



CITY of NEWPORT BEACH COMPREHENSIVE ANNUAL FINANCIAL REPORT



FISCAL
YEAR
ENDED

JUNE 30, 2014



*Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2014*

*Prepared by the Finance Department
Dan Matusiewicz, Director*



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

INTRODUCTORY SECTION

CITY OF NEWPORT BEACH
Comprehensive Annual Financial Report
Year Ended June 30, 2014

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INTRODUCTORY SECTION

(Unaudited)

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CITY OF NEWPORT BEACH

FINANCE DEPARTMENT

December 29, 2014

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

The City Charter and California state law require that the City of Newport Beach issue annually a complete set of financial statements and that an independent firm of certified public accountants audit this report in conformance with generally accepted auditing standards (GAAS). The Comprehensive Annual Financial Report (CAFR) of the City of Newport Beach for the year ended June 30, 2014, is hereby submitted.

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

The City of Newport Beach's financial statements have been audited by White Nelson Diehl Evans LLP, a firm of licensed certified public accountants. The goal of the audit was to provide reasonable assurance that the financial statements of the City of Newport Beach for the fiscal year (FY) ended June 30, 2014, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unmodified opinion that the City of Newport Beach's financial statements for the year ended June 30, 2014, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

A narrative introduction, overview, and analysis accompany the basic financial statements in the form of the Management's Discussion and Analysis (MD&A). The letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Newport Beach MD&A can be found immediately following the report of the independent auditors and will provide further information regarding the format and content of this report.

PROFILE OF THE CITY

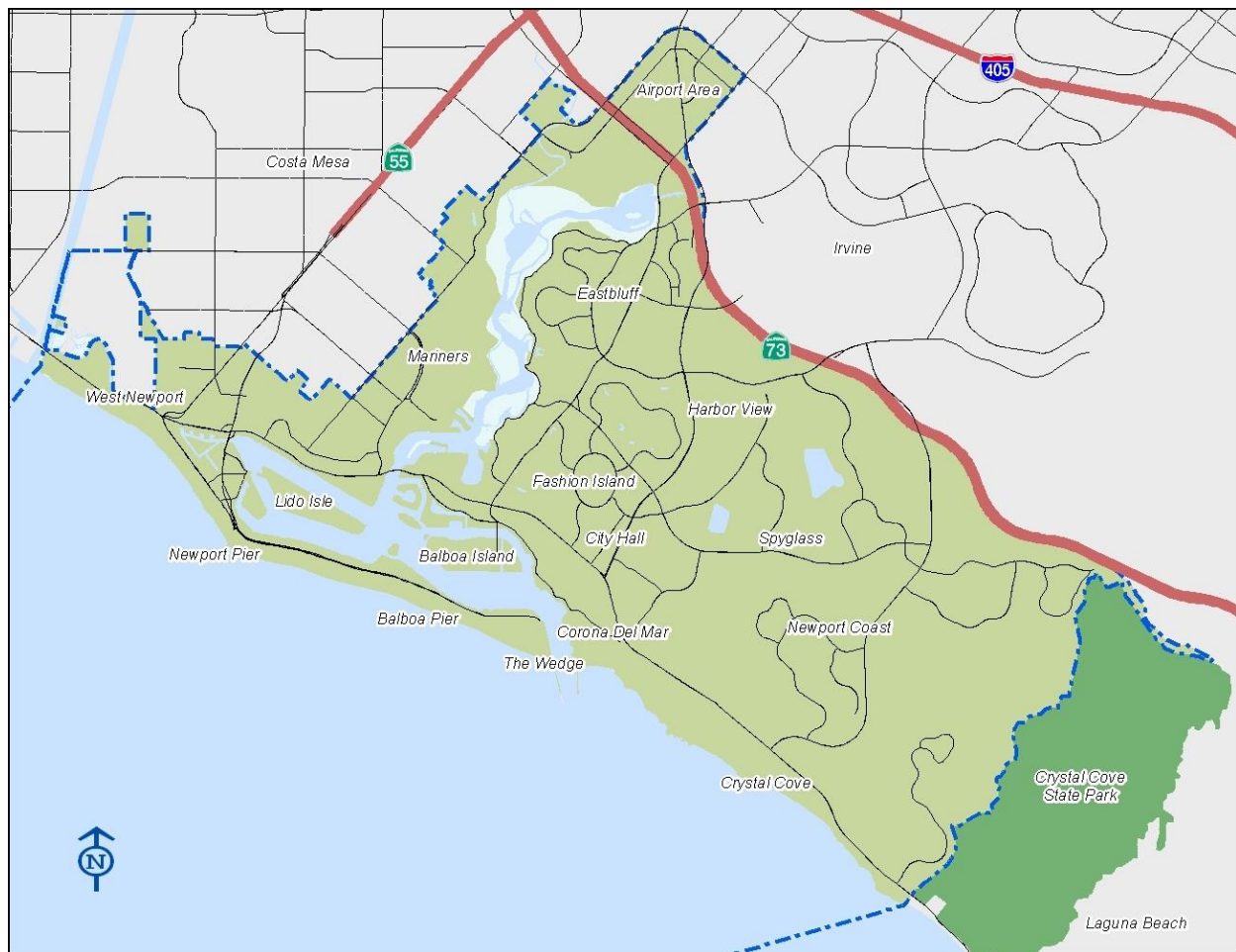
The City of Newport Beach is a community located in the coastal center of Orange County, in the heart of Southern California, with Los Angeles County to the north and San Diego County to the south. There are currently 34 cities within Orange County. In terms of population, Orange County is the third largest county in California trailing Los Angeles and San Diego. It is the sixth largest county in the nation.

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



Newport Beach is one of Southern California's most scenic and dynamic communities. It surrounds Newport Bay, well known for its picturesque islands and one of the greatest recreational boating harbors in the world, accommodating over 9,000 boats of all types docked within its 21-square-mile harbor. This bay area and the ten miles of ocean beach offer outstanding fishing, swimming, surfing, and aquatic sports activities. The City has a permanent population of 86,874 which typically grows to well over 100,000 during the summer months, including 20,000 to 100,000 tourists daily. There are fine residential areas, modern shopping facilities, and a quality school system. The University of California, Irvine, is located immediately adjacent to the city, and eight other colleges are within a 30-mile-radius.

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



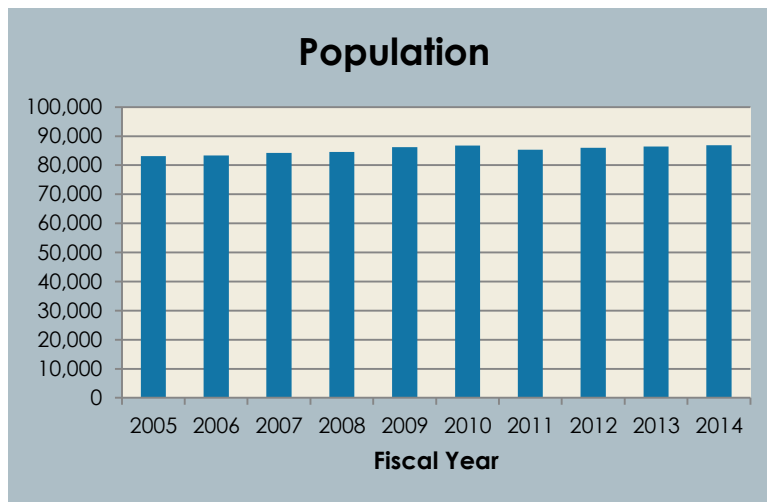
Newport Beach was incorporated September 1, 1906. The City Charter was originally adopted in 1954 but has been updated and amended over time. The City operates under a Council-Manager form of government. Council Members are elected by district but voted on by the population as a whole, and serve up to two four-year staggered terms. The governing council consists of the Mayor and six other members and is responsible for among other things, policy-making, passing local ordinances, adopting the budget, appointing committees and hiring the City Manager, City Attorney, and City Clerk.

The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day to day operations of the City, and for appointing heads of departments. The City of Newport Beach is a full service city providing its residents and visitors with the following functional services: general governance, legal, financial, information technology, and administrative management; police, fire, paramedic, lifeguard, and emergency medical transport services; engineering, construction, and maintenance of public facilities, public streets, beaches, and parks; planning, zoning, and economic development services; building inspection, plan check and code enforcement services; libraries and cultural and arts services; recreation and senior services; and water, wastewater, and street light utility services. The City provides water and wastewater service to most areas within city limits, but it does not provide gas, cable television, electrical, or other utility service. Public elementary and secondary education is provided by the Newport-Mesa Unified School District and the Laguna Beach Unified School District.

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

DEMOGRAPHICS

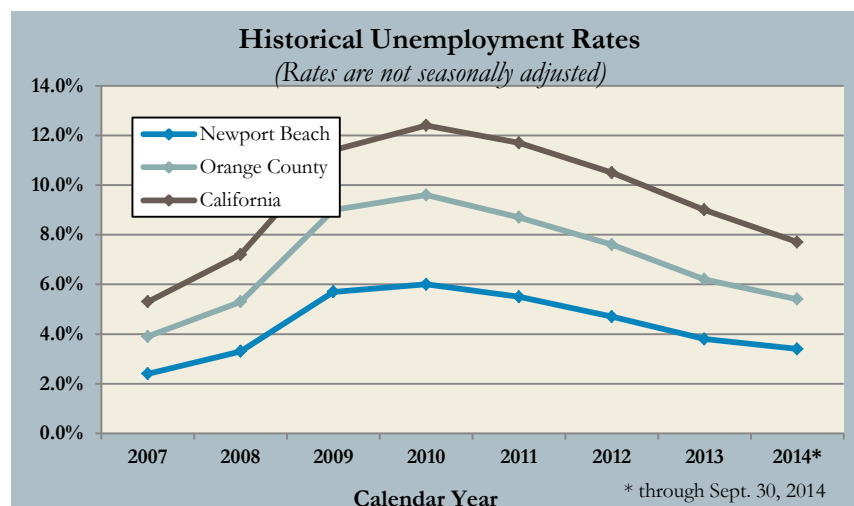
Reflective of a mature community, vacant land has become increasingly scarce and the city is relatively built-out. Currently at 86,874, the population has been very stable as indicated by the following chart.



The effective buying income and median household income are generally higher in Newport Beach than in other areas of California and the U.S. overall. As illustrated by the table below, Newport Beach median household income is over twice that of the U.S. median household income.

| 2013 Median Household Income | |
|------------------------------|-----------|
| City of Newport Beach | \$104,523 |
| Orange County | \$ 74,163 |
| California | \$ 60,190 |
| USA | \$ 52,250 |

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



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

LOCAL ECONOMY

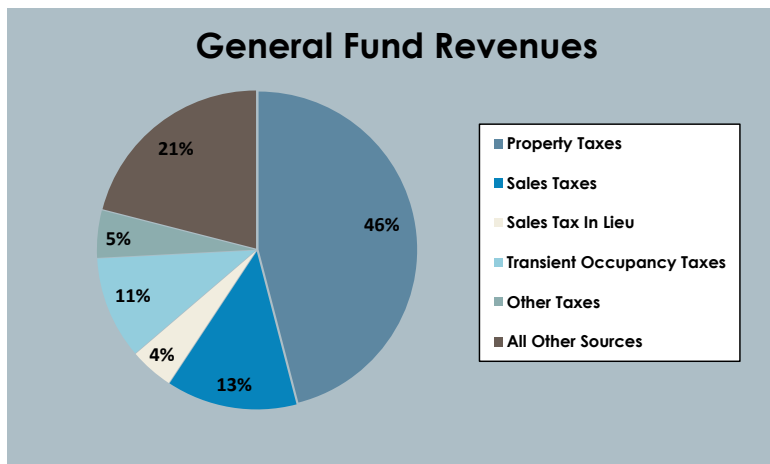
The national unemployment rate fell from 7.3% in the prior fiscal year to 6.1% in the fiscal year ended June 20, 2014, a new post-recession low. California was hit harder in the recession than the rest of the country and took longer to recover, but now the state's job gains are outpacing trends in national employment. California's unemployment rate fell from 9% in the prior fiscal year to 7.4% currently. Each month since April 2012 Southern California has seen at least 2% year-over-year job growth, compared with a 1.7% average across the country. The sense of recovery extends across Orange County. The county's economic expansion has continued to outpace that of both the nation and the state. The County's unemployment rate peaked at 9.5% in 2010, and has recently fallen below 5% - one of the lowest unemployment rates in California. Furthermore, Newport Beach's unemployment rate stands even lower at approximately 3.4% currently. The largest employment gain in Newport Beach was in one of the city's most vital sector, leisure and hospitality.

According to the Bureau of Economic Analysis, the United States real gross domestic product (GDP) for fiscal year 2013-14 averaged 2.4%. California's export trade sector is running well ahead of a record-setting 2013 due largely to the demand for California goods, such as computers and other technology. In-state businesses shipped merchandise valued at \$15.77 billion in June, up 3.5% from \$15.23 billion in June 2013. State shipments for all of last year totaled \$168.13 billion, a record for California. In spite of these favorable economic trends, a generally conservative outlook is warranted as the growth progression may continue at a slow pace.

We are cognizant of threats on the horizon including the potential for continued volatility in financial markets, slow global economic growth, and falling consumer prices in some sectors, such as petroleum. These issues may have a significant impact on the local, state, and national economy. As revenues are projected to gradually increase, management will continue to focus on Council priorities; maintaining responsible fiscal planning and forecasting; and furthering the goals of the City's Fiscal Sustainability Plan.

TOP THREE REVENUE SOURCES

General Fund revenues were approximately \$174 million during FY 2013-14. The top three individual revenue sources, Property Taxes, Sales Taxes and Sales Tax in Lieu, and Transient Occupancy Taxes (TOT), represent 74% of all General Fund revenues. Tax revenues in total, including business licenses, franchise fees and other taxes represent nearly 79% of all General Fund revenues while only 21% is generated by other revenue sources.



Property Taxes

Unlike many cities, property taxes, not sales taxes, are the number one source of revenue for the City of Newport Beach, representing almost half (46%) of all General Fund revenues. Due to the limited supply of scenic coastal property and the unique access to the scenic Newport Bay, the Newport Beach community has been developed into affluent residential neighborhoods and high-end commercial districts.

Consistent and vigorous demand for coastal property has allowed the City to enjoy long-term growth trends with its number one revenue source. Over the past 10 years, assessed valuation increased an average of 5.7% per annum and 6.3% over a twenty-year period. Newport Beach posted Orange County's highest increase in assessed property values at 5.2% in FY 2013-14 and came in second in total local assessed value at \$42.3 billion for fiscal year FY 2013-14. After Californians passed Proposition 13 in 1978, assessed property value is reassessed to market value only when the property changes ownership. Otherwise, the assessed value (AV) grows by no more than 2% per year. This practice creates a constant lag and buffer between assessed and market values, effectively insulating the tax base from more erratic market value gyrations.

While property tax growth rates fell sharply during the Great Recession, the city has experienced positive AV growth during each of the past 19 years (see chart on the following page with the past 15 years of AV growth demonstrated). This positive growth occurred while many other cities experienced large decreases in their AV during 2008 through 2011. Note that while growth slowed, the assessed value never declined throughout the recession.



Property tax collections finished the year nearly \$1.7 million or 2.1%, lower than the previous fiscal year. This is due to increases in assessed property values and a one-time \$5.4 million payment resulting from the State's action to dissolve redevelopment agencies. Excluding the one-time \$5.4 million payment, property tax collections finished the year \$4.6 million higher than the previous fiscal year, and the median price of home sales is now equal to the median price peak realized in 2007 (see table below). Local agents say the same factors that have propelled the market since the start of the year were at work over the past year: low mortgage interest rates, strong demand, stiff competition from cash-paying investors, and relatively few homes for sale.

Median home sales prices of \$1,625,000 in the city far exceed the County-wide median sales price of \$645,000.

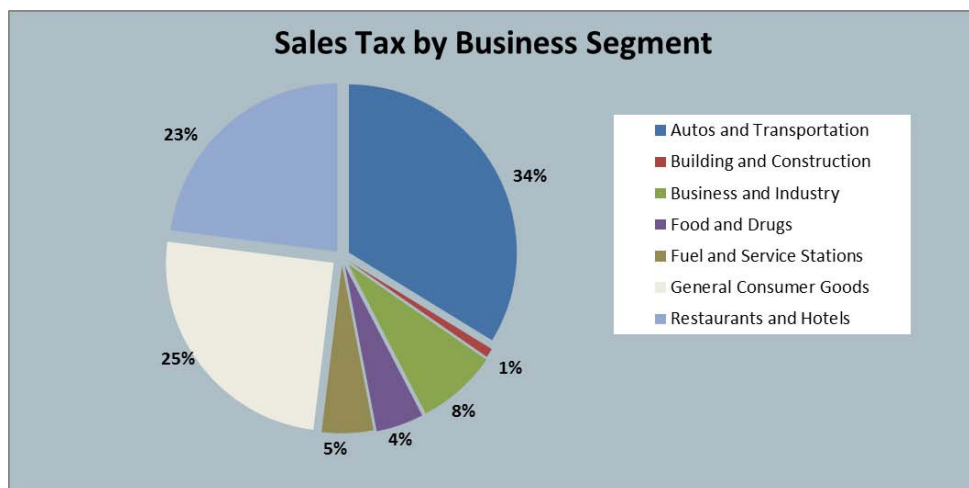
| CITY OF NEWPORT BEACH Median Home Sales* Comparative Month Ending September | | | |
|---|-------------------------------------|-----------------------|-------------|
| Year | Single Family Residence Sales | Median Sales Price | % Change |
| 2007 | 878 | \$ 1,625,000 | |
| 2008 | 599 | \$ 1,450,000 | -10.77% |
| 2009 | 848 | \$ 1,100,000 | -24.14% |
| 2010 | 1,150 | \$ 1,275,000 | 15.91% |
| 2011 | 1,189 | \$ 1,188,000 | -6.82% |
| 2012 | 1,669 | \$ 1,260,000 | 6.06% |
| 2013 | 1,546 | \$ 1,500,000 | 19.05% |
| 2014 | 1,045 | \$ 1,625,000 | 8.33% |

* Source: HdL Coren & Cone

Sales Taxes and Sales Taxes in Lieu

In March of 2004, voters approved Proposition 57 which allowed the State to enact revenue swapping procedures commonly referred to as the “Triple Flip.” In doing so, Sales Taxes were reallocated to cities in two separate revenue streams, “Sales Taxes” and “Sales Taxes in Lieu,” which impacted the timing and distribution method but did not impact the revenue category in total. Sales Taxes in total represent 17.8% of all General Fund revenues.

The City’s sales tax base is generated from a relatively diverse business community and is not dependent on any one merchant or industry. The following chart demonstrates the diversity of the City sales tax revenue. The largest segment, “Autos and Transportation,” accounts for 34% of total sales taxes and is represented by 186 new and used auto, boat and aircraft dealers, supply stores and repair shops. The next largest segment, “General Consumer Goods” accounts for 25% of total sales taxes and is represented by a multitude of stores and shops that provide various consumer goods. The third largest sales tax segment, “Restaurants and Hotels,” accounts for 23% of total sales tax and is represented by 452 restaurants, hotels, clubs, and other amusement places.



Sales Tax revenue continues to trend upwards, finishing \$3.0 million or 10.9% higher than the prior fiscal year. This is the largest year-to-year increase the City has ever realized, surpassing pre-recession levels of fiscal year 2006-07 by approximately \$0.99 million.

Transient Occupancy Taxes (TOT)

TOT accrues to the City at a rate of 10% of room charges with 18% of this collection going to the local destination marketing organization (Visit Newport Beach, Inc.) to promote Newport Beach as a tourist destination. The City distinguishes its transient occupancy taxpayers in two broad property type categories, commercial and residential property. The commercial category is composed of approximately 20 inns, motels, hotels and resorts and accounts for 91.2% of TOT revenues. The residential category

is made up of some 700 vacation rentals representing only 8.8% of TOT revenue; together, they accounted for \$18.2 million in TOT revenue during FY 2013-14.

TOT collections increased \$1.7 million or 10.2% over the prior year. This is the net result of a \$188,439 increase in residential transient tax collections and a \$1.5 million increase in hotel transient tax collections. The Pelican Hill Resort contributed the most to TOT at \$5.4 million or 26.7%. The five hotels with the highest year-over-year increases (Pelican Hill, Marriot Newport, Island, Hyatt, and Fairmont) accounted for over 57% of the hotel transient tax collection. As to be expected, July and August are the most popular months to stay in Newport Beach in just these two short months TOT increased \$684 thousand due to mild weather and a greater level of travel and tourism within the region. As of the fiscal year end, actual TOT collections exceeded budget by \$0.9 million.

LONG TERM FINANCIAL PLANNING

Newport Beach continues to be a stable, prosperous, and financially secure municipality due to its strong underlying tax base, past fiscal decisions, and governance. The City's long term financial planning is guided by clear financial policies, prudent budgeting decisions, and proactive planning in such critical areas as facilities replacement and pension funding.

Financial Policies

The City Council has adopted prudent fiscal policies concerning its investments, reserves, budget administration, revenue initiative, competitive contracting, facility replacement planning and more. Of recent note, the City adopted a formal debt policy in 2013 that establishes criteria for the issuance of debt and assures that the amount of any debt is affordable and cost effective. The City's debt policy was recently recognized by the California Debt and Investment Advisory Commission as one of only 14 counties and cities in California whose policies have 20 or more debt management best practice elements. The City's debt and other financial policies can be found on the City's website in the City Council section under City Government at:

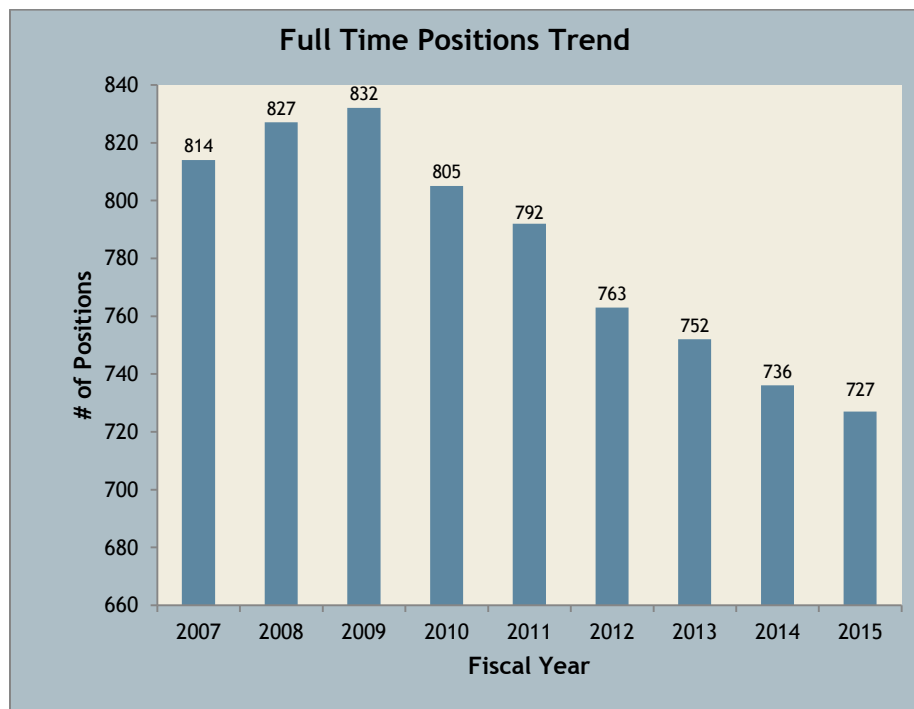
www.newportbeachca.gov/policies

Annual Budget

The annual budget serves as the foundation for the City of Newport Beach's financial planning and control and allows the City Council to prioritize City expenditures strategically aligned with core community values. Per current policy, appropriations for operating expenditures are balanced in relation to current revenue sources and do not over-rely on one-time revenue sources or reserves. When significant uncertainty exists concerning revenue volatility or threatening/pending obligations, the City Council and City Manager reserve the right to impose any special fiscal control measures, including personnel hiring freezes, and other spending controls, whenever circumstances warrant.

General Fund revenues ended the year higher than budgeted due to the growing strength of the economy resulting in higher property, sales, and transient occupancy taxes. The City has long taken a conservative approach to forecasting revenues, often assuming a "worst case scenario." This fiscal conservatism has created a stable financial base. As a result, even in a downturn, the City of Newport Beach is able to maintain its services at a high level, while reducing expenses to accommodate reduced revenues. The City's fiscal discipline has allowed it to prepare balanced budgets and to save, both during prosperous and difficult economic periods.

