

CITY OF LAGUNA HILLS CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT FISCAL YEAR ENDED JUNE 30, 2017



CITY OF LAGUNA HILLS

California



COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2017

CITY MANAGER
Bruce E. Channing

ASSISTANT CITY MANAGER
Donald J. White

INTRODUCTORY SECTION

CITY OF LAGUNA HILLS

Table of Contents

Introductory Section

Table of Contents	i
GFOA Certificate of Achievement	iii
Letter of Transmittal	I - 1
Elected Officials	I - 10
Appointed Officials	I - 11
Organizational Chart	I - 12

Financial Section

Independent Auditors' Report	II - 1
Management Discussion & Analysis	II - 5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	II - 19
Statement of Activities	II - 20
Fund Financial Statements:	
Balance Sheet - Governmental Funds	II - 23
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	II - 24
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	II - 25
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	II - 26
Statement of Net Position - Proprietary Fund	II - 27
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund.....	II - 28
Statement of Cash Flows - Proprietary Fund	II - 29
Statement of Fiduciary Assets and Liabilities - Agency Fund	II - 30
Notes to the Basic Financial Statements.....	II - 31
Required Supplementary Information:	
Schedule of Proportionate Share of the Net Pension Liability	II - 63
Schedule of Contribution	II - 64
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	II - 65
Note to Required Supplementary Information	II - 66
Supplementary Schedules:	
Non-Major Governmental Funds - Special Revenue:	
Combining Balance Sheet	II - 68
Combining Statement of Revenues, Expenditures and Changes in Fund Balance.....	II - 70
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual:	
Capital Projects Fund - Major Fund.....	II - 72
Debt Service Fund - Major Fund	II - 73
Gas Tax Special Revenue Fund	II - 74
Measure M Special Revenue Fund	II - 75
AB 2766 Special Revenue Fund	II - 76
Senior Mobility Program Special Revenue Fund	II - 77
UVSP Traffic Impact Special Revenue Fund	II - 78
CARITS Special Revenue Fund	II - 79
CDBG Special Revenue Fund.....	II - 80
Beverage Recycling Special Revenue Fund.....	II - 81
CR&R Recycling Fees Special Revenue Fund	II - 82
C & D Forfeited Deposits Special Revenue Fund	II - 83
AB 939 Surcharge Grant Special Revenue Fund	II - 84
Water Conservation Special Revenue Fund	II - 85
Grants & Contributions Special Revenue Fund	II - 86
SLESF/COPS Brulte Special Revenue Fund	II - 87
Statement of Changes in Fiduciary Assets & Liabilities - Agency Fund	II - 88

CITY OF LAGUNA HILLS

Table of Contents

Statistical Section (Unaudited)

Description of Statistical Section Contents	III - 1
Financial Trends:	
Net Position by Component	III - 3
Change in Net Position	III - 4
Governmental Activities Tax Revenues By Source	III - 6
Fund Balances of Governmental Funds	III - 7
Changes in Fund Balances of Governmental Funds	III - 8
Revenue Capacity:	
Assessed Value and Estimated Actual Value of Taxable Property	III -10
Direct and Overlapping Property Tax Rates.....	III -11
Principal Property Taxpayers	III -12
Property Tax Levies and Collections	III -13
Principal Sales Tax Producers	III -14
Historical Sales Tax Amounts	III -15
Debt Capacity:	
Ratios of Outstanding Debt by Type	III -16
Ratios of General Bonded Debt Outstanding	III -17
Direct and Overlapping Governmental Activities Debt	III -18
Legal Debt Margin Information	III -19
Pledged Revenue Coverage	III -20
Demographic & Economic Information:	
Demographic and Economic Statistics	III -21
Principal Employers	III -22
Operating Information:	
Full-time Equivalent Personnel Allocation by Function	III -23
Operating Indicators by Function	III -24
Capital Assets Statistics by Function	III -25
City at a Glance	III -26

Government Finance Officers Association

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

Presented to

**City of Laguna Hills
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016



Executive Director/CEO

This page intentionally left blank.



December 12, 2017

**Honorable Mayor and
Members of the City Council:**

The Comprehensive Annual Financial Report (CAFR) of the City of Laguna Hills for the fiscal year ended June 30, 2017, is submitted herewith. This report is published in accordance with local ordinance and State law requirements that financial statements be presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by an independent public accounting firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the City of Laguna Hills. Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City's management. It is management's opinion that the data is accurate in all material aspects, is presented in a manner designed to fairly set forth the financial position and results of operations of the City, and contains all disclosures necessary to enable the reader to gain an understanding of the City's financial affairs. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, misuse, and to compile sufficient reliable information for the preparation of the financial statements in conformity with GAAP. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute assurance that the financial statements are free of material misrepresentation. As management, we assert that, to the best of our knowledge and belief, this financial report is complete

and reliable in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds of the City, as well as the City as a whole.

The City's financial statements have been audited by White Nelson Diehl Evans, LLP, a public accounting firm fully licensed and qualified to perform audits of local government. The independent auditors concluded that there was a reasonable basis for rendering an unmodified opinion on the City's financial statements and that they present fairly, in all material respects, the financial condition of the City at the end of this fiscal year.

A narrative introduction, overview and analysis of the basic financial statements for the City for the fiscal year ended June 30, 2017, is discussed in the Management's Discussion and Analysis (MD&A), which immediately follows the independent auditor's report. The MD&A is designed to complement this letter of transmittal and should be read in conjunction with it.

PROFILE OF THE CITY OF LAGUNA HILLS

The City of Laguna Hills is located in South Orange County approximately 60 miles south of Los Angeles and 70 miles north of San Diego. Incorporated in 1991 under the laws of the State of California, it enjoys all the rights and privileges pertaining to "General Law" cities. The City is home to approximately 31,544 residents and over 1,000 businesses.

The City of Laguna Hills operates under a Council-Manager form of government. Policymaking and legislative authority are vested in the City Council, which consists of a Mayor and a four-member Council. The Mayor is annually selected by the City Council from among its membership, and serves a one-year term. The governing Council is responsible, among other things, for passing the City's ordinances and operating resolutions, adopting the biennial budget, appointing commissions and committees, and hiring the City Manager. The City Manager administers the daily operations and programs of the City through department heads, other staff members and employees.

The City contracts for selected municipal services utilizing agreements with other governmental entities, private firms and individuals. Police services are provided by the Orange County Sheriff's Department and fire services are provided through the Orange County Fire Authority, of which the City is a member.

Although the majority of the area in the City has a distinctive residential character, the City has a strong commercial base, specifically in the northern section of the City. This commercial area, or “Urban Village,” is anchored by the regional Laguna Hills Mall, the Oakbrook Village Shopping Center, and the Saddleback Memorial Medical Center. In addition, the area north of the Mall holds a complement of commercial and mixed-use industrial uses.

FACTORS AFFECTING FINANCIAL CONDITION

ECONOMIC CONDITIONS & OUTLOOK

Eight years after the end of the “Great Recession”, it is clear that the major repercussions of the historic economic downturn have substantially subsided. Consequently, the City of Laguna Hills expects to see continual signs of recovery in the local tax base and anticipates revenues to reach, and ultimately surpass, pre-recessionary levels. To maintain its strong financial position, the City must continue to promote overall fiscal health and sustainability by adhering to its conservative financial policies, focusing on organizational efficiency and performance, and fiscally prudent decision-making. This financially conservative stance has played a critical role in allowing the City to respond quickly to the post-Recession difficulties that were prevalent in the economy. Another important factor in the City’s healthy financial condition is its strong and well-diversified tax base. Since Laguna Hills’ incorporation in 1991, its diversified tax base has consistently performed well in good economic times and, more importantly over these last seven years, has helped the City weather slower economic conditions.

General fund reported revenues in Laguna Hills increased in Fiscal Year 2016/2017 by \$100,716 and totaled \$20,743,842. Property tax revenues totaled \$10,064,067, representing a 4.2% increase over the prior year revenues. Total operating expenditures increased over the previous fiscal year by \$1,892,357, or 10.8%, and came in \$189,831 under budget for FY 2016/2017. Additionally, general fund revenues exceeded expenditures by \$1,251,238. The City ended the fiscal year with a total fund balance of \$11,040,725.

As the real estate market in the City continues to recover, property taxes are expected to continue to rebound next year. Given a positive consumer price index and the overall improvement that is occurring in the local housing market, property taxes are anticipated to increase over the next few years.

LONG TERM FINANCIAL PLANNING

The City utilizes a customized 8-Year Resource Allocation plan that is specifically designed to project the City's operating and reserve policy ratios over an eight year forecast horizon. The City's policy is to strive to maintain an operating ratio of 1.1 to 1.0, an Unrestricted General Fund Balance Ratio of 35% and an Unassigned General Fund balance Ratio of 25%. The operating ratio for FY 2016/17 came in at 1.01 and the Unrestricted Fund Balance and the Unassigned Fund Balance were at 34% and 35%, respectively. During the development of the 2017-19 Biennial Budget, the City identified a number of cost saving measures that, once implemented, will have a significant impact on the City's financial outlook. These, coupled with the completion of major development projects discussed under the *Major Initiatives* heading, will allow the City to improve its operating ratio target.

ACCOUNTING SYSTEM AND BUDGETARY CONTROLS

In developing the City's accounting system, consideration was given to the adequacy of internal accounting controls, which are designed to provide reasonable, but not absolute, assurance in connection with: (1) the safeguarding of assets against loss from unauthorized use or disposition, and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. All internal control evaluations occur within the above framework. We believe the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions. Furthermore, the City maintains budgetary controls to ensure compliance with the legal provisions embodied in the annual appropriated budget approved by the City Council. The City Manager is authorized to transfer budgeted amounts within and between funds as deemed necessary in order to meet the City's needs. Revisions that exceed the appropriated budget must be approved by the City Council.

CASH MANAGEMENT

The City invests its temporary idle cash in investments authorized under the City's prevailing Investment Resolution and Policies, which are reviewed and approved annually. These policies are significantly more restrictive than State law, limiting investments to a maturity of one year or less. At the present time, the City's investments are limited to the Local Agency Investment Fund (LAIF), fully insured or collateralized certificates of deposit with qualified banks, and U.S. Treasury money market funds.

CAPITAL ASSETS

Generally, only assets which cost \$5,000 or more and which have a useful life of five years or more are considered capital assets. This designation is extensively discussed in the City's Internal Control Policies and Procedures for Capital Assets and Minor Equipment, which were developed for the City's compliance with the requirements with GASB 34.

MAJOR INITIATIVES

The following section provides a sampling of some of the various initiatives and highlights occurring throughout the 2016/2017 fiscal year as well as from the current endeavors:

BIENNIAL BUDGET

Since its incorporation, the City has been committed to biennial budgeting and long-range planning. Preparing a budget every other year lends greater weight to the importance of the process. This year's budget process lasted from February through June. The lengthy budget process included three public study sessions, including a strategic planning budget workshop, a Capital Improvement Program and Operating Budget study session, and a public hearing. The City Council was ultimately presented with and adopted a budget that accomplished the following:

- Budgeted revenues and expenditures totaling \$47.88 million.
- Operating revenues for Fiscal Year 2017/18 are anticipated to increase by 3.95% from the previous year estimate. For Fiscal Year 2018/19, operating revenues are projected to increase slightly by \$678,824.
- Approved 16 capital projects totaling \$3,727,000. Of this amount, \$575,000, or 15.4%, is required from the General Fund. The balance of the funding will come from Special Funds and capital reserve funds.

SOFTWARE SYSTEM UPGRADES

The City Council awarded a contract to Tyler Technologies on December 13, 2016, for the replacement of the City's finance software system and its permitting and land management software system. The Finance Department is in the process of upgrading to the Incode financial system and the Community Develop Department is in the process of upgrading to the Energov Enterprise system. In spring 2017, Tyler Technologies and City staff began major work efforts on the project, including: a detailed

analysis and reconfiguration of current business processes; software workflow management and setup; configuration of software variables; data conversion processes; software testing; and user training. When completed, both software systems will provide the City with enhanced features that will streamline business processes and improve customer service and access to City data. The financial system transition to Incode will be completed in the first part of 2018, while the upgrade to the land management software system is estimated to be completed by June 2018.

ELECTRONIC PLAN CHECK (E-PLANS)

In 2017, the Building Division introduced a new electronic plans (e-plan) submission and routing process, allowing applicants to submit plans and complete a plan check process electronically. The City will still continue to process paper plans at the building permit counter to meet customer needs. The e-plan process will reduce applicant wait times at the front counter and provide workflow enhancements that improve staff efficiency and property data management.

CITY COUNCIL AUDIO/ VISUAL SYSTEM UPGRADE

A significant upgrade to the City Council Chamber's audio/visual system was completed this year. The original system was installed when the Civic Center building first opened in 2004. Some of the components have been replaced throughout the years; however, the majority of the old system technology was antiquated. This project involved converting the old audio/visual analogue system to new digital technology, and the following components were added or upgraded to the system: additional camera for recording purposes, new dais and staff monitors, new microphones, new touch panels with programming to administer system, a 65" LCD display for lobby area, and an audience signal light system for public speaking time.

FIVE LAGUNAS

After beginning various construction and development activities in 2017, Merlone-Geier Partners (MGP), the owner of the former Laguna Hills Mall, has announced that it is taking a strategic pause in the redevelopment of the former Laguna Hills Mall. This action by MGP was prompted by their recent buy out of the Macy's leasehold interest. The City approved a site plan in March of 2016 that included over 880,000 square feet of commercial space including a 14-screen luxury theater, health club, restaurants, and retail shops. The approval also included 988 luxury residential apartment units. Since the 2016 approval, MGP has completed parking lot

renovations in front of Nordstrom Rack, relocated Ruby's into a new 6,000 square foot shop space, and completed another 6,000 square foot space for Subway. Significant portions of the in-ground utility infrastructure were also completed. With the recent acquisition of the Macy's lease, and the announcement by Macy's that it will be closing its Laguna Hills location in early 2018, Merlone-Geier is now considering changes to the sequencing of their approved development project. City staff expects to receive a new project plan early next year.

**COMMUNITY
DEVELOPMENT BLOCK
GRANT (CDBG)**

The City successfully competed for an award of 2017/2018 Community Development Block Grant (CDBG) funding for Public Facilities and Improvement monies to be used at the Florence Sylvester Memorial Senior Center. The City was awarded \$140,000 to install slip-resistant tile flooring throughout the Center and remodel the men's restrooms to comply with Americans with Disabilities Act (ADA) requirements. A portion of the restroom improvements includes enlarging the restroom stalls, installing high-base toilets, modifying countertops, replacing hardware, tile, flashing, and plumbing, and installing hands-free components.

**POLICE SERVICES
CONTRACT**

As a result of the Matrix Consulting Group's Police Services Study conducted in 2013, City leaders and staff were successful in identifying and implementing several cost saving measures in FY 2015/16 and into FY 2016/17. Equitable cost sharing with regard to the patrol sergeant position has continued with the cities of Aliso Viejo and Laguna Woods, and patrol staffing adjustments have remained in place with a significant overall savings to the City.

In April 2017, the City, along with the cities of Aliso Viejo and Laguna Woods, again retained the services of the Matrix Consulting Group to identify further cost saving measures in the Police Services contract. The results of this study are currently under review.

Although there have been no performance issues to-date, the cost of the law enforcement services contract has continued to significantly strain the City's financial resources. In Fiscal Year 2017/2018, the cost of the OCSD contract is just under \$8 million, representing approximately 39% of the City's General Fund expenditures. Furthermore, the cost of the OCSD contract has continually outpaced inflation and is now 14% higher than it was a decade ago.

In August, the City entered into a Memorandum of Understanding with twelve cities in Orange County (Aliso Viejo, Dana Point, Laguna Niguel, Laguna Woods, Lake Forest, Mission Viejo, Rancho Santa Margarita, San Clemente, San Juan Capistrano, Stanton, Villa Park, and Yorba Linda) that contract with OCSD to evaluate the current agreement model and explore efficiencies that will ensure long-term cost sustainability. To that end, the thirteen cities have hired an independent third party to review and analyze the existing contract service model, cost assumptions, methodologies, and allocations of costs to provide recommendations for ensuring the long-term financial stabilization of the contract. The project is expected to be completed in the latter portion of 2018.

CABOT PARK RENOVATION

The renovation of Cabot Park, which began construction in late 2016 as CIP No. 241-A, was completed in mid-2017. This \$385,000 construction project included the replacement of approximately 14,000 board feet of equestrian trail fencing, the replacement of backstop padding at both baseball fields, the repair and repainting of handrails, trash can lids and the restroom building, the replacement of 3,200 square feet of sidewalk, the addition of ADA access ramps, the replacement of the playground rubberized surfacing and the addition of shade structures on the southerly edge of both baseball field bleacher areas.

AWARDS AND ACKNOWLEDGEMENTS


The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Laguna Hills for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016. This was the twenty-fourth consecutive year the City has received this prestigious award. The certificate is a national award that recognizes conformance with the highest standards for preparation of state and local government financial reports. To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR), whose contents conform to program standards, and must satisfy both generally accepted accounting principles and applicable legal requirements.

In January, the City was awarded the GFOA Distinguished Budget Presentation Award for its 2015-17 Biennial Budget document. To qualify for the GFOA award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the General Government Department. The contributions are invaluable and clearly reflect the high standards the City has set for itself.

In closing, without the effective leadership, guidance, and support provided by the Mayor and the City Council, preparation of this report, as well as the favorable financial results of the past year, would not have been possible.

Respectfully submitted,



Bruce E. Channing
City Manager



Donald J. White
Assistant City Manager

CITY OF LAGUNA HILLS

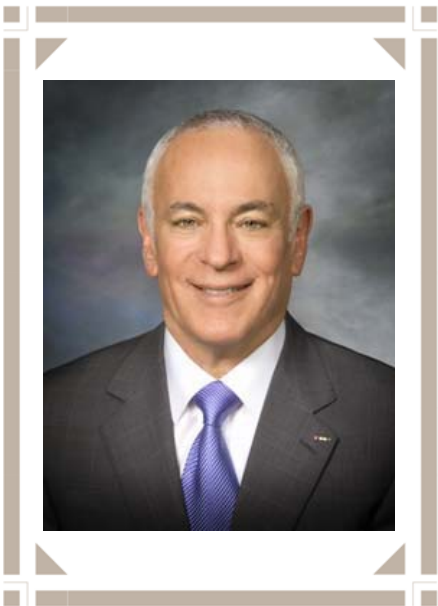
ELECTED OFFICIALS As of June 30, 2017



Don Sedgwick
Mayor



Melody Carruth
Mayor Pro Tem



Dore Gilbert
Council Member



Janine Heft
Council Member



Barbara Kogerman
Council Member

CITY OF LAGUNA HILLS

MANAGEMENT STAFF As of June 30, 2017



Donald J. White
Assistant City Manager/Deputy Treasurer



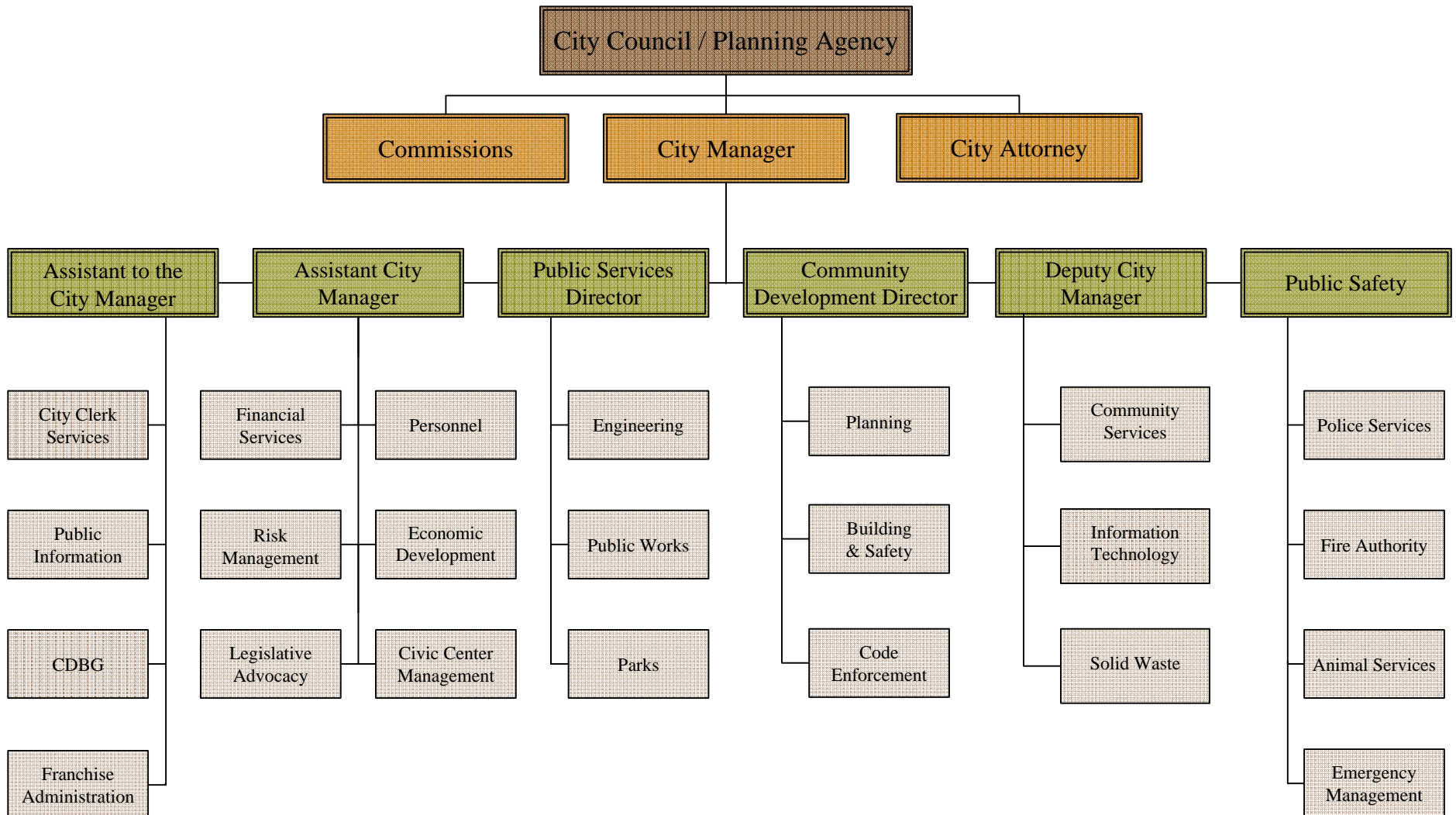
Bruce E. Channing
City Manager/Treasurer

♦ Gregory E. Simonian	City Attorney
♦ Lt. Roland Chacon	Police Chief (O.C. Sheriff Department)
♦ Jeff Adams	Division Chief (OC. Fire Department)
♦ Kenneth H. Rosenfield	Director of Public Works/City Engineer
♦ David T. Reynolds	Deputy City Manager
♦ David Chantarangsu	Community Development Director
♦ Melissa Au-Yeung	Assistant to the City Manager

CITY OF LAGUNA HILLS

ORGANIZATIONAL CHART

June 30, 2017



FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

City Council
City of Laguna Hills
Laguna Hills, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Laguna Hills (the City), as of and for the year ended June 30, 2017, and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these basic 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule of contributions - defined benefit pension plans, and the schedule of revenues, expenditures and changes in fund balance - budget and actual - general fund, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual non-major fund financial statements and schedules (supplementary information), as listed in the table of contents, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

White Nelson Diehl Evans LLP

Irvine, California
December 4, 2017

This page intentionally left blank.

