024	457,145
(Loss) on sale of capital assets	-	-	-	(15,877)	(15,877)
Total nonoperating revenues	<u>478,603</u>	<u>50,063</u>	<u>-</u>	<u>356,829</u>	<u>885,495</u>
Income (loss) before transfers	<u>2,815,458</u>	<u>(3,987,290)</u>	<u>(2,096,333)</u>	<u>1,755,046</u>	<u>(1,513,119)</u>
Transfers in	-	-	-	-	-
Transfer out	-	-	-	(600,000)	(600,000)
Change in net assets	2,815,458	(3,987,290)	(2,096,333)	1,155,046	(2,113,119)
Net assets (accumulated deficit), beginning	<u>2,916,806</u>	<u>(6,606,339)</u>	<u>(4,152,916)</u>	<u>22,361,193</u>	<u>14,518,744</u>
Net assets, (accumulated deficit), ending	<u>\$ 5,732,264</u>	<u>\$ (10,593,629)</u>	<u>\$ (6,249,249)</u>	<u>\$ 23,516,239</u>	<u>\$ 12,405,625</u>



**CITY OF NEWPORT BEACH**  
**Combining Statement of Cash Flows - Internal Service Funds**  
**For the Year Ended June 30, 2010**

	Insurance Reserve	Compensated Absences	Retiree Insurance	Equipment Maintenance	Total Internal Service Funds
<b>Cash flows from operating activities</b>					
Receipts from user departments	\$ 6,087,377	\$ 2,371,191	\$ 3,135,262	\$ 5,999,641	\$ 17,593,471
Payments to employees	(3,101,130)	(3,771,545)	-	(1,458,891)	(8,331,566)
Payments to suppliers	(2,671,115)	1,463	(3,869,990)	(1,299,015)	(7,838,657)
Other operating cash receipts	158,499	12,116	376,520	-	547,135
Net cash provided (used) for operating activities	<u>473,631</u>	<u>(1,386,775)</u>	<u>(358,208)</u>	<u>3,241,735</u>	<u>1,970,383</u>
<b>Cash flows from noncapital financing activities:</b>					
Cash received from other funds	-	-	358,208	-	358,208
Cash paid to other funds	-	-	-	(600,000)	(600,000)
Net cash provided (used) by noncapital financing	<u>-</u>	<u>-</u>	<u>358,208</u>	<u>(600,000)</u>	<u>(241,792)</u>
<b>Cash flows from capital and related financing activities:</b>					
Acquisition of capital assets	-	-	-	(1,478,229)	(1,478,229)
Proceeds from sale of capital assets	-	-	-	105,934	105,934
Net cash used for capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,372,295)</u>	<u>(1,372,295)</u>
<b>Cash flows from investing activities:</b>					
Interest on investments	478,603	50,063	-	372,706	901,372
Net cash provided for investing activities	<u>478,603</u>	<u>50,063</u>	<u>-</u>	<u>372,706</u>	<u>901,372</u>
Net increase (decrease) in cash and cash equivalents	952,234	(1,336,712)	-	1,642,146	1,257,668
Cash and cash equivalents, beginning	20,882,363	3,177,746	-	15,426,317	39,486,426
Cash and cash equivalents, ending	<u>\$ 21,834,597</u>	<u>\$ 1,841,034</u>	<u>\$ -</u>	<u>\$ 17,068,463</u>	<u>\$ 40,744,094</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>					
<b>Cash flows from operating activities</b>					
Operating income (loss)	\$ 2,336,855	\$ (4,037,353)	\$ (2,096,333)	\$ 1,398,217	\$ (2,398,614)
<b>Adjustments to reconcile operating income (loss) to net cash provided by operating activities:</b>					
Depreciation	-	-	-	1,814,442	1,814,442
<b>Changes in operating assets and liabilities:</b>					
(Increase) decrease in accounts receivable	177,583	(12,116)	(180,669)	9,843	(5,359)
Decrease in inventories	-	-	-	4,301	4,301
(Increase) in prepaid items	(78,000)	-	(131,751)	-	(209,751)
Increase (decrease) in accounts payable and accrued payroll	(314,461)	1,463	(13,455)	14,932	(311,521)
Increase in workers' compensation	429,000	-	-	-	429,000
(Decrease) in general liability	(2,077,346)	-	-	-	(2,077,346)
(Decrease) in compensated absences	-	(788,206)	-	-	(788,206)
Increase in early retirement incentive program	-	3,449,437	-	-	3,449,437
Increase in net OPEB obligation	-	-	2,064,000	-	2,064,000
Total adjustments	<u>(1,863,224)</u>	<u>2,650,578</u>	<u>1,738,125</u>	<u>1,843,518</u>	<u>4,368,997</u>
Net cash provided (used) by operating activities	<u>\$ 473,631</u>	<u>\$ (1,386,775)</u>	<u>\$ (358,208)</u>	<u>\$ 3,241,735</u>	<u>\$ 1,970,383</u>
<b>Non-cash investing, capital, and financing activities:</b>					
Net increase in fair value of investments	242,731	25,390	-	189,024	457,145
(Loss) on sale of capital assets	-	-	-	(15,877)	(15,877)
Total of non-cash activities	<u>\$ 242,731</u>	<u>\$ 25,390</u>	<u>\$ -</u>	<u>\$ 173,147</u>	<u>\$ 441,268</u>

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# FINANCIAL SECTION

FINANCIAL SECTION

SUPPLEMENTARY  
INFORMATION  
FIDUCIARY FUNDS

## FIDUCIARY FUNDS

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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, 2010**

<b>Assets</b>	<b>Special Assessment District Fund</b>	<b>Business Improvement Fund</b>	<b>ILJAO Fund</b>	<b>Totals</b>
Cash and investments	\$ 2,682,766	\$ 198,047	\$ 1,489,262	\$ 4,370,075
Cash with fiscal agent	4,618,481	-	-	4,618,481
Prepaid items	-	-	75,085	75,085
Intergovernmental receivable	-	-	88,344	88,344
Total assets	<u>\$ 7,301,247</u>	<u>\$ 198,047</u>	<u>\$ 1,652,691</u>	<u>\$ 9,151,985</u>
 <b>Liabilities</b>				
Due to bondholders	\$ 7,301,247	\$ -	\$ -	\$ 7,301,247
Due to others	-	198,047	105,984	304,031
Due to ILJAO	-	-	1,546,707	1,546,707
Total liabilities	<u>\$ 7,301,247</u>	<u>\$ 198,047</u>	<u>\$ 1,652,691</u>	<u>\$ 9,151,985</u>

**CITY OF NEWPORT BEACH**  
**Statement of Changes in Fiduciary Net Assets**  
**All Agency Funds**  
**For the Year Ended June 30, 2010**