Expenditures were lower than budgeted due to the effective management of operating expenditures, control of labor costs, and outsourcing (such as refuse collection). Through a combination of early retirement plans, attrition, outsourcing and lay-offs in recent years the full-time work-force has been reduced nearly 13% since FY 2008-09 as depicted in the chart below:



The City Council may authorize the use of Contingency reserves during emergency situations as set forth by the Council Reserve Policy. Of recent note, the City recently changed its reserve policy by increasing its Contingency Reserve level from 15% to 25% of the General Fund “Operating Budget.” Credit rating agencies consider a high level of available “fund balance” to be a credit strength. In 2014, rating agency Standard & Poor’s reaffirmed the City’s AAA credit rating noting the City’s excellent financial management, an outstanding economic base, and healthy reserves in their rationale.

Facilities Financing Planning Program (FFPP) Commitment & Major Construction Initiatives

The City’s FFPP is a comprehensive master facilities replacement schedule that projects the timing of construction of facility projects; projects the schedule of any planned debt issuance; includes all relevant revenue sources and expenditures on a yearly, project by project basis; and determines the long-term “level funding” annual budget commitment that is required to support the program. The FFPP was the winner of the prestigious “Helen Putnam Award – Internal Administration category” from the League of California Cities in 2008.

The City continued its financial commitment to the Facilities Financial Planning Reserve (FFPR) in FY 2013-14 by allocating significant resources for the following projects that will continue or begin construction/renovation in the coming years: Lido Fire Station, Corona del Mar Library and Fire Station, West Newport Community Center, Marina Park, Sunset Ridge Park, and Bonita Canyon Artificial Turf. Funding for the FFPR comes from a variety of sources, including a contribution from the General Fund as well as large one-time development fees secured for facility and park purposes.

| Facilities Financial Planning Reserve Fund | |
|--|---------------|
| Beginning Balance 7/1/13 | \$ 26,752,367 |
| Revenues | |
| Licenses, Permits and Fees | 860,084 |
| Transfer In from General Fund | 9,116,831 |
| Interest Income | 201,557 |
| Total Revenues | 10,178,472 |
| Expenditures | |
| 2010 Civic Center COPs Debt Service ¹ | (9,398,500) |
| Civic Center Construction & FFE | (4,596,000) |
| Sunset Ridge Park | (9,000,000) |
| Lifeguard Headquarters | (1,680,269) |
| Misc - Other Facilities | (650,000) |
| Total Expenditures | (25,324,769) |
| Ending Balance 6/30/14 | \$ 11,606,070 |

¹ The transfer is net of the the Build America Bonds subsidy, which is recorded in the Debt Service Fund.

Overall, the FFPR balance is decreasing \$15.1 million from the prior fiscal year. This change is the net result of various increases and decreases to both revenues and expenditures. Revenues are decreasing due largely to the elimination of a large one-time transfer in from the General Fund and a one-time Park in Lieu Fee contribution in FY 2012-13. Subsequent to the close of FY 2013-14 the FFPR receipted \$32.2 million of developer contributions through the first quarter of 2014-15.

Pensions

The City's accrued pension liabilities continue to exceed assets set aside to fund the projected benefit obligations. And, while the City has always funded 100 percent of the actuarial determined pension contribution, the market value of pension assets has been quite volatile. The unfunded liability is approximately \$258 million as of the last actuarial valuation dated June 30, 2013.

Newport Beach is not alone in facing significant liabilities in its pension program. However, the City Council has taken aggressive action to address this concern – these include:

- Establishing lower benefit formulas for new hires.
- Eliminating the Employer Paid Member Contribution (EPMC).
- Having employees pay more of the pension costs, including a significant share of the unfunded liability.
- Reducing the number of staff by 105 employees since 2009.
- Adopting a fixed and shorter amortization period for the unfunded liability (i.e. contributing more resources now to reduce interest and other expenses later).

The City won a Rose Award in 2013 for its pension reform program from the Orange County Taxpayers Association (OCTax). Rose Awards are given to individuals or organizations that have programs consistent with OCTax's mission that "taxes and tax-supported programs must be fair, understandable, cost-effective and good for the economy." Winning programs must also show measurable results in terms of taxpayer benefit, tax savings, or government waste cutting.

Of recent note, but in Fiscal Year 2014-15, the City Council took action in November of 2014 to speed up payments even more. The November action will result in an accelerated 19-year payment plan on the unfunded pension liability. This will result in present value savings of \$47 million from the current 30-year plan and eliminated negative amortization of the unfunded liability that existed in the prior schedule.

TECHNOLOGICAL ENHANCEMENTS

The City commenced the implementation of a new a new Enterprise Resource Planning (ERP) software solution in FY 2013-14 and will continue through FY 2015-16. An ERP is a business management software system that integrates all of the City's core functional requirements for financials, human capital management, citizen services and revenues. The City's current financial management system was implemented over 20

years ago. The City has grown since then and has developed operational needs beyond the abilities of the current system.

The City will realize improved integration between the financial system and other core functions, stronger decision-making support (better and timelier information), expanded use of web and mobile device applications to improve customer convenience, and numerous workflow process improvements that should streamline and enhance workplace efficiency.

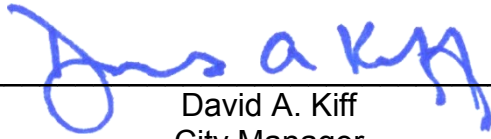
AWARDS AND ACKNOWLEDGMENTS

Awards: The City has prepared a comprehensive annual financial report for the past 21 years. The City has received awards for excellence in financial reporting each of those years.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Newport Beach for its comprehensive annual financial report for the fiscal year ended June 30, 2013. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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



David A. Kiff
City Manager

Dan Matusiewicz
Finance Director



Government Finance Officers Association

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

Presented to

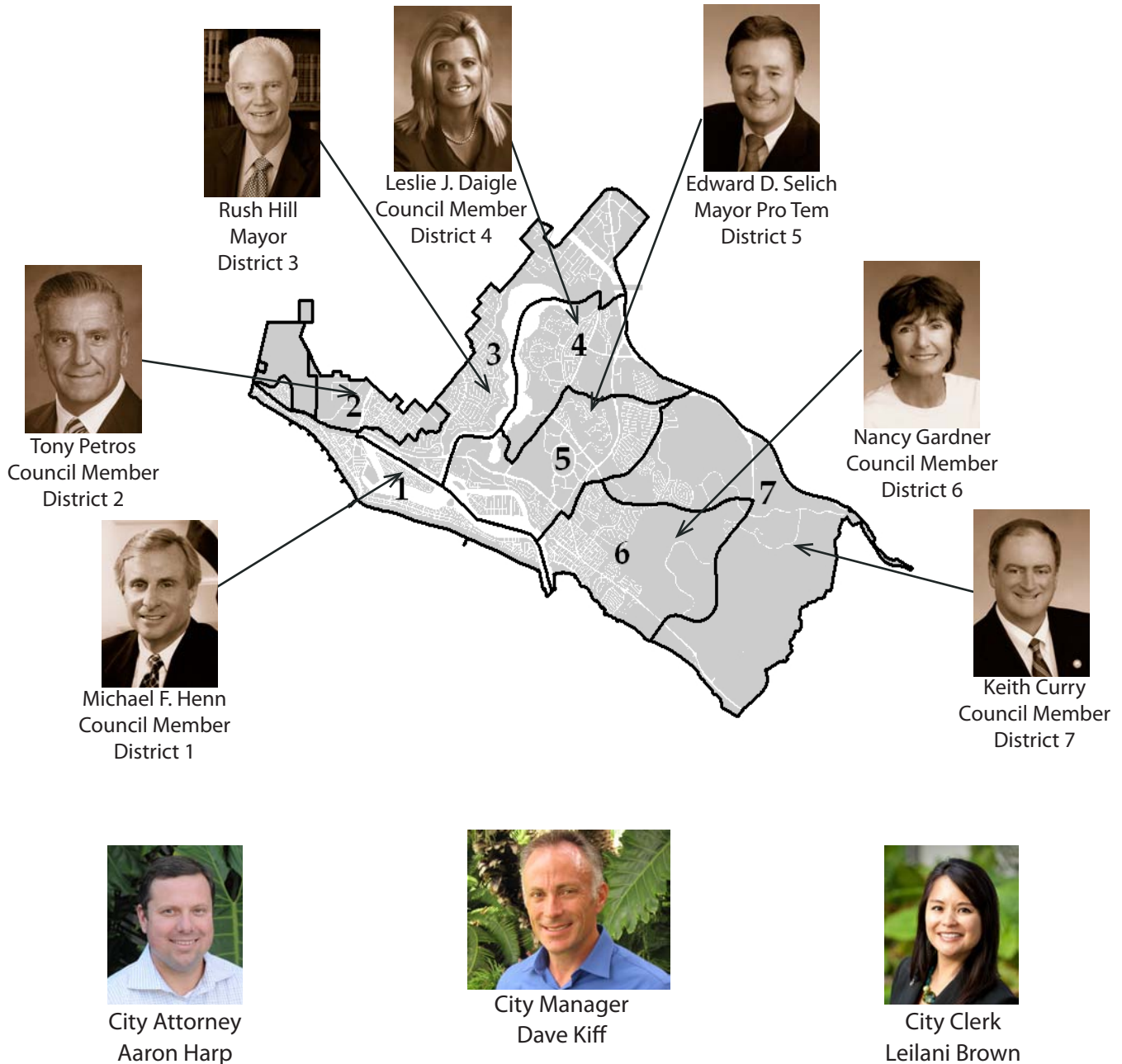
**City of Newport Beach
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

Newport Beach City Officials



| | |
|-----------------------------------|--|
| Steve Badum | Assistant City Manager |
| Dan Matusiewicz..... | Finance Director/Treasurer |
| Kimberly Brandt | Community Development Director |
| Scott Poster..... | Fire Chief |
| Terri L. Cassidy | Deputy City Manager/Human Resources Director |
| Tim Hetherton | Library Services Director |
| George Murdoch, Mike Pisani | Municipal Operations Co-Directors (Acting) |
| Jay Johnson | Police Chief |
| Dave Webb..... | Public Works Director |
| Laura Detweiler | Recreation & Senior Services Director |

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

City Council Members
City of Newport Beach
Newport Beach, California

Report on the Financial Statements

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport Beach, California (the City), as of and for the year ended June 30, 2014, 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison information for the General Fund, Tide and Submerged Land-Operating Special Revenue Fund and Tide and Submerged Land-Harbor Capital Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 18 to the financial statements, the net position of the governmental activities and fund balance of the Tide and Submerged Land - Operating Special Revenue Fund were restated. Our opinion is not modified with respect to this matter.

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

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, supplementary information and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relates 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 taken as a whole.

Other Matters (Continued)

Other Information (Continued)

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 express no 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 29, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

White Nelson Dick Evans LLP

Irvine, California
December 29, 2014

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FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Newport Beach Comprehensive Annual Financial Report (CAFR) presents management's discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2014. This analysis should be read in conjunction with the Transmittal Letter at the front of this report and the accompanying Basic Financial Statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

BASIC FINANCIAL STATEMENTS

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

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

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

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

Governmental Activities – This statement depicts the extent to which programs are self-supporting and the net amount provided by property taxes and other general revenues. Most of the City's basic services are included in this category, such as the public safety, public works, community development, community services and general administration. Taxes and other general revenues finance most of these activities.

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

Fund Financial Statements – A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements such as State and Federal law or bond covenants. Other funds are utilized simply to control and manage resources intended for particular purposes. The Fund Financial Statements provide more detailed information about the City's most significant funds (major funds) but not the City as a whole.

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

The City utilizes three broad categories of funds:

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

Proprietary Funds – Business like services for which the City provides goods or services to the general public are generally reported in Proprietary Funds (Enterprise Funds and Internal Service Funds). Like the Government-wide Financial Statements, these funds provide both long and short-term financial information utilizing the economic resources measurement focus. The City's Enterprise Funds (Water and Wastewater Funds) are individual funds

represented in the combined presentation of Business-type Activities in the Government-wide Financial Statements. The individual fund presentation provides more detailed information about each business segment, its operating statements, and statements of cash flow. The City also uses Internal Service Funds that are utilized to report and allocate the cost of certain centrally managed and operated activities (e.g. fleet maintenance and other equipment, risk management, retiree insurance, telecommunications systems, information technology services, etc.). Because the Internal Service Funds primarily serve the government, they are reported with Governmental Activities rather than the Business-type Activities in the Government-wide Financial Statements.

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

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

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

ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements provide long-term and short-term information about the City's overall financial condition. This analysis addresses the financial statements of the City as a whole.

Net Position Discussion - As shown in Figure 1, the City's combined net position for year ended June 30, 2014 was \$2.429 billion, increasing \$25.1 million or 1.04% over the prior year. Net position can serve as an important indicator of whether the City's overall financial condition is improving or deteriorating over time.

Current assets decreased approximately \$9.0 million primarily due to a decrease in cash and investments to fund construction costs related to Sunset Ridge Park and Marina Park. Capital assets increased \$23.6 million due to work in progress additions related to the construction of both parks, increases to structures related to the renovation of the Lifeguard Headquarters, and completion of the Civic Center and Park.

Current Liabilities decreased \$5.6 million primarily due to a decrease in accounts payable related to the final payment for the Civic Center.

Long-term liabilities decreased as a category overall approximately \$4.8 million. This was due to increases in accrued claims and judgments and compensated absences, and decreases in workers compensation and principal reductions across all long-term debt categories. See note (6) of Notes to the Financial Statements.

Figure 1
Net Position
(in thousands)

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------------|-------------------------|--------------|--------------------------|------------|-------------------------|-------------|
| | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 |
| Current and other assets | \$ 218,652 ¹ | \$ 206,798 | \$ 23,166 | \$ 26,031 | \$ 241,817 ¹ | \$ 232,829 |
| Capital assets | 2,254,250 | 2,273,142 | 111,177 | 115,949 | 2,365,427 | 2,389,091 |
| Total assets | 2,472,902 | 2,479,940 | 134,343 | 141,980 | 2,607,244 | 2,621,920 |
| Current liabilities | 35,199 | 29,573 | 3,993 | 4,052 | 39,192 | 33,625 |
| Long-term liabilities | 163,337 | 158,524 | - | - | 163,337 | 158,524 |
| Total liabilities | 198,536 | 188,097 | 3,993 | 4,052 | 202,529 | 192,149 |
| Net Position | | | | | | |
| Net investment in capital assets | 2,124,798 | 2,149,191 | 111,177 | 115,948 | 2,235,975 | 2,265,139 |
| Restricted | 72,120 | 59,998 | - | - | 72,120 | 59,998 |
| Unrestricted | 77,448 ¹ | 82,653 | 19,172 | 21,979 | 96,620 ¹ | 104,632 |
| Total Net Position | \$ 2,274,366 | \$ 2,291,843 | \$130,349 | \$ 137,927 | \$ 2,404,715 | \$2,429,770 |

¹ Prior year net position was restated in conformity with GAAP to reflect current year property income accrued in prior year.

- The largest portion of the City's net position, at \$2.265 billion or 93.2%, reflects the net investment in capital assets (e.g., land, buildings, infrastructure, and equipment) less accumulated depreciation and any related outstanding debt used to acquire those assets. The city uses these capital assets to provide services to residents and therefore, do not represent a financial resource to the City and consequently are not readily available for funding current obligations.
- Restricted Assets totaled \$60.0 million or 2.47% of net position and decreased \$12.1 million. This was due primarily to planned transfers (decreases) for construction costs related to Sunset Ridge Park, Civic Center and Park, and Lifeguard Headquarters offset by increases in restricted assets related to the Facilities Maintenance Fund.
- A total of \$104.6 million representing 4.31% of net position is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors. Some of the unrestricted amount is designated for specific purposes as assigned by the City Manager. Unrestricted net position increased \$8.0 million mainly due

to increased revenues in the General and Tidelands- Harbor Capital Funds and various cost savings in the General Fund.

Governmental Activities

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

Figure 2
Changes in Net Position
(in thousands)

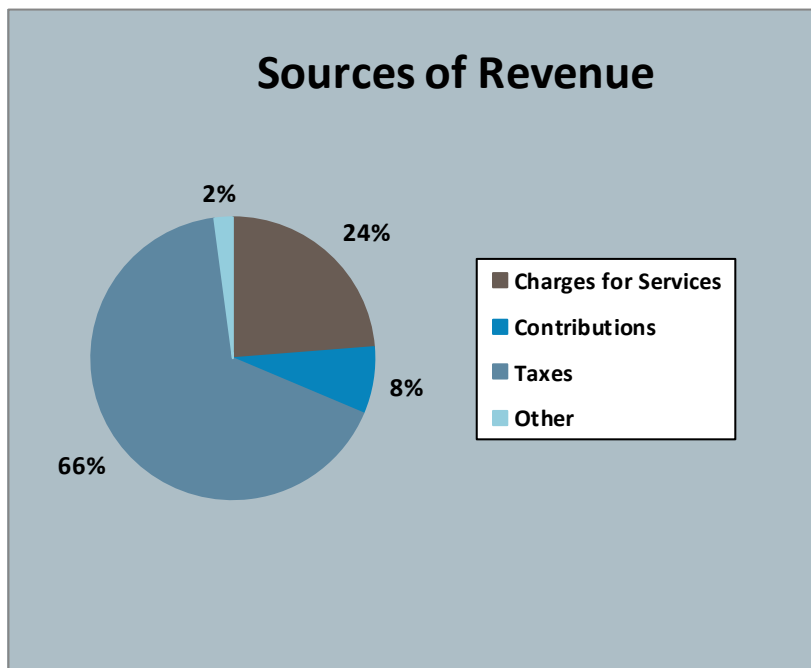
| | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|------------------------|--------------------------|------------|--------------|------------------------|
| | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | \$ 44,021 | \$ 49,001 | \$ 30,246 | \$ 32,837 | \$ 74,267 | \$ 81,839 |
| Operating grants and capital contributions | 11,291 | 15,197 | - | - | 11,291 | 15,197 |
| Capital grants and contributions | 25,614 | 564 | - | - | 25,614 | 564 |
| General Revenues: | | | | | | |
| Taxes: | | | | | | |
| Property taxes | 81,603 | 79,889 | - | - | 81,603 | 79,889 |
| Sales tax | 20,764 | 23,142 | - | - | 20,764 | 23,142 |
| Sales tax in-lieu | 7,079 | 7,728 | - | - | 7,079 | 7,728 |
| Transient occupancy taxes | 16,500 | 18,176 | - | - | 16,500 | 18,176 |
| Other taxes | 8,252 | 8,371 | - | - | 8,252 | 8,371 |
| Investment related income | 219 | 596 | 22 | 147 | 241 | 743 |
| Other | 2,749 | 3,804 | - | - | 2,749 | 3,804 |
| Capital contribution from Enterprise Funds | 320 | - | (320) | - | - | - |
| Total revenues | 218,412 | 206,468 | 29,948 | 32,984 | 248,360 | 239,453 |
| Expenses: | | | | | | |
| General government | 15,831 | 18,834 | - | - | 15,831 | 18,834 |
| Public safety | 83,235 | 87,676 | - | - | 83,235 | 87,676 |
| Public works | 47,795 | 42,953 | - | - | 47,795 | 42,953 |
| Community development | 9,223 | 10,283 | - | - | 9,223 | 10,283 |
| Community services | 22,245 | 21,357 | - | - | 22,245 | 21,357 |
| Interest | 7,989 | 7,888 | - | - | 7,989 | 7,888 |
| Water | - | - | 20,208 | 22,037 | 20,208 | 22,037 |
| Wastewater | - | - | 3,462 | 3,369 | 3,462 | 3,369 |
| Total expenses | 186,318 | 188,991 | 23,670 | 25,406 | 209,987 | 214,397 |
| Increases in net position | 32,095 | 17,477 | 6,278 | 7,578 | 38,373 | 25,055 |
| Net Position at beginning of year, as restated | 2,242,271 | 2,274,366 ¹ | 124,071 | 130,349 | 2,366,342 | 2,404,715 ¹ |
| Net Position at end of year | \$ 2,274,366 | \$ 2,291,843 | \$ 130,349 | \$ 137,927 | \$ 2,404,715 | \$ 2,429,770 |

¹ Prior year net position was restated in conformity with GAAP to reflect current year property income accrued in prior year.

Revenue Discussion

Figure 3 illustrates how the \$206.5 million in revenue was derived. As shown, \$49.0 million or 24% of the revenues were recovered by those who directly benefited from the programs as a charge for service. Another \$15.8 million or 8% of the revenues were generated by contributions and grants received from governmental organizations, developers, and property owners for both capital and operating activities. The remaining \$141.7 million or 68% represented general revenues of the City including taxes intergovernmental revenues and other miscellaneous revenues.

Figure 3
Governmental Activities Revenue Sources
Year Ended June 30, 2014



As illustrated in Figure 2, charges for services increased almost \$5.0 million as a result of increased revenues from all the functional services. The majority of the increase was as a result of increased revenues from paramedic service, junior lifeguard service, planning, building and checking fees, facilities' rental and recreation class fees. Water service charges increased \$2.6 million due to rate increases in potable water.

Contributions to the City decreased \$21.1 million from the prior year primarily related to a \$18.9 million one-time contribution of land from the State in fiscal year 2012-13 offset by an increase in in Operating Grants and Contributions related to California Proposition 84 and Proposition 1B.

The City's general revenues increased by \$4.2 million from the prior year largely due to increases in Sales Tax, Sales Tax-in-Lieu and Transient Occupancy Taxes).

The housing market continued to improve in 2014 although the pace of the improvement has slowed due to increase of interest rates and tight inventories. Median sale prices for real estate have continued to increase steadily, but at a slower pace than seen in 2013. The numbers of home sale transactions have declined relative to 2013 statewide. Property tax decreased approximately \$1.7 million from the previous year, due to a one-time \$5.4 million payment from the State received in fiscal year 2012-13, resulting from the State's actions to dissolve redevelopment agencies. Excluding the one-time \$5.4 million payment, property tax collections finished the year \$3.7 million higher than the previous year.

At nearly \$30.9 million, sales taxes, including sales tax-in-lieu, represent the second largest individual revenue source for the City. Sales taxes increased \$3.0 million from the prior year fiscal year. The largest sales tax category, "Autos and Transportation," accounts for approximately 33% of total sales tax, the next largest segment "General Consumer Goods" account for approximately 25% of total sales tax, and the third largest segment "Restaurants and Hotels" accounts for approximately 23% of total sales tax revenue.

At \$18.2 million, transient occupancy taxes (TOT) increased by \$1.7 million from the previous fiscal year, a net increase of \$188,438 in residential TOT and a \$1.5 million increase in hotel TOT resulting from rising occupancy rates in the City's hotels, motels, cottages, and resorts and a generally improving travel and tourism business sector.

Expenses Associated with Governmental Activities

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

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

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

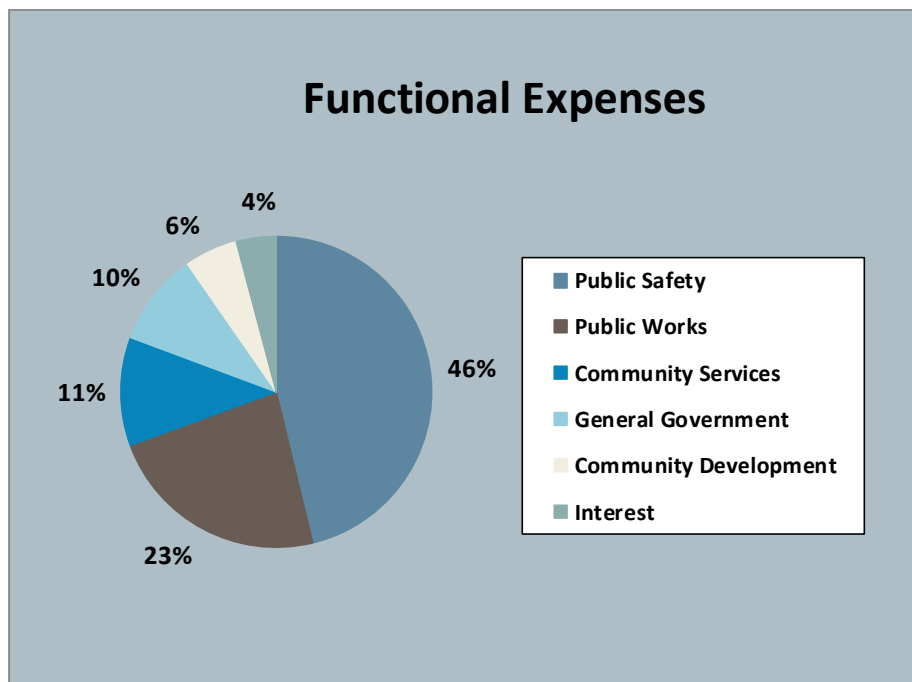
Public Works is comprised of two departments (Public Works and Municipal Operations) providing engineering, construction and maintenance of public streets, highways, buildings, beaches, parks, and related infrastructure; as well as traffic engineering, and street lighting.