MANAGEMENT'S DISCUSSION AND ANALYSIS



MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of Laguna Hills offers the readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended **June 30, 2017**. We encourage readers to consider the information presented here in conjunction with the accompanying transmittal letter on page I-1 and the basic financial statements in the appropriate section.

Financial Highlights

Government-Wide

- The net position of the City of Laguna Hills at the close of the most recent fiscal year was \$97,150,933. Of this amount, \$3,432,725 is not restricted to a specific use or purpose.
- After recording the value of the City's infrastructure assets, net of accumulated depreciation, the decrease in the City's net position resulting from the most recent fiscal year's operation was \$2,623,705, or approximately 2.6%.
- Total revenues from all sources were \$24,232,065.
- The total cost of all City programs and projects was \$26,855,770. Approximately 17%, or \$4,633,694, of this amount is attributable to depreciation on the City's capital assets.
- The net pension liability reported as of June 30, 2017, for the City's proportionate shares of the net pension liability of all pension plans, was \$2,953,536.
- The net position of governmental activities was \$88,690,107 as of June 30, 2017, after recording the value of the City's infrastructure assets, net of accumulated depreciation and long term debt.
- Governmental activities, which include certain capital projects and depreciation related to capital assets, decreased the City's net position by \$2,018,129.

Fund Based

- As of the close of the current fiscal year, the governmental funds reported combined ending fund balances of \$11,040,725.

- Total nonspendable fund balances, amounts that are either not in spendable form or are legally or contractually required to be maintained, were \$81,520.
- Total spendable fund balances were \$10,959,205. Of this amount, approximately 7% (\$720,659 in total assigned) is constrained by the City's intent to be used for a specific purpose and 38% (\$4,209,039 in total restricted) is constrained in their use by external restrictions, such as by creditors, debt covenants, grantors, contributors, or by laws and regulations.
- Total governmental fund balances decreased by \$1,108,248.
- At the end of the most recent fiscal year, the total fund balance for the general fund was \$6,831,686; a decrease of \$1,267,607 over prior year.
- General fund reported revenues exceeded expenditures by \$1,251,238.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Laguna Hills' basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statement themselves.

- (1) **Government-wide financial statements.** These statements are designed to provide readers with a broad overview of the City of Laguna Hills' financial position, in a manner similar to a private-sector business, using the economic resources measurement focus and the full accrual basis of accounting. The following reports comprise the government-wide financial statements:
 - a) *Statement of Net Position.* This report presents information on all the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The difference between the assets and deferred outflows, on the one hand, and liabilities and deferred inflows of resources, on the other, constitutes the *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or weakening, though it is important to consider other non-financial factors in accurately assessing the overall health of the City, such as the property tax base or condition of the roads, etc.; and
 - b) *Statement of Activities.* The information presented in this report shows how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event

giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes, program revenues, and intergovernmental revenues (referred to as *governmental activities*), from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as *business-type activities*).

The ***governmental activities*** of the City of Laguna Hills include general government, public services, community development, community services and public safety. Property taxes, sales and use taxes, transient occupancy taxes, and franchise fees finance most of these activities.

The ***business-type activity*** of the City of Laguna Hills pertains to the leasing of certain areas in the Laguna Hills Civic Center, which also houses City Hall.

The government-wide financial statements can be found on pages II-19 to II-21 of this report.

- (2) **Fund financial statements.** These statements show how City services were financed in the short term as well as what remains for future spending. These statements also report the City's operation in more detail than the government-wide statements by providing information about the City's most significant funds, but not the City as a whole. Funds are required to be established, either by State or Federal laws, in order to meet legal responsibilities associated with the usage of certain taxes, grants, and other money. There are three types of funds, namely:

- a) *Governmental funds*. These statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year. Such information provides a short-term view of the City's general government operations and shows whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. These funds are reported using the *modified accrual method* of accounting, which measures cash and all other financial assets that can be readily converted to cash. The relationship between governmental activities and the governmental funds are reported in the reconciliation of government-wide and fund financial statements and in Note 1 in the Notes to the Basic Financial Statements.

The City maintains 20 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in

the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, capital projects fund, and debt service fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each non-major governmental fund is provided in the form of *combining statements* elsewhere in this report.

- b) *Proprietary funds*. When the City charges for the services it provides, other than those services associated with the City's general governmental operations, these services are generally reported in proprietary funds. The proprietary fund is used to report the same function presented as the *business-type activity* in the government-wide financial statements. The City uses the proprietary fund to account for its Civic Center leasing activity.
- c) *Fiduciary funds*. These funds are used to account for resources held for the benefit of parties outside the government. They are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs.

The fund financial statements can be found on pages II-23 to II-30 of this report.

- (3) **Notes to the basic financial statements.** The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages II-31 to II-62 of this report.
- (4) **Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* including budgetary comparison for the general fund, a schedule of proportionate share of the net pension liability, and a schedule of employer plan contributions.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

Government –Wide Financial Analysis

As noted earlier, net position may serve as a useful indicator over time of the City's financial position. The City's combined net position at the close of the most recent fiscal year ended June 30, 2017, was \$97,150,933, as shown on Table 1, on the following page.

By far the largest portion of the City's net position (roughly \$91.3 million, or 94% of total net position) reflects its net investment in capital assets, which is made

up of: (1) capital assets (land, building, machinery, and equipment) less accumulated depreciation, any related debt used to acquire those assets that are still outstanding, and the unamortized bond premium, (2) outstanding deferred loss on refunding, and (3) the cash with fiscal agent held in reserve to secure the timely payment of principal and interest on the capital asset related debt. The City uses these capital assets to provide services to citizens. Consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt and corresponding items, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. There is \$9,295,180 in debt outstanding (including the unamortized debt premium) related to the acquisition and construction of these capital assets.

Table 1
Condensed Statement of Net Position
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 13,655	\$ 14,146	\$ 183	\$ 131	\$ 13,838	\$ 14,277
Capital assets	<u>90,288</u>	<u>91,993</u>	<u>8,343</u>	<u>8,998</u>	<u>98,631</u>	<u>100,991</u>
Total assets	<u>103,943</u>	<u>106,139</u>	<u>8,526</u>	<u>9,129</u>	<u>112,469</u>	<u>115,268</u>
 Total deferred outflows	 <u>1,127</u>	 <u>574</u>	 <u>-</u>	 <u>-</u>	 <u>1,127</u>	 <u>574</u>
 Long-term liabilities	 13,157	 13,009	 -	 -	 13,157	 13,009
Other liabilities	<u>2,726</u>	<u>2,127</u>	<u>65</u>	<u>63</u>	<u>2,791</u>	<u>2,190</u>
Total liabilities	<u>15,883</u>	<u>15,136</u>	<u>65</u>	<u>63</u>	<u>15,948</u>	<u>15,199</u>
 Total deferred inflows	 <u>497</u>	 <u>869</u>	 <u>-</u>	 <u>-</u>	 <u>497</u>	 <u>869</u>
 Net position:						
Net investment in capital assets	82,980	83,321	8,343	8,998	91,323	92,319
Restricted	2,395	2,470	-	-	2,395	2,470
Unrestricted	<u>3,315</u>	<u>4,917</u>	<u>118</u>	<u>68</u>	<u>3,433</u>	<u>4,985</u>
Total net position	<u>\$ 88,690</u>	<u>\$ 90,708</u>	<u>\$ 8,461</u>	<u>\$ 9,066</u>	<u>\$ 97,151</u>	<u>\$ 99,774</u>

Another portion of the City's net position, \$2,394,252 (2.5% of the total net position), represents resources that are subject to external restrictions on how they may be used. The remaining balance of the City's net position is unrestricted net position of \$3,432,725 (3.5% of the total net position), which may be used to meet the City's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The City's business-type activity involves the leasing of rentable areas in the Civic Center building. This 3-story building complex was renovated to accommodate the City offices and to add leasable spaces. Since June 28, 2004, the City government has operated from this facility. Altogether, there are 51,970 square feet of leasable office space in the Civic Center building. The City occupies 20,843 square feet and leases out 31,127 square feet. The occupancy rate was approximately 88% on June 30, 2017.

During the fiscal year ended June 30, 2017, the total revenue from all sources was \$24,232,065 and the cost of all activities was \$26,855,770, resulting in an overall decrease in net position of \$2,623,705. The City's governmental activities decreased total net position by \$2,018,129. Expenses related to public services was \$7,234,921 and to public safety was \$8,167,361, representing 28% and 32% of total governmental activities, respectively. Public services include certain capital projects, landscape maintenance, traffic signal maintenance, road maintenance, as well as water and electric utility usage charges. Public safety includes the costs for the law enforcement contract with the Orange County Sheriff's Department (OCSD), as well as the cost for animal control and shelter services. The OCSD law enforcement contract represents roughly \$7.6 million, or 30%, of total governmental activities. Additionally, depreciation of capital assets accounts for \$3,888,172 (15%) and the debt service interest payment on capital related items accounts for \$376,993 (1.5%). The City's business-type activities decreased total net position by \$605,576. The decrease from business-type activities is largely attributable to depreciation. Of the \$1,255,765 of total operating expenses related to property leasing activities, depreciation represents 60%, or \$745,522, of that total.

The details of the changes in the City's Net Position are shown in **Table 2** on the following page.

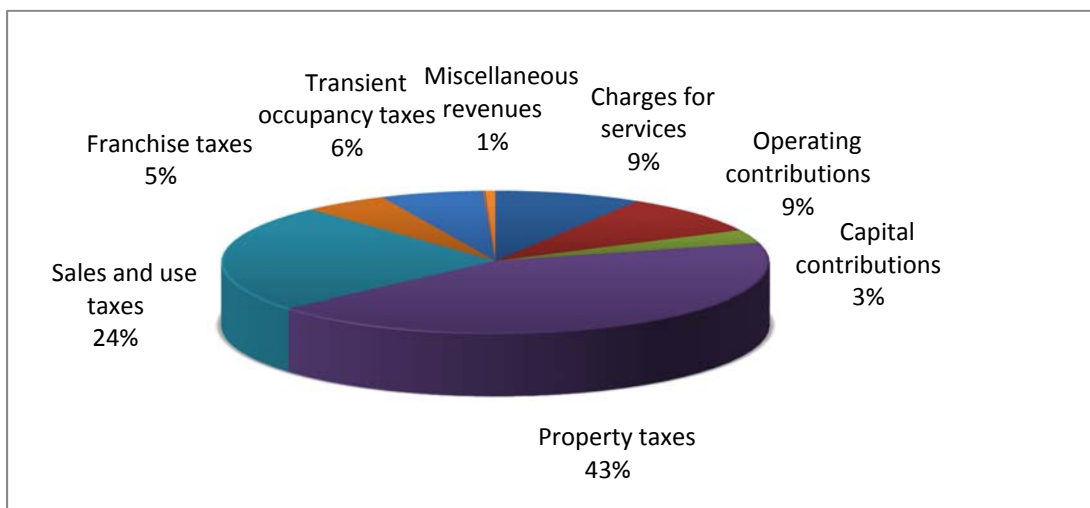
Table 2
Statement of Changes in Net Position
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Charges for services	\$ 2,075	\$ 2,135	\$ 651	\$ 579	\$ 2,726	\$ 2,714
Operating contributions	2,131	1,960	-	-	2,131	1,960
Capital contributions	716	61	-	-	716	61
General Revenues:						
Property taxes	10,064	9,661	-	-	10,064	9,661
Sales and use taxes	5,779	5,439	-	-	5,779	5,439
Franchise taxes	1,192	1,304	-	-	1,192	1,304
Transient occupancy taxes	1,438	1,407	-	-	1,438	1,407
Motor vehicle in lieu taxes	14	12	-	-	14	12
State subvention	9	57	-	-	9	57
Interest earnings	22	15	-	-	22	15
Miscellaneous revenues	142	151	-	-	142	151
Total revenues	<u>23,582</u>	<u>22,202</u>	<u>651</u>	<u>579</u>	<u>24,233</u>	<u>22,781</u>
Expenses:						
General government	4,226	3,113	-	-	4,226	3,113
Public services	7,235	6,803	-	-	7,235	6,803
Community development	1,463	1,309	-	-	1,463	1,309
Community services	4,132	4,142	-	-	4,132	4,142
Public safety	8,167	6,929	-	-	8,167	6,929
Property leasing	-	-	1,256	1,222	1,256	1,222
Interest	377	431	-	-	377	431
Total expenses	<u>25,600</u>	<u>22,727</u>	<u>1,256</u>	<u>1,222</u>	<u>26,856</u>	<u>23,949</u>
Change in net position before transfers	(2,018)	(525)	(605)	(643)	(2,623)	(1,168)
Transfers	<u>-</u>	<u>(421)</u>	<u>-</u>	<u>421</u>	<u>-</u>	<u>-</u>
Change in net position	(2,018)	(946)	(605)	(222)	(2,623)	(1,168)
Net position, beginning	<u>90,708</u>	<u>91,654</u>	<u>9,066</u>	<u>9,288</u>	<u>99,774</u>	<u>100,942</u>
Net position, ending	\$ <u>88,690</u>	\$ <u>90,708</u>	\$ <u>8,461</u>	\$ <u>9,066</u>	\$ <u>97,151</u>	\$ <u>99,774</u>

Governmental Activities

The revenue sources from governmental activities presented in the preceding table are illustrated in a pie chart shown below as **Figure 1**, which illustrates the percentage relationship of these revenues to each other, as well as their impact on the City's total resources.

Figure 1
Revenue by Sources – Governmental Activities
FY 2016/17



As shown in the above pie chart, roughly 78%, or \$18,486,173 of the City's total governmental revenues are from taxes, comprised of property, sales and use, motor vehicle in lieu, franchise and transient occupancy taxes. Program revenues totaled \$4,922,362, or 21%, of the total revenue resources, comprised of charges for services, operating and capital contributions.

The City's expenses in connection with its governmental activities are categorized by function, namely: general government, public services, community development, community services and public safety. The program revenues associated with these governmental activities are classified into three categories, which are charges for services, operating contributions, and capital contributions. The relationships of the City's program revenues with the related governmental functions are illustrated in a graph shown as **Figure 2** on the following page.

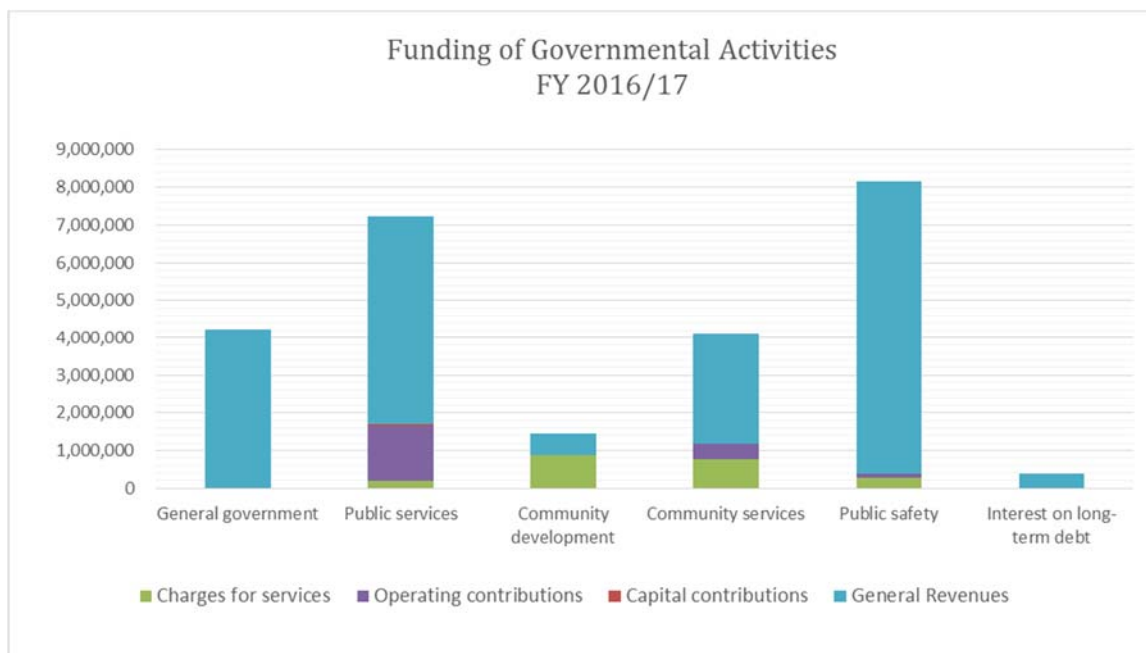
Expenses associated with governmental activities experienced an increase of 13%, or \$2,873,432, this past year. This is predominantly due to the increase in

expenses related to general government and public safety activities. The increase in general government activities is largely a result of a change in estimates for claims and information technology projects that were deferred from the prior fiscal year. The increase in public safety is primarily due to the change in contract for animal control and shelter services, as well as an increase in the cost for the OCSD law enforcement contract. The OCSD law enforcement contract increased by \$1,078,615, or 17%, from the prior fiscal year.

Program Revenues and Expenses:

Program revenues for the most recent fiscal year were \$4,922,362. Expenses related to governmental activities were \$25,600,005. The program revenues are generally not adequate to finance the governmental programs, so it is typical for governmental expenses to be subsidized by general revenues. The City's expenses for public services and public safety are comparatively higher than the other expense categories, as shown in **Figure 2** below. The interest on long-term debt was \$376,993.

Figure 2



Business-type Activities

During the most recent fiscal year, the operating revenues of the Laguna Hills Civic Center were \$650,147 and the operating expenses were \$1,255,765, resulting in a net operating loss of \$605,618, which includes a depreciation charge of \$745,522. After interest income of \$42, the change in net position at fiscal year-end was \$(605,576). The net cash provided by the leasing activities was \$136,002. The contra rent revenue associated with the occupied spaces for

City Hall was \$575,266 for the current fiscal year.

Analysis of Major Funds

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. As noted earlier, the City of Laguna Hills uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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, the focus of the *governmental funds* is to provide information on near-term inflows and outflows, as well as the balances of spendable resources at the end of the fiscal year. Such information is useful in assessing the City of Laguna Hills' near term financing requirements. In particular, fund balances of the governmental funds are reported separately within classifications based on a hierarchy of constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, committed, assigned, and unassigned fund balance.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$11,040,725, a decrease of \$1,108,248 from the prior year's balance. Of the ending fund balance, \$81,520 is nonspendable fund balance, which represents the portion of fund balance that is either not in spendable form or are legally or contractually required to be maintained. Of the remaining \$10,959,205 in spendable fund balance, \$4,209,039 is restricted fund balance, \$720,659 is assigned fund balance and \$6,029,507 is unassigned fund balance. Restricted fund balance includes amounts that have externally imposed restrictions on their usage by creditors, such as debt covenants, grantors, and contributors, or by laws and regulations. Assigned fund balance includes amounts which are constrained by the City's intent to be used for a specific purpose. These include \$200,000 designated for claims liability and a total of \$520,659 reserved for equipment maintenance of the Civic Center, Community Center, Sports Complex, slopes, storm drains, and various parks.

The fund balance of the City's general fund decreased by \$1,267,607 from the prior fiscal year's balance, essentially as a result of transfers to the Capital Projects and Debt Service funds to fund certain capital related projects and debt service payments.

The City's capital projects fund accounts for financial resources related to the acquisition and construction of the City's capital projects. Revenues and transfers in from other funds reflect the financial resources used to fund the capital project expenditures during the current fiscal year; therefore, this fund typically reflects no fund balance at the end of the fiscal year. Total expenditures, transfers in, and capital lease proceeds for the current fiscal year were \$3,172,524. The largest capital expenditure during the current year was the Arterial Highway Pavement Maintenance Project #175, which totaled \$1,486,972, or 48% of the total.

The City's debt service fund reports current financial resources restricted for the payment of principal and interest for long-term debt. As of the end of the current fiscal year, the debt service fund reported \$1,818,945 in fund balance. Of the total fund balance, \$1,814,787 is restricted to meet the reserve requirement under the Trust Agreement of the Certificates of Participation for the 2010 Refinancing Project. Pursuant to the Agreement, a reserve fund was established by the trustee, The Bank of New York Mellon Trust Company, N.A., to further secure the timely payment of principal and interest. All interest or income received by the investment of the reserve fund is required to be retained in the reserve fund. Only to the extent the reserve requirement is satisfied, may amounts in the reserve fund may be allocated toward lease payments. Interest income for the current fiscal year was \$13,610.

Proprietary fund:

The proprietary fund provides the same type of information found in the government-wide financial statements. The City's proprietary fund consists of owning a piece of commercial real estate and leasing it to various entities. The total square footage of the building is 51,970. The City is a tenant using approximately 20,843 square feet of the building.