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2010</u>
<b>Special Assessment:</b>				
<b>Assets</b>				
Cash and investments	\$ 2,658,042	\$ 4,190,694	\$ (4,165,970)	\$ 2,682,766
Cash with fiscal agent	<u>4,101,765</u>	<u>2,499,952</u>	<u>(1,983,236)</u>	<u>4,618,481</u>
<b>Total Assets</b>	<b><u>\$ 6,759,807</u></b>	<b><u>\$ 6,690,646</u></b>	<b><u>\$ (6,149,206)</u></b>	<b><u>\$ 7,301,247</u></b>
<b>Liabilities</b>				
Due to bondholders	<u>\$ 6,759,807</u>	<u>\$ 6,690,646</u>	<u>\$ (6,149,206)</u>	<u>\$ 7,301,247</u>
<b>Business Improvement District:</b>				
<b>Assets</b>				
Cash and investments	<u>\$ 229,398</u>	<u>\$ 527,231</u>	<u>\$ (558,582)</u>	<u>\$ 198,047</u>
<b>Liabilities</b>				
Due to others	<u>\$ 229,398</u>	<u>\$ 527,231</u>	<u>\$ (558,582)</u>	<u>\$ 198,047</u>
<b>ILJAOC:</b>				
<b>Assets</b>				
Cash and investments	\$ 985,979	\$ 503,283	\$ -	\$ 1,489,262
Prepaid items	2,194	75,085	(2,194)	75,085
Intergovernmental receivable	<u>80,000</u>	<u>8,344</u>	<u>-</u>	<u>88,344</u>
<b>Total Assets</b>	<b><u>\$ 1,068,173</u></b>	<b><u>\$ 586,712</u></b>	<b><u>\$ (2,194)</u></b>	<b><u>\$ 1,652,691</u></b>
<b>Liabilities</b>				
Due to others	\$ 30,209	\$ 75,775	\$ -	\$ 105,984
Due to ILJAOC	<u>1,037,964</u>	<u>508,743</u>	<u>-</u>	<u>1,546,707</u>
<b>Total Liabilities</b>	<b><u>\$ 1,068,173</u></b>	<b><u>\$ 584,518</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,652,691</u></b>
<b>Totals - All Agency Funds:</b>				
<b>Assets</b>				
Cash and investments	\$ 3,873,419	\$ 5,221,208	\$ (4,724,552)	\$ 4,370,075
Cash with fiscal agent	4,101,765	2,499,952	(1,983,236)	4,618,481
Prepaid items	2,194	75,085	(2,194)	75,085
Intergovernmental receivable	<u>80,000</u>	<u>8,344</u>	<u>-</u>	<u>88,344</u>
<b>Total Assets</b>	<b><u>\$ 8,057,378</u></b>	<b><u>\$ 7,804,589</u></b>	<b><u>\$ (6,709,982)</u></b>	<b><u>\$ 9,151,985</u></b>
<b>Liabilities</b>				
Due to bondholders	\$ 6,759,807	\$ 6,690,646	\$ (6,149,206)	\$ 7,301,247
Due to others	259,607	603,006	(558,582)	304,031
Due to ILJAOC	<u>1,037,964</u>	<u>508,743</u>	<u>-</u>	<u>1,546,707</u>
<b>Total Liabilities</b>	<b><u>\$ 8,057,378</u></b>	<b><u>\$ 7,802,395</u></b>	<b><u>\$ (6,707,788)</u></b>	<b><u>\$ 9,151,985</u></b>

# STATISTICAL SECTION

## FINANCIAL TRENDS

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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 Nine Fiscal Years**  
**(accrual basis of accounting)**

	Fiscal Year								
	2002	2003	2004	2005 <sup>1</sup>	2006	2007	2008	2009	2010
<b>Governmental activities:</b>									
Invested in capital assets, net of related debt	\$ 1,391,677,813	\$ 1,412,372,465	\$ 1,512,651,096	\$ 1,915,348,883	\$ 2,005,643,651	\$ 2,027,026,053	\$ 2,050,925,370	\$ 2,061,635,642	\$ 2,085,012,025
Restricted	38,689,956	37,650,692	45,494,082	54,285,743	51,901,103	35,017,831	40,988,923	44,212,747	34,236,929
Unrestricted	41,095,786	49,322,283	46,772,913	61,894,956	56,662,229	75,989,169	87,802,996	96,276,381	85,949,688
<b>Total governmental activities</b>	<b>\$ 1,471,463,555</b>	<b>\$ 1,499,345,440</b>	<b>\$ 1,604,918,091</b>	<b>\$ 2,031,529,582</b>	<b>\$ 2,114,206,983</b>	<b>\$ 2,138,033,053</b>	<b>\$ 2,179,717,289</b>	<b>\$ 2,202,124,770</b>	<b>\$ 2,205,198,642</b>
<b>Business-type activities:</b>									
Invested in capital assets, net of related debt	\$ 87,470,314	\$ 91,912,205	\$ 94,206,704	\$ 99,641,411	\$ 104,602,266	\$ 107,231,308	\$ 107,313,603	\$ 108,510,361	\$ 108,449,847
Restricted	-	-	-	-	-	-	-	-	-
Unrestricted	26,123,500	24,227,579	21,493,528	19,665,535	16,907,367	15,808,357	13,639,027	11,435,306	10,173,912
<b>Total business-type activities</b>	<b>\$ 113,593,814</b>	<b>\$ 116,139,784</b>	<b>\$ 115,700,232</b>	<b>\$ 119,306,946</b>	<b>\$ 121,509,633</b>	<b>\$ 123,039,665</b>	<b>\$ 120,952,630</b>	<b>\$ 119,945,667</b>	<b>\$ 118,623,759</b>
<b>Primary government:</b>									
Invested in capital assets, net of related debt	\$ 1,479,148,127	\$ 1,504,284,670	\$ 1,606,857,800	\$ 2,014,990,294	\$ 2,110,245,917	\$ 2,134,257,361	\$ 2,158,238,973	\$ 2,170,146,003	\$ 2,193,461,872
Restricted	38,689,956	37,650,692	45,494,082	54,285,743	51,901,103	35,017,831	40,988,923	44,212,747	34,236,929
Unrestricted	67,219,286	73,549,862	68,266,441	81,560,491	73,569,596	91,797,526	101,442,023	107,711,687	96,123,600
<b>Total primary government</b>	<b>\$ 1,585,057,369</b>	<b>\$ 1,615,485,224</b>	<b>\$ 1,720,618,323</b>	<b>\$ 2,150,836,528</b>	<b>\$ 2,235,716,616</b>	<b>\$ 2,261,072,718</b>	<b>\$ 2,300,669,919</b>	<b>\$ 2,322,070,437</b>	<b>\$ 2,323,822,401</b>

<sup>1</sup> 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.  
Information prior to the implementation of GASB 34 is not available.