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

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

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

Figure 4
Government wide Functional Expenses
Year Ended June 30, 2014



As illustrated in Figure 2, the current year expenses for all governmental activities totaled \$189 million. The increase of \$2.7 million (1.43%) from the prior year is the net result of increases and decreases. Increases include the first year of depreciation on the new Civic and Park Center, and increases in information technology and compensated absences expenses. Expense decreases include reduction in assessment district activity, contracts and professional services, and salaries.

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

Figure 5
Governmental Activities
(in thousands)

| | 2013 | | 2014 | |
|-----------------------|--------------------------|------------------------|--------------------------|------------------------|
| | Total Cost of Service | Net Cost of Service | Total Cost of Service | Net Cost of Service |
| General government | \$ 15,831 | \$ (12,989) | \$ 18,834 | \$ (15,767) |
| Public safety | 83,235 | (65,208) | 87,676 | (66,661) |
| Public works | 47,795 | (9,151) | 42,953 | (24,774) |
| Community development | 9,223 | (1,001) | 10,283 | (1,132) |
| Community services | 22,245 | (9,053) | 21,357 | (8,008) |
| Interest | 7,989 | (7,990) | 7,888 | (7,888) |
| | <u>\$ 186,318</u> | <u>\$ (105,392)</u> | <u>\$ 188,992</u> | <u>\$ (124,231)</u> |

Figure 6
Program Expenses and Revenue - Governmental Activities
Year Ended June 30, 2014
(in millions)

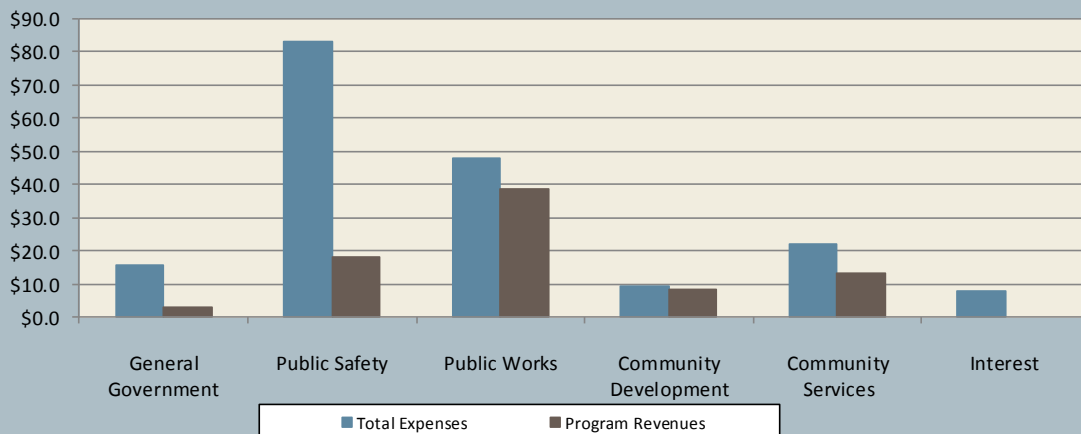
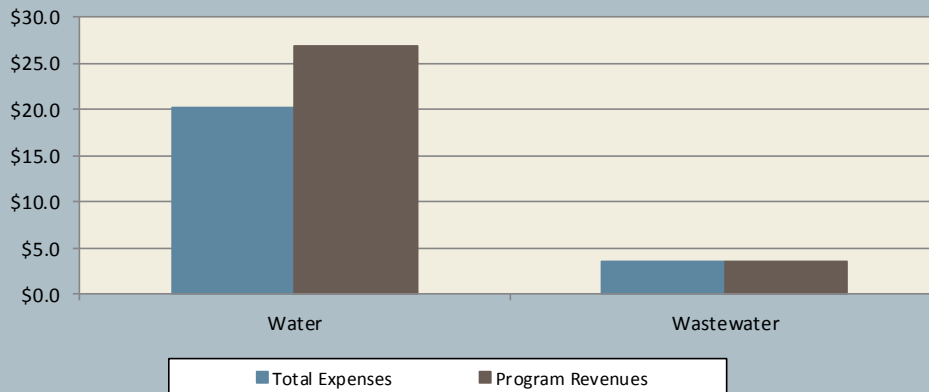


Figure 7
Program Expense & Revenue - Business-type Activities
Year Ended June 30, 2014
(in millions)



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

Water

Of the \$22 million in water related expenses, \$10 million (45.4%) is for the purchase of water, \$3.9 million (17.7%) covers employee related costs, \$4.6 million (20.9%) is for maintenance, supplies, and depreciation of the water system, \$1.6 million (7.3 %) is for professional services, and the remaining \$1.8 million (8.2%) is collectively attributable to miscellaneous other expenses.

Wastewater

Of the \$3.4 million in wastewater related expenses, \$1.5 million (45.5%) is for maintenance, supplies, and depreciation of the wastewater system, \$1.4 million (42.7%) is for employee related costs, and the remaining \$384,933 (11.4%) is attributable to professional services and other miscellaneous expenses.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

Fund Balance – As of the end of the current fiscal year, the City's Governmental Funds reported combined fund balances of \$128.5 million, a decrease of \$2.5 million from the prior year. The decrease is the net result of decreases in fund balance to the Facilities Financial Planning Reserve Fund and the Marina Park Fund due to ongoing construction of the Marina and Sunset Ridge parks, offset by increases in all other major funds and across all three categories of non-major funds. The General Fund represented \$85.4 million or 66.5% of the combined fund balances of the Governmental Funds.

Nonspendable Fund Balance – The City has \$20.9 million in fund balance classified as nonspendable to indicate that it cannot be readily converted to cash. Of the \$20.9 million nonspendable fund balance, \$283,448 is for prepaid items, \$223,492 is for inventories, \$15.8 million is for long-term loan receivable and \$4.6 million is for permanent endowments.

Restricted Fund Balance – The City has \$37.2 million in fund balance classified as restricted to indicate that it has an externally imposed restriction on how the money may be spent. Of the \$37.2 million restricted fund balance, close to \$4 million is restricted in the General Fund, of which \$3.0 million is for Affordable Housing and \$972,855 is for Oceanfront Encroachment; \$3.0 million is in the Tide and Submerged Land – Operating Fund, of which \$2.6 million is restricted for capital projects and \$430,626 is restricted for the Upper Newport Bay restoration; \$2.4 million is restricted for Civic Center COP debt service, and \$982,071 for park improvements in the Facilities Financing Planning Reserve Fund. Of the remaining \$26.9 million in restricted fund balance, \$24.5 million is restricted for various special revenue funds, \$909,554 is restricted for an Assessment District Fund and \$1.5 million of fund balance is restricted for permanent funds.

Committed Fund Balance – The City has \$32.3 million in fund balance classified as committed to indicate that the City Council committed how the money will be spent. Of the \$32.3 million committed fund balance; \$10.6 million is committed to the Facilities Financial Planning Reserve Fund; \$12.8 million is committed to the General Fund of which \$6 million is for capital re-appropriations, \$5.6 million is for encumbrances and the remaining \$1.2 million is committed to various General Fund activities; \$4 million for Sunset Ridge Park Fund; \$1.8 million is committed to the Civic Center and Park Fund; \$2.2 million is committed to the Facilities Maintenance Fund; \$480,000 is committed to the oil and gas reserves in the Tide and Submerged Land - Operating Fund; and \$340,493 is committed to various capital projects.

Assigned Fund Balance – The City has \$1.3 million in fund balance which is not restricted or committed and is classified as assigned to indicate the City Manager's intent to be used for specific purposes.

Unassigned Fund Balance – The remaining \$36.7 million in fund balance is classified as unassigned to indicate that it is the residual balance not otherwise restricted.

Additional information on the City's Fund Balance can be found in Note (17) of the Notes to the Financial Statements.

- Overall General Fund Revenues finished \$3.4 million or 2.0% higher than the prior year while expenditures finished \$5.2 million or 3.6% higher than the prior year. The net result is that General Fund income before transfers and other financing sources and uses decreased by nearly \$1.7 million. Actual General Fund revenues were \$4.0 million over estimated revenues primarily due to conservative tax estimates and higher than expected fee for service activity. Expenditures came in at \$8.6 million under budget primarily due to control of labor costs (including overtime and benefits), reduction in professional services, and multi-year capital improvement projects not completed in the current fiscal year. In total, the General Fund increased \$4.3 million ending the year with \$85.4 million fund balance.
- The Tide and Submerged Land - Operating Fund ended the current year with \$3.5 million in fund balance of which \$2.6 million represented project encumbrances and commitments, \$430,626 restricted for the Upper Newport Bay restoration, and \$480,000 committed for oil well improvements.
- The Tide and Submerged Land – Harbor Capital Fund increased \$868,920 to close the fiscal year at a \$7.9 million deficit fund balance. This increase is due to increased property income, a one-time refund of prior year expenditures from the Army Corps of Engineers, and capital projects not completed and re-appropriated to next year.
- The Facilities Financial Planning Reserve fund balance decreased \$15.1 million to \$11.6 million. This was largely due to transfers out to provide for the construction costs associated with the Marina Park and Sunset Ridge Park projects.
- The Marina Park fund balance ended the year with a \$6.2 million deficit fund balance due to ongoing construction activity.
- **Proprietary Funds** – The City's Proprietary Funds (Enterprise and Internal Service Funds) presented in the Fund Financial Statements section basically provide the same type of information in the Government-wide Financial Statements, but include individual segment information.

Enterprise Fund results for the year included the following:

Net position in the Water Fund increased \$7.3 million due to higher water usage (sales), resulting from hotter weather and rate increase (the last of a five-year rate plan).

Net Position in the Wastewater Fund increased \$104,140 due to an increase in water consumption as wastewater rates are tied to water consumption.

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

Net position in the Internal Service Funds increased \$4 million in the current year. Operating loss of \$3.5 million mostly due to increases in claims and judgments, were offset by \$1.5 million in non-operating revenues (gain on sale of vehicles and investment income) and \$6 million in net transfers.

GENERAL FUND BUDGETARY HIGHLIGHTS

Changes to Original Budget

Final budgeted revenues for the General Fund increased \$3.8 million from the original budget during the year ended June 30, 2014. Significant factors contributing to this fluctuation are highlighted as follows:

Final budgeted property taxes increased \$1.9 million from the original budget due to mid-year budget revisions based on higher than expected collection trends primarily due to increased assessed value and construction activity.

Final budgeted transient occupancy tax increased \$927,910 from the original budget due to mid-year budget revisions based on higher than expected collection trends due to a generally improving travel and tourism business sector.

Final budgeted licenses and permits increased \$103,000 from the original budget primarily due to the recognition of records management fee revenues.

Final budgeted sales tax including sales tax in lieu, other taxes, and other revenue increased by \$465,856 from the original budget due to improved consumer spending, investigative film fees and contributions to the library.

Final budgeted intergovernmental revenue and revenue from fines and forfeitures increased by \$158,046 primarily due to increases in grants and facilities' rental fees.

Final budgeted donations increased \$142,011 from the original budget due to higher than expected private donations.

Final budgeted charges for services increased \$110,479 from the original budget primarily due to a grant from the State of California, Office of Traffic Safety.

Final budgeted expenditures for the General Fund decreased \$7.5 million from the original budget during the year ended June 30, 2014. A significant factor contributing to this fluctuation includes the routine reclassification of General Fund expenditures as Tidelands expenditures. This reclassification occurs at year end once all such eligible expenditures can be properly attributed to Tidelands activity. This amount is offset by increases in expenditures appropriated for professional services, library supplies due to unexpected library donations, and unplanned overtime.

Variance with Final Budget

Actual revenues came in at \$4.0 million above final budgeted revenues for the year ended June 30, 2014 due to the growing strength of the economy resulting in higher property, sales, transient occupancy taxes, charges for services, and property income. Significant factors contributing to this favorable variance are summarized as follows:

- A \$450,530 favorable variance was realized in property taxes due to higher than expected tax revenues.
- Higher than expected sales tax and transient occupancy tax revenues of \$1.8 million is the result of the growing economic impact of the state's travel and tourism industry.
- A \$673,527 favorable variance was realized in other taxes due to higher than expected business license tax, cable franchise taxes, utility, and solid waste taxes.
- A \$1.4 million favorable variance was realized in charges for services due to higher construction and renovation activity leading to higher than expected building, zoning, and planning check fees, various permits, and paramedic service fees.
- A \$481,901 favorable variance was realized in property income related to increased facilities' rental revenue.

Unfavorable variances of \$994,311 related to licensing and permits, fines, forfeitures, and sales tax-in lieu.

Actual General Fund expenditures of \$148.9 million were significantly less than final budgetary estimates of \$157.6 million. Significant factors contributing to this \$8.7 million surplus are summarized as follows:

- A \$1.8 million favorable variance was realized in General Government due to salary savings and reduction in professional services, outside counsel and special department expenses.
- A \$1.3 million favorable variance in Public Safety was generated by salary savings and uniform expenditures, a reduction in professional services and helicopter contract services, and reduction in the purchase of equipment.
- A \$969,888 favorable variance in Public Works was due to a reduction in contract services, salary savings, maintenance, and electricity.
- A \$886,468 favorable variance in Community Development due to salary savings, and a reduction in professional and contract services.
- A \$1.2 million favorable variance in Community Services generated by salary savings and contract services.
- A \$2.7 million favorable variance was realized from capital improvement projects due to incomplete projects being re-budgeted to the following year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for governmental and business-type activities as of June 30, 2014, amounts to \$2.39 billion, net of accumulated depreciation. This investment is comprised of a broad range of capital assets including land, buildings, machinery and equipment, park facilities, road improvements, storm drains, piers, oil wells, sound walls, 800 MHz radio communications system, parking pay stations and meters and bridges. The total net increase (including additions and deletions) of \$23.7 million represents the result of additions of \$32.7 million, and deletions of \$9.0 million.

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

| | Governmental Activities | | Business-Type Activities | | Total | |
|------------------|-------------------------|--------------------|--------------------------|-------------------|---------------------|---------------------|
| | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 |
| Land | \$ 1,869,387 | \$1,871,641 | \$ 2,219 | \$ 2,219 | \$ 1,871,606 | \$1,873,860 |
| Structures | 174,144 | 179,589 | 531 | 516 | 174,675 | 180,105 |
| Equipment | 13,678 | 16,553 | 90 | 80 | 13,768 | 16,633 |
| Infrastructure | 189,972 | 189,467 | 103,476 | 107,406 | 293,448 | 296,873 |
| Work in progress | 7,069 | 15,892 | 4,861 | 5,727 | 11,930 | 21,619 |
| Totals | <u>\$2,254,250</u> | <u>\$2,273,142</u> | <u>\$ 111,177</u> | <u>\$ 115,948</u> | <u>\$ 2,365,427</u> | <u>\$ 2,389,090</u> |

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

- The City capitalized \$32.7 million in capital assets in both the Governmental and Business Type Activities in the current year. Of the \$32.7 million, \$19.1 million represents additions of non-depreciable assets such as land and rights of way and work in progress. The remaining \$13.6 million is comprised of additions from structures of \$5.6 million, equipment of \$3.4 million, and infrastructure of \$4.6 million
- Of the \$23.0 million capitalized as governmental assets in the current year, work in progress contributed to the majority at \$11.3 million, which was mainly due to an increase in construction activity on the Sunset Ridge and Marina Park projects. The remaining \$11.7 million capitalized in the current year as governmental assets, is comprised of \$2.3 million in land acquisitions, \$5.6 million in additions to structures net of depreciation, \$3.4 million of equipment net of depreciation, and \$573,720 in infrastructure net of depreciation.
- The \$9.6 million capitalized in the current year as business-type assets is comprised of \$5.6 million of work in progress related to Corona Del Mar Transmission Pipeline improvements and \$4.0 million of infrastructure additions related to the Big Canyon Reservoir.

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

Long-term Debt

At the end of the current fiscal year, the City had total long-term debt outstanding of \$125.2 million for all governmental activities.

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

| | Governmental Activities | | Business-Type Activities | | Total | |
|-------------------------------|----------------------------|-------------------|-----------------------------|-------------|------------------|-------------------|
| | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 |
| Certificates of participation | \$122,230 | \$ 119,455 | \$ - | \$ - | \$122,230 | \$ 119,455 |
| Bond premium | 844 | 723 | - | - | 844 | 723 |
| Pre-annexation agreement | 4,800 | 3,600 | - | - | 4,800 | 3,600 |
| CDBG Loan | 1,578 | 1,462 | - | - | 1,578 | 1,462 |
| Totals | <u>\$ 129,452</u> | <u>\$ 125,240</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$129,452</u> | <u>\$ 125,240</u> |

The City's total debt decreased \$4.2 million during the current fiscal year. The decrease is the result of expected debt service payments. Additional information on the City's

long-term debt obligation can be found in Note (6) of the Notes to the Financial Statements.

FACTORS AFFECTING NEXT YEAR'S BUDGET

Economy

According to a recent survey of economists, the U.S. economy is poised for stronger growth in 2015 thanks to falling gas prices, a tighter job market and expectations of larger wage gains. The boost to household finances and confidence should continue into next year, the economists said in the survey. The drop in oil prices – a tumble of more than 40% since June of 2014 – has been a major upside surprise to economic growth in the second half of 2014. Another major support to the outlook is an expectation of faster wage growth amid a tighter labor market. The consensus view sees the unemployment rate falling from November's 5.8% to 5.3% by the end of 2015, delivering the lowest national jobless rate since April 2008. Consumer spending, which accounts for more than two-thirds of the total demand in the U.S., was the overwhelming driver of growth this year. The confluence of economic data suggests continued economic growth, strengthening labor markets, and steadily rising tax revenue in 2015 for the City of Newport Beach.

Discretionary Appropriations

The City Council adopted an FY 2014-15 budget that is reflective of an expanding economy including the addition contract inspection, plan review services, and code enforcement staff due to the sustained uplift in construction activity; expanding Recreation and Senior Services due to support higher attendance in preschool programs and improving the safety and aesthetics of 32 city playgrounds; changing the role of the Fire Department to become better equipped for emergency medical response; increasing Public Works contractual services (engineering and technical support) to expedite infrastructure construction and renovation; and adding police staff/equipment to fight crime. Available funding in FY 2014-15 also allowed for the acceleration of contributions to the City's unfunded pension liability.

Labor Contracts

Memorandums of Understanding (MOU) between the City and several bargaining units will or may expire at June 30, 2015: City Employees Association, Professional and Technical Employees Association, Employees League, and the Part Time Employees Association.

Although the economy, and associated revenue that comes from an expanding economy, is expected to continue in 2015, management will continue to focus on prudent financial planning, reporting and control with the intended outcome of long-term fiscal sustainability; and providing accurate, relevant and reliable information about the

City's financial condition to the City Council, departments and the public to improve accountability.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Department, 100 Civic Center Drive, Newport Beach, CA 92660, (949) 644-3146. The City's Budgets, Comprehensive Annual Financial Reports as well as other City financial information can be found on the City's website at: www.newportbeachca.gov/financialinfo

FINANCIAL SECTION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

FINANCIAL SECTION

CITY OF NEWPORT BEACH
Statement of Net Position
June 30, 2014

| | Governmental Activities | Business-type Activities | Total |
|--|------------------------------------|-------------------------------------|-------------------------|
| Assets: | | | |
| Cash and investments (note 4) | \$ 176,945,775 | \$ 18,884,157 | \$ 195,829,932 |
| Receivables: | | | |
| Accounts (net of allowance) | 8,527,654 | 6,866,922 | 15,394,576 |
| Interest | 559,740 | - | 559,740 |
| Intergovernmental receivables | 9,274,063 | - | 9,274,063 |
| Cash with fiscal agent (note 4) | 7,901,395 | - | 7,901,395 |
| Internal balances | (272,798) | 272,798 | - |
| Net Other post employment benefits (assets) | 1,500,000 | - | 1,500,000 |
| Inventory | 584,582 | - | 584,582 |
| Investment in joint ventures (note 15) | 188,937 | - | 188,937 |
| Prepaid items | 1,588,439 | 7,000 | 1,595,439 |
| Capital assets, (note 5): | | | |
| Non-depreciable | 1,887,533,344 | 7,946,269 | 1,895,479,613 |
| Depreciable | 571,181,017 | 168,728,354 | 739,909,371 |
| Accumulated depreciation | (185,572,121) | (60,726,101) | (246,298,222) |
| Total Assets | 2,479,940,027 | 141,979,399 | 2,621,919,426 |
| Liabilities: | | | |
| Accounts payable | 12,921,493 | 3,791,929 | 16,713,422 |
| Accrued payroll | 5,373,377 | 233,641 | 5,607,018 |
| Accrued interest payable | 3,900,697 | - | 3,900,697 |
| Deposits payable | 2,896,504 | 27,046 | 2,923,550 |
| Unearned revenue | 4,480,860 | - | 4,480,860 |
| Noncurrent liabilities (note 6): | | | |
| Due within one year | 14,271,645 | - | 14,271,645 |
| Due in more than one year | 144,252,530 | - | 144,252,530 |
| Total Liabilities | 188,097,106 | 4,052,616 | 192,149,722 |
| Net Position: | | | |
| Net investment in capital assets | 2,149,191,364 | 115,948,522 | 2,265,139,886 |
| Restricted for: | | | |
| Public safety | 1,936,364 | - | 1,936,364 |
| Public works | 34,033,944 | - | 34,033,944 |
| Community services | 11,964,126 | - | 11,964,126 |
| Community development | 5,946,605 | - | 5,946,605 |
| Debt service | - | - | - |
| Permanent funds: | | | |
| Nonexpendable | 4,629,781 | - | 4,629,781 |
| Expendable | 1,487,524 | - | 1,487,524 |
| Unrestricted | 82,653,213 | 21,978,261 | 104,631,474 |
| Total Net Position | \$ 2,291,842,921 | \$ 137,926,783 | \$ 2,429,769,704 |

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Statement of Activities
Year Ended June 30, 2014

| Functions/Programs | Expenses | Program Revenues | | | Total Program Revenues |
|--------------------------------|----------------|-------------------------|--|--|------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Primary government: | | | | | |
| Governmental activities: | | | | | |
| General government | \$ 18,834,165 | \$ 3,046,232 | \$ 20,526 | \$ - | \$ 3,066,758 |
| Public safety | 87,676,061 | 19,124,112 | 1,890,945 | - | 21,015,057 |
| Public works | 42,953,119 | 5,517,103 | 12,176,834 | 485,323 | 18,179,260 |
| Community development | 10,283,481 | 8,043,390 | 1,108,391 | - | 9,151,781 |
| Community services | 21,357,271 | 13,270,316 | - | 78,463 | 13,348,779 |
| Interest on long-term debt | 7,888,192 | - | - | - | - |
| Total governmental activities | 188,992,289 | 49,001,154 | 15,196,696 | 563,786 | 64,761,636 |
| Business-type activities: | | | | | |
| Water | 22,037,284 | 29,397,882 | - | - | 29,397,882 |
| Wastewater | 3,368,656 | 3,438,670 | - | - | 3,438,670 |
| Total business-type activities | 25,405,940 | 32,836,552 | - | - | 32,836,552 |
| Total primary government | \$ 214,398,229 | \$ 81,837,706 | \$ 15,196,696 | \$ 563,786 | \$ 97,598,188 |

General revenues:

Taxes:

Property tax
Sales tax
Sales tax in-lieu
Transient occupancy tax
Business license tax
Franchise tax
Other taxes
Investment income
Net increase in fair
value of investments
Other
Total general revenues

Change in net position

Net Position at beginning of year,
as restated (note 18)

Net Position at end of year

See accompanying notes to basic financial statements

| Net (Expense) Revenue and Changes in Net Assets | | |
|---|-----------------------------|------------------|
| Primary Government | | |
| Governmental Activities | Business-type Activities | Total |
| \$ (15,767,407) | \$ - | \$ (15,767,407) |
| (66,661,004) | - | (66,661,004) |
| (24,773,859) | - | (24,773,859) |
| (1,131,700) | - | (1,131,700) |
| (8,008,492) | - | (8,008,492) |
| (7,888,192) | - | (7,888,192) |
| (124,230,653) | - | (124,230,653) |
| - | 7,360,598 | 7,360,598 |
| - | 70,014 | 70,014 |
| - | 7,430,612 | 7,430,612 |
| (124,230,653) | 7,430,612 | (116,800,041) |
| 79,889,346 | - | 79,889,346 |
| 23,142,065 | - | 23,142,065 |
| 7,727,876 | - | 7,727,876 |
| 18,176,369 | - | 18,176,369 |
| 4,156,130 | - | 4,156,130 |
| 3,998,943 | - | 3,998,943 |
| 216,604 | - | 216,604 |
| 542,915 | 128,439 | 671,354 |
| 53,783 | 18,199 | 71,982 |
| 3,803,728 | - | 3,803,728 |
| 141,707,759 | 146,638 | 141,854,397 |
| 17,477,106 | 7,577,250 | 25,054,356 |
| 2,274,365,815 | 130,349,533 | 2,404,715,348 |
| \$ 2,291,842,921 | \$ 137,926,783 | \$ 2,429,769,704 |

See accompanying notes to basic financial statements

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FINANCIAL SECTION

FUND
FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS

FINANCIAL SECTION

GOVERNMENTAL FUNDS

Major Funds

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

The **Tide and Submerged Land – Operating Fund** is a Special Revenue Fund used to account for revenues related to the operation of the City's tidelands, including beaches and marinas, and the related expenditures. Revenue from tideland operations includes, but is not limited to, rents from moorings, piers, and leases, as well as income from parking lots, meters, and the sale of oil.