The statement of revenues, expenses, and changes in net position shows a net operating loss of \$605,618, before the interest income of \$42. The net effect is a decrease in the ending net position of \$605,576, which is largely attributable to depreciation. Before accounting for \$745,522 in depreciation expense, the net operating activity would result in a net operating income of \$139,904 from the City's other leasing related activities. It should be noted that the enterprise fund does not charge the City rent. The estimated annual rent for the space would be approximately \$575,266.

General Fund Budgetary Highlights

At fiscal year-end, total general fund revenues came in below the budgeted amount by roughly 1%, or \$237,619, from the lower than anticipated revenues in fines and forfeitures, charges for services, and intergovernmental revenues.

The largest shortfall was attributable to intergovernmental revenues, which came in below projection by \$409,323, or 6.5%, predominantly as a result of losses in sales tax revenues from the ongoing redevelopment at the former Laguna Hills Mall site. The underperformance in these revenue sources were partially offset by higher than anticipated property tax revenues, transient occupancy tax revenues, and revenues from licenses and plan check fees from building related activities. Property tax revenues, the City's top revenue source, totaled \$10,064,067, which was \$400,453, or 4.2%, over the prior year and \$90,160, or 1%, over projection. Building related permit revenue came in at \$157,230, or 42%, above projection, and plan check fee revenues came in at \$20,510, or 15%, above projection.

The general fund operating expenditures totaled \$19,492,604 at fiscal year-end, which was under budget by \$189,831. The lower than anticipated expenditures came largely due to: staffing level changes in the Community Development Department; savings in water and electric utility costs; lower than anticipated professional engineer contract services in the Public Services Department; and savings on contractual services in the General Government Department for management and computer consultant services. While total general fund operating expenditures were below budget, expenditures in the Public Safety Department came in over budget by \$117,218. The overage in public safety expenditures were largely a result of terminating the contract for animal control and shelter services with the County of Orange and establishing a new contract with the City of Mission Viejo.

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2017 amounted to \$98,631,490 net of accumulated depreciation. This investment includes land, land improvements, easements, right of ways, building, building improvements, equipment, machinery, construction in progress, and infrastructure. In accordance with the requirement of GASB 34, the value of the City's infrastructure assets are included in this report, which include streets, sidewalks, curbs, gutters, playground equipment, and similar assets that are considered public property. Equipment and machinery includes vehicles, furniture, computer hardware and software.

A schedule showing the changes in the City's capital assets are shown in the following **Table 3**.

Table 3
City of Laguna Hills Capital Assets (Net of accumulated depreciation)
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 17,962	\$ 17,962	\$ 2,855	\$ 2,855	\$ 20,817	\$ 20,817
Land improvements	8,030	9,347	-	-	8,030	9,347
Rights of ways/Easements	2,854	2,854	-	-	2,854	2,854
Building & improvements	3,504	4,178	5,488	6,143	8,992	10,321
Equipment and machinery	506	386	-	-	506	386
Construction in progress	-	-	-	-	-	-
Infrastructure						
Street signs	37	21	-	-	37	21
Storm drains	2,218	2,299	-	-	2,218	2,299
Streets	45,665	45,232	-	-	45,665	45,232
Parks inventory	2,495	2,361	-	-	2,495	2,361
Curbs, sidewalks, gutters	5,472	5,739	-	-	5,472	5,739
Bridges	1,545	1,614	-	-	1,545	1,614
Total capital assets net of accumulated depreciation	<u>\$ 90,288</u>	<u>\$ 91,993</u>	<u>\$ 8,343</u>	<u>\$ 8,998</u>	<u>\$ 98,631</u>	<u>\$ 100,991</u>

Additional information on the City's capital assets can be found in Note 5 on page II-47 of this report.

Long-term Debt

On January 26, 2010, to take advantage of favorable interest rates, the City issued \$17,190,000 of Certificates of Participation (COPs). Proceeds from the sale were placed in an irrevocable trust used to service the future debt requirements of the 2001 and 2003 Certificates of Participation, which were issued to finance a portion of the costs to develop certain property, including the Civic Center Renovation Project and Community Center. As a result, the balance of the 2001 and 2003 COPs are considered to be defeased and the liability for those bonds has been removed. At fiscal year-end June 30, 2017, the per capita liability of the City of Laguna Hills was \$294.67. The 2010 COPs maintain a "AA+" rating from Standard & Poor's.

Additional information on the City's long-term debt can be found in Note 6 on pages II-48 to II-50 of this report.

Budget and Economic Factors

The City's most recent adopted biennial budget for fiscal years 2015/16 - 2016/17 shows that the City continues to live within its means and poised to further improve as projects throughout the City move forward. General Fund revenues are projected at approximately \$21.6 million in fiscal year 2017/18, while operating expenditures are estimated at roughly \$20.4 million. The major goals and issues that dominated the budgeting process for this biennial budget are discussed in the transmittal letter together with the measures adopted to address the prevailing issues. A copy of the 2017-19 Biennial Budget is available on the City's website: www.ci.laguna-hills.ca.us .

Requests for Information

This financial report is designed to provide a general overview of the City of Laguna Hills' finances to all interested parties. Any questions regarding this report or requests for additional information should be addressed to the City's Finance Department, at 24035 El Toro Road, Laguna Hills, California, 92653.

* * * * *

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF LAGUNA HILLS

STATEMENT OF NET POSITION

June 30, 2017

	Governmental Activities	Business-type Activity	Total
ASSETS:			
Cash and investments	\$ 9,049,440	\$ 169,815	\$ 9,219,255
Taxes receivable	1,696,458	-	1,696,458
Accounts receivable	498,161	10,551	508,712
Interest receivable	19,800	-	19,800
Prepaid items	81,520	2,212	83,732
Due from other governments	494,369	-	494,369
Restricted cash and investments	1,814,787	-	1,814,787
Capital assets, not depreciated	20,815,814	2,855,425	23,671,239
Capital assets, net of accumulated depreciation	69,472,188	5,488,063	74,960,251
Total Assets	<u>103,942,537</u>	<u>8,526,066</u>	<u>112,468,603</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred loss on refunding	218,396	-	218,396
Deferred amounts from pension plans	908,414	-	908,414
Total Deferred Outflows of Resources	<u>1,126,810</u>	<u>-</u>	<u>1,126,810</u>
LIABILITIES:			
Accounts payable	619,460	-	619,460
Accrued liabilities	1,250,594	13,567	1,264,161
Interest payable	161,405	-	161,405
Due to other governments	694,137	-	694,137
Deposits payable	-	51,673	51,673
Noncurrent Liabilities:			
Due within one year	1,484,568	-	1,484,568
Due in more than one year	11,672,440	-	11,672,440
Total Liabilities	<u>15,882,604</u>	<u>65,240</u>	<u>15,947,844</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred amounts from pension plans	496,636	-	496,636
Total Deferred Inflows of Resources	<u>496,636</u>	<u>-</u>	<u>496,636</u>
NET POSITION:			
Net investment in capital assets	82,980,468	8,343,488	91,323,956
Restricted for:			
Public services	1,921,566	-	1,921,566
Public safety	578	-	578
Community services	467,950	-	467,950
Debt service	4,158	-	4,158
Unrestricted	3,315,387	117,338	3,432,725
Total Net Position	<u>\$ 88,690,107</u>	<u>\$ 8,460,826</u>	<u>\$ 97,150,933</u>

See Accompanying Notes to the Basic Financial Statements

CITY OF LAGUNA HILLS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

		Program Revenues			
		Charges for	Operating	Capital	Total
	Expenses	Services	Contributions and Grants	Contributions and Grants	Program Revenues
Governmental Activities:					
General government	\$ 4,226,233	\$ -	\$ -	\$ -	\$ -
Public services	7,234,921	196,054	1,735,434	716,200	2,647,688
Community development	1,462,611	894,150	103,056	-	997,206
Community services	4,131,886	756,089	162,791	-	918,880
Public safety	8,167,361	228,649	129,939	-	358,588
Interest expense	376,993	-	-	-	-
Total Governmental Activities	<u>25,600,005</u>	<u>2,074,942</u>	<u>2,131,220</u>	<u>716,200</u>	<u>4,922,362</u>
Business-type Activity:					
Property leasing	1,255,765	650,147	-	-	650,147
Total Business-type Activity	<u>1,255,765</u>	<u>650,147</u>	<u>-</u>	<u>-</u>	<u>650,147</u>
Total Primary Government	<u>\$ 26,855,770</u>	<u>\$ 2,725,089</u>	<u>\$ 2,131,220</u>	<u>\$ 716,200</u>	<u>\$ 5,572,509</u>

General Revenues:

Taxes:

Property taxes

Sales and use tax

Franchise tax

Transient occupancy tax

Intergovernmental, unrestricted:

Motor vehicle in lieu

State subvention

Investment earnings

Miscellaneous revenue

Total General Revenues

Changes in Net Position

Net Position, Beginning

Net Position, Ending

See Accompanying Notes to the Basic Financial Statement:

Net (Expense) Revenue and Changes in Net Position

Primary Government

Governmental Activities	Business-type Activity	Total
\$ (4,226,233)	\$ -	\$ (4,226,233)
(4,587,233)	-	(4,587,233)
(465,405)	-	(465,405)
(3,213,006)	-	(3,213,006)
(7,808,773)	-	(7,808,773)
(376,993)	-	(376,993)
<u>(20,677,643)</u>	<u>-</u>	<u>(20,677,643)</u>
-	(605,618)	(605,618)
<u>-</u>	<u>(605,618)</u>	<u>(605,618)</u>
<u>(20,677,643)</u>	<u>(605,618)</u>	<u>(21,283,261)</u>
10,064,067	-	10,064,067
5,779,073	-	5,779,073
1,191,868	-	1,191,868
1,437,420	-	1,437,420
13,745	-	13,745
9,209	-	9,209
21,911	42	21,953
142,221	-	142,221
<u>18,659,514</u>	<u>42</u>	<u>18,659,556</u>
(2,018,129)	(605,576)	(2,623,705)
<u>90,708,236</u>	<u>9,066,402</u>	<u>99,774,638</u>
<u>\$ 88,690,107</u>	<u>\$ 8,460,826</u>	<u>\$ 97,150,933</u>

This page intentionally left blank

FUND FINANCIAL STATEMENTS

CITY OF LAGUNA HILLS
GOVERNMENTAL FUNDS
BALANCE SHEET
AS OF JUNE 30, 2017

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Assets					
Current:					
Cash and investments	\$ 9,049,440	\$ -	\$ -	\$ -	\$ 9,049,440
Receivables:					
Taxes	1,696,458	-	-	-	1,696,458
Accounts	498,161	-	-	-	498,161
Interest	15,642	-	4,158	-	19,800
Prepaid items	81,520	-	-	-	81,520
Due from other funds	60,000	-	-	2,390,094	2,450,094
Due from other governments	434,369	-	-	60,000	494,369
Restricted assets:					
Cash and investments	-	-	1,814,787	-	1,814,787
Total Assets	\$ <u>11,835,590</u>	\$ <u>-</u>	\$ <u>1,818,945</u>	\$ <u>2,450,094</u>	\$ <u>16,104,629</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities:					
Accounts payable	\$ 619,460	\$ -	\$ -	\$ -	\$ 619,460
Accrued liabilities	1,250,594	-	-	-	1,250,594
Due to other funds	2,390,094	-	-	60,000	2,450,094
Due to other governments	694,137	-	-	-	694,137
Total Liabilities	4,954,285	-	-	60,000	5,014,285
Deferred Inflows of Resources					
Unavailable revenues	49,619	-	-	-	49,619
Total Deferred Inflows of Resources	49,619	-	-	-	49,619
Fund Balances:					
Nonspendable	81,520	-	-	-	81,520
Restricted	-	-	1,818,945	2,390,094	4,209,039
Assigned	720,659	-	-	-	720,659
Unassigned	6,029,507	-	-	-	6,029,507
Total Fund Balances	6,831,686	-	1,818,945	2,390,094	11,040,725
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ <u>11,835,590</u>	\$ <u>-</u>	\$ <u>1,818,945</u>	\$ <u>2,450,094</u>	\$ <u>16,104,629</u>

See Accompanying Notes to the Basic Financial Statements

CITY OF LAGUNA HILLS
Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Position
JUNE 30, 2017

Fund balances of governmental funds	\$ 11,040,725
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.	
Capital assets	158,339,289
Accumulated depreciation	(68,051,287)
Long-term liabilities are not available to pay for current-period expenditures and, therefore, are not reported in the governmental funds. Long-term liabilities consist of the following:	
Certificates of participation	(8,685,000)
Bond premium	(610,180)
Capital lease	(45,537)
Compensated absences	(335,761)
Claims and judgments payable	(526,994)
Deferred outflows of resources (loss on refunding of bonds) that have not been included in the governmental fund activity.	218,396
Accrued interest payable for the current portion of interest due on the Certificates of Participation has not been reported in the governmental funds.	(161,405)
Pension related debt applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. Deferred outflows of resources and deferred inflows of resources related to pensions are only reported in the Statement of Net Position as the changes in these amounts effects only the government-wide statements for governmental activities:	
Deferred outflows of resources	908,414
Deferred inflows of resources	(496,636)
Net pension liability	(2,953,536)
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the funds.	49,619
Net position of governmental activities	<u>\$ 88,690,107</u>

See Accompanying Notes to the Basic Financial Statements

CITY OF LAGUNA HILLS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General	Capital Projects	Debt Service	Other Governmental Funds	Totals
Revenues:					
Taxes	\$ 12,693,355	\$ -	\$ -	\$ 2,000	\$ 12,695,355
Licenses and permits	883,457	-	-	139,085	1,022,542
Intergovernmental revenues	5,843,546	-	-	2,662,557	8,506,103
Charges for current services	1,068,521	-	-	-	1,068,521
Fines and forfeitures	228,649	-	-	-	228,649
Investment income	26,314	-	13,610	25,767	65,691
Total Revenues	20,743,842	-	13,610	2,829,409	23,586,861
Expenditures:					
Current:					
General government	3,599,531	-	-	-	3,599,531
Public services	4,328,308	394,833	-	125,430	4,848,571
Community development	1,358,725	-	-	103,056	1,461,781
Community services	2,053,925	-	-	47,958	2,101,883
Public safety	8,149,762	-	-	-	8,149,762
Capital outlay	-	2,777,691	-	-	2,777,691
Debt service:					
Interest	-	-	451,427	-	451,427
Principal retirement	2,353	-	1,350,000	-	1,352,353
Total Expenditures	19,492,604	3,172,524	1,801,427	276,444	24,742,999
Excess (Deficiency) of Revenues over Expenditures	1,251,238	(3,172,524)	(1,787,817)	2,552,965	(1,156,138)
Other Financing Sources (Uses):					
Capital lease proceeds	-	47,890	-	-	47,890
Transfers in	2,453,447	3,124,634	1,797,680	207,029	7,582,790
Transfers out	(4,972,292)	-	-	(2,610,498)	(7,582,790)
Total Other Financing Sources (Uses)	(2,518,845)	3,172,524	1,797,680	(2,403,469)	47,890
Net Change in Fund Balances	(1,267,607)	-	9,863	149,496	(1,108,248)
Fund Balances (Deficit), Beginning	8,099,293	-	1,809,082	2,240,598	12,148,973
Fund Balances, Ending	\$ 6,831,686	\$ -	\$ 1,818,945	\$ 2,390,094	\$ 11,040,725

See Accompanying Notes to the Basic Financial Statements

CITY OF LAGUNA HILLS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Net change in fund balances - total governmental funds	\$ (1,108,248)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This activity is reconciled as follows:	
Capital outlay, net of disposals	2,183,418
Depreciation	(3,888,172)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Premiums associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but in the Statement of Net Position, the premiums are deferred and amortized throughout the period during which the related debt is outstanding. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities.	
Principal payments	1,352,353
Amortization of bond premium	80,464
Capital lease obligation	(47,890)
Deferred losses on refunding of long-term debt in the Statement of Net Position are deferred and amortized throughout the period during which the related debt is outstanding.	
	(28,800)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	
Change in compensated absences	(31,537)
Change in claims and judgments payable	(504,819)
Change in accrued interest for Certificates of Participation	22,770
Pension expense reported in the governmental funds includes the annual required contributions. In the Statement of Activities, pension expense includes the change in the net pension liability, and related change in pension amounts for deferred outflows of resources and deferred inflows of resources.	
	(42,683)
Revenues in the Statement of Activities that do not meet the "availability" criteria for revenue recognition are reported as deferred inflows of resources, unavailable revenues, in the governmental funds. This is the net change in deferred inflows of resources, unavailable revenues, from the prior year.	
	(4,985)
Change in net position of governmental activities	\$ (2,018,129)

See Accompanying Notes to the Basic Financial Statements

CITY OF LAGUNA HILLS
PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2017

	Enterprise - Property Leasing
ASSETS:	
Current Assets:	
Cash and investments	\$ 169,815
Accounts receivable	10,551
Prepaid items	2,212
Total Current Assets	<u>182,578</u>
Noncurrent Assets:	
Capital assets not depreciated	2,855,425
Capital assets, net of accumulated depreciation	5,488,063
Total Noncurrent Assets	<u>8,343,488</u>
Total Assets	<u>8,526,066</u>
LIABILITIES:	
Current Liabilities:	
Accrued liabilities	13,567
Deposits payable	51,673
Total Current Liabilities	<u>65,240</u>
NET POSITION:	
Net investment in capital assets	8,343,488
Unrestricted	<u>117,338</u>
Total Net Position	<u>\$ 8,460,826</u>

See Accompanying Notes to the Basic Financial Statements

CITY OF LAGUNA HILLS
PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Enterprise - Property Leasing</u>
Operating Revenues:	
Rental fees	\$ 633,674
CAM revenues	13,314
Other current service fees	3,159
Total Operating Revenues	<u>650,147</u>
Operating Expenses:	
Direct operating expenses	469,529
Advertising and promotion	4,649
Administrative and professional fees	673
Repairs and maintenance	35,392
Depreciation expense	745,522
Total Operating Expenses	<u>1,255,765</u>
Operating Loss	<u>(605,618)</u>
Nonoperating Revenues:	
Interest income	42
Total Nonoperating Revenues	<u>42</u>
Change in Net Position	(605,576)
Net Position, Beginning	<u>9,066,402</u>
Net Position, Ending	<u><u>\$ 8,460,826</u></u>

See Accompanying Notes to the Basic Financial Statements

CITY OF LAGUNA HILLS
PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Enterprise - Property Leasing
Cash Flows from Operating Activities:	
Receipts from tenants	\$ 640,481
Payments to suppliers for goods and services	(504,479)
Net Cash Provided by Operating Activities	136,002
Cash Flows from Capital and Related Financing Activities:	
Acquisition of capital assets	(90,896)
Net Cash Used for Capital and Related Financing Activities	(90,896)
Cash Flows from Investing Activities:	
Interest on investments	42
Net Cash Provided by Investing Activities	42
Net Increase in Cash and Cash Equivalents	45,148
Cash and Cash Equivalents, Beginning	124,667
Cash and Cash Equivalents, Ending	\$ 169,815
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:	
Operating loss	\$ (605,618)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	745,522
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(8,528)
(Increase) decrease in prepaid items	2,623
Increase (decrease) in accrued liabilities	3,141
Increase (decrease) in deposits payable	(1,138)
Total adjustments	741,620
Net Cash Provided by Operating Activities	\$ 136,002

See Accompanying Notes to the Basic Financial Statements

CITY OF LAGUNA HILLS
AGENCY FUND
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2017

ASSETS:

Cash and investments	\$ 146,551
Total Assets	<u>\$ 146,551</u>

LIABILITIES:

Deposits	<u>\$ 146,551</u>
Total Liabilities	<u>\$ 146,551</u>

See Accompanying Notes to the Basic Financial Statements

NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF LAGUNA HILLS

Notes to the Basic Financial Statements
June 30, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies

a) Summary of Significant Accounting Policies

The basic financial statements of the City have been prepared in accordance with generally accepted accounting principles 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.

The Financial Reporting Entity

The City of Laguna Hills (the City) was incorporated on December 20, 1991 under the General Laws of the State of California. The City operates under a Council-Manager form of government and provides the following services: public safety, highways and streets, parks, solid waste, public improvements, planning and zoning, building and safety, community services, and general administrative services.

This report includes all fund types of the City (the primary government) and the Laguna Hills Public Improvement Corporation (the Corporation). The Corporation meets the definition of a component unit and is presented on a blended basis, as if it is a part of the primary government. Although it is a legally separate entity, the governing board of the Corporation is comprised of the same membership as the City Council. The City may impose its will on the Corporation, including the ability to appoint, hire, reassign, or dismiss management. There is also a financial benefit/burden relationship between the City and the Corporation.

The Corporation was established by the City Council on September 2, 1998. The Board of Directors of the Corporation is composed of the five members in connection with the acquisition, construction and improvement of public capital improvements. The activity of the Corporation is reported in the Debt Service Fund.

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 basic financial statements

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government. 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. Also, interfund services provided and used have not been eliminated.

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. The 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, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the City are reported in three categories: charges for service, operating grants and contributions, and capital grants and contributions.

Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grants and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. 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 expenditures.

Reclassifications and Eliminations

Interfund balances must generally be eliminated in the government-wide statements, except for net residual amounts due

between governmental and business-type 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.

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, deferred inflows of resources, 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*. *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. For this purpose, the City considers its general revenue, to be available if they are collected within 90 days of the end of the fiscal year. The City uses a 180-day availability period for special revenue grants and contributions.

Revenue recognition is subject to the *measurable* and *availability* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed 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.

Sales taxes, property taxes, franchise fees, gas taxes, motor vehicle in lieu fees, highway user's taxes, transient occupancy taxes, grants and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available where cash is received by the government.

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

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

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect fund balance, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When expenditures are incurred, the City's applies the most restrictive funds first; and then the City would use the appropriate funds in the following order: committed, assigned, and lastly unassigned amounts.

Proprietary Fund

The City's enterprise fund is a proprietary fund. In the fund financial statements, the proprietary fund is 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, the proprietary fund is presented using the *economic resources measurement focus*. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their statement of net position. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position. The City has no internal service funds.