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

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Expenses:</b>									
<b>Governmental activities:</b>									
General government	\$ 12,792,860	\$ 10,799,630	\$ 11,428,379	\$ 11,378,609	\$ 14,509,827	\$ 14,166,168	\$ 15,556,657	\$ 16,430,529	\$ 17,082,705
Public safety	47,168,918	56,521,871	58,178,633	63,214,291	67,789,121	69,795,386	75,821,082	79,301,600	79,402,600
Public works	30,320,516	32,089,038	38,127,832	46,359,871	33,870,359	39,179,844	42,631,401	45,600,429	55,445,327
Community development	4,471,397	5,782,215	6,229,785	6,437,006	8,157,925	9,020,868	10,052,871	10,283,528	10,082,454
Community services	11,044,086	10,404,285	14,741,504	13,073,215	13,803,755	23,304,053	19,146,588	20,589,094	17,232,357
Interest on long-term debt	517,102	673,944	542,126	508,869	479,529	523,401	532,569	437,207	372,502
Total governmental activities expenses	106,314,879	116,270,983	129,248,259	140,971,861	138,610,516	155,989,720	163,741,168	172,642,387	179,617,945
<b>Business-type activities:</b>									
Water	14,806,514	14,540,036	17,185,034	14,467,233	16,228,213	17,399,900	20,148,517	18,210,789	18,732,351
Wastewater	2,588,833	3,115,136	3,363,954	2,740,908	3,143,629	3,259,837	3,423,592	3,753,042	3,599,034
Total business-type activities expenses	17,395,347	17,655,172	20,548,988	17,208,141	19,371,842	20,659,737	23,572,109	21,963,831	22,331,385
Total primary government expenses	123,710,226	133,926,155	149,797,247	158,180,002	157,982,358	176,649,457	187,313,277	194,606,218	201,949,330
<b>Program revenues:</b>									
<b>Governmental activities:</b>									
<b>Charges for services:</b>									
General government	2,270,082	3,008,162	2,109,141	2,412,769	2,623,272	2,944,100	3,055,982	2,543,880	2,909,603
Public safety	10,549,410	11,603,584	15,739,912	16,264,493	13,669,509	15,756,327	16,649,400	14,757,266	15,006,601
Public works	5,436,948	5,009,048	5,481,464	6,031,248	5,133,728	5,482,167	5,616,118	5,532,871	6,392,877
Community development	3,236,483	4,022,904	5,196,276	5,129,858	5,667,289	5,682,636	5,597,309	4,852,534	4,806,745
Community services	2,533,899	6,039,226	3,846,566	3,952,862	9,433,278	9,054,504	9,203,513	9,052,330	8,673,465
<b>Operating Grants and Contributions:</b>									
Contributions:	7,891,059	8,750,565	10,681,329	17,480,834	12,772,599	16,172,023	15,778,851	13,404,286	15,677,617
Capital Grants and Contributions:	1,562,458	4,146,728	674,815	20,205,948 <sup>1</sup>	69,473,891 <sup>2</sup>	6,904,716	31,037,915 <sup>3</sup>	24,633,716	12,350,100
Total governmental activities program revenues	33,480,339	42,580,217	43,729,503	71,478,012	118,773,566	61,996,473	86,939,088	74,776,883	65,817,008
<b>Business-type activities:</b>									
<b>Charges for services:</b>									
Water	16,665,724	16,489,284	18,430,000	17,573,196	17,923,523	17,918,968	17,270,511	16,966,621	17,412,634
Wastewater	2,945,804	2,768,941	2,882,793	2,900,672	3,311,089	3,535,050	3,552,780	3,479,565	3,368,327
Total business-type activities program revenues	19,611,528	19,258,225	21,312,793	20,473,868	21,234,612	21,454,018	20,823,291	20,446,186	20,780,961
Total primary government program revenues	53,091,867	61,838,442	65,042,296	91,951,880	140,008,178	83,450,491	107,762,379	95,223,069	86,597,969
<b>Net revenues (expenses):</b>									
Governmental activities	(72,834,540)	(73,690,766)	(85,518,756)	(69,493,849)	(19,836,950)	(93,993,247)	(76,802,080)	(97,865,504)	(113,800,937)
Business-type activities	2,216,181	1,603,053	763,805	3,265,727	1,862,770	794,281	(2,748,818)	(1,517,645)	(1,550,424)
Total net revenues (expenses)	\$ (70,618,359)	\$ (72,087,713)	\$ (84,754,951)	\$ (66,228,122)	\$ (17,974,180)	\$ (93,198,966)	\$ (79,550,898)	\$ (99,383,149)	\$ (115,351,361)

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

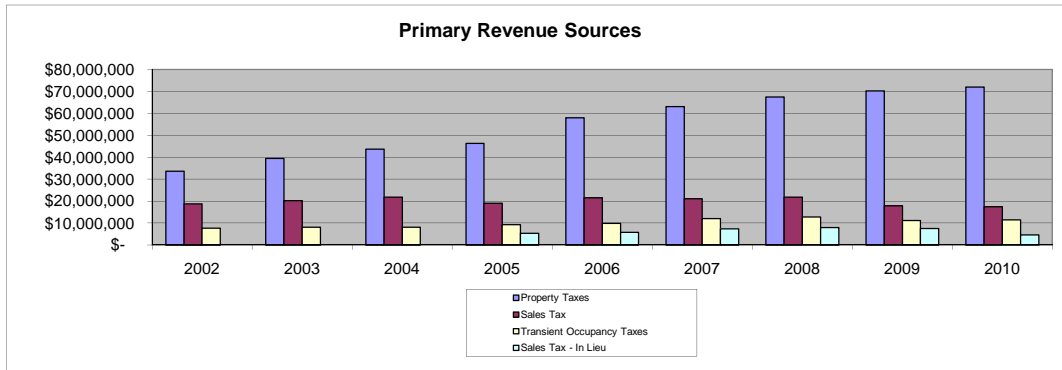
<sup>2</sup> 2006 data varies from trend because of increased capital assets related mostly to Bristol St. Relinquishment, Newport Coast Community Center, and Fire Station # 7.

<sup>3</sup> 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. Information prior to the implementation of GASB 34 is not available.

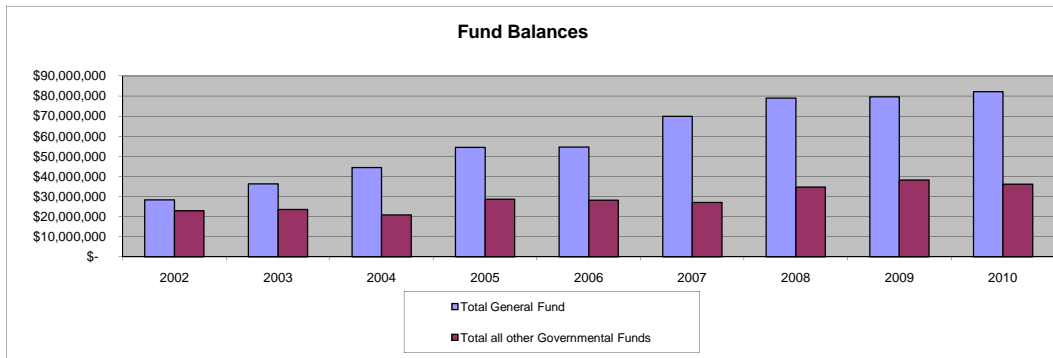
**CITY OF NEWPORT BEACH**  
**Changes in Net Assets**  
**Last Nine Fiscal Years**  
**(accrual basis of accounting)**