The **Tide and Submerged Land – Harbor Capital Fund** is a Special Revenue Fund used to account for incremental increases in revenue from certain property lease, pier, and mooring rentals that exceed Council designated base year revenue amounts, as well as other designated revenues and the related expenditures for capital projects, maintenance, and servicing of loan advances from the General fund.

The **Facilities Financial Planning Reserve Fund** is used to account for the receipt and expenditure of funds for the replacement of facilities. In prior years, this fund was called the Facilities Replacement Fund.

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

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

Other Governmental Funds

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

CITY OF NEWPORT BEACH
Governmental Funds
Balance Sheet
June 30, 2014

| Assets | General | Special Revenue Funds | |
|---|-----------------------|-------------------------------------|--|
| | | Tide and Submerged Land - Operating | Tide and Submerged Land - Harbor Capital |
| Cash and investments (note 4) | \$ 69,253,846 | \$ 3,598,785 | \$ 8,389,198 |
| Receivables: | | | |
| Accounts (net of allowance) | 4,092,232 | 907,812 | 374,917 |
| Interest | 559,740 | - | - |
| Intergovernmental receivables | 5,859,089 | - | 20,490 |
| Cash with fiscal agent (note 4) | - | - | - |
| Advance to other funds (note 13) | 15,809,559 | - | - |
| Due from other funds (note 13) | 6,611,724 | - | - |
| Prepaid items | 283,448 | - | - |
| Inventory | 223,492 | - | - |
| Total assets | <u>\$ 102,693,130</u> | <u>\$ 4,506,597</u> | <u>\$ 8,784,605</u> |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ 6,792,321 | \$ 741,160 | \$ 542,630 |
| Accrued payroll | 5,201,813 | 21,298 | - |
| Deposits payable | 2,774,485 | 122,019 | - |
| Unearned revenue | 2,457,278 | - | - |
| Advance from other funds (note 13) | - | - | 15,809,559 |
| Due to other funds (note 13) | - | - | - |
| Total liabilities | <u>17,225,897</u> | <u>884,477</u> | <u>16,352,189</u> |
| Deferred Inflows of Resources: | | | |
| Unavailable revenue | <u>86,758</u> | <u>112,400</u> | <u>374,917</u> |
| Total deferred inflows of resources | <u>86,758</u> | <u>112,400</u> | <u>374,917</u> |
| Fund balances (deficits): | | | |
| Nonspendable: | | | |
| Prepaid items | 283,448 | - | - |
| Inventories | 223,492 | - | - |
| Long-Term Loan Receivable | 15,809,559 | - | - |
| Permanent Endowment | - | - | - |
| Restricted: | | | |
| Affordable housing | 2,966,896 | - | - |
| Oceanfront Encroachment | 972,855 | - | - |
| Upper Newport Bay Restoration | - | 430,626 | - |
| Other | - | 2,599,094 | - |
| Committed: | | | |
| Capital Re-appropriations | 6,026,110 | - | - |
| Oil and Gas | - | 480,000 | - |
| Other | 6,756,125 | - | - |
| Assigned: | 1,326,170 | - | - |
| Unassigned: | <u>51,015,820</u> | <u>-</u> | <u>(7,942,501)</u> |
| Total fund balances (deficits) | <u>85,380,475</u> | <u>3,509,720</u> | <u>(7,942,501)</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 102,693,130</u> | <u>\$ 4,506,597</u> | <u>\$ 8,784,605</u> |

See accompanying notes to basic financial statements

| Capital Project Funds | | Debt Service Fund | | Totals |
|---|--------------------|---------------------|--------------------------------|-----------------------|
| Facilities Financial Planning Reserve | Marina Park | Civic Center COP | Other Governmental Funds | |
| \$ 6,057,467 | \$ - | \$ - | \$ 42,205,015 | \$ 129,504,311 |
| - | - | - | 365,885 | 5,740,846 |
| - | - | - | - | 559,740 |
| - | - | - | 3,394,484 | 9,274,063 |
| - | - | 7,901,395 | - | 7,901,395 |
| - | - | - | - | 15,809,559 |
| 5,548,603 | - | - | - | 12,160,327 |
| - | - | - | - | 283,448 |
| - | - | - | - | 223,492 |
| <u>\$ 11,606,070</u> | <u>\$ -</u> | <u>\$ 7,901,395</u> | <u>\$ 45,965,384</u> | <u>\$ 181,457,181</u> |
| | | | | |
| \$ - | \$ 742,950 | \$ 46 | \$ 1,883,593 | \$ 10,702,700 |
| - | - | - | - | 5,223,111 |
| - | - | - | - | 2,896,504 |
| - | - | - | 2,023,582 | 4,480,860 |
| - | - | - | - | 15,809,559 |
| - | 5,496,102 | 5,548,603 | 126,134 | 11,170,839 |
| - | 6,239,052 | 5,548,649 | 4,033,309 | 50,283,573 |
| | | | | |
| - | - | - | 2,124,067 | 2,698,142 |
| - | - | - | 2,124,067 | 2,698,142 |
| | | | | |
| - | - | - | - | 283,448 |
| - | - | - | - | 223,492 |
| - | - | - | - | 15,809,559 |
| - | - | - | 4,629,781 | 4,629,781 |
| - | - | - | - | 2,966,896 |
| - | - | - | - | 972,855 |
| - | - | - | - | 430,626 |
| 982,071 | - | 2,352,746 | 26,879,253 | 32,813,164 |
| - | - | - | 504,990 | 6,531,100 |
| - | - | - | - | 480,000 |
| 10,623,999 | - | - | 7,904,400 | 25,284,524 |
| - | - | - | - | 1,326,170 |
| - | (6,239,052) | - | (110,416) | 36,723,851 |
| <u>11,606,070</u> | <u>(6,239,052)</u> | <u>2,352,746</u> | <u>39,808,008</u> | <u>128,475,466</u> |
| | | | | |
| <u>\$ 11,606,070</u> | <u>\$ -</u> | <u>\$ 7,901,395</u> | <u>\$ 45,965,384</u> | <u>\$ 181,457,181</u> |

See accompanying notes to basic financial statements

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CITY OF NEWPORT BEACH
Governmental Funds
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2014

| | | |
|-------------------------------------|----|-------------|
| Fund balances of governmental funds | \$ | 128,475,466 |
|-------------------------------------|----|-------------|

Amounts reported for governmental activities in the statement of net position are different because:

| | | |
|---|--|---------------|
| Capital assets net of accumulated depreciation have not been included as financial resources in governmental fund activity. Amount excludes capital assets from internal service funds which are added below. | | 2,260,553,896 |
|---|--|---------------|

Long-term debt that has not been reported in the governmental fund activity. Amounts exclude long-term debt activity from internal service funds which have been added below:

| | | |
|---------------------------------------|--|---------------|
| Certificates of participation payable | | (119,455,000) |
| Premium on certificates | | (723,318) |
| Pre-annexation agreement liability | | (3,600,000) |
| CDBG loan | | (1,462,000) |

| | | |
|---|--|-------------|
| Accrued interest payable for the current portion of interest due on long-term debt has not been reported in the governmental funds. | | (3,900,697) |
|---|--|-------------|

| | | |
|---|--|-----------|
| Some of the revenue will be collected after year-end but is not available soon enough to pay for the current period's expenditures, and therefore is reported as unavailable revenue in the governmental funds. | | 2,698,142 |
|---|--|-----------|

| | | |
|--|--|------------|
| Internal service funds are used by management to charge the costs of certain activities, such as self-insurance, workers' compensation, compensated absences, retiree insurance, fleet management and information technology, to individual funds. The assets (including capital assets) and liabilities of the internal service funds must be added to the statement of net position. | | 29,340,293 |
|--|--|------------|

| | | |
|--|--|---------|
| Investment in joint ventures is not a current financial resource and therefore not reported in the governmental funds. | | 188,937 |
|--|--|---------|

| | | |
|--|--|-----------|
| Internal balance created by the consolidation of internal service fund activities related to enterprise funds is not reported in the governmental funds. | | (272,798) |
|--|--|-----------|

| | | |
|---|----|----------------------|
| Net position of governmental activities | \$ | <u>2,291,842,921</u> |
|---|----|----------------------|

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2014

| | Special Revenue Funds | | |
|--|-----------------------|-------------------------------------|--|
| | General | Tide and Submerged Land - Operating | Tide and Submerged Land - Harbor Capital |
| Revenues | | | |
| Taxes and assessments: | | | |
| Property tax | \$ 79,889,346 | \$ - | \$ - |
| Sales tax | 23,142,065 | - | - |
| Sales tax in-lieu | 7,727,876 | - | - |
| Transient occupancy tax | 18,176,369 | - | - |
| Other taxes | 8,434,367 | - | - |
| Intergovernmental | 1,714,445 | - | 516,133 |
| Licenses, permits and fees | 5,299,166 | 41,496 | - |
| Charges for services | 16,808,431 | 55,661 | - |
| Fines and forfeitures | 3,271,910 | 1,041 | - |
| Investment income | 542,915 | 62,896 | 2,302 |
| Net increase in fair value of investments | 53,783 | 11,990 | 5,413 |
| Property income | 7,831,964 | 11,524,465 | 2,857,827 |
| Donations | 208,486 | - | - |
| Other | 768,280 | 263 | 601,413 |
| Total revenues | 173,869,403 | 11,697,812 | 3,983,088 |
| Expenditures | | | |
| Current: | | | |
| General government | 14,074,327 | 396,840 | - |
| Public safety | 74,071,885 | 7,812,378 | - |
| Public works | 28,605,116 | 3,589,713 | - |
| Community development | 9,640,708 | - | - |
| Community services | 16,841,719 | 2,206,094 | - |
| Capital outlay | 5,587,015 | 716,276 | 3,114,168 |
| Debt service (note 6): | | | |
| Principal | - | - | - |
| Interest and fiscal charges | 175,611 | - | - |
| Total expenditures | 148,996,381 | 14,721,301 | 3,114,168 |
| Excess (deficiency) of revenues over expenditures | 24,873,022 | (3,023,489) | 868,920 |
| Other financing sources (uses) | | | |
| Transfers in (note 14) | 563,552 | 4,532,086 | - |
| Transfers out (note 14) | (21,186,257) | - | - |
| Total other financing sources (uses) | (20,622,705) | 4,532,086 | - |
| Net change in fund balances | 4,250,317 | 1,508,597 | 868,920 |
| Fund balances (deficits), beginning, as restated (note 18) | 81,130,158 | 2,001,123 | (8,811,421) |
| Fund balances (deficits), ending | \$ 85,380,475 | \$ 3,509,720 | \$ (7,942,501) |

See accompanying notes to basic financial statements

| Capital Project Funds | | Debt Service Fund | | |
|---|----------------|---------------------|--------------------------------|----------------|
| Facilities Financial Planning Reserve | Marina Park | Civic Center COP | Other Governmental Funds | Totals |
| \$ - | \$ - | \$ - | \$ - | \$ 79,889,346 |
| - | - | - | - | 23,142,065 |
| - | - | - | - | 7,727,876 |
| - | - | - | - | 18,176,369 |
| - | - | - | 540,856 | 8,975,223 |
| - | - | 2,352,662 | 12,242,599 | 16,825,839 |
| 860,084 | - | - | 458,457 | 6,659,203 |
| - | - | - | - | 16,864,092 |
| - | - | - | - | 3,272,951 |
| 190,419 | - | 287 | 337,243 | 1,136,062 |
| 11,138 | - | - | 42,115 | 124,439 |
| - | - | - | - | 22,214,256 |
| - | - | - | 961,685 | 1,170,171 |
| - | - | - | 30,092 | 1,400,048 |
| 1,061,641 | - | 2,352,949 | 14,613,047 | 207,577,940 |
| - | - | - | - | 14,471,167 |
| - | - | - | 758,725 | 82,642,988 |
| - | - | - | 219,628 | 32,414,457 |
| - | - | - | 128,220 | 9,768,928 |
| - | - | - | - | 19,047,813 |
| - | 2,493,654 | - | 21,661,080 | 33,572,193 |
| - | - | 2,775,000 | 1,316,000 | 4,091,000 |
| - | - | 7,780,953 | 96,363 | 8,052,927 |
| - | 2,493,654 | 10,555,953 | 24,180,016 | 204,061,473 |
| 1,061,641 | (2,493,654) | (8,203,004) | (9,566,969) | 3,516,467 |
| 9,116,831 | - | 9,398,500 | 17,612,758 | 41,223,727 |
| (25,324,769) | - | - | (734,257) | (47,245,283) |
| (16,207,938) | - | 9,398,500 | 16,878,501 | (6,021,556) |
| (15,146,297) | (2,493,654) | 1,195,496 | 7,311,532 | (2,505,089) |
| 26,752,367 | (3,745,398) | 1,157,250 | 32,496,476 | 130,980,555 |
| \$ 11,606,070 | \$ (6,239,052) | \$ 2,352,746 | \$ 39,808,008 | \$ 128,475,466 |

See accompanying notes to basic financial statements

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CITY OF NEWPORT BEACH
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2014

| | |
|--|----------------------|
| Net change in fund balances - total governmental funds | \$ (2,505,089) |
| Amounts reported for governmental activities in the statement of activities differ from the amounts reported in governmental funds because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | 15,187,803 |
| Payment of debt service principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | 4,091,000 |
| Issuance of debt premium Premium on bonds is recognized as revenues in the period received; however, in the statement of net position it is amortized over the life of the bond. | 120,553 |
| Accrued interest for debt service is the net change in accrued interest for the current period. | 44,182 |
| Some of the revenue will be collected after year-end, but is not available soon enough to pay for the current period's expenditures, and therefore is reported as unavailable revenue in the governmental funds. This is the net change in unavailable revenue for the current period. | (3,329,812) |
| Internal service funds are used by management to charge the costs of certain activities, such as self-insurance, workers' compensation, compensated absences, retiree insurance and fleet management, to individual funds. The net revenue of the internal service funds is reported in the statement of activities. | 4,036,277 |
| Investment in joint ventures creates an explicit, measurable equity interest reported only in the statement of activities. | (8,401) |
| Internal balance created by the consolidation of internal service funds activities related to enterprise funds is reflected as a reduction of revenues in the statement of activities. | <u>(159,407)</u> |
| Change in net position of governmental activities | <u>\$ 17,477,106</u> |

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
General Fund
Budgetary Comparison Statement
For the Year Ended June 30, 2014

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|---|-------------------------|---------------|---------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| Taxes and assessments: | | | | |
| Property | \$ 77,560,970 | \$ 79,438,816 | \$ 79,889,346 | \$ 450,530 |
| Sales | 22,247,340 | 22,267,601 | 23,142,065 | 874,464 |
| Sales tax in-lieu | 7,919,248 | 7,926,293 | 7,727,876 | (198,417) |
| Transient occupancy | 16,363,510 | 17,291,420 | 18,176,369 | 884,949 |
| Other taxes | 7,725,840 | 7,760,840 | 8,434,367 | 673,527 |
| Intergovernmental | 1,443,521 | 1,496,567 | 1,714,445 | 217,878 |
| Licenses, permits and fees | 5,382,970 | 5,485,970 | 5,299,166 | (186,804) |
| Charges for services | 15,291,626 | 15,402,105 | 16,808,431 | 1,406,326 |
| Fines and forfeitures | 3,776,000 | 3,881,000 | 3,271,910 | (609,090) |
| Investment income | 545,322 | 545,322 | 542,915 | (2,407) |
| Net increase in fair value of investments | - | - | 53,783 | 53,783 |
| Property income | 7,281,541 | 7,350,063 | 7,831,964 | 481,901 |
| Donations | 59,000 | 201,011 | 208,486 | 7,475 |
| Other | 445,803 | 849,353 | 768,280 | (81,073) |
| Total revenues | 166,042,691 | 169,896,361 | 173,869,403 | 3,973,042 |
| Expenditures | | | | |
| General government: | | | | |
| City council | 1,054,992 | 1,927,658 | 1,509,395 | 418,263 |
| City clerk | 655,701 | 655,701 | 682,840 | (27,139) |
| City attorney | 2,295,766 | 2,292,833 | 2,090,616 | 202,217 |
| City manager | 3,414,961 | 2,997,059 | 2,370,605 | 626,454 |
| Finance | 5,472,979 | 5,294,528 | 4,855,955 | 438,573 |
| Human resources | 2,666,358 | 2,687,563 | 2,564,916 | 122,647 |
| Total General government | 15,560,757 | 15,855,342 | 14,074,327 | 1,781,015 |
| Public safety: | | | | |
| Police | 44,681,449 | 43,010,194 | 42,312,233 | 697,961 |
| Fire | 37,329,354 | 32,321,021 | 31,759,652 | 561,369 |
| Total Public safety | 82,010,803 | 75,331,215 | 74,071,885 | 1,259,330 |
| Public works: | | | | |
| MOD- General services | 23,432,414 | 22,723,551 | 22,169,419 | 554,132 |
| Public works | 6,266,267 | 5,896,437 | 5,551,312 | 345,125 |
| MOD - Utilities | 955,016 | 955,016 | 884,385 | 70,631 |
| Total Public works | 30,653,697 | 29,575,004 | 28,605,116 | 969,888 |

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
General Fund
Budgetary Comparison Statement
For the Year Ended June 30, 2014
(continued)

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|-------------------------|----------------------|----------------------|---|
| | Original | Final | | |
| Community development: | | | | |
| Community development | 9,103,929 | 9,348,667 | 8,665,648 | 683,019 |
| Code and water quality enforcement | 1,178,349 | 1,178,509 | 975,060 | 203,449 |
| Total Community development | 10,282,278 | 10,527,176 | 9,640,708 | 886,468 |
| Community services: | | | | |
| Parking operations | 1,806,173 | 1,047,633 | 741,187 | 306,446 |
| Library services | 6,870,106 | 7,505,396 | 7,139,584 | 365,812 |
| Recreation and senior services | 9,484,620 | 9,503,104 | 8,960,948 | 542,156 |
| Total Community services | 18,160,899 | 18,056,133 | 16,841,719 | 1,214,414 |
| Capital outlay | 8,450,267 | 8,296,546 | 5,587,015 | 2,709,531 |
| Debt service: | | | | |
| Interest and Fiscal Charges | - | - | 175,611 | (175,611) |
| Total expenditures | 165,118,701 | 157,641,416 | 148,996,381 | 8,645,035 |
| Excess (deficiency) of revenues over expenditures | 923,990 | 12,254,945 | 24,873,022 | 12,618,077 |
| Other financing sources (uses) | | | | |
| Transfers in | - | 234,000 | 563,552 | 329,552 |
| Transfers out | (9,250,000) | (16,528,645) | (21,186,257) | (4,657,612) |
| Total other financing sources (uses) | (9,250,000) | (16,294,645) | (20,622,705) | (4,328,060) |
| Net change in fund balance | (8,326,010) | (4,039,700) | 4,250,317 | 8,290,017 |
| Fund balance, beginning | 81,130,158 | 81,130,158 | 81,130,158 | - |
| Fund balance, ending | <u>\$ 72,804,148</u> | <u>\$ 77,090,458</u> | <u>\$ 85,380,475</u> | <u>\$ 8,290,017</u> |

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Tide and Submerged Land - Operating
Budgetary Comparison Statement
For the Year Ended June 30, 2014

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|--|-------------------------|-----------------------|---------------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| Licenses, permits and fees | \$ 2,038,500 | \$ 125,850 | \$ 41,496 | \$ (84,354) |
| Charges for services | 115,000 | 115,000 | 55,661 | (59,339) |
| Fines and forfeitures | 15,000 | 15,000 | 1,041 | (13,959) |
| Investment income (loss) | 22,000 | 22,000 | 62,896 | 40,896 |
| Net increase in fair value of investments | - | - | 11,990 | 11,990 |
| Property income | 9,884,286 | 11,254,653 | 11,524,465 | 269,812 |
| Other | - | - | 263 | 263 |
| Total revenues | 12,074,786 | 11,532,503 | 11,697,812 | 165,309 |
| Expenditures | | | | |
| General government | - | 396,840 | 396,840 | - |
| Public safety | - | 7,812,378 | 7,812,378 | - |
| Public works | 754,484 | 3,843,203 | 3,589,713 | 253,490 |
| Community services | 2,022,043 | 2,070,906 | 2,206,094 | (135,188) |
| Capital outlay | 3,218,737 | 995,696 | 716,276 | 279,420 |
| Total expenditures | 5,995,264 | 15,119,023 | 14,721,301 | 397,722 |
| Excess (deficiency) of revenues over expenditures | 6,079,522 | (3,586,520) | (3,023,489) | 563,031 |
| Other financing sources | | | | |
| Transfers in | - | - | 4,532,086 | 4,532,086 |
| Net change in fund balance | 6,079,522 | (3,586,520) | 1,508,597 | 5,095,117 |
| Fund balance, beginning | 2,519,190 | 2,519,190 | 2,519,190 | - |
| Prior Year Restatement | (518,067) | (518,067) | (518,067) | - |
| Restated fund balance, beginning | 2,001,123 | 2,001,123 | 2,001,123 | - |
| Fund balance, ending | \$ 8,080,645 | \$ (1,585,397) | \$ 3,509,720 | \$ 5,095,117 |

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Tide and Submerged Land - Harbor Capital
Budgetary Comparison Statement
For the Year Ended June 30, 2014

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|---|-------------------------|------------------------|-----------------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| Intergovernmental | \$ - | \$ - | \$ 516,133 | \$ 516,133 |
| Investment income | - | - | 2,302 | 2,302 |
| Net increase in fair value of investments | - | - | 5,413 | 5,413 |
| Property income | 1,205,748 | 1,024,919 | 2,857,827 | 1,832,908 |
| Other | - | - | 601,413 | 601,413 |
| | | | | |
| Total revenues | <u>1,205,748</u> | <u>1,024,919</u> | <u>3,983,088</u> | <u>2,958,169</u> |
| | | | | |
| Expenditures | | | | |
| Capital outlay | <u>334,179</u> | <u>6,366,370</u> | <u>3,114,168</u> | <u>3,252,202</u> |
| | | | | |
| Net change in fund balance | 871,569 | (5,341,451) | 868,920 | 6,210,371 |
| Fund balance (deficit), beginning | <u>(8,811,421)</u> | <u>(8,811,421)</u> | <u>(8,811,421)</u> | <u>-</u> |
| Fund balance (deficit), ending | <u>\$ (7,939,852)</u> | <u>\$ (14,152,872)</u> | <u>\$ (7,942,501)</u> | <u>\$ 6,210,371</u> |