Proprietary fund operating revenues, such as rental fees, 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 investment income, results from non-exchange transactions or ancillary activities. Proprietary fund operating expenses result from providing the services in connection with the proprietary fund's principal ongoing operations.

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

Fiduciary Fund

The fiduciary fund financial statements include a Statement of Fiduciary Assets and Liabilities. The City's fiduciary agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities. Because these funds are not available for use by the City, fiduciary funds are not included in the government-wide statements. The City uses an agency fund to account for construction deposits and trust monies received from builders, land developers, and other agencies.

c) Major Funds and Fiduciary Fund Types

The City reports the following major governmental funds:

General Fund

The General Fund is the general operating fund of the City. It is used to account for resources traditionally associated with government, which are not required legally or by sound financial management to be accounted for in another fund.

Capital Projects Fund

The Capital Projects Fund is used to account for the financial resources to be used for the acquisition and construction of the City's capital projects.

Debt Service Fund

The Debt Service Fund is used to pay the City's debt service on its COP issue.

The City reports the following major proprietary fund:

Property Leasing

The City Hall Fund is used to account for activity pertaining to the leasing of certain areas in the Laguna Hills Civic Center, which has been the City Hall site and seat of government since June 28, 2004. Additionally, the City reports the following fund types:

Special Revenue Funds

The Special Revenue Funds are used to account for certain revenue sources set aside for specific purposes, to avoid including restricted revenues within the general fund and to provide separate information on the sources and applications of these restricted sources.

Fiduciary Fund

The City has one Fiduciary Fund, an Agency Fund, used to account for construction deposits and trust monies received from builders, land developers, and other agencies.

d) New Accounting Pronouncements

Current Year Standards

GASB 73 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, contains provisions that address employer and governmental nonemployer contributing entities for pensions that are not within the scope of GASB 68, effective for periods beginning after June 15, 2016, and did not impact the City.

GASB 74, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, effective for period beginning after June 15, 2016, and did not impact the City.

GASB 77, Tax Abatement Disclosure, effective for periods beginning after December 15, 2015 and did not impact the City.

GASB 79, Certain External Investment Pools and Pool Participants, contains certain provisions on portfolio quality, custodial credit risk, and shadow pricing, effective for periods beginning after December 15, 2015, and did not impact the City.

GASB 80, Blending Requirements for Certain Component Units, effective for periods beginning after June 15, 2016, and did not impact the City.

Pending Accounting Standards

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

- *GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for periods beginning after June 15, 2017.
- *GASB 82, Pension Issues*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.
- *GASB 84, Fiduciary Activities*, effective for periods beginning after December 15, 2018.

- GASB 85, *Omnibus 2017*, effective for periods beginning after June 15, 2017.
- GASB 86, *Certain Debt Extinguishment Issues*, effective for periods beginning after June 15, 2017.
- GASB 87, *Leases*, effective for periods beginning after December 15, 2019.

e) Cash and Investments

Investments are reported in the accompanying basic financial statements at fair value, which is price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value represented by the external pool.

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

The City pools cash and investments of all funds, except for amounts held by fiscal agents. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

f) Statement of Cash Flows

The enterprise proprietary fund participates in the City-wide cash and investments pool, which provides immediate access to invested funds. Accordingly, all cash and investments are considered to be cash and cash equivalents for purposes of the Statement of Cash Flows.

g) Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the Government-Wide and Fund Financial Statements.

h) Property Taxes

Property tax revenue is recognized in the fiscal year for which the taxes have been levied providing, they become available (within 90 days of the fiscal year end). The County of Orange collects property taxes for the City. Tax liens attach annually as of 12:01 am on the first day of January proceeding the fiscal year for which the taxes are levied. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent, if unpaid, on December 10 and April 10, respectively. Unsecured personal property taxes become due on January 1 each year, and are delinquent, if unpaid, on August 31.

i) Capital Assets

Capital assets are capital outlay for assets of a permanent nature, valued at \$5,000 or more and the usage of which is expected to be more than five years. Capital assets (including infrastructure) are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Contributed capital assets are valued at acquisition value at the date of the contribution.

Capital assets include public domain (infrastructure) general fixed assets consisting of certain improvements including roads, streets, sidewalks, medians, and storm drains.

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 enterprise fund. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statements of net position. The range of lives used for depreciation purposes for each capital asset class, are as follows:

Building and improvements	20 years
Machinery and equipment	5-20 years
Infrastructure	5-60 years
Land improvements	20 years

j) Claims and Judgments Payable

As of July 1, 2003, the City became a member of the Exclusive Risk Management Authority of California. The annual premium included estimates the amounts paid for reported claims and incurred but not reported claims based upon past experience, modified for current trends and information. Premiums are recorded as expenditures when they become payable from expendable available resources. When it is probable that a claims liability has been incurred and the amount of the loss can be reasonably estimated through historical trends and calculation of incurred but not reported claims (IBNR), the City accrues the estimated liability for the expected claims and judgments. These amounts are recorded in the government-wide financial statements. A liability is reported in the governmental funds only if there is an amount due and payable at June 30.

k) Deferred Inflows and Outflows of Resources

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

- Deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This

amount is deferred and amortized over the shorter of the life of the refunded or refunding debt, which is 15 years.

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

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

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

l) Compensated Absences

Vacation time is provided to all full-time and extended part-time employees. Upon separation or retirement from City service, all employees shall be compensated at their prevailing pay rate for their accrued vacation. No employee shall be allowed to carry over more than 320 hours of vacation time from one fiscal year to the next. At the start of the fiscal year, if an employee has more than 320 hours accrued, the City will automatically cash out any hours in excess of 320.

The City provides an ICMA Vantage Care Retirement Health Savings (RHS) Plan to its full-time employees that have reached ten (10) years of service with the City. This employer-sponsored retiree health benefit allows employees to accumulate assets to pay for medical expenses on a tax-free basis either upon separation of service from the City or age 50 dependent upon when contributions to the plan were made. In compliance with the Patient Protection and Affordable Care Act, contributions to the plan made after December 31, 2013, are available to plan participants for medical expenses only upon separation of employment. In the event of a participant's death, the participant's surviving spouse and/or eligible dependent(s) are immediately eligible to maintain the account and utilize it to fund eligible medical expenses. If a participant's balance is not fully depleted upon the death of the eligible spouse, the account balance may continue to be utilized to pay medical expenses of eligible dependents. An eligible dependent is (a) the participant's lawful spouse, (b) the participant's child under the age of 27, as defined by IRC Section 152(f)(1) and Internal Revenue Service Notice 2010-38, or (c) any other individual who is a person described in IRC Section 152(a), as classified by Internal Revenue Service Notice 2004-79. The assets of the individual plans are not subject to claims of the City's creditors. The start-up contribution for employees will be based on their accumulated sick leave hours in excess of 160 hours at their prevailing pay rate, upon the completion of ten (10) years of service to the City. Thereafter, annual contributions will be made to each employee's account for their unused sick leave hours in excess of 160 hours on June 30th of each fiscal year at the employees' prevailing pay rate. Upon separation from employment, the City will make a final contribution on behalf of the employee equivalent to all the unused sick leave balance of the employee at the employee's prevailing pay rate at the time of separation. The City also contributes \$5,000 on behalf of each participant, upon completion of ten years of service and annually thereafter on the participant's employment anniversary date.

All vacation and sick leave pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

m) Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plans

(Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

n) Use of Estimates

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

(2) Cash and Investments

The City maintains a cash and investment pool that is available for use by all funds. Cash and investments at June 30, 2017, are reported in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and investments	\$ 9,219,255
Restricted cash and investments	1,814,787
Statement of Fiduciary Assets and Liabilities:	
Cash and investments	<u>146,551</u>
Total cash and investments	<u>\$ 11,180,593</u>

Cash and investments at June 30, 2017, consisted of the following:

Cash on hand		\$ 2,500
Pooled deposits:		
Demand deposits	\$ 1,184,469	
Certificates of deposit	<u>570,502</u>	
Total pooled deposits		1,754,971
Pooled investments:		
Local Agency Investment Fund		6,355,321
CalTRUST Short-Term Investment Fund		1,253,014
Restricted cash and investments:		
Money Market Mutual Fund	\$ 9,190	
Local Agency Investment Fund	<u>1,805,597</u>	
Total restricted cash and investments		<u>1,814,787</u>
Total cash and investments		<u>\$ 11,180,593</u>

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under provisions of bond indentures. Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on quarterly cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

Authorized Investments

Under the provision of the City's investment policy, and in accordance with Section 53601 of the California Government Code, the City may invest in the following types of investments.

- U.S. Treasury bills
- U.S. Treasury notes, bonds or money market funds
- Certificates of deposit
- Money market mutual funds
- State Treasurer's Local Agency Investment Fund
- Overnight Government (U.S. Treasuries, Agencies, and Instrumentalities) Securities Investment Account managed by the City's primary bank
- Overnight Commercial Paper Investment Account managed by the City's primary bank
- Overnight repurchase agreements managed by the City's primary bank where market value of the repurchase agreement is 102 percent or greater than the value of the funds borrowed
- Commercial paper
- Prime Banker's Acceptances
- Investment Trust of California, a Joint Powers Authority, doing business as CalTRUST

The maximum maturity for all investments listed above is 1 year with the exception of commercial paper and Prime Banker's Acceptances for which the maximum maturity is 180 days and 270 days, respectively.

Investments Authorized by Debt Agreements

The above investments do not address investment of debt proceeds held by a bond trustee. Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code.

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.

The City has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rates. The City limits the investment maturities for operating funds to be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures as well as considering sizable blocks of anticipated revenue. The City has elected the specific identification method to present the investment maturities as follows.

<u>Investment Type</u>	<u>6 months or less</u>	<u>Fair Value</u>
Local Agency Investment Fund	\$ 6,355,321	\$ 6,355,321
CalTRUST Short-Term Investment Fund	1,253,014	1,253,014
Investment with Fiscal Agent:		
Money Market Mutual Fund	9,190	9,190
Local Agency Investment Fund	1,805,597	1,805,597
Total	<u>\$ 9,423,122</u>	<u>\$ 9,423,122</u>

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. As of June 30, 2017, the City's investment in the State Treasurer's Local Agency Investment Fund has not been rated by a nationally recognized statistical rating organization and the City's investment in the CalTRUST Short-Term Investment Fund is rated AA and the City's investment in the Money Market Mutual Fund is rated AAA by Standard and Poor's.

Concentration of Credit Risk

Concentration credit risk is the heightened risk of potential loss when investments are concentrated in one issuer. As of June 30, 2017, other than the State Treasurer's Local Agency Investment Fund and CalTRUST Short-Term Investment Fund, the City had no investments concentrated in one issuer which exceeded 5% of total investments.

Custodial Credit Risk

The 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 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 to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The California Government Code requires California banks and savings and loan associations to secure a city's deposits by pledging government securities with a fair value of 110% of a city's deposits. California law also allows financial institutions to secure a city's deposits by pledging first trust deed mortgage notes having a fair value of 150% of a city's total deposits. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of

securities by a bank or savings and loan association with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

As of June 30, 2017, none of the City's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

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

Investment in State Treasurer's Local Agency Investment Fund

The City is a voluntary participant in the State Treasurer's Local Agency Investment Fund 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 State Treasurer's Local Agency Investment Fund for the entire State Treasurer's Local Agency Investment Fund portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by State Treasurer's Local Agency Investment Fund.

Investment in CalTRUST Investment Pool:

CalTRUST is a Joint Powers Agency Authority created by local public agencies to provide a convenient method for local public agencies to voluntarily pool their assets for investment purposes. CalTRUST is governed by a Board of Trustees made up of experienced local agency treasurers and investment officers. The Board sets overall policies for the program and selects and supervises the activities of the investment manager and other agents. CalTRUST maintains and administers four pooled accounts within the program: Money Market, Short-Term, Medium-Term and Long-Term. The Money Market account permits daily transactions, with same-day liquidity (provided redemption requests are received by 1:00 p.m. Pacific time), with no limit on the amount of funds that may be invested. The Short-Term account permits an unlimited number of transactions per month (with prior day notice), with no limit on the amount of funds that may be invested. The Medium- and Long-Term accounts permit investments, withdrawals and transfers once per month, with five days advance notice. All CalTRUST accounts comply with the limits and restrictions placed on local agency investments by the California Government Code. CalTRUST imposes a \$250,000 minimum investment; however, there is no maximum limit.

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 percentage interest of the fair value provided by CalTRUST for the CalTRUST accounts (in relation to the amortized cost of that portfolio). The balance

available for withdrawal is based on the accounting records maintained by CalTRUST.

Fair Value Measurements

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

Amounts invested in the Local Agency Investment Fund, CalTRUST Short-Term Investment Fund, and Money Market Mutual Funds are not subject to fair value measurements.

(3) Interfund Receivables and Payables

Interfund receivables and payables at June 30, 2017, were as follows.

<u>Funds:</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<u>Major Governmental:</u>		
General	\$ 60,000	\$ 2,390,094
<u>Non-major Governmental</u>		
<u>Special Revenue Funds:</u>		
Gas Tax	304,553	-
AB 2766	136,950	-
Senior Mobility Program	66,830	-
CARITS	1,251,468	-
CDBG	-	60,000
Public Art	78,154	-
Beverage Recycling	34,951	-
C & D Forfeited Deposits	104,995	-
Water Conservation	328,004	-
Grants and Contributions	83,611	-
Other Law Enforcement Grant	578	-
Total	<u>\$ 2,450,094</u>	<u>\$ 2,450,094</u>

Outstanding balances at the end of the fiscal year between funds are reported as “due to/from other funds”. These balances are the result primarily of interfund transfers that have not yet been funded.

(4) Transfers In and Out

Transfers in and out for the fiscal year ended June 30, 2017 are as follows:

<u>Paying Fund</u>	<u>Transfers Out</u>	<u>Receiving Fund</u>	<u>Transfers In</u>
<u>Major Governmental:</u>		<u>Major Governmental:</u>	
General	\$ 4,972,292	General	\$ 2,453,447
		Capital Projects	3,124,634
		Debt Service	1,797,680
<u>Non-major Governmental</u>		<u>Non-major Governmental</u>	
<u>Special Revenue Funds:</u>		<u>Special Revenue Funds:</u>	
Gas Tax	927,771	AB 2766	26,650
Measure M	736,041	Senior Mobility Program	9,592
USVP Traffic Impact	98,377	CARITS	157,000
CARITS	2,123	Grants & Contributions	13,736
AB 939 Surcharge Grant	51	C&D Forfeited Deposits	51
Grants & Contributions	716,200		
SLEFS/COPS BRULTE	129,935		
Total	<u>\$ 7,582,790</u>	Total	<u>\$ 7,582,790</u>

Interfund transfers are principally used to 1) provide available funds to the Debt Service Fund for interest and principal payments on the City's long-term debt and 2) supply the Capital Projects Fund with funding necessary to accomplish those projects approved by the City Council, there were no significant interfund transfers that were unusual or of a non-routine nature.

(5) Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	<u>Balance at</u> <u>July 1, 2016</u>	<u>Transfers</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>June 30, 2017</u>
Governmental activities:					
Buildings and improvements	\$ 13,466,229	\$ -	\$ -	\$ -	\$ 13,466,229
Machinery and equipment	2,479,875	-	234,628	-	2,714,503
Land improvements	26,347,918	-	-	-	26,347,918
Infrastructure	93,123,479	-	1,948,790	(77,444)	94,994,825
Total cost of depreciable assets	135,417,501	-	2,183,418	(77,444)	137,523,475
Less accumulated depreciation for:					
Buildings and improvements	9,288,706	-	673,311	-	9,962,017
Machinery and equipment	2,094,183	-	114,218	-	2,208,401
Land improvements	17,000,820	-	1,317,396	-	18,318,216
Infrastructure	35,856,850	-	1,783,247	(77,444)	37,562,653
Total accumulated depreciation	64,240,559	-	3,888,172	(77,444)	68,051,287
Net depreciable assets	71,176,942	-	(1,704,754)	-	69,472,188
Land	17,961,632	-	-	-	17,961,632
Rights of way/Easements	2,854,182	-	-	-	2,854,182
Construction in progress	-	-	-	-	-
Total cost of non-depreciable assets	20,815,814	-	-	-	20,815,814
Total capital assets, net	\$ 91,992,756	\$ -	\$ (1,704,754)	\$ -	\$ 90,288,002
Business-type activity:					
Buildings and improvements	\$ 14,819,540	\$ -	\$ 90,896	\$ -	\$ 14,910,436
Total cost of depreciable assets	14,819,540	-	90,896	-	14,910,436
Less accumulated depreciation for:					
Buildings and improvements	8,676,851	-	745,522	-	9,422,373
Total accumulated depreciation	8,676,851	-	745,522	-	9,422,373
Net depreciable assets	6,142,689	-	(654,626)	-	5,488,063
Land	2,855,425	-	-	-	2,855,425
Total capital assets, net	\$ 8,998,114	\$ -	\$ (654,626)	\$ -	\$ 8,343,488

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

Governmental activities:

General government	\$ 47,663
Community development	830
Public services	1,792,077
Community services	2,030,003
Public safety	<u>17,599</u>
	3,888,172

Business-type activity:

Property leasing	<u>745,522</u>
------------------	----------------

Total \$ 4,633,694

(6) Long-term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2017, was as follows:

Governmental Activities :

	<u>Balance at</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>June 30, 2017</u>	<u>Amounts Due</u> <u>in One Year</u>
Certificates of Participation:					
2010 COP	\$ 10,035,000	\$ -	\$ 1,350,000	\$ 8,685,000	\$ 1,390,000
Unamortized premium	690,644	-	80,464	610,180	-
Total Certificates of Participation	<u>10,725,644</u>	<u>-</u>	<u>1,430,464</u>	<u>9,295,180</u>	<u>1,390,000</u>
Other Liabilities:					
Capital lease	-	47,890	2,353	45,537	8,293
Compensated absences	304,224	217,929	186,392	335,761	33,576
Claims and judgments	22,175	1,385,431	880,612	526,994	52,699
Total Other Liabilities	<u>326,399</u>	<u>1,651,250</u>	<u>1,069,357</u>	<u>908,292</u>	<u>94,568</u>
Totals	<u>\$ 11,052,043</u>	<u>\$ 1,651,250</u>	<u>\$ 2,499,821</u>	<u>\$ 10,203,472</u>	<u>\$ 1,484,568</u>

Typically, the City liquidates its net pension liability, capital lease, compensated absences, and claims and judgments with general fund resources.

2010 Certificates of Participation

On January 26, 2010, the City (through the City's blended component unit The Public Improvement Corporation) issued \$17,190,000 of Certificates of Participation (COPs). Proceeds from the sale were placed in an irrevocable trust that is used to service the future debt requirements of the 2001 and 2003 Certificates of Participation. This refunding resulted in an economic gain as well as savings from refunding. The economic gain realized in this refunding was \$1,072,242 and the savings resulting from the refunding was as follows:

Cash flow requirements to service old debt	\$ 23,858,154
Less: Cash flow requirements for new debt	<u>(22,738,962)</u>
Net savings from refunding	<u>\$ 1,119,192</u>

The 2010 COPs are direct obligations and pledge the full faith and credit of the City of Laguna Hills. The certificates were executed and delivered under the provisions of the Trust Agreement by and among The Bank of New York Mellon Trust Company, N.A, as trustee. The City is required under the Lease Agreement to make rental payments each 15th day of the month immediately preceding each February 1st and August 1st from any source of available funds in an amount sufficient to pay the annual principal and interest due with respect to the Certificates.

The Serial bonds mature in annual installments ranging from \$345,000 to \$1,670,000, commencing February 1, 2011 and ending February 1, 2025. Interest accrues at rates between 2.00% and 5.00% and is payable semiannually. The annual requirements to amortize the certificates of participation as of June 30, 2017, are as follows:

Fiscal Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,390,000	\$ 395,388	\$ 1,785,388
2019	1,450,000	340,882	1,790,882
2020	1,520,000	282,881	1,802,881
2021	1,580,000	206,881	1,786,881
2022	1,670,000	127,881	1,797,881
2023 - 2025	<u>1,075,000</u>	<u>90,900</u>	<u>1,165,900</u>
Totals	<u>\$8,685,000</u>	<u>\$ 1,444,813</u>	<u>\$10,129,813</u>

The COPs are subject to federal arbitrage regulations. The City calculated no arbitrage rebate due as of January 2010.

Capital Lease: Southern California Edison On-Bill Financing Program

In fiscal year 2016-2017, the City approved the installation of energy-efficient LED streets lights in areas of the City. The project was funded through Southern California Edison's On-Bill Financing Program. Through this program, the City received zero percent financing for approved energy reduction projects for \$47,890 as of June 30, 2017, which is also the cost of the assets acquired under this program. The accumulated depreciation of these assets is \$759 as of June 30, 2017. The costs are repaid from energy savings over a period of up to ten years. The unpaid balance as of June 30, 2017 was \$45,537. The annual debt service requirements are as follows:

Fiscal Year Ending <u>June 30</u>	<u>Principal</u>
2018	\$ 8,293
2019	8,293
2020	8,293
2021	4,272
2022	3,907
2023 - 2027	<u>12,479</u>
Totals	<u>\$ 45,537</u>

Compensated Absences

The City's policies relating to compensated absences are described in Note 1. The long-term portion of this liability, amounting to \$302,185 at June 30, 2017 will be paid primarily from the general fund.

(7) General Liability Insurance

In July 2003, the City joined the Exclusive Risk Management Authority of California (ERMAC), a pool of three other cities in California, namely Beaumont, Hayward, and Santa Maria, established under the provisions of California Government Code Section 6502, in order to jointly develop and fund General Liability insurance.

The ERMAC policy covers the City for losses due to personal injury, property damage, wrongful acts because of public officials' errors and omissions and unfair employment practices (see the chart below for City's retained limits and policy liability limits). Legal defense costs may be covered in addition to policy limits.

The City carries property, business interruption, flood, and boiler & machinery insurance with ERMAC (PEPIP Program) to cover all City property. In addition, Difference in Conditions (DIC) or earthquake, including flood, is provided by Everest Indemnity Insurance Company, which covers the Laguna Hills Civic Center only.

The following is a list of the allocation of risk coverage for the City as of June 30, 2017, taking in to account the City's self-insurance portion, if any.