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
General revenues and other changes in net assets:									
Governmental activities:									
Taxes:									
Property taxes	\$ 33,583,659	\$ 39,474,864	\$ 43,631,829	\$ 46,303,366	\$ 57,888,545	\$ 63,003,057	\$ 67,388,838	\$ 70,126,680	\$ 71,999,680
Sales tax	18,796,571	20,133,598	21,843,884	18,977,828	21,465,557	21,088,118	21,855,242	17,925,956	17,440,736
Sales tax in-lieu	-	-	-	5,339,827	5,720,028	7,348,253	8,017,539	7,503,113	4,539,946
Transient occupancy taxes	7,690,855	8,055,266	8,045,132	9,215,862	9,832,729	12,059,008	12,751,518	11,170,956	11,400,710
Business license	2,470,857	2,030,845	2,830,127	3,458,165	3,848,381	3,770,172	4,119,108	4,273,642	4,026,614
Franchise taxes	2,735,641	2,465,584	2,765,519	3,029,476	3,162,588	4,613,932	3,853,119	3,961,634	3,715,946
Motor vehicle license fees	4,380,070	3,970,103	3,624,917	6,395,860	300,751	391,559	304,920	356,237	314,957
Motor vehicle fines	711,693	742,957	-	-	-	-	-	-	-
Other taxes	341,820	314,725	266,642	240,534	508,331	515,128	373,350	230,115	201,893
Investment income	2,171,474	2,111,451	584,415	1,209,074	1,939,941	3,175,582	3,655,314	1,764,827	706,855
Net increase in fair value of investments	1,093,913	318,686	(360,586)	(258,125)	(715,615)	(545,533)	508,485	1,096,848	707,200
Gain on sale of assets	160,236	130,954	-	-	-	-	-	-	-
Other	12,570	1,294,628	214,536	761,111	776,907	2,232,070	1,858,883	1,862,977	1,820,272
Property income	3,771,556	-	-	-	-	-	-	-	-
Share of joint venture net income	2,120,582	389,418	146,819	100,325	(513,791)	253,207	-	-	-
Capital contributions	836,206,102	17,836,792	102,713,421	213,779,060	-	-	-	-	-
Sale of service rights	25,000,000	-	-	-	-	-	-	-	-
Transfers	-	33,277	57,783	-	40,000	-	-	-	-
<b>Total governmental activities</b>	<b>941,247,399</b>	<b>99,303,148</b>	<b>186,364,438</b>	<b>308,552,363</b>	<b>104,254,352</b>	<b>117,904,553</b>	<b>124,686,316</b>	<b>120,272,985</b>	<b>116,874,809</b>
Business-type activities:									
Investment income	888,779	505,619	203,041	424,157	549,012	792,936	588,870	374,893	128,399
Net increase in fair value of investments	428,199	440,697	(87,078)	(87,921)	(169,095)	(57,185)	72,913	135,789	100,117
Property income	27,100	29,880	29,280	26,970	-	-	-	-	-
Capital contributions	-	-	215,331	-	-	-	-	-	-
Transfers	-	(33,277)	(57,783)	-	(40,000)	-	-	-	-
<b>Total business-type activities</b>	<b>1,344,078</b>	<b>942,919</b>	<b>302,791</b>	<b>363,206</b>	<b>339,917</b>	<b>735,751</b>	<b>661,783</b>	<b>510,682</b>	<b>228,516</b>
<b>Total primary government</b>	<b>942,591,477</b>	<b>100,246,067</b>	<b>186,667,229</b>	<b>308,915,569</b>	<b>104,594,269</b>	<b>118,640,304</b>	<b>125,348,099</b>	<b>120,783,667</b>	<b>117,103,325</b>
Changes in net assets									
Governmental activities	868,412,859	25,612,382	100,845,682	239,058,514	84,417,402	23,911,306	47,884,236	22,407,481	3,073,872
Business-type activities	3,560,259	2,545,972	1,066,596	3,628,933	2,202,687	1,530,032	(2,087,035)	(1,006,963)	(1,321,908)
<b>Total primary government</b>	<b>\$ 871,973,118</b>	<b>\$ 28,158,354</b>	<b>\$ 101,912,278</b>	<b>\$ 242,687,447</b>	<b>\$ 86,620,089</b>	<b>\$ 25,441,338</b>	<b>\$ 45,797,201</b>	<b>\$ 21,400,518</b>	<b>\$ 1,751,964</b>



**CITY OF NEWPORT BEACH**  
**Fund Balances of Governmental Funds**  
**Last Nine Fiscal Years**  
**(modified accrual basis of accounting)**

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>General fund:</b>									
Reserved	\$ 3,165,787	\$ 4,393,418	\$ 6,678,579	\$ 4,673,198	\$ 9,374,722	\$ 7,233,703	\$ 6,807,094	\$ 5,907,205	\$ 5,472,481
Unreserved	25,171,551	31,929,366	37,765,801	49,814,197	45,212,339	62,679,499	72,252,045	73,703,759	76,685,385
<b>Total general fund</b>	<b>\$ 28,337,338</b>	<b>\$ 36,322,784</b>	<b>\$ 44,444,380</b>	<b>\$ 54,487,395</b>	<b>\$ 54,587,061</b>	<b>\$ 69,913,202</b>	<b>\$ 79,059,139</b>	<b>\$ 79,610,964</b>	<b>\$ 82,157,866</b>
<b>Tide and submerged land fund:</b>									
Reserved	\$ 294,876	\$ 457,777	\$ 340,208	\$ 552,713	\$ 538,965	\$ 642,985	\$ 1,415,088	\$ 351,012	\$ 1,187,264
Unreserved	238,822	356,075	120,328	194,174	27,633	143,946	259,701	288,952	1,246,901
<b>Total tide and submerged land fund</b>	<b>\$ 533,698</b>	<b>\$ 813,852</b>	<b>\$ 460,536</b>	<b>\$ 746,887</b>	<b>\$ 566,598</b>	<b>\$ 786,931</b>	<b>\$ 1,674,789</b>	<b>\$ 639,964</b>	<b>\$ 2,434,165</b>
<b>Mariners library fund:</b>									
Reserved	\$ -	\$ 382,900	\$ 142,016	\$ 1,029,047	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	-	596,800	824,438	-	(1,750,160)	(2,061,268)	-	-	-
<b>Total Mariners library fund</b>	<b>\$ -</b>	<b>\$ 979,700</b>	<b>\$ 966,454</b>	<b>\$ 1,029,047</b>	<b>\$ (1,750,160)</b>	<b>\$ (2,061,268)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Contributions fund</b>									
Reserved	\$ 7,501	\$ -	\$ -	\$ 1,155,638	\$ 3,223,047	\$ 1,656,459	\$ 856,506	\$ 641,469	\$ -
Unreserved	-	(457,464)	(956,689)	1,042,147	-	-	794,249	1,977,264	-
<b>Total Contributions fund</b>	<b>\$ 7,501</b>	<b>\$ (457,464)</b>	<b>\$ (956,689)</b>	<b>\$ 2,197,785</b>	<b>\$ 3,223,047</b>	<b>\$ 1,656,459</b>	<b>\$ 1,650,755</b>	<b>\$ 2,618,733</b>	<b>\$ -</b>
<b>City hall improvements fund:</b>									
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	-	-	-	-	-	-	-	-	(10,527,337)
<b>Total City hall improvements fund</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (10,527,337)</b>
<b>All other governmental funds:</b>									
Reserved	\$ 4,669,957	\$ 4,693,197	\$ 3,973,823	\$ 12,230,132	\$ 18,157,202	\$ 8,958,652	\$ 9,788,771	\$ 7,838,748	\$ 8,176,409
Unreserved, reported in:									
Special revenue funds	11,057,395	18,789,098	16,895,613	10,099,453	7,506,021	18,684,221	20,617,006	21,582,975	26,726,627
Capital projects funds	7,120,032	-	-	6,076,969	2,077,124	(1,196,933)	3,271,954	7,671,450	(43,941)
Permanent funds	15	-	-	285,506	404,771	660,029	934,648	1,170,009	1,294,924
<b>Total all other governmental funds</b>	<b>\$ 22,847,399</b>	<b>\$ 23,482,295</b>	<b>\$ 20,869,436</b>	<b>\$ 28,692,060</b>	<b>\$ 28,145,118</b>	<b>\$ 27,105,969</b>	<b>\$ 34,612,379</b>	<b>\$ 38,263,182</b>	<b>\$ 36,154,019</b>