See accompanying notes to basic financial statements

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FINANCIAL SECTION

FUND
FINANCIAL STATEMENTS

PROPRIETARY FUNDS

FINANCIAL SECTION

PROPRIETARY FUNDS

Business-type Activities

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

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

Governmental Activities

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

CITY OF NEWPORT BEACH
Proprietary Fund
Statement of Net Position
June 30, 2014

| | Enterprise Funds | | Total Enterprise Funds | Governmental Activities Internal Service Funds |
|--|-------------------------|----------------------|---------------------------------------|---|
| | Water | Wastewater | | |
| Assets | | | | |
| Current assets: | | | | |
| Cash and investments | \$ 16,539,011 | \$ 2,345,146 | \$ 18,884,157 | \$ 47,441,464 |
| Receivables: | | | | |
| Accounts (net of allowance) | 6,178,491 | 688,431 | 6,866,922 | 2,786,808 |
| Inventories | - | - | - | 361,090 |
| Net other pension employment benefits (assets) | - | - | - | 1,500,000 |
| Prepaid items | 5,250 | 1,750 | 7,000 | 1,304,991 |
| Total current assets | <u>22,722,752</u> | <u>3,035,327</u> | <u>25,758,079</u> | <u>53,394,353</u> |
| Noncurrent assets: | | | | |
| Capital assets (note 5): | | | | |
| Land | 2,219,450 | - | 2,219,450 | - |
| Structures | 688,396 | - | 688,396 | - |
| Equipment | 140,191 | - | 140,191 | 29,157,914 |
| Software | - | - | - | 1,687,212 |
| Infrastructure | 122,600,953 | 45,298,814 | 167,899,767 | - |
| Work in progress | 5,603,342 | 123,477 | 5,726,819 | 914,637 |
| Less accumulated depreciation | <u>(44,931,533)</u> | <u>(15,794,568)</u> | <u>(60,726,101)</u> | <u>(19,171,419)</u> |
| Total capital assets (net of accumulated depreciation) | <u>86,320,799</u> | <u>29,627,723</u> | <u>115,948,522</u> | <u>12,588,344</u> |
| Total noncurrent assets | <u>86,320,799</u> | <u>29,627,723</u> | <u>115,948,522</u> | <u>12,588,344</u> |
| Total assets | <u>109,043,551</u> | <u>32,663,050</u> | <u>141,706,601</u> | <u>65,982,697</u> |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 3,767,083 | 24,846 | 3,791,929 | 2,218,793 |
| Accrued payroll | 168,331 | 65,310 | 233,641 | 150,266 |
| Deposits payable | 27,046 | - | 27,046 | - |
| Due to other funds (note 13) | - | - | - | 989,488 |
| Workers' compensation - current | - | - | - | 2,730,836 |
| General liability - current | - | - | - | 5,240,695 |
| Compensated absences - current | - | - | - | 1,996,561 |
| Total current liabilities | <u>3,962,460</u> | <u>90,156</u> | <u>4,052,616</u> | <u>13,326,639</u> |
| Noncurrent liabilities (note 6): | | | | |
| Workers' compensation | - | - | - | 11,225,164 |
| General liability | - | - | - | 4,651,670 |
| Compensated absences | - | - | - | 7,438,931 |
| Total noncurrent liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>23,315,765</u> |
| Total liabilities | <u>3,962,460</u> | <u>90,156</u> | <u>4,052,616</u> | <u>36,642,404</u> |
| Net Position | | | | |
| Investment in capital assets | 86,320,799 | 29,627,723 | 115,948,522 | 12,588,344 |
| Unrestricted | <u>18,760,292</u> | <u>2,945,171</u> | <u>21,705,463</u> | <u>16,751,949</u> |
| Total net position | <u>\$ 105,081,091</u> | <u>\$ 32,572,894</u> | <u>137,653,985</u> | <u>\$ 29,340,293</u> |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | | | 272,798 | |
| Net position of business-type activities | | | <u>\$ 137,926,783</u> | |

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Proprietary Fund
Statement of Revenues,
Expenses and Changes in Net Position
For the Year Ended June 30, 2014

| | <u>Enterprise Funds</u> | | | Governmental |
|---|-------------------------|----------------------|---------------------|-------------------------|
| | | | Total | Activities |
| | Water | Wastewater | Enterprise | Internal Service |
| | | | Funds | Funds |
| Operating revenues: | | | | |
| Charges for sales and services: | | | | |
| Water sales | \$ 29,302,523 | \$ - | \$ 29,302,523 | \$ - |
| Charges for services | - | - | - | 20,999,244 |
| Sewer service and connection fees | - | 3,425,549 | 3,425,549 | - |
| Retiree reimbursements | - | - | - | 281,477 |
| Employee contributions | - | - | - | 177,447 |
| Other | 95,359 | 13,121 | 108,480 | 413,616 |
| Total operating revenues | <u>29,397,882</u> | <u>3,438,670</u> | <u>32,836,552</u> | <u>21,871,784</u> |
| Operating expenses: | | | | |
| Purchase of water | 10,040,347 | - | 10,040,347 | - |
| Salaries and benefits | 3,922,977 | 1,440,034 | 5,363,011 | 3,522,007 |
| Depreciation | 1,573,373 | 602,168 | 2,175,541 | 2,482,841 |
| Professional services | 1,646,146 | 233,970 | 1,880,116 | 149,263 |
| Maintenance and supplies | 1,815,334 | 723,090 | 2,538,424 | 1,647,025 |
| System maintenance | 1,250,684 | 207,102 | 1,457,786 | - |
| Fleet parts and supplies | - | - | - | 443,942 |
| 800 MHz | - | - | - | 22,259 |
| Telecommunication | - | - | - | 216,697 |
| Hardware | - | - | - | 301,155 |
| Software | - | - | - | 31,177 |
| Workers' compensation | - | - | - | 384,056 |
| Claims and judgments | - | - | - | 9,870,699 |
| Compensated absences | - | - | - | 1,965,699 |
| Early retirement incentive program | - | - | - | 397,154 |
| OPEB ARC - Cash subsidy | - | - | - | 3,381,000 |
| Other | 1,829,239 | 150,963 | 1,980,202 | 531,164 |
| Total operating expenses | <u>22,078,100</u> | <u>3,357,327</u> | <u>25,435,427</u> | <u>25,346,138</u> |
| Operating income (loss) | <u>7,319,782</u> | <u>81,343</u> | <u>7,401,125</u> | <u>(3,474,354)</u> |
| Nonoperating revenues (expenses): | | | | |
| Investment income | 107,898 | 20,541 | 128,439 | 360,898 |
| Net increase in fair value of investments | 15,943 | 2,256 | 18,199 | 43,221 |
| Gain (loss) on removal of capital assets | (129,920) | - | (129,920) | 1,084,956 |
| Total nonoperating revenues (expenses) | <u>(6,079)</u> | <u>22,797</u> | <u>16,718</u> | <u>1,489,075</u> |
| Income (loss) before transfers | <u>7,313,703</u> | <u>104,140</u> | <u>7,417,843</u> | <u>(1,985,279)</u> |
| Transfers in (note 14) | - | - | - | 8,120,000 |
| Transfers out (note 14) | - | - | - | (2,098,444) |
| Change in net position | <u>7,313,703</u> | <u>104,140</u> | <u>7,417,843</u> | <u>4,036,277</u> |
| Net position, beginning of year | <u>97,767,388</u> | <u>32,468,754</u> | | <u>25,304,016</u> |
| Net position, end of year | <u>\$ 105,081,091</u> | <u>\$ 32,572,894</u> | | <u>\$ 29,340,293</u> |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | | | 159,407 | |
| Change in net position of business-type activities | | | <u>\$ 7,577,250</u> | |

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Proprietary Fund
Statement of Cash Flows
For the Year Ended June 30, 2014

| | Enterprise Funds | | | Governmental Activities Internal Service Funds |
|---|-------------------------|---------------------|-------------------------------|---|
| | <u>Water</u> | <u>Wastewater</u> | <u>Total Enterprise Funds</u> | |
| Cash flows from operating activities: | | | | |
| Cash received from customers or user departments | \$ 28,953,478 | \$ 3,427,981 | \$ 32,381,459 | \$ 21,861,727 |
| Cash payments to employees for services | (3,919,798) | (1,434,094) | (5,353,892) | (9,563,333) |
| Cash payments to suppliers for goods and services | (14,687,922) | (1,186,680) | (15,874,602) | (18,418,755) |
| Cash received (payments made) for other operating activities | (1,733,880) | (137,842) | (1,871,722) | 591,063 |
| Net cash provided (used) by operating activities | <u>8,611,878</u> | <u>669,365</u> | <u>9,281,243</u> | <u>(5,529,298)</u> |
| Cash flows from noncapital financing activities: | | | | |
| Cash received from other funds | - | - | - | 9,109,488 |
| Cash paid to other funds | - | - | - | (2,098,444) |
| Net cash provided (used) by noncapital financing activities | <u>-</u> | <u>-</u> | <u>-</u> | <u>7,011,044</u> |
| Cash flows from capital related financing activities: | | | | |
| Acquisition of capital assets | (6,953,371) | (123,477) | (7,076,848) | (6,727,601) |
| Proceeds from sale of capital assets | - | - | - | 1,624,939 |
| Net cash (used) for capital related financing activities | <u>(6,953,371)</u> | <u>(123,477)</u> | <u>(7,076,848)</u> | <u>(5,102,662)</u> |
| Cash flows from investing activities: | | | | |
| Interest on investments | <u>123,841</u> | <u>22,797</u> | <u>146,638</u> | <u>404,119</u> |
| Net cash provided by investing activities | <u>123,841</u> | <u>22,797</u> | <u>146,638</u> | <u>404,119</u> |
| Net increase (decrease) in cash and cash equivalents | 1,782,348 | 568,685 | 2,351,033 | (3,216,797) |
| Cash and cash equivalents, beginning | <u>14,756,663</u> | <u>1,776,461</u> | <u>16,533,124</u> | <u>50,658,261</u> |
| Cash and cash equivalents, ending | <u>\$ 16,539,011</u> | <u>\$ 2,345,146</u> | <u>\$ 18,884,157</u> | <u>\$ 47,441,464</u> |
| Reconciliation of cash equivalents to the statement of net assets: | | | | |
| Cash and investments reported on statement of net assets | <u>\$ 16,539,011</u> | <u>\$ 2,345,146</u> | <u>\$ 18,884,157</u> | <u>\$ 47,441,464</u> |
| Cash and cash equivalents | <u>\$ 16,539,011</u> | <u>\$ 2,345,146</u> | <u>\$ 18,884,157</u> | <u>\$ 47,441,464</u> |
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | | | |
| Operating income (loss) | <u>\$ 7,319,782</u> | <u>\$ 81,343</u> | <u>\$ 7,401,125</u> | <u>\$ (3,474,354)</u> |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation | 1,573,373 | 602,168 | 2,175,541 | 2,482,841 |
| Changes in operating assets and liabilities: | | | | |
| (Increase) decrease in accounts receivable | (350,203) | 2,432 | (347,771) | (527,267) |
| Decrease in inventories | - | - | - | 7,739 |
| (Increase) decrease in net other pension employment benefits | - | - | - | (1,500,000) |
| (Increase) decrease in prepaid items | (5,250) | (1,750) | (7,000) | 555,634 |
| Increase (decrease) in accounts payable and accrued payroll | 73,018 | (14,828) | 58,190 | (2,472,345) |
| Increase in deposits payable | 1,158 | - | 1,158 | - |
| (Decrease) in workers' compensation | - | - | - | (2,600,000) |
| Increase in general liability | - | - | - | 2,707,950 |
| Increase in compensated absences | - | - | - | 250,900 |
| (Decrease) in early retirement incentive program | - | - | - | (960,396) |
| Total adjustments | <u>1,292,096</u> | <u>588,022</u> | <u>1,880,118</u> | <u>(2,054,944)</u> |
| Net cash provided (used) by operating activities | <u>\$ 8,611,878</u> | <u>\$ 669,365</u> | <u>\$ 9,281,243</u> | <u>\$ (5,529,298)</u> |
| Noncash investing, capital and financing activities: | | | | |
| Net increase in fair value of investments | \$ 15,943 | \$ 2,256 | \$ 18,199 | \$ 43,221 |
| Gain (loss) on disposal of capital assets | (129,920) | - | (129,920) | 1,084,956 |
| Total of noncash activities | <u>\$ (113,977)</u> | <u>\$ 2,256</u> | <u>\$ (111,721)</u> | <u>\$ 1,128,177</u> |

See accompanying notes to basic financial statements

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FINANCIAL SECTION

FUND
FINANCIAL STATEMENTS

FIDUCIARY FUNDS

FINANCIAL SECTION

FIDUCIARY FUNDS

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

CITY OF NEWPORT BEACH
Agency Funds
Statement of Fiduciary Assets and Liabilities
June 30, 2014

Assets

| | |
|---------------------------------|----------------------------|
| Cash and investments (note 4) | \$ 606,527 |
| Cash with fiscal agent (note 4) | <u>5,310,284</u> |
| Total assets | <u><u>\$ 5,916,811</u></u> |

Totals

Liabilities

| | |
|--------------------|----------------------------|
| Due to bondholders | \$ 5,501,831 |
| Due to others | <u>414,980</u> |
| Total liabilities | <u><u>\$ 5,916,811</u></u> |

See accompanying notes to basic financial statements

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FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL SECTION

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

(1) Summary of Significant Accounting Policies

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

a. Reporting Entity

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

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

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

Blended Component Unit

The financial statements of the City of Newport Beach include the financial activities of the Newport Beach Public Facilities Corporation (the "Corporation"). The Corporation was formed on March 9, 1992, for the purpose of assisting the City of Newport Beach in the financing of public improvements, including a public library and most recently the new civic center project. The Corporation is governed by a Board of Directors which is comprised of the seven City Council Members of the City of Newport Beach. The Corporation's financial data and

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

transactions are included in the debt service fund. Separate financial statements are not prepared for the Corporation. The debt service fund is used solely to account for the activities of the Corporation and contains no other City debt financing activities.

b. Basis of Accounting and Measurement Focus

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

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

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units). The City of Newport Beach has no discretely presented component units. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the City.

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

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

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

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

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.

Fund Financial Statements

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

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

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City uses an availability period of 60 days for all revenues except Sales Taxes, for which it uses an availability criteria of 90 days. The fiscal year sales tax clean up payment is received in September, beyond our traditional 60 day availability criteria. However, this payment is significant to this revenue category in that it adjusts the fiscal years amounts to reflect the economic climate for the year

Property taxes, sales taxes, franchise taxes, gas taxes, motor vehicle license fees, transient occupancy taxes, grants, and interest associated with the current fiscal period are all considered to be subject to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available when cash is received by the City.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

Revenue recognition is subject to the *measurability* and *availability* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange transactions* are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and deferred outflows of resources, and 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. Special reporting treatments are used to indicate they should not be considered "available spendable resources" since they do not represent "available spendable resources". Recognition of governmental fund type revenues represented by non-current receivables are reported as unavailable until they become current receivables. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transaction are recognized in accordance with the requirements of GASB Statement No. 33.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect "available spendable resources", 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.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

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

Permanent Funds, also referred to as Endowment Funds, are governmental funds used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support City programs. The amount of net appreciation on investments that is available to support City programs is \$1,487,524. The amount of investment earnings available for expenditure is reported as Restricted Fund Balance in the fund level financial statements. The endowment principal is reported as Nonspendable for Permanent Endowments in the Statement of Net Position. The State law governing the spending of endowment funds investment earnings is California Probate Code Section 18504. The authority for spending investment earnings for scholarships resides with the City Manager and for periodic maintenance dredging in the Newport Bay resides with the City Council.

Proprietary & Fiduciary Funds

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

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

Agency funds are custodial in nature (assets equal liabilities) and do not involve the recording of City revenues and expenses and have no measurement focus.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

c. Fund Classifications

The City utilizes the following broad categories of funds:

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

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

General Fund

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

Special Revenue Funds

Tide and Submerged Land – Operating

The Tide and Submerged Land – Operating Fund is a special revenue fund used to account for revenues related to the operation of the City's tidelands, including beaches and marinas, and the related expenditures. Revenue from tideland operations includes, but is not limited to, rents from moorings, piers, and leases, as well as income from parking lots, meters, and the sale of oil.

Tide and Submerged Land – Harbor Capital

The Tide and Submerged Land - Harbor Capital Fund is used to account for incremental increases in revenue from certain property lease, pier, and mooring rentals that exceed Council designated base year revenue amounts, as well as other designated revenues and the related expenditures for capital projects, maintenance, and servicing of loan advances from the General fund.

Capital Project Funds

Facilities Financial Planning Reserve Fund

The Facilities Financial Planning Reserve Fund is used to account for the receipt and expenditure of funds for the replacement of facilities. In prior years, this fund was called the Facilities Replacement Fund.

Marina Park Fund

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

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

Debt Service Fund

Civic Center COP

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

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

Water Fund

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

Wastewater Fund

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

Internal Service Funds – The Internal Service Funds are used to account for the City's self-insured general liability and workers' compensation, compensated absences, retiree insurance, the cost of maintaining and replacing the City's rolling stock fleet, parking equipment, coordinated communications systems equipment as well as the cost of maintaining and replacing the City's information technology systems. City departments are the primary users of these services and are charged a fee on a cost reimbursement basis.

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

d. Pending Accounting Standards

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

- GASB 68 – “*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27,*” effective for fiscal years beginning after June 15, 2014.
- GASB 69 – “*Government Combinations and Disposals of Government Operations,*” effective for periods beginning after December 15, 2013.
- GASB 71 – “Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68”, effective for periods beginning after June 15, 2014.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

e. Accounts Receivables (net of allowance)

Accounts receivables represent all service and capital project billings other than intergovernmental receivables stated above. The City set up an allowance for doubtful accounts to accurately reflect the estimated accounts receivable deemed to be uncollectible and ensure that the income statement and balance sheet are fairly stated at the amount expected to be collected in receivables. The estimated allowance is based upon historical data and bad debt experience. Invoices with an outstanding balance over 90 days past due are analyzed the following year to calculate the percent collected within one year. The percentage is then applied to current year past due invoices and a bad debt expense is charged to departments with outstanding balances. Receivables with governmental organizations are excluded from the allowance as they are more likely to be received due to the government's credit worthiness. As of June 30, 2014, the balance for Allowance for Doubtful Accounts was as follows:

| | |
|--------------------------------------|-------------|
| General Fund: | \$1,133,721 |
| Tide and Submerged Land – Operating: | \$4,855 |
| Water Fund: | \$146,613 |
| Waste Water Fund: | \$16,858 |
| Equipment Maintenance Fund: | \$15,085 |

f. Cash and Investments

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

Investments

Investments are generally stated at fair value.

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

The City's investment in LAIF is \$27,023,388 at June 30, 2014. This investment value is based on information provided by the State Treasurer's Office. The carrying value of the City's position in the fund is materially consistent with the fair value of the fund shares. This pool is under the regulatory oversight of the State Treasurer's Office. The LAIF Board consists of five members as designated by Statute. The Chairman is the State Treasurer, or his designated representative. Two members qualified by training and experience in the field of investment or finance, and two members who are treasurers, finance or fiscal officers or business managers employed by any County, City or local district or

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

municipal corporation of this state, are appointed by the State Treasurer. The term of each appointment is two years, or at the pleasure of the appointing authority.

g. Intergovernmental Receivables

Intergovernmental receivables represent grant reimbursement requests, capital project billings, and pending transfers of taxes and fees collected by other government agencies. As of June 30, 2014, the balance of this account was \$9,274,063.

h. Inventories

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

i. Capital Assets

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

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

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

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

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

j. Claims and Judgments

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

k. Property Taxes

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

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

l. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and limited amounts of earned but unused sick leave benefits, which will be paid to employees upon separation from City service. Beginning in fiscal year 1990, the City adopted a general leave plan to replace the traditional vacation and sick leave plan. The City uses a general leave plan which permits a maximum of three years' accrual for every employee, above which the excess is paid out as current compensation. All employees hired prior to January 1, 1990, were given the option of remaining in the traditional vacation and sick leave plan or enrolling in the general leave plan. All employees hired on or after January 1, 1990, are automatically enrolled in the general leave plan. Compensated

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

absences are accrued in the Compensated Absence Internal Service Fund when employee services have been rendered and when it becomes probable that the City will compensate the employees for benefits through paid time off or cash payments at termination or retirement. Benefits that have been earned but are not yet available for use because employees have not met certain conditions are accrued to the extent it is probable that the employees will meet the conditions for compensation in the future.

m. Deposits Payable

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

n. Unearned Revenue

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

o. Deferred Inflows of Resources

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

p. Fund Balance Classifications

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

Nonspendable fund balance

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

Restricted fund balance

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

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

Committed fund balance

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

Assigned fund balance

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

Unassigned fund balance

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

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

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

q. Estimates

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

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

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

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

The “total fund balances” of the City’s governmental funds \$128,475,466 differs from “net position” of governmental activities \$2,291,842,921 reported in the statement of net position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental funds balance sheet.

Capital Related Items

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

| | |
|----------------------------|------------------------|
| Cost of capital assets | \$2,426,954,598 |
| Accumulated depreciation | <u>(166,400,702)</u> |
| Total capital assets, net* | <u>\$2,260,553,896</u> |

*Amount excludes net capital assets of \$12,588,344 from Internal Service funds.

Long-term Debt Transactions

Long-term liabilities applicable to the City’s governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net position. Balances at June 30, 2014 were:

| | |
|-------------------------------|----------------------|
| Certificates of participation | \$119,455,000 |
| Bond premium | 723,318 |
| Pre-annexation agreement | 3,600,000 |
| CDBG Loan | <u>1,462,000</u> |
| Total | <u>\$125,240,318</u> |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

Accrued Interest

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

| | |
|------------------------|--------------------|
| Accrued interest added | <u>\$3,900,697</u> |
|------------------------|--------------------|

Investment in Joint Venture

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

| | |
|-----------------------------|------------------|
| Net equity in joint venture | <u>\$188,937</u> |
|-----------------------------|------------------|

Unavailable Revenue

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

| | |
|---------------------|--------------------|
| Unavailable revenue | <u>\$2,698,142</u> |
|---------------------|--------------------|

Internal Service Funds

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

| | |
|------------------------|---------------------|
| Internal Service Funds | <u>\$29,340,293</u> |
|------------------------|---------------------|

Reclassifications and Eliminations

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

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

**Explanation of Differences Between Government Funds
Balance Sheet and the Statement of Net Position**

| Assets | Total Governmental Funds | Capital Related Items | Accumulated Depreciation | Long-term Debt Transactions |
|--|---|--------------------------------------|-------------------------------------|--|
| Cash and investments | \$ 129,504,311 | \$ - | \$ - | \$ - |
| Receivables: | | | | |
| Accounts | 5,740,846 | - | - | - |
| Advances to other funds | 15,809,559 | - | - | - |
| Interest | 559,740 | - | - | - |
| Intergovernmental receivables | 9,274,063 | - | - | - |
| Cash with fiscal agent | 7,901,395 | - | - | - |
| Interfund balances | 12,160,327 | - | - | - |
| Investment in joint venture | - | - | - | - |
| Inventory | 223,492 | - | - | - |
| Net other pension employment benefits (assets) | - | - | - | - |
| Prepaid items | 283,448 | - | - | - |
| Capital assets | - | 2,426,954,598 | - | - |
| Accumulated depreciation | - | - | (166,400,702) | - |
| Total assets | \$ 181,457,181 | \$ 2,426,954,598 | \$ (166,400,702) | \$ - |
| Liabilities, Deferred Inflows of Resources and Fund Balances/New Position | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 10,702,700 | \$ - | \$ - | \$ - |
| Accrued payroll | 5,223,111 | - | - | - |
| Accrued interest payable | - | - | - | - |
| Deposits payable | 2,896,504 | - | - | - |
| Claims payable | - | - | - | - |
| Workers' compensation payable | - | - | - | - |
| Compensated absences payable | - | - | - | - |
| Unearned revenue | 4,480,860 | - | - | - |
| Interfund balance | 11,170,839 | - | - | - |
| Advance from other funds | 15,809,559 | - | - | - |
| Long-term liabilities | - | - | - | 125,240,318 |
| Total liabilities | 50,283,573 | - | - | 125,240,318 |
| Deferred Inflows of Resources: | | | | |
| Unavailable revenue | 2,698,142 | - | - | - |
| Total deferred inflows of resources | 2,698,142 | - | - | - |
| Fund balances / net position | 128,475,466 | 2,426,954,598 | (166,400,702) | (125,240,318) |
| Total liabilities, deferred inflows of resources and fund balances / net position | \$ 181,457,181 | \$ 2,426,954,598 | \$ (166,400,702) | \$ - |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

| <u>Interest Payable</u> | <u>Investment in Joint Venture</u> | <u>Unavailable Revenue</u> | <u>Internal Service Funds</u> | <u>Reclassifications and Eliminations</u> | <u>Statement of Net Position</u> |
|-------------------------|------------------------------------|----------------------------|-------------------------------|---|----------------------------------|
| \$ - | \$ - | \$ - | \$ 47,441,464 | \$ - | \$ 176,945,775 |
| - | - | - | 2,786,808 | - | 8,527,654 |
| - | - | - | - | (15,809,559) | - |
| - | - | - | - | - | 559,740 |
| - | - | - | - | - | 9,274,063 |
| - | - | - | - | - | 7,901,395 |
| - | - | - | - | (12,433,125) | (272,798) |
| - | 188,937 | - | - | - | 188,937 |
| - | - | - | 361,090 | - | 584,582 |
| - | - | - | 1,500,000 | - | 1,500,000 |
| - | - | - | 1,304,991 | - | 1,588,439 |
| - | - | - | 31,759,763 | - | 2,458,714,361 |
| - | - | - | (19,171,419) | - | (185,572,121) |
| <u>\$ -</u> | <u>\$ 188,937</u> | <u>\$ -</u> | <u>\$ 65,982,697</u> | <u>\$ (28,242,684)</u> | <u>\$ 2,479,940,027</u> |

| | | | | | |
|--------------------|-------------------|------------------|----------------------|------------------------|-------------------------|
| \$ - | \$ - | \$ - | \$ 2,218,793 | \$ - | \$ 12,921,493 |
| - | - | - | 150,266 | - | 5,373,377 |
| 3,900,697 | - | - | - | - | 3,900,697 |
| - | - | - | - | - | 2,896,504 |
| - | - | - | 5,240,695 | - | 5,240,695 |
| - | - | - | 2,730,836 | - | 2,730,836 |
| - | - | - | 1,996,561 | - | 1,996,561 |
| - | - | - | - | - | 4,480,860 |
| - | - | - | 989,488 | (12,160,327) | - |
| - | - | - | - | (15,809,559) | - |
| - | - | - | 23,315,765 | - | 148,556,083 |
| <u>3,900,697</u> | <u>-</u> | <u>-</u> | <u>36,642,404</u> | <u>(27,969,886)</u> | <u>188,097,106</u> |
| - | - | (2,698,142) | - | - | - |
| - | - | (2,698,142) | - | - | - |
| <u>(3,900,697)</u> | <u>188,937</u> | <u>2,698,142</u> | <u>29,340,293</u> | <u>(272,798)</u> | <u>2,291,842,921</u> |
| <u>\$ -</u> | <u>\$ 188,937</u> | <u>\$ -</u> | <u>\$ 65,982,697</u> | <u>\$ (28,242,684)</u> | <u>\$ 2,479,940,027</u> |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

b. Explanation of Differences Between Enterprise Funds and Government-wide Statement of Net Position