Area of Risk	City Self-Insurance	Carrier	Risk Coverage
Municipal Broad General Liability	<ul style="list-style-type: none">• \$100,000 for PI, PD or wrongful acts (public officials E&O)• \$1,000,000 for unfair employment practices	ERMAC	<ul style="list-style-type: none">• \$50M per occurrence and in the annual aggregate excess of limit of the SIR
Property, Business Interruption and Boiler & Machinery	<ul style="list-style-type: none">• \$10,000 per occurrence (specific perils may be higher)	ERMAC (PEPIP program)	<ul style="list-style-type: none">• \$1B per occurrence combined• \$10M flood limit per occurrence• \$100M combined business interruption• \$100M boiler explosion & machinery breakdown combined
Difference in Conditions (Multi-peril) Civic Center only	<ul style="list-style-type: none">• \$50,000 per occurrence• 5% earthquake	Aegis Security Insurance Company	<ul style="list-style-type: none">• \$7.5M per occurrence and annual aggregate• \$60.3M TIV

Area of Risk	City Self-Insurance	Carrier	Risk Coverage
Crime	<ul style="list-style-type: none"> • \$2,500 	CSAC-EIA	<ul style="list-style-type: none"> • \$15M employee dishonesty • \$15M forgery alterations • \$15M money & securities theft, inside premises • \$15M money & securities theft, outside premises • \$15M computer fraud • \$15M money order & counterfeit paper currency • \$15M theft of other property, inside premises • \$15M theft of other property, outside premises
Recreational Class & Officials Supplemental	<ul style="list-style-type: none"> • None 	SCMAF	<ul style="list-style-type: none"> • \$1M per occurrence • \$100,000 property damage • \$1M personal injury, products and partial liability • \$10,000 medical expense
Business Auto	<ul style="list-style-type: none"> • \$500 	Columbia Insurance Company	<ul style="list-style-type: none"> • \$500K combined BI & PD • \$500K uninsured, under-insured motorist • \$5,000 medical payments • If any basis, non-owned or hired auto liability
Workers' Compensation & Employers' Liability	<ul style="list-style-type: none"> • None 	SDRMA	<ul style="list-style-type: none"> • Statutory Workers' Compensation per occurrence • \$5M Employer's Liability per occurrence

Claims Liability

In the financial statements prepared using the economic resources measurement focus, authoritative standards require that the liability for claims and the corresponding expense should be recognized in the period in which the underlying event occurs. Therefore, the liability of outstanding *unallocated loss adjustment expenses* (ULAE) must be established to represent the amount that will be paid out in claims as well as the expenses associated with processing of those claims. The City's third party administrator provides the data on estimated claim liabilities (paid and reserves). As of June 30, 2017, the estimated outstanding ULAE was \$44,389.

Furthermore, as a practical matter, claims are often not reported during the period in which the underlying event occurs. The claim, even if not filed timely, must still be reported in the period in which the underlying event took place. Therefore, when it is probable that a claims liability has been incurred and the amount of the loss can be reasonably estimated through historical trends, the liability for claims should include an amount for *incurred but not reported* (IBNR) claims. IBNR is estimated at 25% of the current year annual claim expenses. As of June 30, 2017, the estimated IBNR was \$7,605.

The following is a summary of the changes in the claims liability for the last two fiscal years:

	<u>FY 2016/17</u>	<u>FY 2015/16</u>
Claims payable, beginning	\$ 22,175	\$ 43,307
Claims and changes in estimate	1,385,431	835,775
Claims payments	<u>(880,612)</u>	<u>(856,907)</u>
Claims payable, ending	<u>\$ 526,994</u>	<u>\$ 22,175</u>

The total amount designated in the Claims Liability Loss Reserve Fund as of June 30, 2017 is \$200,000, which would cover two full limit losses. The City's self-insured retention is \$100,000.

During the past three fiscal years, none of the above programs of protection have experienced settlements or judgments that exceeded pooled or insured coverage. There were also no significant reductions in pooled or insured liability coverage in 2016-2017.

(8) Pension Plans

a) General Information about the Pension Plans

Plan Descriptions

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

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 and 52 with statutorily reduced benefits for Tier I and PEPRA, respectively. All members are eligible for non-industrial disability benefits after 5 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Miscellaneous	
	Tier I	PEPRA
	Prior to	On or After
Hire date	January 1, 2013	January 1, 2013
Benefit formula	2%@60	2%@62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 63	52 - 67
Monthly benefits, as a % of		
eligible compensation	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	6.5%
Required employer contribution rates:		
Normal cost rate	8.262%	6.930%
Payment of unfunded liability	\$ 87,571	\$ 502

Contributions

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

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

As of June 30, 2017, the City reported net pension liabilities for its proportionate share of the net pension liability of all Plans as follows:

	Proportionate
	Share of Net
	Pension Liability
Miscellaneous	<u>\$ 2,953,536</u>

The City's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2016, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The City's proportionate share of the net pension liability was based on a projection of the City's long-term share of contributions to the

pension plans relative to the projected contributions of all participating employers, actuarially determined.

The City's proportionate share of the net pension liability for all Plans as of the measurement dates ended June 30, 2015 and 2016 was as follows:

	Miscellaneous
Proportion - June 30, 2015	0.07132%
Proportion - June 30, 2016	0.08502%
Change - Increase (Decrease)	0.01370%

For the year ended June 30, 2017, the City recognized pension expense of \$389,122. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 346,439	\$ -
Differences between expected and actual experience	11,039	(2,529)
Change in assumptions	-	(104,435)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	7,387	(389,672)
Net differences between projected and actual earnings on plan investments	543,549	-
Total	<u>\$ 908,414</u>	<u>\$ (496,636)</u>

\$346,439 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Amount
2018	\$ (193,785)
2019	(127,807)
2020	246,147
2021	140,784
2022	-
Thereafter	-

Actuarial Assumptions

For the measurement period ended June 30, 2016 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2015 total pension liability determined in the June 30, 2015 actuarial accounting valuation. The June 30, 2016 total pension liability was based on the following actuarial methods and assumptions:

Valuation Date	Miscellaneous June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	(1)
Mortality Rate Table	(2)
Post Retirement Benefit Increase	(3)

(1) Varies by entry age and service.

(2) The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available on the CalPERS website.

(3) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at the CalPERS website under Forms and Publications.

Change of Assumptions

There were no changes of assumptions during the measurement period June 30, 2016. Deferred inflows of resources for changes of assumptions presented in the financial statements represent the unamortized portion of the changes of assumptions related to prior measurement periods.

Discount Rate

The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the Plans, the tests revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

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

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

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2015.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

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

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

	Miscellaneous
1% Decrease	6.65%
Net Pension Liability	\$ 5,094,618
Current Discount Rate	7.65%
Net Pension Liability	\$ 2,953,536
1% Increase	8.65%
Net Pension Liability	\$ 1,184,038

Pension Plans Fiduciary Net Position

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

Subsequent Events

In December 2016, CalPERS' Board of Directors voted to lower the discount rate used in its actuarial valuations from 7.5% to 7.0% over three fiscal years, beginning in fiscal year 2018. The change in the discount rate will affect the contribution rates for employers beginning in fiscal year 2019, and result in increases to employers' normal costs and unfunded actuarial liabilities. For

the GASB Statement 68 accounting valuations, the discount rate will move straight to 7% starting with the June 30, 2017 measurement date reports and will result in an increase to employer's total pension liabilities.

c) Payable to the Pension Plans

At June 30, 2017, the City had no outstanding amount of contributions to the pension plans required for the year ended June 30, 2017.

(9) **Deferred Compensation**

The City offers its employees two kinds of deferred compensation plans.

One plan is created in accordance with Internal Revenue Code Section 457. This plan, available to all employees, permits them to defer annually up to a maximum of \$18,000 for calendar year 2016 and 2017. This maximum deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Amounts accumulated by the City under the plan have been invested in several investment options administered by independent third-party administrators at the direction of the employee. The assets of the plan are held in trust, with the City as trustee, for the exclusive benefit of the plan participants and their beneficiaries, and the assets cannot be diverted to any other purpose. The Trustee's beneficial ownership of plan assets held in the ICMA Retirement Trust is held for the further exclusive benefit of the plan participants and their beneficiaries. The plan permits loans, administered by the City, in accordance with approved loan guidelines.

The other Plan is created in accordance with Internal Revenue Code Section 401A. This Plan is available to all management staff regardless of years of service, and non-management employees who have reached a minimum of ten years of service with the City. The City is the sole contributor to this Plan, and sets the contribution amount to each class of eligible employees. The contribution limit is in accordance with the prevailing IRS regulation. The assets of this Plan, held for the exclusive benefits of the Plan's participants and their beneficiaries, are administered by the Public Agency Retirement System (PARS), and the trustee is Union Bank of California. Amounts accumulated under this Plan are self-directed by each participant.

(10) **Classification of Net Position and Governmental Fund Balances**

Net Position is measured on the full accrual basis of accounting as compared to the concept of Fund Balance, which is measured on the modified accrual basis of accounting.

Net Position Classifications

Net Position is divided into three captions as described below:

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

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

Restricted net position is subject to constraints either by (1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulation of other governments or (2) imposed by law through constitutional provisions or enabling legislation. There was no net position at June 30, 2017 that was restricted by enabling legislation.

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

Net Position Flow Assumption

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

It is the City's practice to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Governmental Fund Balances Classifications

Fund Balances of the governmental funds are reported separately within classifications based on a hierarchy of constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, committed, assigned, and unassigned fund balance.

The *nonspendable* fund balance classification includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted fund balances are those that have externally imposed restrictions on their usage by creditors, such as through debt covenants, grantors, contributors, or laws and regulations.

Committed fund balances are those constrained to specific purposes determined by a formal action (resolution) of the City's highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally. The City does not have any committed fund balances at June 30, 2017.

Assigned fund balances include amounts that are constrained by the City's intent to be used for specific purposes. The City Manager has the authority to assign the portion of the fund balance in the general fund that are constrained by the City's intent to be used for reserves as established in the City's Financial Policy No. 105 Section G.

Unassigned fund balances include the residual balance for the City's general fund and includes all spendable amounts not contained in other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

When expenditures are incurred, the City's applies the most restrictive funds first; and then the City would use the appropriate funds in the following order: committed, assigned, and lastly unassigned amounts.

Fund balances are presented in the following categories: nonspendable, restricted, assigned, and unassigned. A detailed schedule of fund balances at June 30, 2017 is as follows:

	General Fund	Debt Service Fund	Other Governmental Funds	Total
Nonspendable:				
Prepaid Items	\$ 81,520	\$ -	\$ -	\$ 81,520
Total	81,520	-	-	81,520
Restricted:				
Debt Service	-	1,818,945	-	1,818,945
AB 2766	-	-	136,950	136,950
Gas Tax	-	-	304,553	304,553
CARITS	-	-	1,251,468	1,251,468
Beverage Recycling	-	-	34,951	34,951
Senior Mobility Program	-	-	66,830	66,830
C & D Forfeited Deposits	-	-	104,995	104,995
Water Conservation	-	-	328,004	328,004
Law Enforcement Other Grant	-	-	578	578
Public Art	-	-	78,154	78,154
Grants and Contributions	-	-	83,611	83,611
Total	-	1,818,945	2,390,094	4,209,039
Assigned:				
Claims Liability	200,000	-	-	200,000
Community Center and Sports Complex Mtnc	375,000	-	-	375,000
Parks Maintenance	15,700	-	-	15,700
Slopes/Storm Drain Mtnc	129,959	-	-	129,959
Total	720,659	-	-	720,659
Unassigned	6,029,507	-	-	6,029,507
Total Fund Balances	\$ 6,831,686	\$ 1,818,945	\$ 2,390,094	\$ 11,040,725

(11) Joint Venture

Orange County Fire Authority

In January 1995, the City of Laguna Hills entered into a Joint Powers Agreement with the Cities of Buena Park, Cypress, Dana Point, Irvine, Laguna Niguel, Lake Forest, La Palma, Los Alamitos, Mission Viejo, Placentia, San Clemente, San Juan Capistrano, Seal Beach, Stanton, Tustin, Villa Park, and Yorba Linda and the County of Orange to create the Orange County Fire Authority (the Authority). Since the creation of the Authority, the Cities of Aliso Viejo, Laguna Woods, Rancho Santa Margarita and Westminster have joined the Authority as members eligible for protection services. The purpose of the Authority is to provide for mutual fire protection, prevention and suppression services and related and incidental services including, but not limited to, emergency medical and transport services, as well as providing facilities and personnel for such services. The effective date of formation was March 1, 1995. The Authority's governing board consists of one representative from each City and two from the County. The operations of the Authority are funded with structural fire fees collected by the County through the property tax roll for the unincorporated area and on behalf of all member Cities except for the Cities of Stanton, Tustin, San Clemente, Buena Park, Placentia, Seal Beach and Westminster. The County pays all structural fire fees it collects to the Authority. The Cities of Stanton, Tustin, San Clemente, Buena Park, Placentia, Seal Beach and Westminster are considered "cash contract cities" and accordingly make cash contributions based on the Authority's annual budget. No determination has been made as to each participant's proportionate share of fund equity as of June 30, 2017. Upon dissolution of the Authority, all surplus money and property of the Authority will be conveyed or distributed to each member in proportion to all funds provided to the Authority by that member or by the County on behalf of that member during its membership.

Complete financial statements may be obtained from the Orange County Fire Authority, 180 South Water Street, Orange, California 92866.

(12) Related Party Transactions

The City's enterprise fund consists of owning a piece of commercial real estate and leasing it to various entities. The total square footage of the building is 51,944. The City is a tenant using approximately 21,033 square feet of the building. The enterprise fund does not charge the City rent. The estimated annual rent for the space occupied by the City would be approximately \$549,965.

(13) Other Required Individual Fund Disclosures

Excess of Expenditures over Appropriations

The following are funds in which expenditures exceeded appropriations for the fiscal year ended June 30, 2017. The City manages its budget at the fund level.

	Appropriations	Expenditures	Variance Positive (Negative)
Major Governmental Fund:			
Debt Service Fund	\$ 1,799,387	\$ 1,801,427	\$ (2,040)
Non-major Governmental Funds:			
CDBG Special Revenue Fund	70,000	103,056	(33,056)
Grants and Contributions Special Revenue Fund	-	59,485	(59,485)

(14) Commitments and Contingencies

The City is occasionally a defendant in lawsuits which have arisen in the normal course of business. Damages are alleged in some of these actions and their outcome cannot be predicted with certainty. However, in the opinion of the City Attorney, the outcome of these actions will not have a material adverse effect on the financial position of the City.

The City participates in several federal and state grant programs. The programs are subject to examination by the granters and the amount, if any, of expenses which may be disallowed by the granting agency cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

(15) Operating Leases

Operating leases arise from renting the City's Civic Center. Initial lease terms generally range from 12 to 60 months. Future minimum rental payments to be received on non-cancelable operating leases are contractually due as follows as of June 30, 2017:

<u>Year Ending June 30</u>	<u>Amounts</u>
2018	\$ 509,132
2019	378,161
2020	253,558
2021	172,880
Thereafter	539,878
	<u>\$ 1,853,609</u>

The Property Leasing Enterprise Fund Statement of Net Position includes the capital assets that represent the land, building, and improvements utilized by the operating leases. The original cost of these capital assets is \$17,765,861. The carrying value of these capital assets as of June 30, 2017 is \$8,343,488.

Total rent revenue for the year ended June 30, 2017 was \$633,674.

(16) Subsequent Events

In preparing these financial statements, the City's Management has evaluated events and transactions for potential recognition or disclosure through December 4, 2017, the date these financial statements were available to be issued, and has determined there were no other material events requiring disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAGUNA HILLS

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

Fiscal year ended	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Measurement period	June 30, 2016	June 30, 2015	June 30, 2014
Plan's proportion of the net pension liability	0.03413%	0.02851%	0.03634%
Plan's proportionate share of the net pension liability	\$ 2,953,536	\$ 1,956,617	\$ 2,261,011
Plan's covered - employee payroll	\$ 3,076,464	\$ 3,093,576	\$ 2,893,989
Plan's proportionate share of the net pension liability as a percentage of covered - employee payroll	96.00%	63.25%	78.13%
Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability	74.06%	78.40%	79.82%
Plan's proportionate share of aggregate employer contributions	\$ 482,240	\$ 431,378	\$ 299,124

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

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

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

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

There were no changes in assumptions.

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

CITY OF LAGUNA HILLS

SCHEDULE OF CONTRIBUTIONS LAST TEN FISCAL YEARS*

Fiscal year ended	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	\$ 346,439	\$ 308,768	\$ 278,231
Contributions in relation to the actuarially determined contributions	(346,439)	(308,768)	(278,231)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered - employee payroll	\$ 3,197,331	\$ 3,076,464	\$ 3,093,576
Contributions as a percentage of covered - employee payroll	10.84%	10.04%	8.99%

Notes to Schedule:

Valuation Date	6/30/2014	6/30/2013	6/30/2012
Methods and Assumptions Used to Determine Contribution Rates:			
Single and agent employers	Entry age**		
Amortization method	Level percentage of payroll, closed**		
Asset valuation method	Market Value***		
Inflation	2.75%**		
Salary increases	3.30% to 14.20% depending on age, service, and type of employment**		
Investment rate of return	7.50%, net of pension plan investment expense including inflation**		
Retirement age	50 years (2%@60), 52 years (2%@62)**		
Mortality	Morality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.**		

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

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

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

CITY OF LAGUNA HILLS

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variances with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 12,579,952	\$ 12,579,952	\$ 12,693,355	\$ 113,403
Licenses and permits	725,000	725,000	883,457	158,457
Intergovernmental revenues	6,252,869	6,252,869	5,843,546	(409,323)
Charges for current services	1,163,640	1,163,640	1,068,521	(95,119)
Fines and forfeitures	260,000	260,000	228,649	(31,351)
Investment income	-	-	26,314	26,314
Total Revenues	20,981,461	20,981,461	20,743,842	(237,619)
Expenditures:				
Current:				
General government	3,435,418	3,668,722	3,599,531	69,191
Public services	4,462,569	4,478,977	4,328,308	150,669
Community development	1,450,827	1,450,827	1,358,725	92,102
Community services	2,051,365	2,051,365	2,053,925	(2,560)
Public safety	7,564,212	8,032,544	8,149,762	(117,218)
Debt service:				
Principal retirement	-	-	2,353	(2,353)
Total Expenditures	18,964,391	19,682,435	19,492,604	189,831
Excess of Revenues over Expenditures	2,017,070	1,299,026	1,251,238	(47,788)
Other Financing Sources (Uses):				
Transfers in	2,453,447	2,453,447	2,453,447	-
Transfers out	(4,972,292)	(4,972,292)	(4,972,292)	-
Total Other Financing Sources (Uses)	(2,518,845)	(2,518,845)	(2,518,845)	-
Net Change in Fund Balance	(501,775)	(1,219,819)	(1,267,607)	(47,788)
Fund Balance, Beginning	8,099,293	8,099,293	8,099,293	-
Fund Balance, Ending	\$ 7,597,518	\$ 6,879,474	\$ 6,831,686	\$ (47,788)

See Accompanying Note to Required Supplementary Information

CITY OF LAGUNA HILLS

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

1. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and are used as a management control device. The City Council approves the two-year budget submitted by the City Manager prior to the beginning of the new two-year budget cycle. The Council conducts public hearings prior to its adoption. All remaining appropriations in the Operating Budget will be carried over from the first year to the second year of the two-year budget period. The City Council has the legal authority to amend the budget at any time during the fiscal year. The City Manager has the authority to transfer budgeted amounts between funds and divisions as deemed necessary to meet the City's needs within the overall legal limit established by the City Council. The city maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the city Council. The level of budgetary control is total expenditures by fund. Formal budgetary integration is employed as a management control device during the fiscal year for the governmental fund types.

Biennial budgets are adopted for all governmental funds except for certain special revenue funds and capital projects funds, which adopt project length budgets. The Public Art Special Revenue Fund, Quimby Act Park Impact Fees Special Revenue Fund, and Other Law Enforcement Special Revenue Fund did not have adopted budgets during the current fiscal year.

SUPPLEMENTARY INFORMATION

NON-MAJOR FUNDS

Gas Tax Fund - Used to account for revenues and expenditures for general street improvement maintenance related to the City's share of state gasoline taxes collected under Street and Highway Code, Sections 2103, 2105, 2106, 2107 and 2107.5.

Measure M Fund - Used to account for revenues and expenditures made for street improvement and transportation system maintenance financed through the Orange County Transportation Authority.

AB 2766 Fund - Used to account for revenues and expenditures for air quality improvement. AB 2766 was enacted to authorize air pollution control districts to impose fees on motor vehicles.

Senior Mobility Program Fund - Used to account for revenues and expenditures related to help design and operate a transit program that best fits the needs of older adults under the OCTA Senior Mobility Program.

USVP Traffic Impact Fund - Used to account for revenues and expenditures related to the Traffic Impact/Mitigation Fee Program for the Urban Village Specific Plan area that will assist in mitigating the cost of roadway improvements that are partly required as a result of new development within the plan area.

CARTIS Fund - Used to account for revenues and expenditures related to the cooperative agreement with the County of Orange for Coastal Area Road Improvement and Traffic Signals (CARTIS) fee program.

CDBG Fund - Used to account for revenues and expenditures to improve local and national objectives to provide decent and safe housing for low- and moderate-income families. This is grant funding obtained from the United States Department of Housing and Urban Development (HUD) for the purposes of rehabilitating "eligible deteriorating housing.

Public Art Fund - Used to account for revenues and expenditures related to the City's Public Art program designed to enhance the cultural and aesthetic environment and to encourage creativity, education and appreciation of the arts.

Beverage Recycling Fund - Used to account for revenues and expenditures related to grant funding received from the California State Department of Conservation for the purpose of implementing and supporting beverage container recycling programs within the City.

CR&R Recycling Fees Fund - Used to account for contractual revenues received from the City's franchised hauler, CR&R, for the purposes of recycling consulting services and general recycling activity expenditures.

C & D Forfeited Deposits Fund - Used to account for Construction and Demolition Waste Recycling Program security deposits, which have been forfeited by the applicant, used for administration costs of the program, or on programs to divert the waste from construction, demolition and alteration projects from landfill disposal, or other recycling programs.