The City of Newport Beach has elected to show only nine years of data for this schedule.

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

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Revenues:</b>									
Taxes	\$ 65,878,471	\$ 72,864,836	\$ 79,874,751	\$ 91,606,863 <sup>1</sup>	\$ 102,737,810	\$ 112,230,054	\$ 118,758,201	\$ 115,711,574	\$ 113,809,443
Intergovernmental	26,227,740	10,379,792	16,108,023	19,513,589	14,842,994	18,866,929	21,005,429	11,434,885	15,379,698
Licenses and permits	3,350,958	4,397,520	5,429,632	4,968,234	5,708,965	4,574,659	6,474,789	5,883,515	3,950,967
Charges for services	10,338,569	11,156,294	11,516,782	13,104,478	13,135,366	14,452,723	15,073,178	14,498,120	15,293,362
Fines and forfeitures	3,384,164	3,448,826	3,605,963	3,422,735	3,841,843	4,126,351	4,662,442	4,572,611	4,105,632
Investment income	2,758,557	1,941,046	887,513	2,356,747	3,847,982	5,431,137	5,463,066	3,245,677	1,289,890
Net increase (decrease) in fair value of investments	1,268,972	1,468,682	(360,586)	(493,879)	(1,325,211)	(626,881)	720,488	1,472,335	1,155,363
Property income	10,130,165	10,947,021	11,857,671	12,337,339	13,625,142	13,965,815	15,217,803	14,032,342	14,624,923
Donations	746,774	1,819,159	2,704,367	1,087,826	883,405	1,379,461	2,159,637	6,760,140	5,497,640
Contributions from property owners	-	-	-	14,779,013	-	-	-	-	-
Other	1,782,696	2,590,504	478,200	980,446	1,042,882	1,967,465	4,205,095	8,501,014	7,646,274
<b>Total revenues</b>	<b>125,867,066</b>	<b>121,013,680</b>	<b>132,102,316</b>	<b>163,663,391</b>	<b>158,341,178</b>	<b>176,367,713</b>	<b>193,740,128</b>	<b>186,112,213</b>	<b>182,753,192</b>
<b>Expenditures</b>									
<b>Current:</b>									
General government	12,292,008	9,689,275	11,024,256	10,920,667	12,531,200	13,706,061	14,508,103	15,567,654	15,169,546
Public safety	47,841,176	53,035,377	56,849,718	59,482,134	65,262,069	68,843,947	73,486,413	78,554,344	77,202,445
Public works	19,418,067	21,259,782	22,780,896	24,365,996	26,430,751	28,352,293	30,108,941	30,619,405	39,922,406
Community development	4,586,192	5,457,498	5,723,031	6,144,917	7,900,503	7,753,035	8,703,841	9,971,536	9,556,066
Community services	9,418,041	9,382,608	10,827,346	10,351,414	12,730,727	13,988,589	14,478,146	17,485,605	14,916,230
Capital outlay	38,613,906	14,684,897	15,188,550	33,486,048	24,811,237	45,615,169	20,524,638	26,002,338	36,796,653
Debt service:									
Principal retirement	1,291,099	1,822,913	1,668,350	1,688,801	1,715,542	3,736,587	3,263,948	3,292,641	1,820,679
Interest and fiscal charges	466,974	529,808	520,228	499,077	480,909	458,035	577,299	482,908	383,297
<b>Total expenditures</b>	<b>133,927,463</b>	<b>115,862,158</b>	<b>124,582,375</b>	<b>146,939,054</b>	<b>151,862,938</b>	<b>182,453,716</b>	<b>165,651,329</b>	<b>181,976,431</b>	<b>195,767,322</b>
Excess (deficiency) of revenues over (under) expenditures	(8,060,397)	5,151,522	7,519,941	16,724,337	6,478,240	(6,086,003)	28,088,799	4,135,782	(13,014,130)
<b>Other financing sources (uses):</b>									
Transfers in	10,927,460	14,376,167	16,553,395	20,601,957	25,194,920	20,271,396	27,583,922	23,354,366	22,380,521
Transfers out	(11,669,089)	(14,342,890)	(18,495,612)	(20,612,176)	(31,177,725)	(22,521,396)	(36,076,952)	(23,354,366)	(21,780,521)
Proceeds from issuance of debt	18,000,000	2,630,736	-	-	-	5,000,000	-	-	1,500,000
Total other financing sources (uses)	17,258,371	2,664,013	(1,942,217)	(10,219)	(5,982,805)	2,750,000	(8,493,030)	0	2,100,000
<b>Net change in fund balances</b>	<b>\$ 9,197,974</b>	<b>\$ 7,815,535</b>	<b>\$ 5,577,724</b>	<b>\$ 16,714,118</b>	<b>\$ 495,435</b>	<b>\$ (3,336,003)</b>	<b>\$ 19,595,769</b>	<b>\$ 4,135,782</b>	<b>\$ (10,914,130)</b>
Debt service as a percentage of noncapital expenditures	1.6%	2.2%	1.8%	1.7%	1.7%	2.8%	2.5%	2.3%	1.3%

<sup>1</sup> Adjusted to include Property Tax-in lieu of VLF which was previously reported as intergovernmental revenue

The City of Newport Beach has elected to show only nine years of data for this schedule.

## REVENUE CAPACITY

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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 Ten Fiscal Years**

Fiscal Year Ended June 30	City			Taxable Assessed Value	Total Direct Tax Rate
	Public Utility	Secured	Unsecured		
2001	2,000	15,087,602,671	915,394,966	16,002,999,637	1.000%
2002	2,000	16,515,797,641	913,075,074	17,428,874,715	1.000%
2003	16,531,505	21,339,270,499	1,085,951,066	22,425,221,565	1.000%
2004	16,531,505	23,219,166,299	1,372,432,950	24,591,599,249	1.000%
2005	53,310	25,193,662,254	1,484,019,033	26,677,681,287	1.000%
2006	53,310	28,136,607,566	1,914,106,993	30,050,714,559	1.000%
2007	53,310	31,423,473,042	1,569,867,249	32,993,340,291	1.000%
2008	53,310	34,188,568,583	1,668,015,342	35,856,583,925	1.000%
2009	699,230	36,436,106,070	1,538,539,482	37,974,645,552	1.000%
2010	699,230	37,078,595,810	1,564,808,312	38,643,404,122	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.