Net position of the City's Enterprise Funds of \$137,653,985 differs from net position of the business-type activities of \$137,926,783 reported in the government-wide statement of net position. The difference, \$272,798, results from the consolidation of internal service fund activities related to the enterprise funds.

| Explanation of Differences Between Enterprise Funds and Government-wide Statement of Net Position | | | |
|--|---------------------------------------|---------------------------------------|--|
| | Total Enterprise Funds | Internal Service Funds | Government-wide Statement of Net Position |
| Assets | | | |
| Cash and investments | \$ 18,884,157 | \$ - | \$ 18,884,157 |
| Receivables: | | | |
| Accounts | 6,866,922 | - | 6,866,922 |
| Interfund balances | - | 272,798 | 272,798 |
| Prepaid items | 7,000 | - | 7,000 |
| Capital assets, net | 115,948,522 | - | 115,948,522 |
| Total assets | <u>\$ 141,706,601</u> | <u>\$ 272,798</u> | <u>\$ 141,979,399</u> |
| Liabilities and Fund Balances / Net Position | | | |
| Liabilities: | | | |
| Accounts payable | \$ 3,791,929 | \$ - | \$ 3,791,929 |
| Accrued payroll | 233,641 | - | 233,641 |
| Deposits payable | 27,046 | - | 27,046 |
| Total liabilities | <u>4,052,616</u> | <u>-</u> | <u>4,052,616</u> |
| Net Position | | | |
| Net investment in capital assets | \$ 115,948,522 | \$ - | \$ 115,948,522 |
| Unrestricted | 21,705,463 | 272,798 | 21,978,261 |
| | <u>\$ 137,653,985</u> | <u>\$ 272,798</u> | <u>\$ 137,926,783</u> |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

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

The “net change in fund balances” for governmental funds (\$2,505,089) differs from the “change in net position” for governmental activities \$17,477,106 reported in the statement of activities. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effect of the difference is illustrated below.

Capital Related Items

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

| | |
|--|------------------------------|
| Capital outlay | \$ 29,206,665 |
| Transfers out of WIP | <u>(2,436,180)</u> |
| Capital outlays expended | <u>26,770,485</u> |
| Governmental funds - asset deletions | (2,935,484) |
| Capital contributions | <u>900,000</u> |
| Net change in capital related items | <u><u>\$ 24,735,001</u></u> |
| Depreciation expense | \$ (11,301,924) |
| Deletions in governmental funds accumulated depreciation | <u>1,754,726</u> |
| Net change in accumulated depreciation | <u><u>\$ (9,547,198)</u></u> |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

Long-Term Debt Transactions

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

| | |
|--|--------------------|
| Civic Center Certificates of Participation | \$2,775,000 |
| Pre-annexation agreement | 1,200,000 |
| CDBG loan | 116,000 |
| Amortization of debt premium | <u>120,553</u> |
| Total debt payments | <u>\$4,211,553</u> |

Accrued Interest

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

| | |
|--------------------------------|-----------------|
| Net change in accrued interest | <u>\$44,182</u> |
|--------------------------------|-----------------|

Investment in Joint Venture

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

| | |
|---|------------------|
| Net change in investment in joint venture | <u>(\$8,401)</u> |
|---|------------------|

Unavailable Revenue

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

| | |
|-----------------------------------|----------------------|
| Net change in unavailable revenue | <u>\$(3,329,812)</u> |
|-----------------------------------|----------------------|

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

Internal Service Funds

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

| | |
|--------------------------------------|--------------------|
| Net change in Internal Service Funds | <u>\$4,036,277</u> |
|--------------------------------------|--------------------|

Reclassification and Eliminations

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

| | |
|--|--------------------|
| Net Change in Reclassifications and Eliminations to consolidate Internal Service Funds | <u>\$(159,407)</u> |
|--|--------------------|

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

**Explanation of Differences Between Government Funds
Operating Statement and the Statement of Activities**

| Assets | Total Governmental Funds | Capital Related Items | Accumulated Depreciation | Long-term Debt Transactions |
|--|---|--------------------------------------|-------------------------------------|--|
| Revenues: | | | | |
| Taxes and assessments | \$ 137,910,879 | \$ - | \$ - | \$ - |
| Intergovernmental | 16,825,839 | - | - | - |
| Licenses and permits | 6,659,203 | - | - | - |
| Charges for services | 16,864,092 | - | - | - |
| Fines and forfeitures | 3,272,951 | - | - | - |
| Investment income | 1,136,062 | - | - | - |
| Net increase in fair value of investments | 124,439 | - | - | - |
| Property income | 22,214,256 | - | - | - |
| Share of joint venture net gain | - | - | - | - |
| Donations | 1,170,171 | - | - | - |
| Gain on sale of capital assets | - | - | - | - |
| Capital contributions | - | 900,000 | - | - |
| Other | 1,400,048 | - | - | - |
| Total revenues | <u>207,577,940</u> | <u>900,000</u> | <u>-</u> | <u>-</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 14,471,167 | 75,245 | 2,563,921 | - |
| Public safety | 82,642,988 | 756,734 | (371,846) | - |
| Public works | 32,414,457 | 1,853,985 | 5,941,333 | - |
| Community development | 9,768,928 | - | 21,371 | - |
| Community services | 19,047,813 | 249,520 | 1,392,419 | - |
| Capital outlay | 33,572,193 | (26,770,485) | - | - |
| Debt service: | | | | |
| Principal retirement | 4,091,000 | - | - | (4,091,000) |
| Interest and fiscal charges | 8,052,927 | - | - | - |
| Amortization of debt premium | - | - | - | (120,553) |
| Total expenses | <u>204,061,473</u> | <u>(23,835,001)</u> | <u>9,547,198</u> | <u>(4,211,553)</u> |
| Other financing sources (uses): | | | | |
| Transfers in | 41,223,727 | - | - | - |
| Transfers out | <u>(47,245,283)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total other financing sources (uses) | (6,021,556) | - | - | - |
| Net change in fund balances / net position | (2,505,089) | 24,735,001 | (9,547,198) | 4,211,553 |
| Fund balances / net position, beginning of year as restated | <u>130,980,555</u> | <u>2,402,219,597</u> | <u>(156,853,504)</u> | <u>(129,451,871)</u> |
| Fund balances / net position, end of year | <u>\$ 128,475,466</u> | <u>\$ 2,426,954,598</u> | <u>\$ (166,400,702)</u> | <u>\$ (125,240,318)</u> |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

| <u>Interest Payable</u> | <u>Investment in Joint Venture</u> | <u>Unavailable Revenue</u> | <u>Internal Service Funds</u> | <u>Reclassifications and Eliminations</u> | <u>Statement of Net Position</u> |
|-------------------------|------------------------------------|----------------------------|-------------------------------|---|----------------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 137,910,879 |
| - | - | (3,329,812) | - | - | 13,496,027 |
| - | - | - | - | - | 6,659,203 |
| - | - | - | - | (159,407) | 16,704,685 |
| - | - | - | - | - | 3,272,951 |
| - | - | - | 360,898 | - | 1,496,960 |
| - | - | - | 43,221 | - | 167,660 |
| - | - | - | - | - | 22,214,256 |
| - | (8,401) | - | - | - | (8,401) |
| - | - | - | - | - | 1,170,171 |
| - | - | - | 1,084,956 | - | 1,084,956 |
| - | - | - | - | - | 900,000 |
| - | - | - | - | - | 1,400,048 |
| - | (8,401) | (3,329,812) | 1,489,075 | (159,407) | 206,469,395 |
| - | - | - | 817,330 | 906,502 | 18,834,165 |
| - | - | - | 826,891 | 3,821,295 | 87,676,062 |
| - | - | - | 1,277,848 | 1,465,495 | 42,953,118 |
| - | - | - | 309,132 | 184,050 | 10,283,481 |
| - | - | - | 243,153 | 424,366 | 21,357,271 |
| - | - | - | - | (6,801,708) | - |
| - | - | - | - | - | - |
| (44,182) | - | - | - | - | 8,008,745 |
| - | - | - | - | - | (120,553) |
| (44,182) | - | - | 3,474,354 | - | 188,992,289 |
| - | - | - | 8,120,000 | (49,343,727) | - |
| - | - | - | (2,098,444) | 49,343,727 | - |
| - | - | - | 6,021,556 | - | - |
| 44,182 | (8,401) | (3,329,812) | 4,036,277 | (159,407) | 17,477,106 |
| (3,944,879) | 197,338 | 6,027,954 | 25,304,016 | (113,391) | 2,274,365,815 |
| <u>\$ (3,900,697)</u> | <u>\$ 188,937</u> | <u>\$ 2,698,142</u> | <u>\$ 29,340,293</u> | <u>\$ (272,798)</u> | <u>\$ 2,291,842,921</u> |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

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

The change in net position for the City's enterprise funds \$7,417,843 differs from the change in net position of the business-type activities \$7,577,250 reported in the government-wide statement of activities. The difference, \$159,407, results from the consolidation of internal service fund activities related to the enterprise funds.

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

| | Total Enterprise Funds | Internal Service Fund | Business-type activities Statement of Activities |
|---|---------------------------------------|--------------------------------------|---|
| Operating revenues: | | | |
| Charges for sales and services: | | | |
| Water sales | \$ 29,302,523 | \$ - | \$ 29,302,523 |
| Sewer service and connection fees | 3,425,549 | - | 3,425,549 |
| Other | 108,480 | - | 108,480 |
| Total operating revenues | <u>32,836,552</u> | <u>-</u> | <u>32,836,552</u> |
| Operating expenses: | | | |
| Purchase of water | 10,040,347 | - | 10,040,347 |
| Salaries and wages | 5,363,011 | - | 5,363,011 |
| Depreciation | 2,175,541 | - | 2,175,541 |
| Professional Services | 1,880,116 | - | 1,880,116 |
| Maintenance and supplies | 2,538,424 | (159,407) | 2,379,017 |
| System maintenance | 1,457,786 | - | 1,457,786 |
| Other | 1,980,202 | - | 1,980,202 |
| Total operating expenses | <u>25,435,427</u> | <u>(159,407)</u> | <u>25,276,020</u> |
| Operating income | 7,401,125 | 159,407 | 7,560,532 |
| Nonoperating revenues (expenses): | | | |
| Investment income | 128,439 | - | 128,439 |
| Net increase in fair value of investments | 18,199 | - | 18,199 |
| Loss on removal of capital assets | (129,920) | - | (129,920) |
| Total nonoperating revenues (expenses) | <u>16,718</u> | <u>-</u> | <u>16,718</u> |
| Change in net position | 7,417,843 | 159,407 | 7,577,250 |
| Net position, beginning of year | <u>130,236,142</u> | <u>113,391</u> | <u>130,349,533</u> |
| Net position, end of year | <u>\$ 137,653,985</u> | <u>\$ 272,798</u> | <u>\$ 137,926,783</u> |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

(3) Budgetary Control and Compliance

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

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

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

Expenditures exceeded appropriations in the following governmental funds:

| | <u>Appropriations</u> | <u>Expenditures</u> | <u>Variance</u> |
|------------------------------|-----------------------|---------------------|-----------------|
| Supplemental Law Enforcement | 138,222 | 159,560 | (21,338) |

The following funds reported deficit fund balances:

Major Funds

| | |
|---|--------------|
| Tide and Submerged Land - Harbor Capital Fund | \$ 7,942,501 |
| Marina Park | \$ 6,239,052 |

Other Governmental Funds

| | |
|---|------------|
| Office of the Traffic Safety (OTS) DUI Grant Fund | \$ 109,021 |
| Misc Facilities Financing | \$ 1,395 |

Internal Service Funds

| | |
|----------------------|--------------|
| Insurance Reserve | \$ 3,223,646 |
| Compensated Absences | \$ 8,130,555 |

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

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

(4) Cash and Investments

Cash and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

| | |
|----------------------------|-----------------------|
| Statement of net position: | |
| Cash and investments | \$ 195,829,932 |
| Cash with fiscal agent | 7,901,395 |
| Fiduciary funds: | |
| Cash and investments | 606,527 |
| Cash with fiscal agent | 5,310,284 |
| Total cash and investments | <u>\$ 209,648,138</u> |

Cash and investments as of June 30, 2014, consist of the following:

| | |
|--------------------------------------|-----------------------|
| Cash on hand | \$ 26,237 |
| Deposits with financial institutions | 15,313,455 |
| Investments | 194,308,446 |
| Total cash and investments | <u>\$ 209,648,138</u> |

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

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

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio*</u> | <u>Maximum Investment in One Issuer</u> |
|------------------------------------|-------------------------|---|---|
| Local Agency Bonds | 5 years | 30% | 5% |
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Banker's Acceptances | 180 days | 40% | 5% |
| Commercial Paper | 270 days | 25% | 5% |
| Negotiable Certificates of Deposit | 2 years | 30% | 5% |
| Repurchase Agreements | 30 days | 10% | 5% |
| Reverse Repurchase Agreements | 30 days | 10% | 5% |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

| | | | |
|-------------------------------------|---------|------|-------|
| Medium-Term Notes | 5 years | 30% | 5% |
| Mutual Funds | N/A | 20% | None |
| Money Market Mutual Funds | N/A | 20% | 10% |
| Mortgage Pass-Through Securities | 5 years | 20% | 5% |
| County Pooled Investment Funds | N/A | 5% | None |
| Local Agency Investment Fund (LAIF) | N/A | None | \$50M |
| JPA Pools (other investment pools) | N/A | None | None |

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

Investments Authorized by Debt Agreements

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

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

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

Disclosures Relating to Interest Rate Risk

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

| Investment Type | Fair Value | Investment Maturities (In Years) | | | | Total |
|---------------------------|-----------------------|----------------------------------|-----------------------|----------------------|---------------------|-----------------------|
| | | Less than 1 | 1 to 3 | 3 to 5 | More than 5 | |
| Money Market Funds | \$ 1,879,258 | \$ 1,879,258 | \$ - | \$ - | \$ - | \$ 1,879,258 |
| U.S. Treasury Obligations | 37,616,845 | 3,977,061 | 32,554,480 | 1,085,304 | - | 37,616,845 |
| U.S. Agency Securities | 57,394,242 | 2,553,092 | 43,410,486 | 11,430,664 | - | 57,394,242 |
| Mortgage Pass-Through | 3,186,081 | - | 1,253,835 | 1,932,246 | - | 3,186,081 |
| Medium-Term Notes | 40,626,118 | 10,525,609 | 29,501,667 | 598,842 | - | 40,626,118 |
| Certificate of Deposit | 6,199,234 | 1,200,000 | 4,999,234 | - | - | 6,199,234 |
| Commercial Paper | 6,894,225 | 6,894,225 | - | - | - | 6,894,225 |
| LAIF | 27,023,388 | 27,023,388 | - | - | - | 27,023,388 |
| Local Agency Bonds | 277,376 | - | 277,376 | - | - | 277,376 |
| Cash with Fiscal Agent: | | | | | | |
| Money Market Funds | 12,031,103 | 12,031,103 | - | - | - | 12,031,103 |
| Investment Agreements* | 1,180,576 | - | - | - | 1,180,576 | 1,180,576 |
| Total | \$ 194,308,446 | \$ 66,083,736 | \$ 111,997,078 | \$ 15,047,056 | \$ 1,180,576 | \$ 194,308,446 |

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

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

As of June 30, 2014, the City did not have any investments (including investments held by fiscal agent) whose fair values were highly sensitive to interest rate fluctuations.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

Disclosures Relating to Credit Risk

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

| Investment Type | Fair Value | Minimum Legal Rating | Exempt From Disclosure | AAA | AA+ | AA | AA- | A+ | A | A- | A-1+ | A-1 | Not Rated |
|---------------------------|-----------------------|----------------------------|------------------------------|----------------------|----------------------|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| Money Market Funds | 1,879,258 | AAA | \$ - | \$ 1,879,258 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| U.S. Treasury Obligations | 37,616,845 | N/A | 37,616,845 | - | - | - | - | - | - | - | - | - | - |
| U.S. Agency Securities | 57,394,242 | N/A | - | - | 57,394,242 | - | - | - | - | - | - | - | - |
| Mortgage Pass-Through | 3,186,081 | A | - | 2,252,552 | - | - | - | - | - | - | - | - | 933,529 |
| Medium-Term Notes | 40,626,118 | A | - | 801,017 | 7,880,387 | 9,863,290 | 5,591,481 | 6,041,642 | 7,830,875 | 2,617,426 | - | - | - |
| Certificate of Deposit | 6,199,234 | A-1 | - | - | - | - | - | - | - | - | 2,500,000 | 2,400,000 | 1,299,234 |
| Commercial Paper | 6,894,225 | A-1 | - | - | - | - | - | - | - | - | - | 6,894,225 | - |
| LAIF | 27,023,388 | N/A | - | - | - | - | - | - | - | - | - | - | 27,023,388 |
| Local Agency Bonds | 277,376 | AA | - | - | - | 277,376 | - | - | - | - | - | - | - |
| Cash with Fiscal Agent: | | | | | | | | | | | | | |
| Money Market Funds | 12,031,103 | AAA | - | 12,031,103 | - | - | - | - | - | - | - | - | - |
| Investment Agreements | 1,180,576 | N/A | - | - | - | - | - | - | 1,180,576 | - | - | - | - |
| | <u>\$ 194,308,446</u> | | <u>\$ 37,616,845</u> | <u>\$ 16,963,930</u> | <u>\$ 65,274,629</u> | <u>\$ 10,140,666</u> | <u>\$ 5,591,481</u> | <u>\$ 6,041,642</u> | <u>\$ 9,011,451</u> | <u>\$ 2,617,426</u> | <u>\$ 2,500,000</u> | <u>\$ 9,294,225</u> | <u>\$ 29,256,151</u> |

Concentration of Credit Risk

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

| Issuer | Investment Type | Reported Amount |
|--------|---------------------------|-----------------|
| FHLB | Federal agency securities | \$ 15,093,611 |
| FNMA | Federal agency securities | \$ 19,971,709 |

Custodial Credit Risk

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

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2014, none of the City's deposits with financial institutions in excess of federal depository amounts were held in uncollateralized accounts.

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

Investment in State Investment Pool

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

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

(5) Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

Governmental Activities:

| | Beginning Balance | Additions | Deletions | Balance June 30, 2014 |
|---------------------------------------|-------------------------|----------------------|-----------------------|--------------------------|
| Non-depreciable: | | | | |
| Land and rights of way | \$ 1,869,387,482 | \$ 2,253,876 | \$ - | \$ 1,871,641,358 |
| Work in progress | 7,068,517 | 11,259,649 | (2,436,180) | 15,891,986 |
| Depreciable: | | | | |
| Structures | 193,366,259 | 9,659,053 | (145,635) | 202,879,677 |
| Equipment | 35,951,819 | 6,380,612 | (4,511,501) | 37,820,930 |
| Infrastructure | 325,053,319 | 7,281,077 | (1,853,986) | 330,480,410 |
| | <u>2,430,827,396</u> | <u>36,834,267</u> | <u>(8,947,302)</u> | <u>2,458,714,361</u> |
| Less accumulated depreciation for: | | | | |
| Structures | (19,222,477) | (4,111,517) | 43,690 | (23,290,304) |
| Equipment | (22,273,957) | (2,965,891) | 3,971,517 | (21,268,331) |
| Infrastructure | <u>(135,081,302)</u> | <u>(6,707,357)</u> | <u>775,173</u> | <u>(141,013,486)</u> |
| | <u>(176,577,736)</u> | <u>(13,784,765)</u> | <u>4,790,380</u> | <u>(185,572,121)</u> |
| Net Capital Assets | <u>\$ 2,254,249,660</u> | <u>\$ 23,049,502</u> | <u>\$ (4,156,922)</u> | <u>\$ 2,273,142,240</u> |

Governmental Activities capital assets net of accumulated depreciation at June 30, 2014
are comprised of the following:

| | |
|---|-------------------------|
| General Capital Assets, net | \$ 2,260,553,896 |
| Internal Service Fund Capital Assets, net | <u>12,588,344</u> |
| | <u>\$ 2,273,142,240</u> |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

Business-type Activities:

| | Beginning Balance | Additions | Deletions | Balance June 30, 2014 |
|---------------------------------------|-----------------------|------------------|--------------------|--------------------------|
| Non-depreciable: | | | | |
| Land and rights of way | \$ 2,219,450 | \$ - | \$ - | \$ 2,219,450 |
| Work in progress | 4,860,579 | 5,611,025 | (4,744,785) | 5,726,819 |
| Depreciable: | | | | |
| Structures | 688,396 | - | - | 688,396 |
| Equipment | 140,191 | - | - | 140,191 |
| Infrastructure | 162,176,223 | 6,210,608 | (487,064) | 167,899,767 |
| | 170,084,839 | 11,821,633 | (5,231,849) | 176,674,623 |
| Less accumulated depreciation for: | | | | |
| Structures | (157,204) | (14,797) | - | (172,001) |
| Equipment | (49,924) | (10,368) | - | (60,292) |
| Infrastructure | (58,700,576) | (2,150,376) | 357,144 | (60,493,808) |
| | (58,907,704) | (2,175,541) | 357,144 | (60,726,101) |
| Net Capital Assets | <u>\$ 111,177,135</u> | <u>9,646,092</u> | <u>(4,874,705)</u> | <u>\$ 115,948,522</u> |

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

| | Governmental Activities* | Business-type Activities |
|-----------------------|-----------------------------|-----------------------------|
| General government | \$ 2,986,452 | \$ - |
| Public safety | 1,530,379 | - |
| Public works | 7,105,085 | - |
| Community development | 103,705 | - |
| Community service | 2,059,144 | - |
| Water | - | 1,573,373 |
| Wastewater | - | 602,168 |
| | <u>\$ 13,784,765</u> | <u>\$ 2,175,541</u> |

*Internal Service Fund depreciation of \$2,482,841 is allocated to governmental functions above.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

(6) Long-Term Debt

Changes in Long-Term Liabilities

Long-term liability for the year ended June 30, 2014, was as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance | Amounts Due Within One Year |
|--|-----------------------|----------------------|------------------------|-----------------------|-----------------------------------|
| Governmental activities: | | | | | |
| Certificates of participation payable | \$ 122,230,000 | \$ - | \$ (2,775,000) | \$ 119,455,000 | \$ 2,860,000 |
| Bond premium | 843,871 | - | (120,553) | 723,318 | 120,553 |
| Pre-annexation agreement | 4,800,000 | - | (1,200,000) | 3,600,000 | 1,200,000 |
| CDBG loan | 1,578,000 | - | (116,000) | 1,462,000 | 123,000 |
| Workers' compensation payable | 16,556,000 | 384,055 | (2,984,055) | 13,956,000 | 2,730,836 |
| Claims and judgments payable | 7,184,415 | 9,955,647 | (7,247,697) | 9,892,365 | 5,240,695 |
| Compensated absences | 9,184,592 | 2,362,853 | (2,111,953) | 9,435,492 | 1,996,561 |
| Early Retirement Incentive Program (see note 11) | 960,396 | - | (960,396) | - | - |
| Total governmental activities | <u>\$ 163,337,274</u> | <u>\$ 12,702,555</u> | <u>\$ (17,515,654)</u> | <u>\$ 158,524,175</u> | <u>\$ 14,271,645</u> |

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

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

Governmental Activities

- Certificates of Participation

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

The lease payments made by the City are held by a trustee who makes semi-annual payments on the Certificates of Participation. The lease payments began January 1, 2011, and are in amounts sufficient to cover the payment of principal and interest of the Certificates. Interest on the Certificates is payable semiannually on January 1 and July 1 of each year. The 2010A Certificates carry interest rates from 2.00% to 4.00%, while the 2010B Certificates interest rates range from 4.45% to 7.17%. The City has designated the Series 2010B Certificates as "Build America Bonds" (BABs) under the provisions of the American Recovery and Reinvestment Act of 2009. Thus, the City receives refundable credits from the United States Treasury on the interest paid on the 2010B Certificates. As of June 30, 2014 the City has received \$6,446,017 of BABs Subsidy from the United States Treasury and expects to receive subsidy equal to about 32% on future interest payable on the 2010B Certificates. Principal payments are payable annually on July 1 of each year. Future principal payments for the Series 2010A, which commenced July 1, 2011 and continue through July 1, 2019, range from \$410,000 to \$3,185,000. The future principal payments for the Series 2010B Certificates, which commence July 1, 2018 and are payable through July 1, 2040, range from \$2,900,000 to \$7,245,000. The total outstanding balance at June 30, 2014 amounted to \$119,455,000.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

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

| Year Ending June 30 | Principal | Interest | Total |
|------------------------|-----------------------|-----------------------|-----------------------|
| 2015 | \$ 2,860,000 | \$ 7,687,117 | \$ 10,547,117 |
| 2016 | 2,940,000 | 7,585,417 | 10,525,417 |
| 2017 | 3,060,000 | 7,465,417 | 10,525,417 |
| 2018 | 3,185,000 | 7,340,517 | 10,525,517 |
| 2019 | 3,310,000 | 7,204,077 | 10,514,077 |
| 2020-2023 | 12,910,000 | 24,004,957 | 36,914,957 |
| 2024-2027 | 14,425,000 | 24,510,677 | 38,935,677 |
| 2028-2031 | 17,240,000 | 20,187,631 | 37,427,631 |
| 2032-2035 | 20,620,000 | 14,933,453 | 35,553,453 |
| 2036-2039 | 24,740,000 | 8,595,866 | 33,335,866 |
| 2040-2041 | 14,165,000 | 1,534,669 | 15,699,669 |
| | <u>\$ 119,455,000</u> | <u>\$ 131,049,798</u> | <u>\$ 250,504,798</u> |

- Newport Coast Pre-Annexation Agreement Payable

In conjunction with the January 1, 2002, annexation of Newport Coast, the City entered into an agreement payable with the Newport Coast Committee for a total of \$18,000,000 to reduce property owner assessments used to finance certain road and street improvements. The principal-only agreement, which began in the 2003 fiscal year, is payable over a period of fifteen years in equal installments of \$1,200,000. The outstanding balance at June 30, 2014, amounted to \$3,600,000.