AB 939 Surcharge Grant Fund - Used to account for revenues and expenditures related to the County of Orange Regional Recycling and Waste Diversion Grant Program for the purpose of implementing and supporting regional recycling and waste diversion within the City.

Quimby Act Park Impact Fees Fund - Used to account for revenues and expenditures related to the "Quimby Act", which authorizes the City to require dedication of parkland, or fee in-lieu of such dedication, to meet the needs of new residential subdivisions in accordance of the City's General Plan.

Water Conservation Fund - Used to account for revenues and expenditures related to water use efficiency and conservation programs.

Grants & Contributions Fund - Used to account for revenues and expenditures made for specific projects including landscape improvements and certain capital expenditures. Land developers and builders, as well as other public agencies provide financing.

SLESF/COPS BRULTE Fund - Used to account for revenues received and expenditures made for front line law enforcement services related to the allocations received through the State Supplemental Law Enforcement Services Fund (SLESF)/COPS program.

Other Law Enforcement Grant Fund - Used to account for revenues received and expenditures made for law enforcement services related to the allocations received through other State and local law enforcement programs, which are not part of the State Supplemental Law Enforcement Services Fund (SLESF)/COPS program.

CITY OF LAGUNA HILLS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
AS OF JUNE 30, 2017

	Special Revenue Funds							
	Gas Tax	Measure M	AB 2766	Senior Mobility Program	USVP Traffic Impact	CARITS	CDBG	Public Art
Assets								
Due from other funds	\$ 304,553	\$ -	\$ 136,950	\$ 66,830	\$ -	\$ 1,251,468	\$ -	\$ 78,154
Due from other governments	-	-	-	-	-	-	60,000	-
Total Assets	<u>\$ 304,553</u>	<u>\$ -</u>	<u>\$ 136,950</u>	<u>\$ 66,830</u>	<u>\$ -</u>	<u>\$ 1,251,468</u>	<u>\$ 60,000</u>	<u>\$ 78,154</u>
Liabilities and Fund Balances								
Liabilities:								
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 60,000	\$ -
Total Liabilities	-	-	-	-	-	-	60,000	-
Fund Balances:								
Restricted	<u>304,553</u>	<u>-</u>	<u>136,950</u>	<u>66,830</u>	<u>-</u>	<u>1,251,468</u>	<u>-</u>	<u>78,154</u>
Total Liabilities and Fund Balances	<u>\$ 304,553</u>	<u>\$ -</u>	<u>\$ 136,950</u>	<u>\$ 66,830</u>	<u>\$ -</u>	<u>\$ 1,251,468</u>	<u>\$ 60,000</u>	<u>\$ 78,154</u>

Special Revenue Funds (Continued)										Total
Beverage Recycling	CR&R Recycling Fees	C & D Forfeited Deposits	AB 939 Surcharge Grant	Quimby Act Park Impact Fees	Water Conservation	Grants & Contributions	SLEFS/COPS BRULTE	Other Law Enforcement Gramt	Nonmajor Governmental Funds	
\$ 34,951	\$ -	\$ 104,995	\$ -	\$ -	\$ 328,004	\$ 83,611	\$ -	\$ 578	\$ 2,390,094	
-	-	-	-	-	-	-	-	-	60,000	
<u>\$ 34,951</u>	<u>\$ -</u>	<u>\$ 104,995</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 328,004</u>	<u>\$ 83,611</u>	<u>\$ -</u>	<u>\$ 578</u>	<u>\$ 2,450,094</u>	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 60,000	
-	-	-	-	-	-	-	-	-	60,000	
34,951	-	104,995	-	-	328,004	83,611	-	578	2,390,094	
<u>\$ 34,951</u>	<u>\$ -</u>	<u>\$ 104,995</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 328,004</u>	<u>\$ 83,611</u>	<u>\$ -</u>	<u>\$ 578</u>	<u>\$ 2,450,094</u>	

CITY OF LAGUNA HILLS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Special Revenue Funds							
	Gas Tax	Measure M	AB 2766	Senior Mobility Program	USVP Traffic Impact	CARITS	CDBG	Public Art
Revenues:								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	97,850	-	-	-
Intergovernmental	601,719	733,178	39,180	34,911	-	-	103,056	304,989
Investment income	6,903	2,863	678	466	527	8,318	-	419
Total Revenues	608,622	736,041	39,858	35,377	98,377	8,318	103,056	305,408
Expenditures:								
Current:								
Public services	-	-	-	-	-	-	-	-
Community development	-	-	-	-	-	-	103,056	-
Community services	-	-	-	47,958	-	-	-	-
Total Expenditures	-	-	-	47,958	-	-	103,056	-
Excess (Deficiency) of Revenues over Expenditures	608,622	736,041	39,858	(12,581)	98,377	8,318	-	305,408
Other Financing Sources (Uses):								
Transfers in	-	-	26,650	9,592	-	157,000	-	-
Transfers out	(927,771)	(736,041)	-	-	(98,377)	(2,123)	-	-
Total Other Financing Sources (Uses)	(927,771)	(736,041)	26,650	9,592	(98,377)	154,877	-	-
Net Change in Fund Balances	(319,149)	-	66,508	(2,989)	-	163,195	-	305,408
Fund Balances, Beginning	623,702	-	70,442	69,819	-	1,088,273	-	(227,254)
Fund Balances, Ending	\$ 304,553	\$ -	\$ 136,950	\$ 66,830	\$ -	\$ 1,251,468	\$ -	\$ 78,154

Special Revenue Funss (Continued)										Total
Beverage Recycling	CR&R Recycling Fees	C & D Forfeited Deposits	AB 939 Surcharge Grant	Quimby Act Park Impact Fees	Water Conservation	Grants & Contributions	SLEFS/COPS BRULTE	Other Law Enforcement Grant	Nonmajor Governmental Funds	
\$ -	\$ 2,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$	2,000
-	-	41,235	-	-	-	-	-	-		139,085
-	-	-	-	-	-	716,200	129,324	-		2,662,557
244	-	829	-	-	2,288	1,617	611	4		25,767
244	2,000	42,064	-	-	2,288	717,817	129,935	4		2,829,409
-	2,000	63,945	-	-	-	59,485	-	-		125,430
-	-	-	-	-	-	-	-	-		103,056
-	-	-	-	-	-	-	-	-		47,958
-	2,000	63,945	-	-	-	59,485	-	-		276,444
244	-	(21,881)	-	-	2,288	658,332	129,935	4		2,552,965
-	-	51	-	-	-	13,736	-	-		207,029
-	-	-	(51)	-	-	(716,200)	(129,935)	-		(2,610,498)
-	-	51	(51)	-	-	(702,464)	(129,935)	-		(2,403,469)
244	-	(21,830)	(51)	-	2,288	(44,132)	-	4		149,496
34,707	-	126,825	51	-	325,716	127,743	-	574		2,240,598
\$ 34,951	\$ -	\$ 104,995	\$ -	\$ -	\$ 328,004	\$ 83,611	\$ -	\$ 578	\$	2,390,094

CITY OF LAGUNA HILLS
CAPITAL PROJECTS FUND - MAJOR FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Current:				
Public services	-	440,000	394,833	45,167
Capital outlay	4,735,300	4,401,450	2,777,691	1,623,759
Total Expenditures	4,735,300	4,841,450	3,172,524	1,668,926
Deficiency of Revenues over Expenditures	(4,735,300)	(4,841,450)	(3,172,524)	1,668,926
Other Financing Sources:				
Capital lease proceeds	-	-	47,890	47,890
Transfers in	3,124,634	3,124,634	3,124,634	-
Total Other Financing Sources	3,124,634	3,124,634	3,172,524	47,890
Net Change in Fund Balance	(1,610,666)	(1,716,816)	-	1,716,816
Fund Balance, Beginning	-	-	-	-
Fund Balance, Ending	\$ (1,610,666)	\$ (1,716,816)	\$ -	\$ 1,716,816

CITY OF LAGUNA HILLS
DEBT SERVICE FUND - MAJOR FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Investment income	\$ -	\$ -	\$ 13,610	\$ 13,610
Total Revenues	-	-	13,610	13,610
Expenditures:				
Debt service:				
Interest	449,387	449,387	451,427	(2,040)
Principal retirement	1,350,000	1,350,000	1,350,000	-
Total Expenditures	1,799,387	1,799,387	1,801,427	(2,040)
Deficiency of Revenues over Expenditures	(1,799,387)	(1,799,387)	(1,787,817)	11,570
Other Financing Sources:				
Transfers in	1,797,680	1,797,680	1,797,680	-
Total Other Financing Sources	1,797,680	1,797,680	1,797,680	-
Net Change in Fund Balance	(1,707)	(1,707)	9,863	11,570
Fund Balance, Beginning	1,809,082	1,809,082	1,809,082	-
Fund Balance, Ending	\$ 1,807,375	\$ 1,807,375	\$ 1,818,945	\$ 11,570

CITY OF LAGUNA HILLS
GAS TAX SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 753,305	\$ 753,305	\$ 601,719	\$ (151,586)
Investment income	-	-	6,903	6,903
Total Revenues	753,305	753,305	608,622	(144,683)
Other Financing Uses:				
Transfers out	(927,771)	(927,771)	(927,771)	-
Total Other Financing Uses	(927,771)	(927,771)	(927,771)	-
Net Change in Fund Balance	(174,466)	(174,466)	(319,149)	(144,683)
Fund Balance, Beginning	623,702	623,702	623,702	-
Fund Balance, Ending	\$ 449,236	\$ 449,236	\$ 304,553	\$ (144,683)

CITY OF LAGUNA HILLS
MEASURE M SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Intergovernmental	\$ 992,250	\$ 1,167,250	\$ 733,178	\$ (434,072)
Investment income	-	-	2,863	2,863
Total Revenues	992,250	1,167,250	736,041	(431,209)
Other Financing Uses:				
Transfers out	(736,041)	(736,041)	(736,041)	-
Total Other Financing Uses	(736,041)	(736,041)	(736,041)	-
Net Change in Fund Balance	256,209	431,209	-	(431,209)
Fund Balance, Beginning	-	-	-	-
Fund Balance, Ending	\$ 256,209	\$ 431,209	\$ -	\$ (431,209)

CITY OF LAGUNA HILLS
AB 2766 SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive (Negative)</u>
Revenues:				
Intergovernmental	\$ -	\$ -	\$ 39,180	\$ 39,180
Investment income	-	-	678	678
	<u>-</u>	<u>-</u>	<u>39,858</u>	<u>39,858</u>
Total Revenues	<u>-</u>	<u>-</u>	<u>39,858</u>	<u>39,858</u>
Other Financing Sources:				
Transfers in	26,650	26,650	26,650	-
	<u>26,650</u>	<u>26,650</u>	<u>26,650</u>	<u>-</u>
Total Other Financing Sources	<u>26,650</u>	<u>26,650</u>	<u>26,650</u>	<u>-</u>
Net Change in Fund Balance	26,650	26,650	66,508	39,858
Fund Balance, Beginning	<u>30,889</u>	<u>30,889</u>	<u>30,889</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 57,539</u>	<u>\$ 57,539</u>	<u>\$ 97,397</u>	<u>\$ 39,858</u>

CITY OF LAGUNA HILLS
SENIOR MOBILITY PROGRAM SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 110,328	\$ 110,328	\$ 34,911	\$ (75,417)
Investment income	<u>-</u>	<u>-</u>	<u>466</u>	<u>466</u>
Total Revenues	<u>110,328</u>	<u>110,328</u>	<u>35,377</u>	<u>(74,951)</u>
Expenditures:				
Current:				
Community services	<u>110,328</u>	<u>110,328</u>	<u>47,958</u>	<u>62,370</u>
Total Expenditures	<u>110,328</u>	<u>110,328</u>	<u>47,958</u>	<u>62,370</u>
Excess (Deficiency) of Revenues over Expenditures	<u>-</u>	<u>-</u>	<u>(12,581)</u>	<u>(12,581)</u>
Other Financing Sources:				
Transfers in	<u>9,592</u>	<u>9,592</u>	<u>9,592</u>	<u>-</u>
Total Other Financing Sources	<u>9,592</u>	<u>9,592</u>	<u>9,592</u>	<u>-</u>
Net Change in Fund Balance	9,592	9,592	(2,989)	(12,581)
Fund Balance, Beginning	<u>69,819</u>	<u>69,819</u>	<u>69,819</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 79,411</u>	<u>\$ 79,411</u>	<u>\$ 66,830</u>	<u>\$ (12,581)</u>

CITY OF LAGUNA HILLS
USVP TRAFFIC IMPACT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Licenses and permits	\$ -	\$ -	\$ 97,850	\$ 97,850
Investment income	-	-	527	527
Total Revenues	-	-	98,377	98,377
Other Financing Uses:				
Transfers out	(98,377)	(98,377)	(98,377)	-
Total Other Financing Uses	(98,377)	(98,377)	(98,377)	-
Net Change in Fund Balance	(98,377)	(98,377)	-	
Fund Balance, Beginning	-	-	-	-
Fund Balance, Ending	<u>\$ (98,377)</u>	<u>\$ (98,377)</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF LAGUNA HILLS
CARITS SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Investment income	\$ -	\$ -	\$ 8,318	\$ 8,318
Total Revenues	-	-	8,318	8,318
Other Financing Sources (Uses):				
Transfers in	157,000	157,000	157,000	-
Transfers out	(2,123)	(2,123)	(2,123)	-
Total Other Financing Sources (Uses)	154,877	154,877	154,877	-
Net Change in Fund Balance	154,877	154,877	163,195	8,318
Fund Balance, Beginning	1,088,273	1,088,273	1,088,273	-
Fund Balance, Ending	\$ 1,243,150	\$ 1,243,150	\$ 1,251,468	\$ 8,318

CITY OF LAGUNA HILLS
CDBG SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 70,000	\$ 70,000	\$ 103,056	\$ 33,056
Total Revenues	70,000	70,000	103,056	33,056
Expenditures:				
Current:				
Community development	70,000	70,000	103,056	(33,056)
Total Expenditures	70,000	70,000	103,056	(33,056)
Excess of Revenues over Expenditures	-	-	-	-
Fund Balance, Beginning	-	-	-	-
Fund Balance, Ending	\$ -	\$ -	\$ -	\$ -

CITY OF LAGUNA HILLS
BEVERAGE RECYCLING SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 8,300	\$ 8,300	\$ -	\$ (8,300)
Investment income	-	-	244	244
Total Revenues	8,300	8,300	244	(8,056)
Expenditures:				
Current:				
Community services	8,300	8,300	-	8,300
Total Expenditures	8,300	8,300	-	8,300
Excess of Revenues over Expenditures	-	-	244	244
Fund Balance, Beginning	34,707	34,707	34,707	-
Fund Balance, Ending	\$ 34,707	\$ 34,707	\$ 34,951	\$ 244

CITY OF LAGUNA HILLS
CR&R RECYCLING FEES SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 2,000	\$ 2,000	\$ 2,000	\$ -
Total Revenues	2,000	2,000	2,000	-
Expenditures:				
Current:				
Public services	2,000	2,000	2,000	-
Total Expenditures	2,000	2,000	2,000	-
Deficiency of Revenues over Expenditures	-	-	-	-
Fund Balance, Beginning	-	-	-	-
Fund Balance, Ending	\$ -	\$ -	\$ -	\$ -

CITY OF LAGUNA HILLS
C & D FORFEITED DEPOSITS SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Licenses and permits	\$ 70,000	\$ 70,000	\$ 41,235	\$ (28,765)
Investment income	-	-	829	829
Total Revenues	70,000	70,000	42,064	(27,936)
Expenditures:				
Current:				
Public Services	70,000	70,000	63,945	6,055
Total Expenditures	70,000	70,000	63,945	6,055
Deficiency of Revenues over Expenditures	-	-	(21,881)	(21,881)
Other Financing Sources:				
Transfers in	51	51	51	-
Total Other Financing Sources	51	51	51	-
Net Change in Fund Balance	51	51	(21,830)	(21,881)
Fund Balance, Beginning	126,825	126,825	126,825	-
Fund Balance, Ending	\$ 126,876	\$ 126,876	\$ 104,995	\$ (21,881)

CITY OF LAGUNA HILLS
AB 939 SURCHARGE GRANT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:	\$ -	\$ -	\$ -	\$ -
Expenditures:	-	-	-	-
Excess (deficiency) of Revenues over Expenditures	-	-	-	-
Other Financing Sources Uses:				
Transfers out	(51)	(51)	(51)	-
Total Other Financing Uses	(51)	(51)	(51)	-
Net Change in Fund Balance	(51)	(51)	(51)	-
Fund Balance, Beginning	51	51	51	-
Fund Balance, Ending	\$ -	\$ -	\$ -	\$ -

CITY OF LAGUNA HILLS
WATER CONSERVATION SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 50,000	\$ -	\$ -	\$ -
Investment income	-	-	2,288	2,288
Total Revenues	50,000	-	2,288	2,288
Net Change in Fund Balance	50,000	-	2,288	2,288
Fund Balance, Beginning	325,716	325,716	325,716	-
Fund Balance, Ending	\$ 375,716	\$ 325,716	\$ 328,004	\$ 2,288

CITY OF LAGUNA HILLS
GRANTS AND CONTRIBUTIONS SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget- Positive(Negative)
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 845,000	\$ 1,339,150	\$ 716,200	\$ (622,950)
Investment income	-	-	1,617	1,617
Total Revenues	845,000	1,339,150	717,817	(621,333)
Expenditures:				
Current:				
Public services	-	-	59,485	(59,485)
Total Expenditures	-	-	59,485	(59,485)
Excess (Deficiency) of Revenues over Expenditures	845,000	1,339,150	658,332	(680,818)
Other Financing Uses:				
Transfers out	(716,200)	(716,200)	(716,200)	-
Total Other Financing Uses	(702,464)	(702,464)	(702,464)	-
Net Change in Fund Balance	142,536	636,686	(44,132)	(680,818)
Fund Balance, Beginning	127,743	127,743	127,743	
Fund Balance, Ending	\$ 270,279	\$ 764,429	\$ 83,611	\$ (680,818)

CITY OF LAGUNA HILLS
SLESF/COPS BRULTE SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 129,324	\$ 29,324
Investment income	-	-	611	611
Total Revenues	100,000	100,000	129,935	29,935
Other Financing Uses:				
Transfers out	(129,935)	(129,935)	(129,935)	-
Total Other Financing Uses	(129,935)	(129,935)	(129,935)	-
Net Change in Fund Balance	(29,935)	(29,935)	-	29,935
Fund Balance, Beginning	-	-	-	-
Fund Balance, Ending	\$ (29,935)	\$ (29,935)	\$ -	\$ 29,935

CITY OF LAGUNA HILLS
AGENCY FUND
STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>July 1, 2017</u>
Assets				
Cash and investments	\$ <u>174,044</u>	\$ <u>646,600</u>	\$ <u>(674,093)</u>	\$ <u>146,551</u>
Total assets	\$ <u><u>174,044</u></u>	\$ <u><u>646,600</u></u>	\$ <u><u>(674,093)</u></u>	\$ <u><u>146,551</u></u>
Liabilities				
Deposits	\$ <u>174,044</u>	\$ <u>646,600</u>	\$ <u>(674,093)</u>	\$ <u>146,551</u>
Total liabilities	\$ <u><u>174,044</u></u>	\$ <u><u>646,600</u></u>	\$ <u><u>(674,093)</u></u>	\$ <u><u>146,551</u></u>

STATISTICAL SECTION

STATISTICAL SECTION

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

Contents

Page

Financial Trends

III-3

Financial trend schedules contain trend information to help the reader understand how the City of Laguna Hills' financial performance and well-being have changed over time.

Revenue Capacity

III-10

Revenue capacity schedules contain information to help the reader assess the City of Laguna Hills' most significant local revenue source, the property tax.

Debt Capacity

III-16

Debt capacity schedules present information to help the reader assess the affordability of the City of Laguna Hills' current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information

III-21

Demographic and economic information schedules offer demographic and economic indicators to help the reader understand the environment within which the City of Laguna Hills' financial activities take place.

Operating Information

III-23

Operating information schedules contain service and infrastructure data to help the reader understand how the information in the City of Laguna Hills' financial report relates to the services the government provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

This page intentionally left blank.