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**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
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	0.009	0.008	0.007	0.006	0.005	0.005	0.005	0.004	0.004	0.004
School Districts	0.0000	0.0069	0.0067	0.0122	0.0343	0.0349	0.0315	0.0308	0.0302	0.0340
Total Overlapping Rate	0.009	0.015	0.013	0.018	0.040	0.040	0.036	0.035	0.034	0.038
Total Direct & Overlapping Rate	\$ 1.009	\$ 1.015	\$ 1.013	\$ 1.018	\$ 1.040	\$ 1.040	\$ 1.036	\$ 1.035	\$ 1.034	\$ 1.038

**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: Orange County Auditor Controller's Office



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

Taxpayer	2010			2001		
	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	\$ 1,845,922,190	1	4.78%	\$ 850,168,670	1	5.31%
Rockwell Semiconductor	145,017,612	2	0.38%	503,723,684	2	3.15%
Newport Bluffs LLC	138,143,707	3	0.36%	N/A		0.00%
Balboa Bay Club Inc.	128,568,741	4	0.33%	N/A		0.00%
100 Bayview LLC	124,169,842	5	0.32%	N/A		0.00%
UDR Newport Beach North LP	117,788,896	6	0.30%	63,233,000	6	0.40%
Coronado South Apartments LP	114,618,841	7	0.30%	N/A		0.00%
Newport Healthcare Center	103,942,105	8	0.27%	N/A		0.00%
Jazz Semiconductor Inc	103,174,333	9	0.27%	N/A		0.00%
HHR Newport Beach LLC	86,937,291	10	0.22%	N/A		0.00%
	<u>\$ 2,908,283,558</u>		<u>7.53%</u>	<u>\$ 1,417,125,354</u>		<u>8.86%</u>

Source: HdL, Coren and Cone Co.

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

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2002	31,298,541 <sup>1</sup>	30,651,143	97.93%	102,001	30,753,144	98.26%
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	119.85% <sup>2</sup>	483,804	54,547,755 <sup>2</sup>	120.92%
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%	808,765	69,629,167	99.19%
2008	69,315,117	68,242,326	98.45%	846,904	69,089,231	99.67%
2009	71,006,357	70,879,909	99.82%	(294,366)	70,585,543	99.41%
2010	68,412,731	62,858,260	91.88%	(1,227,109)	61,631,151	90.09%

<sup>1</sup> Includes estimated levy for Newport Coast properties that were annexed on January 1, 2002.

<sup>2</sup> Collections include nearly \$10 million of Property Tax in lieu of Sales Tax and Vehicle License Fees not included in the levy.

Source: Orange County Auditor Controller's Office

*The City of Newport Beach has elected to show only nine years of data for this schedule due to the fact that previous years data could not be verified.*

## DEBT CAPACITY

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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
- Pledged Revenue Coverage

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	Note Payable	Pre-Annexation Agreement	CDBG Loan	Capital Leases	Purchase Agreement Payable
2001	6,610,000	2,350,930	N/A	N/A	914,830	N/A
2002	6,365,000	2,219,660	18,000,000	N/A	1,150,927	N/A
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

Note: This excludes claims and judgements and employee compensated absence liabilities. Details regarding the City's outstanding debt can be found in the notes to the financial statements.

<sup>1</sup> These ratios are calculated using personal income and population for the prior calendar year.

Total Governmental Activities	Business-type Activities		Total Primary Government	Percentage of Personal Income <sup>1</sup>	Debt Per Capita <sup>1</sup>
	Water Revenue Bonds	Total Business- type Activities			
9,875,760	12,095,000	12,095,000	21,970,760	0.47%	297
27,735,587	10,950,000	10,950,000	38,685,587	0.88%	552
28,686,069	9,765,000	9,765,000	38,451,069	0.79%	508
26,587,108	8,535,000	8,535,000	35,122,108	0.66%	442
24,456,105	7,255,000	7,255,000	31,711,105	0.58%	392
22,485,845	5,925,000	5,925,000	28,410,845	0.50%	342
23,632,692	4,540,000	4,540,000	28,172,692	0.44%	338
20,319,254	3,095,000	3,095,000	23,414,254	0.36%	278
17,026,613	1,585,000	1,585,000	18,611,613	0.28%	215
16,705,934	-	-	16,705,934	0.25%	193

**CITY OF NEWPORT BEACH**  
**Outstanding Debt Serviced by the General Fund**  
**Last Ten Fiscal Years**  
**(In Thousands, except Per Capita)**

<u>Fiscal Year Ended June 30</u>	<u>Certificates of Participation</u>	<u>Purchase Agreement Payable</u>	<u>Total</u>	<u>Percent of Assessed Value <sup>1</sup></u>	<u>Per Capita</u>
2001	6,845	N/A	6,845	0.05%	93
2002	6,610	N/A	6,610	0.04%	94
2003	6,365	N/A	6,365	0.04%	84
2004	6,110	N/A	6,110	0.03%	77
2005	5,845	N/A	5,845	0.02%	72
2006	5,570	N/A	5,570	0.02%	67
2007	5,280	3,000	8,280	0.03%	99
2008	4,980	1,500	6,480	0.02%	77
2009	4,335	N/A	4,335	0.01%	50
2010	3,990	1,500	5,490	0.01%	63

<sup>1</sup> 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, 2010**

<b>City Assessed Valuation:</b>	\$ 38,643,404,122
Redevelopment Agency Incremental Valuation:	<u>894,901,662</u>
Adjusted Assessed Valuation:	<u><u>\$ 37,748,502,460</u></u>