- CDBG Loan

In fiscal year 2003, the City received \$2,400,000 in Section 108 loan proceeds to assist with the funding for the Balboa Village Improvement Program. The loan is collateralized by future Community Development Block Grant allocations with an average interest rate of 6.5%. Future principal payments range from \$123,000 to \$208,000 through June 30, 2023. The outstanding balance at June 30, 2014, amounts to \$1,462,000.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

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

| Year Ending June 30 | Principal | Interest | Total |
|------------------------|---------------------|-------------------|---------------------|
| 2015 | \$ 123,000 | \$ 82,315 | \$ 205,315 |
| 2016 | 132,000 | 75,306 | 207,306 |
| 2017 | 141,000 | 67,639 | 208,639 |
| 2018 | 150,000 | 59,314 | 209,314 |
| 2019 | 160,000 | 50,306 | 210,306 |
| 2020-2023 | 756,000 | 95,596 | 851,596 |
| | <u>\$ 1,462,000</u> | <u>\$ 430,476</u> | <u>\$ 1,892,476</u> |

- Claims and Judgments

The City retains the risk of loss for general liability and workers' compensation claims as described in Note (8). These amounts represent estimates of amounts to be paid for reported general liability and workers' compensation claims including incurred-but-not-reported claims based upon past experience, modified for current trends and information. While the ultimate amount of losses incurred through June 30, 2014, is dependent on future developments based upon information from the City's attorney, the City's claims administrators and others involved with the administration of the programs, City management believes the accrual is adequate to cover such losses. The estimated liability at June 30, 2014, for general liability amounted to \$9,892,365 and for workers' compensation was \$13,956,000.

- Compensated Absences

The City's policies relating to compensated absences are described in Note (1). This liability, to be paid in future years from available and future resources, at June 30, 2014, is \$9,435,492.

- Early Retirement Incentive Program (ERIP)

In Fiscal year 2009-10, the City approved and implemented an Early Retirement Incentive Program (ERIP) to 166 eligible employees to help mitigate declining General Fund revenues and institute long-term structural changes to avert future budget shortfalls. A total of 51 people participated. As of June 30, 2014 there is no outstanding obligation. See Note (11).

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

(7) Limited Obligation Bonds

Special Assessment Districts Bonds

The City has issued certain Assessment District and Community Facilities District Bonds. Although the City collects and disburses funds for these districts, the City has no obligation or duty to pay any delinquency out of any available funds of the City. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds, and therefore the bonded indebtedness is not shown in the financial statements of the City. The City holds reserve funds on behalf of bondholders; and the assets are recorded in the Special Assessment Agency Fund. Bonds outstanding at June 30, 2014, for each district under the Bond Acts of 1911 and 1915, and other special assessments, are as follows:

| <u>Assessment District</u> | <u>Original Issue</u> | <u>Bonds Outstanding June 30, 2014</u> |
|-----------------------------------|-----------------------|--|
| Reassessment District 2012 | \$13,583,436 | \$12,216,670 |
| No. 95-1 CIOSA Refunding Series A | \$15,495,000 | \$ 3,190,000 |

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

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City carries commercial insurance with independent third parties for loss risks associated with real and personal property, and automotive liability. The City purchases fidelity bonds for employees in key positions. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

The City utilizes the California State Association of Counties – Excess Insurance Authority (CSAC-EIA), a joint powers authority, to provide excess insurance for the general liability and workers' compensation programs. CSAC-EIA provides coverage under the terms of a joint-powers agreement with the City as follows:

| <u>Type of Coverage</u> | <u>Self-Insured Retention (SIR)</u> | <u>Coverage Limits</u> |
|-------------------------|-------------------------------------|------------------------|
| General Liability | \$500,000 | \$25,000,000 |
| Workers' Compensation | \$500,000 | Statutory |

CSAC-EIA was established for the purpose of creating a risk management pool for all California public entities. CSAC-EIA is governed by a Board of Directors consisting of representatives of its member public entities.

The Insurance Reserve fund was established to account for costs associated with general liability and workers' compensation. The Insurance Reserve fund is accounted for as an internal service fund where assets are set aside for risk management,

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

administration, claim settlements and benefit distribution. A premium is charged to each fund that accounts for part-time or full-time employees. The total charge allocated to each of the funds is calculated using trends in actual experience after considering unexpected and unusual claims.

Fund liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of payouts and other economic and social factors. The total liability claims payable includes \$23,848,365, which represents the discounted present value at June 30, 2014. The claims are discounted using an interest rate of three percent.

| | <u>General Liability</u> | | <u>Workers' Compensation</u> | |
|---|--------------------------|----------------------|------------------------------|----------------------|
| | <u>June 30, 2013</u> | <u>June 30, 2014</u> | <u>June 30, 2013</u> | <u>June 30, 2014</u> |
| Unpaid claims, beginning of fiscal year | \$ 4,320,573 | \$ 7,184,415 | \$ 15,676,780 | \$ 16,556,000 |
| Incurred claims (including IBNR) | 7,482,922 | 9,955,647 | 2,490,628 | 384,055 |
| Claim payments | <u>(4,619,080)</u> | <u>(7,247,697)</u> | <u>(1,611,408)</u> | <u>(2,984,055)</u> |
| Unpaid claims, end of fiscal year | <u>\$ 7,184,415</u> | <u>\$ 9,892,365</u> | <u>\$ 16,556,000</u> | <u>\$ 13,956,000</u> |

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

(9) Deferred Compensation Plan

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

Section 457 plan assets were placed in trust for the exclusive benefit of all employees and their beneficiaries. Therefore, all employee assets held in Section 457 plans are not the property of the City and are not subject to the claims of the City's general creditors. The assets under the plan, which are not included in the accompanying financial statements, totaled \$90,172,551 at June 30, 2014.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

(10) Pension Plans

Plan Description - Defined Benefit Plan

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

Funding Policy

The City of Newport Beach has three tiers of retirement formulae:

| Employee Group | Tier 1 | Tier 2 | Tier 3 |
|--|--|--|--|
| Applies to | Employees hired on or before November 23, 2012 | Employees hired on or after November 24, 2012 (or laterals from other PERS agencies who meet certain requirements) | New PERS covered employees hired after January 1, 2013 (mandated by AB 340, the Public Employees Pension Reform Act (PEPRA)) |
| Miscellaneous Formulae | 2.5%@55 | 2.0%@60 | 2.0%@62 |
| Safety Formulae (Police & Police Management) | 3.0%@50 | 3.0%@55 | 2.7%@57 |
| Safety Formulae (Fire, Fire Management & Lifeguard Management) | 3.0%@50 | 2.0%@50 | 2.7%@57 |

The City contracts with the employee bargaining units all include pension cost sharing provisions. All Tiers 1, 2 and 3 participant contributions to PERS and to the City are shown in the table below. Benefit provisions and all other requirements are established by State statutes and City contract with employee bargaining groups.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

| As of 6/30/14 | | | | | | | | | |
|---|-------------------------------|-------------------------------|-----------------------------|-------------------------------|-------------------------------|-----------------------------|-------------------------------|-------------------------------|-----------------------------|
| Bargaining Unit | Tier I | | | Tier II | | | Tier III | | |
| | EE Contribution to PERS | EE Contribution to City | EE Contribution TOTAL | EE Contribution to PERS | EE Contribution to City | EE Contribution TOTAL | EE Contribution to PERS | EE Contribution to City | EE Contribution TOTAL |
| Miscellaneous | | | | | | | | | |
| CEA, Prof Tech, League, Key & Mgmt, City Manager, City Clerk, City Atty | 8.00% | 1.45% | 9.45% | 7.00% | 2.45% | 9.45% | 6.25% | 3.20% | 9.45% |
| PTEANB (part time unit) | 8.00% | 1.45% | 9.45% | 7.00% | 2.45% | 9.45% | 6.25% | 3.20% | 9.45% |
| Firefighters Association (Miscellaneous) | 8.00% | 1.45% | 9.45% | 7.00% | 2.45% | 9.45% | 6.25% | 3.20% | 9.45% |
| Police Association (Miscellaneous) | 8.00% | 0.00% | 8.00% | 7.00% | 0.00% | 7.00% | 6.25% | 0.00% | 6.25% |
| Safety | | | | | | | | | |
| Police Management Association | 9.00% | 3.802% | 12.80% | 9.00% | 3.802% | 12.80% | 11.25% | 1.552% | 12.80% |
| Police Association (Safety) | 9.00% | 3.10% | 12.10% | 9.00% | 3.10% | 12.10% | 11.25% | 0.85% | 12.10% |
| Fire Management (FMA) and Lifeguard Management (LMA) | 9.00% | 0.00% | 9.00% | 9.00% | 0.00% | 9.00% | 11.25% | 0.00% | 11.25% |
| Firefighters Association (FA) | 9.00% | 0.00% | 9.00% | 9.00% | 0.00% | 9.00% | 11.25% | 0.00% | 11.25% |
| Fire Chief/Assistant Chiefs | 9.00% | 0.00% | 9.00% | 9.00% | 0.00% | 9.00% | 11.25% | 0.00% | 11.25% |
| Police Chief/Assistant Chief | 9.00% | 3.802% | 12.80% | 9.00% | 3.802% | 12.80% | 11.25% | 1.552% | 12.80% |

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2013 to June 30, 2014, has been determined by an actuarial valuation of the plan as of June 30, 2011. The contribution rate indicated for the period is 14.686% for non-safety employees and 39.309% for safety employees of annual covered payroll. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2014, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2013 to June 30, 2014.

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Annual Pension Cost

For 2014, the City's annual pension cost of \$19,424,095 for PERS was equal to the City's required and actual contributions. A summary of principle assumptions and methods used to determine the annual required contribution is shown below:

| | <u>Miscellaneous Plan</u> | <u>Safety Plan</u> |
|-----------------------------------|---|---|
| <i>Valuation Date</i> | June 30, 2011 | June 30, 2011 |
| <i>Actuarial Cost Method</i> | Entry Age Normal Cost Method | Entry Age Normal Cost Method |
| <i>Amortization Method</i> | Level Percent of Payroll | Level Percent of Payroll |
| <i>Average Remaining Period</i> | 26 Years as of the Valuation Date | 31 Years as of the Valuation Date |
| <i>Asset Valuation Method</i> | 15-Year Smoothed Market | 15-Year Smoothed Market |
| <i>Actuarial Assumptions:</i> | | |
| <i>Investment Rate of Return</i> | 7.50% (net of administrative expenses) | 7.50% (net of administrative expenses) |
| <i>Projected Salary Increases</i> | 3.30% to 14.20% depending on age, service, and type of employment | 3.30% to 14.20% depending on age, service, and type of employment |
| <i>Inflation Rate</i> | 2.75% | 2.75 % |
| <i>Payroll Growth</i> | 3.00% | 3.00% |
| <i>Individual Salary Growth</i> | A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25% | A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25% |

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

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

| <u>Fiscal Year</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|--------------------|--------------------------------------|--|-----------------------------------|
| 6/30/12 | | | |
| Misc. | \$6,385 | 100% | \$0 |
| Safety | \$11,633 | 100% | \$0 |
| Total | <u>\$18,018</u> | <u>100%</u> | <u>\$0</u> |
| 6/30/13 | | | |
| Misc. | \$6,683 | 100% | \$0 |
| Safety | \$11,463 | 100% | \$0 |
| Total | <u>\$18,146</u> | <u>100%</u> | <u>\$0</u> |
| 6/30/14 | | | |
| Misc. | \$6,829 | 100% | \$0 |
| Safety | \$12,595 | 100% | \$0 |
| Total | <u>\$19,424</u> | <u>100%</u> | <u>\$0</u> |

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

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

| Valuation Date | Entry Age Normal Accrued Liability | Actuarial Value of Assets | Unfunded Liability (Excess Assets) | Funded Status | | Annual Covered Payroll | UAAL as a % of Payroll |
|----------------|------------------------------------|---------------------------|------------------------------------|---------------|--------------|------------------------|------------------------|
| | | | | AVA (B/A) | Market Value | | |
| | (A) | (B) | (A - B) | | | (C) | [(A-B) / C] |
| 6/30/2011 | | | | | | | |
| Misc. | \$ 287,109 | \$ 228,755 | \$ 58,354 | 79.7% | 71.2% | \$ 40,787 | 143.070% |
| Safety | 405,879 | 295,076 | 110,803 | 72.7% | 64.8% | 28,820 | 384.466% |
| Total | <u>\$ 692,988</u> | <u>\$ 523,831</u> | <u>\$ 169,157</u> | <u>75.6%</u> | <u>67.4%</u> | <u>\$ 69,607</u> | <u>243.017%</u> |
| 6/30/2012 | | | | | | | |
| Misc. | \$ 302,007 | \$ 238,870 | \$ 63,137 | 79.1% | 66.3% | \$ 39,975 | 157.941% |
| Safety | 424,869 | 302,366 | 122,503 | 71.2% | 59.3% | 28,440 | 430.742% |
| Total | <u>\$ 726,876</u> | <u>\$ 541,236</u> | <u>\$ 185,640</u> | <u>74.5%</u> | <u>62.2%</u> | <u>\$ 68,415</u> | <u>271.344%</u> |
| 6/30/2013 | | | | | | | |
| Misc. | \$ 316,857 | \$ 222,108 | \$ 94,749 | 70.1% | 70.1% | \$ 38,408 | 246.691% |
| Safety | 437,688 | 274,485 | 163,203 | 62.7% | 62.7% | 28,759 | 567.485% |
| Total | <u>\$ 754,545</u> | <u>\$ 496,593</u> | <u>\$ 257,952</u> | <u>65.8%</u> | <u>65.8%</u> | <u>\$ 67,167</u> | <u>384.046%</u> |

Beginning with 6/30/2013, Market Value and Actuarial Value of Assets (AVA) are equal due to CalPERS Direct Smoothing Rate Policy.

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

Plan Description - Defined Contribution Plan

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

For the year ended June 30, 2014, the City's covered payroll for employees participating in the plan was \$2,794,662. Employees made contributions of \$104,800 (3.75% of current covered payroll), which was matched by the employer in the same amount. Assets of the plan totaled \$2,180,760 at June 30, 2014.

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(11) Early Retirement Incentive Program (ERIP)

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

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

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

The total estimated cost to fund the ERIP benefit approximates \$960,000 for the first five years. After considering the costs of implementing the ERIP plan and the estimated reduction to the City payroll, the net savings are expected to reach nearly \$3.1 million annually. In accordance with GASB 47, a liability for the recognition of the accrued cost for this benefit has been recognized in the Compensated Absences, Internal Service Fund. This cost excludes a consideration of discounting the cash flows associated with the five year funding of the program due to the immateriality of such consideration. There is no outstanding obligation at June 30, 2014.

(12) Post Employment Health Care Benefits (OPEB)

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

Plan Description

Effective January 2006, the City and employee associations agreed to major changes in the Post Employment Healthcare Plan. All employees and eligible retirees will participate in a Health Reimbursement Arrangement ("HRA") sponsored by the City, the single

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employer of the plan and held in trust and managed by OPTUM (Trustee), under IRS Revenue Ruling 2002-41 (June 26, 2002) and IRS Notice 2002-45 (June 26, 2002).

All employees hired after January 1, 2006, and certain employees hired prior to this date, as well as employees who elected to fully convert (Fully Converted) to a defined contribution formula, participate in a program that requires mandatory employee and employer contributions. However, once these contributions have been made to the employee's account, the City has no further funding obligation to the Plan on their behalf, except for the Public Employees' Medical and Hospital Care Act ("PEMHCA") minimum which is the responsibility of the City.

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

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

Total participants involved in the plan are 1,397 as of June 30, 2014, consisting of 451 miscellaneous employees, 258 safety employees, and 688 retirees and/or termed and their beneficiaries. Copies of the PERS annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Benefits Provided

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

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Plan Contributions

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

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

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

Actuarial Valuation, Assumptions and Methods

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

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

Valuation Date: June 30, 2013
Actuarial Cost Method: Entry Age Normal Cost Method (same as CalPERS)
Amortization Method: Level percent of payroll
Amortization Period: Level contribution amount over fixed closed 20 years
Projected Salary Increases: 3.0% per year
Discount Rate: 7.25 % for cash subsidy, pre-funding through CalPERS OPEB Trust

4.25% for implied subsidy, no pre-funding, benefits paid from the City's General fund

Inflation Rate: 2.8% per year
Health Care Cost Trend Rate: 7.5% grading down to 5.0%

Annual Required Contribution (ARC)

The 2013-14 Annual Required Contribution (ARC) includes the Normal Cost plus a 20-year amortization of the Unfunded AAL (in 000's):

| Fiscal Year | Beginning Balance | ARC ¹ | AOC | Actual Contribution | Current Year OPEB Obligation (Asset) | Percentage Contributed | Annual Covered Payroll | ARC As a % of Payroll | Ending Balance |
|-----------------------------|----------------------|------------------|-----------------|------------------------|---|---------------------------|------------------------------|-----------------------------|-------------------|
| 2013-14 | | | | | | | | | |
| Cash Subsidy | \$ - | \$ 3,381 | \$ 3,381 | \$ 4,881 | (1,500) | 144% | \$ 65,193 | 5.2% | (1,500) |
| Net OPEB Obligation (Asset) | <u>\$ -</u> | <u>\$ 3,381</u> | <u>\$ 3,381</u> | <u>\$ 4,881</u> | <u>\$ (1,500)</u> | <u>144%</u> | <u>\$ 65,193</u> | <u>5.2%</u> | <u>\$ (1,500)</u> |

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

Implied Subsidy

Prior to January 2013, the City offered two health plans, one of which was a non-community rated plan with retirees and active employees being offered the same premium rates.