CITY OF LAGUNA HILLS

NET POSITION BY COMPONENT

LAST TEN FISCAL YEARS

(accrual basis of accounting)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities										
Net Investment in capital assets	\$ 52,338,159	\$ 56,606,677	\$ 76,364,755	\$ 78,797,985	\$ 82,982,768	\$ 84,618,576	\$ 84,465,323	\$ 84,623,408	\$ 83,320,937	\$ 82,980,468
Restricted	4,701,017	3,356,723	3,935,701	3,653,349	2,106,914	998,727	2,414,686	5,240,670	2,470,305	2,394,252
Unrestricted	10,230,570	7,858,499	7,501,713	6,504,972	6,944,547	8,340,769	5,751,121	1,789,992	4,916,994	3,315,387
Total government activities net position	<u>\$ 67,269,746</u>	<u>\$ 67,821,899</u>	<u>\$ 87,802,169</u>	<u>\$ 88,956,306</u>	<u>\$ 92,034,229</u>	<u>\$ 93,958,072</u>	<u>\$ 92,631,130</u>	<u>\$ 91,654,070</u>	<u>\$ 90,708,236</u>	<u>\$ 88,690,107</u>
Business-type activities										
Net Investment in capital assets	\$ 13,292,252	\$ 12,720,481	\$ 12,206,656	\$ 11,542,563	\$ 10,989,447	\$ 10,403,077	\$ 9,894,503	\$ 9,324,493	\$ 8,998,114	\$ 8,343,488
Restricted										
Unrestricted	195,703	134,998	150,668	85,344	96,511	47,563	47,801	(36,397)	68,288	117,338
Total business-type activities net position	<u>\$ 13,487,955</u>	<u>\$ 12,855,479</u>	<u>\$ 12,357,324</u>	<u>\$ 11,627,907</u>	<u>\$ 11,085,958</u>	<u>\$ 10,450,640</u>	<u>\$ 9,942,304</u>	<u>\$ 9,288,096</u>	<u>\$ 9,066,402</u>	<u>\$ 8,460,826</u>
Primary government										
Net Investment in capital assets	\$ 65,630,411	\$ 69,327,158	\$ 88,571,411	\$ 90,340,548	\$ 93,972,215	\$ 95,021,653	\$ 94,359,826	\$ 93,947,901	\$ 92,319,051	\$ 91,323,956
Restricted	4,701,017	3,356,723	3,935,701	3,653,349	2,106,914	998,727	2,414,686	5,240,670	2,470,305	2,394,252
Unrestricted	10,426,273	7,993,497	7,652,381	6,590,316	7,041,058	8,388,332	5,798,922	1,753,595	4,985,282	3,432,725
Total primary government net position	<u>\$ 80,757,701</u>	<u>\$ 80,677,378</u>	<u>\$ 100,159,493</u>	<u>\$ 100,584,213</u>	<u>\$ 103,120,187</u>	<u>\$ 104,408,712</u>	<u>\$ 102,573,434</u>	<u>\$ 100,942,166</u>	<u>\$ 99,774,638</u>	<u>\$ 97,150,933</u>

CITY OF LAGUNA HILLS

CHANGE IN NET POSITION LAST TEN FISCAL YEARS

(accrual basis of accounting)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses										
Governmental activities:										
General Government	\$ 3,320,838	\$ 3,261,396	\$ 3,316,426	\$ 3,309,197	\$ 3,320,664	\$ 3,522,274	\$ 3,304,687	\$ 3,088,372	\$ 3,112,783	\$ 4,226,233
Public services	6,814,629	8,318,347	7,389,564	5,781,123	5,999,412	6,150,553	6,376,642	6,332,724	6,802,499	7,234,921
Community development	1,775,552	1,523,476	1,595,670	1,404,624	1,127,036	1,138,280	1,265,719	1,434,213	1,309,210	1,462,611
Community services	1,771,671	1,776,257	1,769,589	3,702,911	3,642,792	3,777,102	3,886,180	4,660,667	4,141,792	4,131,886
Public safety	6,503,096	6,422,802	6,597,894	6,487,711	6,528,489	6,575,855	6,837,050	7,162,514	6,929,025	8,167,361
Interest expense	910,500	875,447	636,441	663,944	620,376	583,461	530,039	479,589	431,264	376,993
Total governmental activities expenses	<u>21,096,286</u>	<u>22,177,725</u>	<u>21,305,584</u>	<u>21,349,510</u>	<u>21,238,769</u>	<u>21,747,525</u>	<u>22,200,317</u>	<u>23,158,079</u>	<u>22,726,573</u>	<u>25,600,005</u>
Business-type activities:										
Property leasing	1,162,891	1,117,002	1,125,330	1,190,752	1,154,967	1,163,305	1,278,434	1,204,437	1,222,043	1,255,765
Total business-type activities expenses	<u>1,162,891</u>	<u>1,117,002</u>	<u>1,125,330</u>	<u>1,190,752</u>	<u>1,154,967</u>	<u>1,163,305</u>	<u>1,278,434</u>	<u>1,204,437</u>	<u>1,222,043</u>	<u>1,255,765</u>
Total primary government expenses	<u>\$ 22,259,177</u>	<u>\$ 23,294,727</u>	<u>\$ 22,430,914</u>	<u>\$ 22,540,262</u>	<u>\$ 22,393,736</u>	<u>\$ 22,910,830</u>	<u>\$ 23,478,751</u>	<u>\$ 24,362,516</u>	<u>\$ 23,948,616</u>	<u>\$ 26,855,770</u>
Program Revenues										
Government activities:										
Charges for Services:										
General Government	\$ -	\$ -	\$ -	\$ 98,962	\$ 2,838.00	\$ -	\$ -	\$ -	\$ -	\$ -
Public services	58,539	98,818	86,176	155,373	83,989	112,629	106,633	136,037	205,446	196,054
Community development	616,819	544,227	514,162	653,918	669,936	750,626	799,316	1,050,127	881,286	894,150
Community services	683,911	687,987	703,099	701,040	657,129	714,634	608,877	775,330	780,519	756,089
Public safety	485,376	435,452	542,732	401,665	295,587	226,311	186,347	300,032	267,555	228,649
Operating Contributions	3,486,884	4,217,578	3,059,335	4,738,096	3,082,972	2,137,580	2,186,050	2,989,299	1,960,392	2,131,220
Capital Contributions	24,674			820,456	3,040,344	945,068	807,545	2,264,558	60,850	716,200
Total governmental activities program revenues	<u>5,356,203</u>	<u>5,984,062</u>	<u>4,905,504</u>	<u>7,569,510</u>	<u>7,832,795</u>	<u>4,886,848</u>	<u>4,694,768</u>	<u>7,515,383</u>	<u>4,156,048</u>	<u>4,922,362</u>
Business-type activities:										
Charges for Services:										
Property Leasing	790,817	591,665	649,270	535,455	527,530	527,931	476,391	500,202	579,313	650,147
Operating grants and contributions										
Capital grants and contributions					85,134					
Total business-type activities program revenues	<u>790,817</u>	<u>591,665</u>	<u>649,270</u>	<u>535,455</u>	<u>612,664</u>	<u>527,931</u>	<u>476,391</u>	<u>500,202</u>	<u>579,313</u>	<u>650,147</u>
Total primary government program revenues	<u>\$ 6,147,020</u>	<u>\$ 6,575,727</u>	<u>\$ 5,554,774</u>	<u>\$ 8,104,965</u>	<u>\$ 8,445,459</u>	<u>\$ 5,414,779</u>	<u>\$ 5,171,159</u>	<u>\$ 8,015,585</u>	<u>\$ 4,735,361</u>	<u>\$ 5,572,509</u>
Net (expense)/revenue										
Governmental activities	\$ (15,740,083)	\$ (16,193,663)	\$ (16,400,080)	\$ (13,780,000)	\$ (13,405,974)	\$ (16,860,677)	\$ (17,505,549)	\$ (15,642,696)	\$ (18,570,525)	\$ (20,677,643)
Business- type activities	(372,074)	(525,337)	(476,060)	(655,297)	(542,303)	(635,374)	(802,043)	(704,235)	(642,730)	(605,618)
	<u>\$ (16,112,157)</u>	<u>\$ (16,719,000)</u>	<u>\$ (16,876,140)</u>	<u>\$ (14,435,297)</u>	<u>\$ (13,948,277)</u>	<u>\$ (17,496,051)</u>	<u>\$ (18,307,592)</u>	<u>\$ (16,346,931)</u>	<u>\$ (19,213,255)</u>	<u>\$ (21,283,261)</u>

(continued)

CITY OF LAGUNA HILLS

CHANGE IN NET POSITION LAST TEN FISCAL YEARS

(accrual basis of accounting)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
(continued)										
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Taxes										
Property taxes	\$ 6,310,302	\$ 8,624,076	\$ 8,573,008	\$ 8,186,735	\$ 8,223,234	\$ 8,722,406	\$ 8,826,271	\$ 9,128,568	\$ 9,660,614	\$ 10,064,067
Sales and use taxes	6,368,887	5,522,204	5,197,367	5,238,949	5,157,787	5,305,487	5,562,823	5,603,521	5,439,210	5,779,073
Motor vehicle in lieu taxes	2,690,646	114,895	99,167	154,787	16,727	17,332	14,344	13,856	12,506	13,745
Other State subvention						-	16,549	93,653	57,112	9,209
Franchise taxes	1,202,702	1,237,335	1,217,595	1,199,882	1,223,523	1,210,837	1,259,021	1,343,505	1,303,919	1,191,868
Transient occupancy taxes	1,219,609	915,807	752,478	869,505	1,004,483	1,108,290	1,203,422	1,285,455	1,406,823	1,437,420
Investment earnings	469,876	119,006	29,205	25,267	15,736	12,216	12,251	14,266	14,893	21,911
Miscellaneous revenue	44,312	62,493	21,389	4,468	21,951	21,016	29,706	56,542	150,614	142,221
Lawsuit settlement										
Sale of capital assets						2,769,504				
Transfers	300,000	150,000	24,790	75,000			(293,691)	(50,000)	(421,000)	-
Total governmental activities	<u>18,606,334</u>	<u>16,745,816</u>	<u>15,914,999</u>	<u>15,754,593</u>	<u>15,663,441</u>	<u>19,167,088</u>	<u>16,630,696</u>	<u>17,489,366</u>	<u>17,624,691</u>	<u>18,659,514</u>
Business-type activities:										
Investment earnings	3,962	2,877	2,695	880	354	56	16	27	36	42
Transfers	(300,000)	(150,000)	(24,790)	(75,000)			293,691	50,000	421,000	-
Total business-type activities	<u>(296,038)</u>	<u>(147,123)</u>	<u>(22,095)</u>	<u>(74,120)</u>	<u>354</u>	<u>56</u>	<u>293,707</u>	<u>50,027</u>	<u>421,036</u>	<u>42</u>
Total primary government	<u>\$ 18,310,296</u>	<u>\$ 16,598,693</u>	<u>\$ 15,892,904</u>	<u>\$ 15,680,473</u>	<u>\$ 15,663,795</u>	<u>\$ 19,167,144</u>	<u>\$ 16,924,403</u>	<u>\$ 17,539,393</u>	<u>\$ 18,045,727</u>	<u>\$ 18,659,556</u>
Change in Net Position:										
Governmental activities	\$ 2,866,251	\$ 552,153	\$ (485,081)	\$ 1,974,593	\$ 2,257,467	\$ 2,306,411	\$ (874,853)	\$ 1,846,670	\$ (945,834)	\$ (2,018,129)
Business-type activities	<u>(668,112)</u>	<u>(672,460)</u>	<u>(498,155)</u>	<u>(729,417)</u>	<u>(541,949)</u>	<u>(635,318)</u>	<u>(508,336)</u>	<u>(654,208)</u>	<u>(221,694)</u>	<u>(605,576)</u>
Total primary government	<u>\$ 2,198,139</u>	<u>\$ (120,307)</u>	<u>\$ (983,236)</u>	<u>\$ 1,245,176</u>	<u>\$ 1,715,518</u>	<u>\$ 1,671,093</u>	<u>\$ (1,383,189)</u>	<u>\$ 1,192,462</u>	<u>\$ (1,167,528)</u>	<u>\$ (2,623,705)</u>

CITY OF LAGUNA HILLS
GOVERNMENTAL ACTIVITIES - TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(accrual basis of accounting)

Fiscal Year	Property Tax	Sales & Use Tax	Motor Vehicle in Lieu Tax	Other State Subvention	Franchise Tax	Transient Occupancy Tax	Total
2008	6,310,302	6,368,887	2,690,646		1,202,702	1,219,609	17,792,146
2009	8,624,076	5,522,204	114,895		1,237,335	915,807	16,414,317
2010	8,573,008	5,197,367	99,167		1,217,595	752,478	15,839,615
2011	8,186,735	5,238,949	154,787		1,199,882	869,505	15,649,858
2012	8,223,234	5,157,787	16,727		1,223,523	1,004,483	15,625,754
2013	8,722,406	5,305,487	17,332		1,210,837	1,108,290	16,364,352
2014	8,826,271	5,562,823	14,344	16,549	1,259,021	1,203,422	16,882,430
2015	9,128,568	5,603,521	13,856	93,653	1,343,505	1,285,455	17,468,558
2016	9,660,614	5,439,210	12,506	57,112	1,303,919	1,406,823	17,880,184
2017	10,064,067	5,779,073	13,745	9,209	1,191,868	1,437,420	18,495,382

CITY OF LAGUNA HILLS
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	Fiscal Year									
	2008	2009	2010	2011 ⁽¹⁾	2012	2013	2014	2015	2016	2017
General fund										
Reserved	\$ 186,524	\$ 44,610	\$ 15,624	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	10,313,093	8,582,945	8,611,931							
Nonspendable				305,302	311,223	335,603	416,994	318,769	312,137	81,520
Restricted								88,990	-	-
Committed										
Assigned				1,318,164	1,284,939	1,315,557	1,726,228	1,230,959	1,059,959	720,659
Unassigned				4,716,361	5,149,410	6,718,179	4,184,661	5,078,583	6,727,197	6,029,507
Total general fund	<u>\$ 10,499,617</u>	<u>\$ 8,627,555</u>	<u>\$ 7,422,224</u>	<u>\$ 6,339,827</u>	<u>\$ 6,745,572</u>	<u>\$ 8,369,339</u>	<u>\$ 6,327,883</u>	<u>\$ 6,717,301</u>	<u>\$ 8,099,293</u>	<u>\$ 6,831,686</u>
All other governmental funds										
Reserved	\$ 421,484	\$ 415,078	\$ 1,817,086							
Unreserved, reported in:										
Special revenue funds	4,202,374	2,427,534	2,411,192							
Debt service funds										
Nonspendable										
Restricted				4,473,805	3,916,541	2,813,802	4,222,459	5,151,680	4,276,934	4,209,039
Committed										
Assigned										
Unassigned				(273,326)	(238,732)	(245,214)	(322,781)	(229,971)	(227,254)	
Total all other governmental funds	<u>\$ 4,623,858</u>	<u>\$ 2,842,612</u>	<u>\$ 4,228,278</u>	<u>\$ 4,200,479</u>	<u>\$ 3,677,809</u>	<u>\$ 2,568,588</u>	<u>\$ 3,899,678</u>	<u>\$ 4,921,709</u>	<u>\$ 4,049,680</u>	<u>\$ 4,209,039</u>

⁽¹⁾ Fund Balance Classification reflects implementation of GASB 54 requirements starting with Fiscal Year 2010/11

CITY OF LAGUNA HILLS
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues:										
Taxes	\$ 8,843,272	\$ 10,858,989	\$ 10,553,196	\$ 10,513,681	\$ 10,533,542	\$ 11,061,533	\$ 11,308,714	\$ 11,777,528	\$ 12,393,356	\$ 12,695,355
Licenses and permits	579,915	521,724	423,012	550,155	816,863	655,855	778,208	3,195,756	959,138	1,022,542
Intergovernmental	12,364,967	9,727,124	7,975,877	10,023,285	10,960,315	8,597,520	8,864,729	8,765,516	7,897,817	8,506,103
Charges for current services	951,289	909,504	946,119	1,047,727	887,126	981,063	931,909	944,054	1,156,880	1,068,521
Fines and forfeitures	437,376	435,452	542,732	401,665	295,587	226,311	186,347	300,032	267,555	228,649
Miscellaneous										
Investment income	494,550	223,846	45,732	36,906	30,129	25,928	21,608	24,209	35,970	65,691
Total revenues	<u>23,671,369</u>	<u>22,676,639</u>	<u>20,486,668</u>	<u>22,573,419</u>	<u>23,523,562</u>	<u>21,548,210</u>	<u>22,091,515</u>	<u>25,007,095</u>	<u>22,710,716</u>	<u>23,586,861</u>
Expenditures:										
Current:										
General Government	3,385,499	3,191,956	3,120,850	3,119,712	3,178,508	3,675,542	3,168,265	3,271,039	3,128,699	3,599,531
Public services	4,897,258	4,419,088	4,088,538	4,190,842	4,155,386	4,346,672	4,399,704	4,299,138	4,273,572	4,848,571
Community development	1,823,818	1,660,768	1,593,187	1,404,624	1,127,036	1,259,502	1,261,715	1,433,383	1,308,380	1,461,781
Community services	1,717,124	1,733,464	1,570,196	1,646,388	1,595,904	1,904,831	1,860,866	2,608,281	2,070,952	2,101,883
Public safety	6,524,289	6,427,542	6,585,639	6,475,456	6,494,020	6,591,732	6,826,303	7,153,841	6,917,275	8,149,762
Capital outlay	2,619,246	7,102,899	2,013,797	5,013,252	5,289,390	4,402,694	2,965,511	2,976,435	2,277,446	2,777,691
Debt service:										
Interest	913,325	878,480	427,854	712,976	670,243	625,043	601,542	553,529	503,429	451,427
Cost of bond issuance			301,477							
Payment to bond escrow agent										
Discount on bond										
Principal retirement	1,016,178	1,010,000	820,000	1,090,000	1,130,000	1,180,000	1,205,000	1,250,000	1,300,000	1,352,353
Total expenditures	<u>22,896,737</u>	<u>26,424,197</u>	<u>20,521,538</u>	<u>23,653,250</u>	<u>23,640,487</u>	<u>23,986,016</u>	<u>22,288,906</u>	<u>23,545,646</u>	<u>21,779,753</u>	<u>24,742,999</u>
Excess (deficiency) of revenues over expenditures	774,632	(3,747,558)	(34,870)	(1,079,831)	(116,925)	(2,437,806)	(197,391)	1,461,449	930,963	(1,156,138)

(Continued)

(Continued)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Other financing sources (uses):										
Capital Lease Proceeds										47,890
Transfers in	\$ 5,956,627	\$ 13,800,602	\$ 7,868,431	\$ 12,431,918	\$ 13,529,097	\$ 10,468,784	\$ 7,214,336	\$ 8,059,715	\$ 7,006,357	\$ 7,582,790
Transfers out	(5,656,627)	(13,650,602)	(7,843,641)	(12,356,918)	(13,529,097)	(10,468,784)	(7,508,027)	(8,109,715)	(7,427,357)	(7,582,790)
Bond Proceeds			17,190,000							
Payment to bond escrow agent			(18,081,996)							
Premium on bond issue			1,206,953							
Sales tax repayment										
Lawsuit Settlement	(70,000)	(55,750)	(7,500)	(105,365)						
Sale of Capital Assets						2,952,352				
Total other financing sources (uses)	230,000	94,250	332,247	(30,365)	-	2,952,352	(293,691)	(50,000)	(421,000)	47,890
Net change in fund balances	<u>\$ 1,004,632</u>	<u>\$ (3,653,308)</u>	<u>\$ 297,377</u>	<u>\$ (1,110,196)</u>	<u>\$ (116,925)</u>	<u>\$ 514,546</u>	<u>\$ (491,082)</u>	<u>\$ 1,411,449</u>	<u>\$ 509,963</u>	<u>\$ (1,108,248)</u>
Debt service as a percentage of noncapital expenditures	10.17%	9.77%	6.74%	9.67%	9.81%	9.22%	9.35%	8.60%	8.76%	8.00%

City of Laguna Hills

Assessed Value and Estimated Actual Value of Taxable Property, Citywide
Last Ten Fiscal Years
(amounts expressed in thousands)

Fiscal Year End	Secured Property	Unsecured Property	Less Tax-Exempt Property	Taxable Assessed Value	Total Direct Tax Rate (1)	Estimated Actual Taxable Value (2)	Factor of Taxable Assessed Value (3)
2007-08	5,520,202	215,240	34,477	5,735,442	.05371	5,735,442	1.000000
2008-09	5,516,226	174,459	32,955	5,690,685	.05371	5,690,685	1.000000
2009-10	5,413,579	175,241	33,614	5,588,820	.05371	5,588,820	1.000000
2010-11	5,299,826	160,738	33,534	5,460,564	.05371	5,460,564	1.000000
2011-12	5,308,488	156,488	33,852	5,464,976	.05371	5,464,976	1.000000
2012-13	5,371,901	143,351	34,825	5,515,252	.05371	5,515,252	1.000000
2013-14	5,509,351	146,695	35,252	5,656,046	.05371	5,656,046	1.000000
2014-15	5,809,642	148,567	35,410	5,958,209	.05371	5,958,209	1.000000
2015-16	6,236,428	183,676	165,185	6,254,919	.05371	8,159,912	1.304559
2016-17	6,499,868	187,553	218,920	6,468,501	.05371	9,167,561	1.417262

Source: Orange County Assessor data, MuniServices, LLC

Source: 2008-2016 prior CAFR

Table has been reformatted to comply with GASB No. 44 and include estimated actual value.

(1.) Total direct tax rate is the city share of the 1% Proposition 13 tax only for TRA 31-001.