	Percentage Applicable <sup>1</sup>	Outstanding Debt 6/30/10	Estimated Share of Overlapping Debt
<b>OVERLAPPING TAX AND ASSESSMENT DEBT:</b>			
Metropolitan Water District	2.086%	264,219,990	5,511,629
Coast Community College District	35.120%	326,768,867	114,761,226
Rancho Santiago Community College District	3.908%	313,655,757	12,257,667
Laguna Beach Unified School District	15.236%	32,800,000	4,997,408
Laguna Beach U.S.D. Community Facilities District No. 98-1	100.000%	9,680,000	9,680,000
Newport Mesa Unified School District	71.997%	160,553,480	115,593,689
Newport Mesa U.S.D. Community Facilities District No. 90-1	100.000%	13,390,000	13,390,000
Santa Ana Unified School District	9.117%	265,093,737	24,168,596
Irvine Ranch Water District Improvement Districts	16.895% - 100.000%	60,167,278	47,315,471
Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1	100.000%	41,275,000	41,275,000
City of Newport Beach Special Improvement District No. 95-1	100.000%	7,380,000	7,380,000
City of Newport Beach 1915 Act Bonds	100.000%	17,719,652	17,719,652
Orange County Assessment District No. 88-1	100.000%	34,718,296	34,718,296
Orange County Reassessment District No. 99-1R	100.000%	13,835,000	13,835,000
Orange County Assessment District No. 01-1	100.000%	53,769,000	53,769,000
Orange County Reassessment District No. 01-1R	100.000%	6,505,000	6,505,000
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>1,621,531,057</b>	<b>522,877,634</b>
<b>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</b>			
<u>OVERLAPPING GENERAL FUND DEBT:</u>			
Orange County General Fund Obligations	10.080%	\$ 339,457,004	\$ 34,217,266
Orange County Pension Obligations	10.080%	56,834,147	5,728,882
Orange County Board of Education Certificates of Participation	10.080%	19,230,000	1,938,384
Municipal Water District of O.C. Water Facilities Corporation	11.918%	14,120,003	1,682,822
South Orange County Community College District Certificates of Participation	3.105%	17,375,008	539,494
Santa Ana Unified School District Certificates of Participation	9.117%	53,953,746	4,918,963
Irvine Ranch Water District Certificates of Participation	11.436%	85,144,998	9,737,182
City of Newport Beach Certificates of Participation	100.000%	3,990,000	3,990,000
<b>TOTAL GROSS OVERLAPPING GENERAL FUND DEBT</b>		<b>590,104,906</b>	<b>62,752,993</b>
Less: MWDOC Water Facilities Corporation (100% self-supporting)			(1,682,822)
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>			<b>\$ 61,070,171</b>
<b>GROSS COMBINED TOTAL DEBT (2)</b>			<b>\$ 586,965,657</b>
<b>NET COMBINED TOTAL DEBT</b>			<b>\$ 585,282,805</b>

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

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

<b>Ratios to 2009-10 Assessed Valuation:</b>	
Total Overlapping Tax and Assessment Debt	1.360%

<b>Ratios to Adjusted Assessed Valuation:</b>	
Combined Direct Debt (\$3,990,000)	0.010%
Gross Combined Total Debt	1.550%
Net Combined Total Debt	1.550%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: \$0

Source: California Municipal Statistics, Inc.

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

	2001	2002	2003	2004
Assessed valuation	\$ 16,002,999,637	\$ 17,428,874,715	\$ 22,425,221,565	\$ 24,591,599,249
Conversion percentage	25%	25%	25%	25%
Adjusted assessed valuation	4,000,749,909	4,357,218,679	5,606,305,391	6,147,899,812
Debt limit percentage	15%	15%	15%	15%
Debt limit	600,112,486	653,582,802	840,945,809	922,184,972
Total net debt applicable to limit: General obligation bonds	-	-	-	-
Legal debt margin	<u>\$ 600,112,486</u>	<u>\$ 653,582,802</u>	<u>\$ 840,945,809</u>	<u>\$ 922,184,972</u>
Total debt applicable to the limit as a percentage of debt limit	0.0%	0.0%	0.0%	0.0%

NOTE:

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

Source: City Administrative Servic



Fiscal Year						
2005	2006	2007	2008	2009	2010	
\$ 26,677,681,287	\$ 30,050,714,559	\$ 32,993,340,291	\$ 35,856,583,925	\$ 37,974,645,552	\$ 38,643,404,122	
25%	25%	25%	25%	25%	25%	
6,669,420,322	7,512,678,640	8,248,335,073	8,964,145,981	9,493,661,388	9,660,851,031	
15%	15%	15%	15%	15%	15%	
1,000,413,048	1,126,901,796	1,237,250,261	1,344,621,897	1,424,049,208	1,449,127,655	
-	-	-	-	-	-	
<u>\$ 1,000,413,048</u>	<u>\$ 1,126,901,796</u>	<u>\$ 1,237,250,261</u>	<u>\$ 1,344,621,897</u>	<u>\$ 1,424,049,208</u>	<u>\$ 1,449,127,655</u>	
0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	

**CITY OF NEWPORT BEACH**  
**Pledged-Revenue Coverage**  
**Last Ten Fiscal Years**

Fiscal Year Ended June 30	Water Revenue Bonds					
	Water Revenue <sup>1</sup>	Less Operating Expenses <sup>2</sup>	Net Available Revenue	Debt Service		
				Principal	Interest	Coverage
2001	17,839,320	11,784,120	6,055,200	1,145,000	510,224	3.66
2002	17,809,919	13,257,934	4,551,985	1,105,000	465,572	2.90
2003	17,326,604	12,430,144	4,896,460	1,185,000	418,172	3.05
2004	18,321,122	15,261,360	3,059,762	1,230,000	367,742	1.92
2005	17,878,016	12,967,118	4,910,898	1,280,000	314,622	3.08
2006	18,026,750	14,190,147	3,836,603	1,330,000	258,762	2.41
2007	18,534,689	15,614,885	2,919,804	1,385,000	199,900	1.84
2008	16,709,021	17,518,263	(809,242)	1,445,000	137,765	(0.51)
2009	17,259,977	16,437,227	822,750	1,510,000	71,325	0.52
2010	17,567,596	17,168,006	399,590	1,585,000	-	0.25

<sup>1</sup> Gross revenues includes operating revenues, interest, property, and intergovernmental revenues in the Water Fund.

<sup>2</sup> Total Water Fund operating expenses do not include interest or depreciation expenses.

## DEMOGRAPHIC AND ECONOMIC INFORMATION

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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 <sup>(1)</sup>	Personal Income (in thousands)	Per Capita Income <sup>(2)</sup>	Unemployment Rate <sup>(3)</sup>
2001	70,032	4,413,066	63,015	1.6%
2002	75,662	4,865,294	64,303	2.5%
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%

<sup>(1)</sup> 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:**

<sup>(1)</sup> California State Department of Finance, E-4 Population Estimates for Cities, Counties and State 2001-2010

<sup>(2)</sup> U.S. Census Bureau - American Community Survey

<sup>(3)</sup> State of California, Employment Development Department

**CITY OF NEWPORT BEACH**  
**Principal Employers<sup>1</sup>**  
**Current Year and 5 years ago**

Employer	2010			2005 <sup>2</sup>		
	Number of Employees	Rank	Percent of Total Employment	Number of Employees	Rank	Percent of Total Employment
Hoag Memorial Hospital	4,001	1	4.91%	3,640	1	N/A
Conexant Systems Inc	1,650	2	2.02%	650	6	N/A
Pacific Life Insurance	1,513	3	1.86%	2,788	2	N/A
Glidewell Dental	1,400	4	1.72%	N/A	-	N/A
City of Newport Beach	940	5	1.15%	788	4	N/A
US Bank	883	6	1.08%	N/A	-	N/A
B. Alan Whitson Company	750	7	0.92%	N/A	-	N/A
Newport-Mesa Unified School District	545	8	0.67%	N/A	-	N/A
Marriott-Newport Beach	510	9	0.63%	475	9	N/A
The Island Hotel	500	10	0.61%	525 <sup>3</sup>	8	N/A
Fletcher Jones Motor Cars Inc.	500	10	0.61%	N/A	-	N/A
Balboa Bay Club and Resort	500	10	0.61%	N/A	-	N/A
PIMCO Advisors	500	10	0.61%	530	7	N/A

<sup>1</sup> Figures reflect number of employees of employer at the time the information was collected.

<sup>2</sup> Information for nine years ago is not available.

<sup>3</sup> The Island Hotel was formerly the Four Seasons Hotel.

Source: InfoGroup

## OPERATING INFORMATION

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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.

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

Function	Full-Time Employees as of June 30, 2010									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government	75	77	77	84	86	90	93	93	99	92
Public safety	358	384	384	385	385	388	393	397	397	394
Community development	42	44	46	46	47	48	52	56	57	53
Public works	155	163	164	162	162	163	163	165	160	147
Community services	53	57	58	57	60	65	66	68	71	69
Balboa yacht basin	1	1	1	1	1	-	-	-	-	-
Water	34	33	33	33	34	34	34	35	35	36
Wastewater	10	12	12	13	13	13	13	13	13	14
Total	<u>728</u>	<u>771</u>	<u>775</u>	<u>781</u>	<u>788</u>	<u>801</u>	<u>814</u>	<u>827</u>	<u>832</u>	<u>805</u>

Source: City Administrative Services Department

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

	Fiscal Year			
	2001	2002	2003	2004
Police:				
Adult Arrests	3,494	3,684	3,485	3,201
Parking Citations Issued	74,068	73,191	68,907	71,076
Fire:				
Fire Responses	365	359	442	423
Fire Inspections	6,173	6,400	4,460	4,500
General Services:				
Street Patching (tons of mix)	5,000	5,500	5,500	5,000
Sidewalk Repair (square feet)	50,000	50,000	55,000	50,000
Recreation & Senior Services:				
Co-Sponsored Youth Organizations	165,464	188,689	200,077	185,627
Senior Transportation Services	11,000	10,917	12,094	12,041
Water:				
New connections	154	118	99	53
Average daily consumption (hundred cubic ft.)	17	17	17	17
Sewer:				
New connections	N/A	N/A	50	25
Miles of Pipe Cleaned	N/A	202	262	293
Library Services:				
Library Circulation of Materials	1,250,713	1,263,200	1,347,583	1,392,346

Source: City of Newport Beach



Fiscal Year					
2005	2006	2007	2008	2009	2010
3,079	2,999	3,289	3,196	3,245	2,931
72,665	74,780	67,170	70,150	65,176	62,845
228	214	175	393	371	338
4,550	6,470	7,136	7,250	6,912	7,000
4,500	4,600	4,980	4,644	3,882	3,467
50,000	55,000	59,459	58,000	49,644	49,540
194,749	194,722	201,258	258,635	318,779	321,200
11,936	12,628	14,728	15,279	15,984	15,306
55	52	95	60	26	19
17	17	17	17	17	17.25
24	24	45	45	12	9
205	335	226	212	209	305
1,475,025	1,443,078	1,622,573	1,701,476	1,575,518	1,818,709

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

	Fiscal Year			
	2001	2002	2003	2004
Police:				
Stations	1	1	1	1
Fire:				
Fire stations	6	7	7	7
Lifeguard Headquarters	1	1	1	1
Public works:				
Streets (miles)	315	325	333	333
Streetlights	N/A	7,277	7,277	7,277
Traffic signals	121	130	131	131
Recreation & Senior Services:				
Parks	45	47	47	47
Community centers	10	11	11	11
Aquatic Center	1	1	1	1
Water:				
Water mains (miles)	282.35	294.81	294.81	294.81
Maximum daily capacity (thousands of gallons)	20,959	20,796	21,291	20,092
Wastewater:				
Sanitary sewers (miles)	200.02	176.90	178.40	179.15
Storm sewers (miles)	103.08	51.40	53.50	57.60
Library Services:				
Libraries	4	4	4	4

Source: City of Newport Beach

Fiscal Year					
2005	2006	2007	2008	2009	2010
1	1	1	1	1	1
8	8	8	8	8	8
1	1	1	1	1	1
333	333	395	395	395	395
7,277	7,277	7,278	7,278	7,278	7,278
144	147	147	148	148	148
47	47	47	48	49	49
11	11	12	13	13	13
1	1	1	1	1	1
298.42	299.88	300.35	300.17	300.31	303.27
20,633	19,369	20,392	20,365	19,707	19,341
179.15	179.15	202.80	202.80	202.80	202.80
57.60	57.60	95.50	95.50	95.50	95.50
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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Type of Customer:										
Residential	4,227,699	4,459,302	4,430,485	4,362,402	4,289,629	4,190,791	4,492,489	4,046,969	3,989,816	4,251,996
Commercial	1,487,538	1,552,366	1,604,931	1,659,565	1,568,462	1,440,377	1,302,578	1,184,904	1,188,553	1,165,128
Government	678,594	480,809	597,395	486,051	487,189	607,650	601,659	361,457	420,697	349,334
<b>Total</b>	<b>6,393,831</b>	<b>6,492,477</b>	<b>6,632,811</b>	<b>6,508,018</b>	<b>6,345,280</b>	<b>6,238,818</b>	<b>6,396,726</b>	<b>5,593,330</b>	<b>5,599,066</b>	<b>5,766,458</b>
Total direct rate per 100 cubic ft.	2.00	2.00	2.00	2.00	2.00	2.08	2.08	2.08	2.08	2.20

Source: City Utilities Department

**CITY OF NEWPORT BEACH**  
**Water Rates**  
**Last Ten Fiscal Years**

Fiscal Year Ended June 30	Monthly Base Rate	Rate per 100 cubic ft
2001	9.90	2.25
2002	9.90	2.25
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

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	2010			2001 <sup>1</sup>		
	Water Charges	Rank	Percent of Total Water Revenues	Water Charges	Rank	Percent of Total Water Revenues
Hoag Memorial Hospital	\$ 198,395	1	1.13%	\$ 101,436	6	0.57%
Irvine Apartment Management	167,800	2	0.96%	N/A		0.00%
Big Canyon Country Club	147,818	3	0.84%	169,900	2	0.95%
The Irvine Company	129,008	4	0.73%	267,688	1	1.50%
Newport Beach Country Club	109,492	5	0.62%	152,362	3	0.86%
Park Newport Ltd	86,428	6	0.49%	150,062	4	0.84%
Bluffs Homeowners Association	84,605	7	0.48%	N/A		0.00%
UDR Newport Beach	79,293	8	0.45%	N/A		0.00%
East Bluff Village	75,722	9	0.43%	N/A		0.00%
Newport-Mesa USD	72,176	10	0.41%	N/A		0.00%
Pacific View - Pierce Bros.	54,650	11	0.31%	47,466	11	0.27%
Spyglass Hill Community Assoc.	49,440	12	0.28%	N/A		0.00%
IOIC/PMS Engineering Department	48,632	13	0.28%	N/A		0.00%
Newport Dunes Resort	42,618	14	0.24%	N/A		0.00%
Balboa Village Community Association	41,117	15	0.23%	N/A		0.00%
	<u>\$ 1,188,799</u>		<u>6.77%</u>	<u>\$ 787,478</u>		<u>4.42%</u>

<sup>1</sup> Information for fiscal years ended prior to 2001, is not available.

Source: City Revenue Division



City of Newport Beach

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[www.newportbeachca.gov/financial](http://www.newportbeachca.gov/financial) info