(2.) Estimated Actual Value is derived from a series of calculations comparing median assessed values from

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

City of Laguna Hills

Direct and Overlapping Property Tax Rates Last Ten Fiscal Years

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Overlapping Basic Rate	1.000000	1.000000	1.000000	1.000000	1.000000	1.000000	1.000000	1.000000	1.000000	1.000000
Capistrano Union	0.010190	0.009710	0.010770	0.011050	0.011010	0.011710	0.009720	0.009000	0.008450	0.008430
Metropolitan Water District	0.004500	0.004300	0.004300	0.003700	0.003000	0.003500	0.003500	0.003500	0.003500	0.003500
Moulton Niguel Water District	0.088300	0.116790	0.121040	0.122030	0.129360	0.145470	0.129770	0.086000	0.000000	0.000000
Saddleback Valley Unified	0.026680	0.028340	0.030430	0.031940	0.031630	0.032650	0.032070	0.028060	0.000000	0.000000
Total	1.129670	1.159140	1.166540	1.168720	1.175000	1.193330	1.175060	1.126560	1.011950	1.011930
City Direct Rate										
City Share of 1% Levy Per Prop 13	0.053710	0.122280	0.122820	0.053710	0.053710	0.053710	0.053710	0.053710	0.053710	0.053710

Source: Orange County Assessor data, MuniServices, LLC

Source: 2008-2016 prior CAFR

City of Laguna Hills

Principal Property Tax Payers Last Fiscal Year and Nine Years Ago

Taxpayer	2016-17		2007-08	
	Taxable Value (\$)	Percent of Total City Taxable Value (%)	Taxable Value (\$)	Percent of Total City Taxable Value (%)
Mgp Fund X Laguna Hills LLC	156,667,884	2.42%		
Pmi Prado LLC	91,127,053	1.41%		
Acquiport Three Corp	80,910,787	1.25%	70,692,207	1.24%
Laguna Hills Investment Co	46,631,782	0.72%	21,104,346	0.37%
Lakehills Cm Cg LLC	46,000,000	0.71%	51,991,387	0.91%
Lht Saddleback LLC	41,070,239	0.63%	49,006,197	0.86%
Sptmrt Properties Trust	38,938,659	0.60%	37,488,348	0.66%
La Paz Office Plaza LLC	32,877,468	0.51%	28,843,600	0.51%
Moulton Plaza LLC	28,548,557	0.44%	22,202,916	0.39%
Memorial Health Services	25,949,648	0.40%	87,137,042	1.53%
Eqr Villa Solana Vistas Inc.	23,305,676	0.36%	20,625,441	0.36%
Laguna Hills Estates LLC	22,753,022	0.35%	16,783,656	0.29%
Columbia California Carlota Of	21,320,250	0.33%	36,108,000	0.63%
Sylmar Apts LLC	20,610,532	0.32%	18,158,158	0.32%
Muller Taj	20,219,892	0.31%		
Colton David A Colton	19,628,158	0.30%		
Moulton La Paz LLC	18,084,699	0.28%		
Mouldy LLC	17,071,736	0.26%	13,898,498	0.24%
Realty Assoc Fund Viii	15,932,313	0.25%		
K M Royal Group LLC	15,212,953	0.24%	13,276,223	0.23%
Universal Properties Lh Five L	14,854,566	0.23%	20,725,000	0.36%
Laguna Hills Real Estate Partn	14,481,574	0.22%		
La Paz Shopping Center	14,450,474	0.22%		
Ashley Real Estate LLC	14,371,083	0.22%		
Mission Hills Investment Co	14,337,378	0.22%		
Shopping Center			99,001,225	1.74%
Saddleback Memorial Medic			61,730,468	1.08%
Pine Brook Apartments			38,661,364	0.68%
Vv California			23,600,382	0.41%
Shea Laguna Hills LLC			23,021,693	0.40%
Alicia Office Park			22,433,370	0.39%
Shopping Ctr Assoc			18,154,980	0.32%
Mes-24 LLC			17,598,005	0.31%
Cox Com Inc. Orange			12,993,057	0.23%
Laguna Hills Business			12,795,472	0.22%
Total Top 25 Taxpayers	855,356,383	13.22%	838,031,035	14.73%
Total Taxable Value	6,468,501,069		5,690,214,382	

Source: Orange County Assessor data, MuniServices, LLC

Source: 2008-2016 prior CAFR

City of Laguna Hills

Levy and Collections

Last Ten Fiscal Years

(amounts expressed in thousands)

Fiscal Year	Secured	Unsecured	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy			Total Collections to Date	
				Amount Collected	% of Levy	Other Collections	Amount	% of Levy
2007-08	5,697	250	\$5,946	\$ 5,714	96.1%	\$ 116	\$ 5,830	98%
2008-09	5,675	250	\$5,925	\$ 5,685	95.9%	\$ 200	\$ 5,885	99%
2009-10	5,555	256	\$5,812	\$ 5,629	96.9%	\$ 203	\$ 5,832	100%
2010-11	5,489	248	\$5,737	\$ 5,577	97.2%	\$ 126	\$ 5,703	99%
2011-12	5,526	246	\$5,772	\$ 5,605	97.1%	\$ 87	\$ 5,692	99%
2012-13	5,587	239	\$5,827	\$ 5,694	97.7%	\$ 85	\$ 5,779	99%
2013-14	5,732	261	\$5,992	\$ 5,885	98.2%	\$ 62	\$ 5,947	99%
2014-15	6,051	275	\$6,327	\$ 6,180	97.7%	\$ 52	\$ 6,231	98%
2015-16	6,375	232	\$6,607	\$ 6,456	97.7%	\$ 72	\$ 6,528	99%
2016-17	6,634	300	\$6,934	\$ 6,733	97.1%	\$ 69	\$ 6,802	98%

Source: County Auditor-Controller, MuniServices, LLC

City of Laguna Hills

Principal Sales Tax Producers Last Fiscal Year and Nine Years Ago

2016-17		2007-08	
Taxpayer	Business Type	Taxpayer	Business Type
Siteone Landscape Supply	Florist/Nursery	Siteone Landscape Supply	Florist/Nursery
A & R Floor Covering Accessori	Furniture/Appliance	414 Laguna Hills	Furniture/Appliance
Alpha Beta Company	Food Markets	Allied Real Estate School	Office Equipment
Ashley Furniture Homestore	Furniture/Appliance	Alpha Beta Company	Food Markets
Chicago Pizza And Brewery, Inc	Restaurants	Becton Dickinson & Company	Light Industry
Consolidated Electrical Dstr I	Electronic Equipment	Chicago Pizza And Brewery, Inc	Restaurants
Dick's Sporting Goods	Recreation Products	Chick's Sporting Goods Inc.	Recreation Products
G&M Oil Co LLC	Service Stations	David J.Phillips Buick-Pntc Ma	Auto Sales - New
Howard's Appliances Inc.	Furniture/Appliance	G&M Oil Co LLC	Service Stations
In-N-Out Burger #170	Restaurants	Howard's Appliances Inc.	Furniture/Appliance
J.C.Penney Company Inc.	Department Stores	J.C.Penney Company Inc.	Department Stores
Jeromes Furniture Warehouse In	Furniture/Appliance	Ken Crane's Magnavox City Inc.	Furniture/Appliance
King's Seafood Company, LLC	Restaurants	King's Seafood Company, LLC	Restaurants
Laguna Hills Auto Spa	Service Stations	Laguna Hills Auto Spa	Service Stations
Macy's Department Stores Inc	Department Stores	Laguna Hills Car Wash	Auto Parts/Repair
Marshalls Of CA LLC	Apparel Stores	Laguna Hills Union 76 Station	Service Stations
Material Supply Inc.	Bldg.Matls-Retail	Lamps Plus, Inc.	Furniture/Appliance
Nordstrom Inc.	Department Stores	Macy's Department Stores Inc	Department Stores
Pritchard Supply, Inc.	Miscellaneous Retail	Marshalls Of CA LLC	Apparel Stores
Sidepath,Inc	Furniture/Appliance	Material Supply Inc.	Bldg.Matls-Retail
Sit 'N Sleep-Laguna Hills	Furniture/Appliance	Philip Linder & Associates	Furniture/Appliance
Tesoro Refining & Mrktng Co, L	Service Stations	Sears-Roebuck And Co.	Department Stores
Total Wine & More #1110	Liquor Stores	Sit 'N Sleep-Laguna Hills	Furniture/Appliance
Trader Joe's Company	Food Markets	Tesoro Refining & Marketing C	Service Stations
TSPS Industries Inc	Light Industry	The Claim Jumper	Restaurants

Source: MuniServices, LLC

CITY OF LAGUNA HILLS

HISTORICAL SALES TAX AMOUNTS BY BENCHMARK YEAR

CATEGORY NAME	2008 Q1	2009 Q1	2010 Q1	2011 Q1	2012 Q1	2013 Q1	2014 Q1	2015 Q1	2016 Q1	2017 Q1
All Other Outlets	1,264,007	1,018,627	870,206	836,013	779,150	745,982	801,743	871,642	887,669	943,705
Apparel Stores	340,221	301,469	279,673	270,163	254,072	230,032	209,716	188,126	175,801	153,585
Auto Dealers & Auto	214,197	205,675	183,431	169,543	174,045	171,284	182,064	194,866	144,580	119,503
Building Materials & Farm	135,073	123,149	101,403	101,808	99,375	116,584	122,652	128,621	138,135	145,531
Drug Stores	8,219	6,326	9,460	8,650	5,454	5,465	6,046	19,476	28,292	24,624
Eating & Drinking Establishments	866,863	796,431	761,800	731,874	727,952	769,817	790,250	794,039	842,253	897,662
Food Stores	166,140	173,104	169,947	206,825	207,120	211,094	202,378	194,374	191,402	197,676
General Merchandise	945,239	955,853	979,961	981,826	993,045	957,259	941,531	815,561	666,849	620,714
Home Furnishings & Appliances	825,210	661,165	430,658	439,690	429,594	553,406	579,573	621,325	863,771	836,504
Other Retail Stores	825,231	668,002	546,504	509,123	502,419	493,605	538,287	506,553	524,515	554,926
Packaged Liquor Store	4,293	6,602	6,170	4,529	10,861	92,703	142,053	159,600	169,007	166,339
Service Station	413,991	383,494	369,259	413,658	518,896	515,684	486,775	448,108	389,611	338,666
TOTAL	6,008,684	5,299,897	4,708,472	4,673,702	4,701,983	4,862,915	5,003,068	4,942,291	5,021,885	4,999,435

Source: MuniServices, LLC

CITY OF LAGUNA HILLS
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

(amounts expressed in thousands, except per capita amounts)

Fiscal Year	Total Government Certificates of Participation	Personal Income	Per Capita Personal Income	Percentage of Personal Income	Per Capita (a)
2008	19,480	1,441,089	\$ 43,346	1.35%	585.94
2009	18,470	1,417,282	\$ 42,444	1.30%	553.13
2010	17,943	1,500,666	\$ 44,672	1.20%	534.14
2011	16,802	1,445,996	\$ 47,227	1.16%	548.75
2012	15,620	1,363,858	\$ 44,421	1.15%	508.75
2013	14,388	1,320,001	\$ 42,778	1.09%	466.29
2014	13,437	1,336,181	\$ 43,315	1.01%	435.57
2015	12,106	1,373,184	\$ 44,757	0.88%	390.60
2016	10,726	1,479,761	\$ 46,911	0.72%	340.02
2017	9,295				294.67

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

Source: 2008-2009 Income Data: ESRI-Demographic Estimates are based on the latest available Census 2010 and later -Income Data-US Census Bureau, most recent American Community Survey

^(a) *Population data can be found in the Schedule of Demographic and Economic Statistics on page III - 21.*

^(b) *2017 personal income data not available at time of print; Hence, table provides personal income history for years 2008-2016.*

CITY OF LAGUNA HILLS
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita
------------------------	---	---	--------------	---	-----------------------

Note: There was no general bonded debt outstanding for the last ten fiscal years.

CITY OF LAGUNA HILLS
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2017

	Debt Outstanding	Estimated Percentage Applicable (a)	Estimated Share of Overlapping Debt
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
Metropolitan Water District	74,905,000	0.252%	188,761
Saddleback Valley Unified School District	118,585,000	17.693%	20,981,244
Capistrano Unified School District Facilities Improvement District No. 1	27,212,966	0.023%	6,259
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT:			<u>\$ 21,176,264</u>
<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT</u>			
Orange County General Fund Obligations	227,516,000	1.239%	\$ 2,818,923
Orange County Pension Obligations	353,417,858	1.239%	4,791,988
Orange County Board of Education Certificates of Participation	14,440,000	1.239%	178,912
Capistrano Unified School District Certificates of Participation	13,805,000	0.016%	2,209
Moulton-Niguel Water District Certificates of Participation	74,190,000	13.358%	9,910,300
SUBTOTAL DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:			<u>\$ 17,702,332</u>
City of Laguna Hills Certificates of Participation, Direct Debt	8,685,000	100.000%	<u>8,685,000</u>
TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT:			<u><u>\$ 26,387,332</u></u>
<u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency)</u>	16,490,000	0.899-2.927%	281,992
<u>GROSS COMBINED TOTAL DEBT</u>			<u>\$ 47,845,588 ^(b)</u>

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

(b) *Excludes tax and revenue anticipation notes, revenue, mortgage revenue and non-bonded capital lease obligations.*

Source: MuniServices, LLP

CITY OF LAGUNA HILLS
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Debt limit	\$ 860,479	\$ 853,897	\$ 838,413	\$ 819,070	\$ 819,547	\$ 832,512	\$ 853,695	\$ 899,043	\$ 963,016	\$ 1,003,113
Total net debt applicable to limit	19,480	18,470	17,190	16,100	14,970	13,790	12,585	11,335	10,035	8,685
Legal debt margin	<u>\$ 840,999</u>	<u>\$ 835,427</u>	<u>\$ 821,223</u>	<u>\$ 802,970</u>	<u>\$ 804,577</u>	<u>\$ 818,722</u>	<u>\$ 841,110</u>	<u>\$ 887,708</u>	<u>\$ 952,981</u>	<u>\$ 994,428</u>
Total net debt applicable to limit, as a percentage of debt limit	2.26%	2.16%	2.05%	1.97%	1.83%	1.66%	1.47%	1.26%	1.04%	0.87%

Legal Debt Margin Calculation for Fiscal Year 2016/17

Assessed value	6,468,501
Add back: exempt real property	218,920
Total assessed value	<u>6,687,421</u>
Debt limit (15% of total assessed value)	1,003,113
Debt applicable to limit:	
Certificates of Participation	<u>8,685</u>
Total net debt applicable to limit	<u>8,685</u>
Legal debt margin	<u>\$ 994,428</u>

Note: Under state finance law, the City of Laguna Hills' outstanding general obligation debt should not exceed 15 percent of total assessed property value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

CITY OF LAGUNA HILLS
PLEDGED-REVENUE COVERAGE
LAST TEN FISCAL YEARS

Note: There was no debt covenants that required pledged-revenue coverage for the last ten fiscal years.

City of Laguna Hills

Demographic and Economic Statistics Last Ten Fiscal Years

Calendar Year	Population (1)	Personal Income (In Thousands)	Per Capita Personal Income (2)	City Unemployment Rate (3)	Median Age (4)	% Of Pop with High School Diploma (5)	% of Pop With Bachelor's Degree (5)
2007	33,115	1,425,961	43,058	3.3%	37.7	-	-
2008	33,117	1,441,089	43,346	4.4%	37.7	-	-
2009	33,246	1,417,282	42,444	7.6%	41.2	92.8%	44.0%
2010	33,392	1,500,666	44,672	8.1%	39.3	90.6%	42.9%
2011	33,593	1,445,996	47,227	7.4%	40.7	91.4%	43.0%
2012	30,618	1,363,858	44,421	4.8%	41.6	92.3%	44.5%
2013	30,703	1,320,001	42,778	4.2%	41.5	91.7%	42.8%
2014	30,857	1,336,181	43,315	5.0%	41.8	91.6%	45.3%
2015	30,681	1,373,184	44,757	4.1%	41.7	91.2%	44.8%
2016	31,544	1,479,761	46,911	3.7%	41.8	91.5%	45.6%

Source: MuniServices, LLC, U.S. Census Bureau, 2010 American Community Survey

Source: 2008-2016 prior CAFR

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

- 1.) Population Projections are provided by the California Department of Finance Projections.
- 2.) Income Data is provided by the United States Census Data and is adjusted for inflation.
- 3.) Unemployment and Total Employment Data are provided by the EDD's Bureau of Labor Statistics Department.
- 4.) Median Age reflects the U.S. Census data estimation table for years 2009-2016, Orange County progress report for years 2006-2008
- 5.) % of population with HS diploma and bachelors degree unavailable for years 2006-2008

City of Laguna Hills

Principal Employers Last Fiscal Year and Nine Years Ago

Business Name	2016-17		2007-08	
	Number of Employees	Percent of Total Employment (%)	Number of Employees	Percent of Total Employment (%)
Saddleback Memorial Medical Center	1,686	9.75%	1,020	5.80%
Laguna Hills Health and Rehabilitation Center	245	1.42%		
Five Star-Villa Valencia	201	1.16%		
Saddleback Valley USD	185	1.07%		
Memorial Care home health	163	0.94%		
JC Penney	157	0.91%	250	1.42%
Bj's Restaurant & Brewhouse*	150	0.87%		
City of Laguna Hills	105	0.61%		
Macy's*	90	0.52%	200	1.14%
Allied Schools	79	0.46%		
Sional Community Management			350	1.99%
Support Associates			170	0.97%
Total Top Employers	3,061	17.69%	1,990	11.00%
Total City Employment (1)	17,300		17,600	

Source: Orange County Assessor data, MuniServices, LLC

Source: 2007-2008 prior CAFR

*Includes Full and Part time

**Ashley Crown Systems was book publishing company for Allied Schools and is no longer affiliated.

CITY OF LAGUNA HILLS
FULL-TIME EQUIVALENT PERSONNEL ALLOCATION BY FUNCTION
LAST TEN FISCAL YEARS

Function	Full-time Equivalent Personnel at June 30									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Government	12.09	11.90	11.90	11.90	11.90	11.75	11.75	10.99	10.99	10.49
Non-Departmental	0.00	0.00	0.00	0.00	0.00	1.25	1.25	1.00	1.00	1.00
Public Services	41.00	42.00	42.00	44.00	44.00	44.00	44.00	43.00	43.00	43.00
Community Development	8.30	8.15	7.15	8.15	8.15	7.85	7.85	8.23	8.23	8.23
Community Services	14.25	15.61	15.61	15.75	15.75	15.75	15.75	15.40	15.40	15.40
Public Safety	<u>31.24</u>	<u>29.19</u>	<u>29.19</u>	<u>29.20</u>	<u>29.20</u>	<u>28.89</u>	<u>28.89</u>	<u>26.46</u>	<u>26.46</u>	<u>26.46</u>
Total	<u>106.88</u>	<u>106.85</u>	<u>105.85</u>	<u>109.00</u>	<u>109.00</u>	<u>109.49</u>	<u>109.49</u>	<u>105.08</u>	<u>105.08</u>	<u>104.58</u>

Source: City of Laguna Hills' Biennial Budget

CITY OF LAGUNA HILLS
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS

Function	FY 07/08	FY 08/09	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17
Police ^(b)										
Physical arrests	460	740	721	684	468	362	458	534	284	293
Parking violations	2,757	3,636	2,662	2,087	1,107	885	1,407	1,981	3,257	3,406
Traffic violations	5,566	4,886	5,781	4,089	3,074	2,462	2,070	3,041	3,187	2,669
Fire ^(c)										
Number of calls answered	2,434	2,421	2,558	2,614	2,550	2,579	2,584	2,675	2,888	3,077
Inspections	309	387	439	393	308	273	379	494	364	299
Highways and Streets ^(d)										
Sidewalk replacement (sq. ft.)	1,850	4,660	22,266	8,592	13,482	13,610	3,519	7,250	940	7,012
Curb & gutter replacement (linear ft.)	110	2,374	1,030	1,727	3,990	1,141	478	-	211	523
Asphalt concrete placed (tons)	11,362	21,291	15,695	14,454	15,692	16,319	7,857	16,276	134	10,536
Street sweeping debris collected (tons)	265	449	294	290	374	432	293	265	229	219
New sign installations	37	64	92	102	28	42	65	23	155	12
Sign Replacements	238	277	168	173	161	378	278	380	297	312
Trees trimmed	1,763	1,774	2,273	1,872	1,474	1,568	1,185	792	821	1,396
Trees removed	207	214	81	114	166	215	179	461	152	263
Trees planted	262	82	43	39	649	39	44	38	43	118
Sanitation ^(a)										
Refuse collected (tons/day)	63	50	46	46	44	47	45	43	47	49
Recyclables collected (tons/day)	55	52	50	47	45	46	46	49	50	47
Culture and Recreation ^(e)										
Community center programs (participants)	8,173	9,022	7,262	6,876	5,682	5,633	5,783	5,637	6,152	5,686
Athletic permits	70	76	69	57	44	41	45	41	42	48
Waste Stream ^(a)										
Refuse collected (tons)	22,981	18,089	16,698	16,814	15,932	17,185	16,416	15,707	17,197	17,966
Recyclables collected (tons)	20,120	19,081	18,162	17,325	16,391	16,753	16,964	17,728	18,150	17,058

^(a) CR&R Monthly Tonnage Report, 6/30/17

^(b) Orange County Sheriff's Daily Booking Log,; Monthly Traffic Statistics; Data Ticket Citation Report

^(c) Orange County Fire Authority- Clerk of the Authority, Safety & Environmental Services, Planning & Development

^(d) City of Laguna Hills, Public Works Department

^(e) City of Laguna Hills, Community Center Department

CITY OF LAGUNA HILLS
CAPITAL ASSETS STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS

Function	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Highways and streets										
Streets (miles)	83	83	83	83	83	83	83	83	83	83
Traffic signals	45	45	45	45	45	45	45	45	45	45
Culture and recreation										
Parks acreage	83	83	83	83	83	83	83	83	83	83
Parks	15	15	15	15	15	15	15	15	15	15
Community centers	1	1	1	1	1	1	1	1	1	1
Civic Center	1	1	1	1	1	1	1	1	1	1

Source: Various City Departments

CITY OF LAGUNA HILLS

AT A GLANCE

GENERAL INFORMATION

The City of Laguna Hills, located in South Orange County, has approximately 6.6 square miles of land in its corporate boundary and is now home to 31,544 people. Majority of the area in the City has a distinctive residential character. Yet, the City has a strong commercial base in its northern part. This commercial area, or “urban village”, is anchored by the regional Laguna Hills Mall, the Oakbrook Village Shopping Center, and the Saddleback Memorial Hospital. It includes approximately 2,000,000 square feet of retail, restaurant, professional office, and medical related building space. When the City annexed the “North Laguna Hills” area in July of 1996, the City acquired 1.2 square miles of primarily light industrial, professional office, specialty retail, hotel, and residential uses. This annexed area contains a furniture row, office headquarters, and the only light industrial/manufacturing establishments in the City. In September of 2000, the City grew by another 150 acres as a result of the annexation of residential properties identified as West Laguna Hills.

HISTORY

Laguna Hills is built on one of the major land grants developed during the rancho area. Following Mexico’s independence from Spain in 1821, those who had served in the government or who had friends in authority were given vast lands for cattle grazing. Rancho Lomas de Santiago, Rancho San Joaquin, and Rancho Niguel covered much of the western portion of the Saddleback Valley. Don Juan Avila was granted the 13,000-acre Rancho Niguel on which Laguna Hills is located.

In 1874, Lewis Moulton purchased Rancho Niguel from Don Juan Avila and increased the original grant to 22,000 acres. Moulton and his partner, Jean Piedrea Daguerre, used the ranch to raise sheep and cattle. The Moulton ranch was eventually subdivided in the early 1960s, part of which is recognized as Laguna Hills.

Incorporation efforts began in 1987 and on March 5, 1991, the goal of incorporation was finally achieved with 86% of the residents voting in favor of forming the City of Laguna Hills. On December 20, 1991, Laguna Hills officially became a City.

CITY GOVERNMENT

The City of Laguna Hills is a General Law City that operates under the Council/Manager form of government. The voters elect five of their fellow citizens to the City Council for overlapping four-year terms. The Council, in turn, selects one of its members to serve as Mayor for a one-year term. The City Council holds regular public meetings on the second and fourth Tuesday of each month.