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Three-Year Net OPEB Obligation (NOO) (Asset) Trend

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

The June 30, 2014, NOO (Asset) is determined as follows (in 000's):

| <u>Fiscal Year</u> | <u>July 1, NOO</u> | <u>AOC</u> | <u>Prefunding Contributions & Benefit Payments</u> | <u>June 30, NOO (Asset)</u> |
|--------------------|--------------------|-----------------|--|---------------------------------|
| 2011-12 | | | | |
| Cash Subsidy | \$ - | \$ 2,614 | \$ (2,614) | \$ - |
| Implied Subsidy | 8,484 | - | (8,484) ¹ | - |
| Total | <u>\$ 8,484</u> | <u>\$ 2,614</u> | <u>\$ (11,098)</u> | <u>\$ -</u> |
| 2012-13 | | | | |
| Cash Subsidy | \$ - | \$ 2,806 | \$ (2,806) ² | \$ - |
| Implied Subsidy | - | - | - | - |
| Total | <u>\$ -</u> | <u>\$ 2,806</u> | <u>\$ (2,806)</u> | <u>\$ -</u> |
| 2013-14 | | | | |
| Cash Subsidy | \$ - | \$ 3,381 | \$ (4,881) | \$ (1,500) |
| Implied Subsidy | - | - | - | - |
| Total | <u>\$ -</u> | <u>\$ 3,381</u> | <u>\$ (4,881)</u> | <u>\$ (1,500)</u> |

1 - 2011-2012 estimated implied subsidy

2 - 2012-2013 full amortization for NOO and interest on NOO

Annual OPEB Cost (AOC)

The AOC is equal to the ARC, except when the City has a Net OPEB Obligation (NOO) at the beginning of the year. In that case, the AOC will equal the ARC adjusted for expected interest on the NOO and reduced by an amortization of the NOO. The 2013-14 AOC is determined as follows (in 000's):

| | <u>ARC</u> | <u>Interest on NOO</u> | <u>Amortization of NOO</u> | <u>Total AOC</u> | <u>AOC as % of Payroll</u> |
|-----------------|----------------|----------------------------|--------------------------------|------------------|------------------------------------|
| Cash Subsidy | \$3,381 | \$ - | \$ - | \$ 3,381 | 5.2% |
| Implied Subsidy | - | - | - | - | 0.0% |
| Total | <u>\$3,381</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,381</u> | <u>5.2%</u> |

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Three-Year Funding Status Trend

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

| <u>Valuation Date</u> | <u>Actuarial Accrued Liability</u> | <u>Actuarial Value of Assets</u> | <u>Unfunded AAL (UAAL)</u> | <u>Funded Status</u> | <u>Annual Covered Payroll</u> | <u>UAAL as a % of Payroll</u> |
|---------------------------|--|--|------------------------------------|--------------------------|---------------------------------------|---------------------------------------|
| 6/30/2010 | | | | | | |
| Cash Subsidy | \$34,707 | \$ 7,476 | \$27,231 | 21.5% | \$68,112 | 40.0% |
| Implied Subsidy | - | - | - | 0.0% | \$68,112 | 0.0% |
| Total | <u>\$34,707</u> | <u>\$7,476</u> | <u>\$27,231</u> | <u>21.5%</u> | <u>\$68,112</u> | <u>40.0%</u> |
| 6/30/2011 | | | | | | |
| Cash Subsidy | \$35,922 | \$ 7,889 | \$28,033 | 22.0% | \$70,326 | 39.9% |
| Implied Subsidy | - | - | - | 0.0% | \$70,326 | 0.0% |
| Total | <u>\$35,922</u> | <u>\$7,889</u> | <u>\$28,033</u> | <u>22.0%</u> | <u>\$70,326</u> | <u>39.9%</u> |
| 6/30/2013 | | | | | | |
| Cash Subsidy | \$35,564 | \$ 9,979 | \$25,585 | 28.0% | \$65,193 | 39.0% |
| Implied Subsidy | - | - | - | 0.0% | \$65,193 | 0.0% |
| Total | <u>\$35,564</u> | <u>\$9,979</u> | <u>\$25,585</u> | <u>28.0%</u> | <u>\$65,193</u> | <u>39.0%</u> |

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(13) Interfund Receivables and Payables

At June 30, 2014, interfund advances receivable and payable were as follows:

| | <u>Advance from</u> | <u>Advance To</u> |
|---|----------------------|----------------------|
| General Fund | \$ 15,809,559 | \$ - |
| Tide and Submerged Land - Harbor Capital Fund | - | 15,809,559 |
| Total | <u>\$ 15,809,559</u> | <u>\$ 15,809,559</u> |

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

At June 30, 2014, interfund receivables and payable were as follows:

| | <u>Due from</u> | <u>Due to</u> |
|---------------------------|----------------------|----------------------|
| General Fund | \$ 6,611,724 | \$ - |
| Facilities Financing Plan | 5,548,603 | - |
| Civic Center COP | - | 5,548,603 |
| Marina Park | - | 5,496,102 |
| Internal Service Funds | - | 989,488 |
| Nonmajor Funds | <u>-</u> | <u>126,134</u> |
| Total | <u>\$ 12,160,327</u> | <u>\$ 12,160,327</u> |

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

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(14) Interfund Transfers

Interfund transfers at June 30, 2014, consisted of the following:

| | Transfers In | | | | | | Total |
|---------------------------------------|-------------------|-------------------------------------|---------------------------------------|---------------------|-----------------------|----------------------|----------------------|
| | General Fund | Tide and Submerged Land - Operating | Facilities Financial Planning Reserve | Civic Center COP | Internal Service Fund | Non-Major Funds | |
| General Fund | \$ - | \$ 4,527,351 | \$ 9,116,831 | \$ - | \$ 6,120,000 | \$ 1,422,075 | \$ 21,186,257 |
| Facilities Financial Planning Reserve | 100,000 | - | - | 9,398,500 | - | 15,826,269 | 25,324,769 |
| Internal Service Fund | - | - | - | - | 2,000,000 | 98,444 | 2,098,444 |
| Non-Major Funds | 463,552 | 4,735 | - | - | - | 265,970 | 734,257 |
| Total | <u>\$ 563,552</u> | <u>\$ 4,532,086</u> | <u>\$ 9,116,831</u> | <u>\$ 9,398,500</u> | <u>\$ 8,120,000</u> | <u>\$ 17,612,758</u> | <u>\$ 49,343,727</u> |

The City typically uses transfers to fund ongoing subsidies. The General Fund transferred \$4,527,351 to subsidize the maintenance and operation of the Tide and Submerged Land-Operating Fund; \$8,000,000 to the Facilities Financial Planning Reserve Fund to cash fund construction projects for General Fund supported facilities; another \$1,116,831 to the Facilities Financial Planning Reserve Fund due to reclassification of certain reserves from the General Fund to the Facilities Financial Planning Reserve Fund; \$1,500,000 to the Equipment Maintenance Fund to fund for 800 MHz radios and infrastructure; \$1,500,000 to the Retiree Insurance Fund to accelerate payments on retiree insurance unfunded liability; \$3,000,000 to the General Liability Fund to mitigate certain liabilities; \$120,000 to Information Technology Fund for additional Police CAD/RMS hardware and interface software; and \$1,422,075 to non-major funds which includes \$1,250,000 to fund Facilities Maintenance, \$100,000 for the rehabilitation of the Lifeguard Headquarters and, \$72,074 to the Contributions Fund for bike lane design which were not eligible for grant reimbursement.

The Facilities Financial Planning Reserve Fund transferred \$100,000 to the General Fund to help fund old City Hall reuse plans; \$4,000,000 to the Civic Center and Park Fund for Civic Center construction, as well as furniture fixtures and equipment; \$9,398,500 to the Civic Center COP Fund for the debt service payments related to the Civic Center Certificates of Participation; \$9,000,000 to the Sunset Ridge Park Fund to cash fund design and construction of Sunset Ridge Park; \$2,276,269 to the Lifeguard Headquarters Fund for the rehabilitation of the Lifeguard Headquarters; \$250,000 to the Fire Station Fund for projects related to Fire Stations; and \$300,000 to the Strategic Planning Fund for concept development needed to further refine the Major Facilities Financing Plan.

The Circulation and Transportation Fund transferred \$80,000 to the General Fund for administrative costs, and \$94,676 to the CIOSA Construction Fund for debt service. As required by the pre-annexation agreement, \$40,963 of interest accrued in the Newport

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Coast Annexation fund was transferred to the General Fund. The Combined Transportation Fund transferred \$171,296 to the Circulation and Transportation fund to reimburse the fund for expenditures inadvertently charged to the Circulation and Transportation fund. In addition, \$342,589 was transferred from the Miscellaneous Santa Ana Heights Projects Fund to the General Fund to reimburse the General Fund for inception to date project management fees. The Contributions fund transferred \$4,735 to the Tide and Submerged Land-Operating fund to reimburse the fund for expenditures inadvertently charged to the Tide and Submerged Land-Operating Fund.

The Equipment Maintenance Fund transferred \$2,000,000 to the Information Technology Fund to support IT strategic investments, and \$98,444 to the Air Quality Management District Fund for their portion of proceeds from the sale of CNG refuse trucks.

(15) Joint Venture Agreements

Bonita Canyon Public Facilities Financing Authority

The Bonita Canyon Public Facilities Financing Authority (Authority) is a joint venture formed by the City of Newport Beach, Irvine Unified School District, and Newport-Mesa Unified School District. The Authority's Board is comprised of two members appointed by each of the member agencies. The Authority created Community Facilities District 98-1 to finance public facilities that will benefit the properties within their boundaries. In 1998, the Authority issued \$45,000,000 of special tax bonds to be repaid by special assessments. The Authority paid the City \$30,577,712 (81.7%) to pay for the costs of acquiring and constructing public facilities including parks and road improvements. In Fiscal Year 2011-12, the Authority issued \$38,330,000 of special tax bonds to refinance the 1998 Series; the City is not obligated in any manner to repay the bonds. At June 30, 2014, the contributions from property owners have been fully spent and no funds are held in trust as cash with fiscal agent. The City does not make any annual contributions to this joint venture. The City does not include the Authority as a component unit, as the City is not financially accountable for the Authority's activities and the Authority is not fiscally dependent on the City. The City's equity interest in this joint venture is not readily determinable. Complete separate financial statements can be obtained at the Newport Mesa Unified School District, 2985 Bear Street, Suite 8M, Costa Mesa, California.

Metro Cities Fire Authority

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

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

for service. Upon termination of the agreement, the proceeds from the sale of the property and assets of the joint venture will be paid to each member agency pursuant to their fair share percentage. Annually, the amounts paid by the City to this joint venture are approximately \$486,952. The City's 10.02% interest in the net equity of this joint venture at June 30, 2014, amounts to \$188,937. Complete separate financial statements can be obtained at the Metro Cities Fire Authority offices at 201 S. Anaheim Boulevard, Suite 302, Anaheim, California.

Integrated Law and Justice Agency of Orange County

The City is a participant in a joint venture agreement with the several other public agencies in Orange County for the operation of the Integrated Law and Justice Agency of Orange County (ILJAOC). The ILJAOC went into effect in fiscal year 2007, and consists of 23 member agencies, with an oversight board consisting of 12 members from the participating agencies. Annually, each member agency pays a percentage of the operating and replacement costs for the ILJAOC. The City's annual contribution and interest in the net equity of this joint venture was immaterial as of June 30, 2014. The City of Newport Beach acted as the Treasurer/Controller of the ILJAOC from inception through the end of fiscal year 2011/12. Beginning July 1, 2011, the City of Brea, another member agency, was appointed to serve as Treasurer/Controller, and assumed responsibility for all operating activities of the ILJAOC. Complete separate financial statements can be obtained from the City of Brea, 1 Civic Center Circle, Brea, California 92821.

(16) Commitments and Contingencies

Claims and Judgments

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

Circulation Improvement and Open Space Agreement

The City entered into a Circulation Improvement and Open Space Agreement (CIOSA) with a developer whereby the City received a loan of \$14,395,572 to be used only for certain transportation and circulation improvements. The City agreed to match the contribution (without interest) by pledging 50% of future Fair Share Fees (developer impact fees) which are recorded in the Circulation and Transportation Special Revenue Fund. During the year ended June 30, 2014, the City received \$189,352 of Fair Share Fees, and \$94,676 was paid to the CIOSA Construction capital projects fund. Through June 30, 2014, \$4,874,741 of Fair Share Fees has been paid. No additional liability has been recorded, because any future repayment is uncertain; any amounts not contributed by February 20, 2016, will be forgiven.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

Newport Coast Pre-Annexation Agreement

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

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

Among other basic provisions, the Pre-Annexation Agreement stipulates specific requirements for the use of proceeds from the sale of the water rights to Irvine Ranch Water District. The City has entered into an agreement to reimburse Newport Coast residents \$18.0 million of the \$25.0 million for certain public road and street improvements previously financed by property owner assessments. The assessment debt relief will be provided to Newport Coast residents in equal installments of \$1.2 million over 15 years. The remaining \$7.0 million was used in locating, planning, and constructing a Community Center within the annexed area. The outstanding Assessment debt relief balance at June 30, 2014 was \$3.6 million.

Operating Agreements

The City of Newport Beach first entered into an agreement with Visit Newport Beach Inc. (VNB), a legally separate non-profit marketing organization, in 1987. The primary responsibility of the VNB is to attract additional visitor business by promoting the City as the premier tourist and business destination in Orange County. The VNB is governed by an Executive Committee comprised of seven individuals not appointed by the City Council of the City of Newport Beach. The current agreement was entered into on September 27, 2011 and subsequently amended on January 28, 2014 extending the agreement through December 31, 2024. The City pays VNB 18% of the Total Transient Occupancy Tax collected during the fiscal year. For the Fiscal Year ending June 30, 2014, the City paid VNB \$3,994,173.

Contractual Commitments

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

| | <u>Annual Budget</u> | <u>Project YTD Expenditures</u> | <u>Unexpended Commitments</u> |
|--------------------------|--------------------------|-------------------------------------|-----------------------------------|
| MARINA PARK | \$ 26,385,550 | \$ 2,493,654 | \$ 22,504,793 |
| SUNSET RIDGE PARK | \$ 8,730,796 | \$ 3,098,894 | \$ 3,517,378 |
| MARINA PARK | \$ 6,132,900 | \$ 2,931,175 | \$ 1,793,284 |
| PARK AVE BRIDGE REPLCMNT | \$ 810,264 | \$ 165,391 | \$ 644,943 |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

(17) Fund Balance

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement was to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement was effective, and implemented by the City, for fiscal year ending June 30, 2011.

Governmental Fund Balance under Statement No. 54, at June 30, 2014, is classified as follows:

| Governmental Fund Balance | | | | | | | | | | |
|---|--------------|-----------------------------------|--|---------------------------------------|----------------|------------------|------------------------------|-----------------------|-----------------|---------------|
| | General | Tide and Submerged Land Operating | Tide and Submerged Land Harbor Capital | Facilities Financial Planning Reserve | Marina Park | Civic Center COP | Non-Major Governmental Funds | | | Totals |
| | | | | | | | Special Revenue Funds | Capital Project Funds | Permanent Funds | |
| Nonspendable: | | | | | | | | | | |
| Prepaid items (legally restricted) | \$ 283,448 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 283,448 |
| Inventories (legally restricted) | 223,492 | - | - | - | - | - | - | - | - | 223,492 |
| Long-term loan receivable (form restricted) | 15,809,559 | - | - | - | - | - | - | - | - | 15,809,559 |
| Permanent endowment (legally restricted) | - | - | - | - | - | - | - | - | 4,629,781 | 4,629,781 |
| Restricted: | | | | | | | | | | |
| Affordable housing | 2,966,896 | - | - | - | - | - | - | - | - | 2,966,896 |
| Oceanfront encroachment | 972,855 | - | - | - | - | - | - | - | - | 972,855 |
| Upper Newport bay restoration | - | 430,626 | - | - | - | - | - | - | - | 430,626 |
| Streets and highways | - | - | - | - | - | - | 3,056,278 | - | 1,075,663 | 4,131,941 |
| Public safety | - | - | - | - | - | - | 1,729,458 | - | - | 1,729,458 |
| Parks | - | - | - | 982,071 | - | - | - | - | - | 982,071 |
| Transportation | - | - | - | - | - | - | 171,375 | - | - | 171,375 |
| Air quality improvement | - | - | - | - | - | - | 873,658 | - | - | 873,658 |
| Environmental liability mitigation | - | - | - | - | - | - | 5,208,561 | - | - | 5,208,561 |
| Libraries | - | - | - | - | - | - | - | - | 186,191 | 186,191 |
| Scholarships | - | - | - | - | - | - | - | - | 225,670 | 225,670 |
| Debt service | - | - | - | - | - | 2,352,746 | - | - | - | 2,352,746 |
| Capital re-appropriations | - | 2,013,027 | - | - | - | - | 10,851,285 | 826,984 | - | 13,691,296 |
| Encumbrance reserve | - | 586,067 | - | - | - | - | 2,591,560 | 82,570 | - | 3,260,197 |
| Committed: | | | | | | | | | | |
| Facilities replacement | - | - | - | 10,623,999 | - | - | - | - | - | 10,623,999 |
| Facilities maintenance | - | - | - | - | - | - | - | 1,939,863 | - | 1,939,863 |
| Civic center and park | - | - | - | - | - | - | - | 1,834,130 | - | 1,834,130 |
| Sunset ridge park | - | - | - | - | - | - | - | 270,591 | - | 270,591 |
| Fire Station | - | - | - | - | - | - | - | 239 | - | 239 |
| Oil and gas liabilities | - | 480,000 | - | - | - | - | - | - | - | 480,000 |
| In-lieu & off-street parking | 73,288 | - | - | - | - | - | - | - | - | 73,288 |
| Bicycle Safety | 167,857 | - | - | - | - | - | - | - | - | 167,857 |
| Cable franchise reserve | 476,616 | - | - | - | - | - | - | - | - | 476,616 |
| Neighborhood enhancement | 444,304 | - | - | - | - | - | - | - | - | 444,304 |
| Capital re-appropriations | 6,026,110 | - | - | - | - | - | - | 504,990 | - | 6,531,100 |
| Encumbrance reserve | 5,594,060 | - | - | - | - | - | - | 3,859,578 | - | 9,453,638 |
| Assigned: | | | | | | | | | | |
| Recreation and senior services | 1,272,387 | - | - | - | - | - | - | - | - | 1,272,387 |
| Fair value Adjustment Reserve | 53,783 | - | - | - | - | - | - | - | - | 53,783 |
| Unassigned: | 51,015,820 | - | (7,942,501) | - | (6,239,052) | - | (109,021) | (1,395) | - | 36,723,851 |
| Total fund balances | \$85,380,475 | \$ 3,509,720 | \$ (7,942,501) | \$ 11,606,070 | \$ (6,239,052) | \$ 2,352,746 | \$ 24,373,154 | \$ 9,317,549 | \$ 6,117,305 | \$128,475,465 |

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

(18) Net Position/Fund Balance Restatement

During the current year it was discovered that rental property income accrued in the prior year was related to the current fiscal year. The restatement affected the beginning net position in the government-wide statements and the fund balance of the Tide and Submerged Land – Operating Fund as follows:

| | Governmental Activities | Tide and Submerged Land - Operating |
|---|----------------------------|---|
| Beginning of the year, as previously reported | | |
| Net position | \$2,274,883,882 | \$ - |
| Fund balance | - | 2,519,190 |
| Adjustments: | | |
| To adjust prior year fund balances in conformity with GAAP | (518,067) | (518,067) |
| Net position at July 1, 2013, as restated | <u>\$2,274,365,815</u> | <u>\$ -</u> |
| Fund balance at July 1, 2013, as restated | <u>\$ -</u> | <u>\$ 2,001,123</u> |

(19) Subsequent Events

Sale of Property

On July 22, 2014, the City Council approved execution of a Purchase and Sale Agreement and Escrow Instructions with Kobe, Inc. for disposition of the City property located at 1499 Monrovia Avenue for a sale price of \$5.8 million. The \$5.8 million sale price was the highest bid received and exceeded the City's purchase price of \$4.3 million and the appraised value conducted prior to the City's acquisition of the site in 2012. Escrow successfully closed on this transaction on October 1, 2014 and ownership of the property was transferred to Kobe, Inc.

Property Acquisition

On August 12, 2014, the City Council approved execution of a Purchase and Sale Agreement for acquisition of real property from Lido Pacific, LLC, for the purchase of 3201 Newport Boulevard and 3204 Marcus Avenue for a sale price of \$6.35 million. The properties will be used for the Newport Boulevard and 32nd Street Modification project. The City used Orange County Transportation Authority (OCTA) Measure M competitive grant funds to pay a portion of the acquisition price. Escrow successfully closed on this transaction on October 7, 2014 and ownership of the property was transferred to the City.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2014

Developer Contributions

On October 29, 2014, the City received a \$19.4 million developer contribution payment from The Irvine Company, LLC related to the North Newport Center Development Agreement. This payment represents the Public Benefit Fee for the development and was triggered by the issuance of building permits for the residential units authorized for development within the property.

California Public Employees Retirement System (PERS) Fresh Start

On November 25, 2014, the City Council approved to employ a “fresh start” resetting the amortization of the City’s unfunded pension liability to 19 years for both the Safety and Miscellaneous pension plans. The program amended the 2014-15 budget to provide for the additional \$6.6 million year one cost.

FINANCIAL SECTION

SUPPLEMENTARY
INFORMATION

OTHER GOVERNMENTAL FUNDS

FINANCIAL SECTION

OTHER GOVERNMENTAL FUNDS

Other Special Revenue Funds

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Capital Projects Funds

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

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

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

The ***Fire Station Fund*** is used to account for the design and construction of new fire stations.

The ***Facilities Maintenance Fund*** is used to account for revenues and expenditures associated with the maintenance of existing facilities.

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

The ***Civic Center and Park Fund*** is used to account for the design and construction of a new Civic Center Complex. In prior years, this fund was called City Hall Improvements Fund.

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

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

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

Other Permanent Funds

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

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

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

CITY OF NEWPORT BEACH
Other Governmental Funds
Combining Balance Sheet
June 30, 2014

| | Special Revenue | | | |
|---|---------------------|---------------------|-------------------|--------------------------------------|
| | State Gas Tax | Asset Forfeiture | OTS DUI Grant | Circulation and Transportation |
| Assets | | | | |
| Cash and investments | \$ 6,303,079 | \$ 1,360,054 | \$ - | \$ 951,391 |
| Receivables: | | | | |
| Accounts (net of allowance) | - | - | - | - |
| Intergovernmental receivables | - | - | 109,021 | - |
| Total assets | \$ 6,303,079 | \$ 1,360,054 | \$ 109,021 | \$ 951,391 |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 218,028 | \$ 26,428 | - | \$ - |
| Unearned revenue | - | - | - | - |
| Due to other funds | - | - | 109,021 | - |
| Total liabilities | 218,028 | 26,428 | 109,021 | - |
| Deferred inflows of resources: | | | | |
| Unavailable revenue | - | - | 109,021 | - |
| Fund balances (deficits): | | | | |
| Nonspendable: | | | | |
| Permanent Endowment | - | - | - | - |
| Restricted: | 6,085,051 | 1,333,626 | - | 951,391 |
| Committed: | - | - | - | - |
| Assigned: | - | - | - | - |
| Unassigned: | - | - | (109,021) | - |
| Total fund balances (deficits) | 6,085,051 | 1,333,626 | (109,021) | 951,391 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 6,303,079 | \$ 1,360,054 | \$ 109,021 | \$ 951,391 |

| Special Revenue | | | |
|---------------------------|----------------------------|---|---------------------------------------|
| Building Excise Tax | Combined Transportation | Community Development Block Grant | Air Quality Management District |
| \$ 420,192 | \$ 3,420,739 | \$ - | \$ 873,658 |
| - | - | - | - |
| - | 775,667 | 30,641 | - |
| <u>\$ 420,192</u> | <u>\$ 4,196,406</u> | <u>\$ 30,641</u> | <u>\$ 873,658</u> |
| | | | |
| \$ - | \$ 234,362 | \$ 22,481 | \$ - |
| - | 74,231 | - | - |
| - | - | 8,160 | - |
| - | 308,593 | 30,641 | - |
| - | 401,344 | - | - |
| | | | |
| - | - | - | - |
| 420,192 | 3,486,469 | - | 873,658 |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| 420,192 | 3,486,469 | - | 873,658 |
| <u>\$ 420,192</u> | <u>\$ 4,196,406</u> | <u>\$ 30,641</u> | <u>\$ 873,658</u> |
| (continued) | | | |

CITY OF NEWPORT BEACH
Other Governmental Funds
Combining Balance Sheet
June 30, 2014
(continued)

| | Special Revenue | | | |
|---|----------------------------|------------------------------------|--------------------------------|---------------------------|
| | Environmental Liability | Supplemental Law Enforcement | Newport Coast Annexation | Prop 1B Transportation |
| Assets | | | | |
| Cash and investments | \$ 5,220,529 | \$ - | \$ 3,602,822 | \$ - |
| Receivables: | | | | |
| Accounts (net of allowance) | - | - | - | - |
| Intergovernmental receivables | - | 7,558 | - | - |
| | <u>-</u> | <u>7,558</u> | <u>-</u> | <u>-</u> |
| Total assets | <u>\$ 5,220,529</u> | <u>\$ 7,558</u> | <u>\$ 3,602,822</u> | <u>\$ -</u> |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 11,968 | \$ - | \$ 2,822 | \$ - |
| Unearned revenue | - | - | - | - |
| Due to other funds | - | 7,558 | - | - |
| | <u>-</u> | <u>7,558</u> | <u>-</u> | <u>-</u> |
| Total liabilities | <u>11,968</u> | <u>7,558</u> | <u>2,822</u> | <u>-</u> |
| Deferred inflows of resources: | | | | |
| Unavailable revenue | - | - | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balances (deficits): | | | | |
| Nonspendable: | | | | |
| Permanent Endowment | - | - | - | - |
| Restricted: | 5,208,561 | - | 3,600,000 | - |
| Committed: | - | - | - | - |
| Assigned: | - | - | - | - |
| Unassigned: | - | - | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total fund balances (deficits) | <u>5,208,561</u> | <u>-</u> | <u>3,600,000</u> | <u>-</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 5,220,529</u> | <u>\$ 7,558</u> | <u>\$ 3,602,822</u> | <u>\$ -</u> |

| Special Revenue | | Capital Projects | | |
|-----------------|-----------|---------------------|--------------------|--------------|
| Contributions | | Assessment District | CIOSA Construction | Fire Station |
| \$ | 2,019,946 | \$ 910,338 | \$ - | \$ 249,759 |
| | 365,885 | - | - | - |
| | 2,471,597 | - | - | - |
| <hr/> | | | | |
| \$ | 4,857,428 | \$ 910,338 | \$ - | \$ 249,759 |
| <hr/> | | | | |
| | | | | |
| \$ | 74,687 | \$ 784 | \$ - | \$ - |
| | 645,812 | - | - | - |
| | - | - | - | - |
| <hr/> | | | | |
| | 720,499 | 784 | - | - |
| <hr/> | | | | |
| | 1,613,702 | - | - | - |
| <hr/> | | | | |
| | | | | |
| | - | - | - | - |
| | 2,523,227 | 909,554 | - | - |
| | - | - | - | 249,759 |
| | - | - | - | - |
| | - | - | - | - |
| <hr/> | | | | |
| | 2,523,227 | 909,554 | - | 249,759 |
| <hr/> | | | | |
| \$ | 4,857,428 | \$ 910,338 | \$ - | \$ 249,759 |
| <hr/> | | | | |
| (continued) | | | | |

CITY OF NEWPORT BEACH
Other Governmental Funds
Combining Balance Sheet
June 30, 2014
(continued)

| | Capital Projects | | | |
|---|---------------------------|----------------------|--------------------------|----------------------|
| | Facilities Maintenance | Misc SAH Projects | Civic Center and Park | Sunset Ridge Park |
| Assets | | | | |
| Cash and investments | \$ 2,242,177 | \$ 1,304,107 | \$ 1,878,812 | \$ 4,996,183 |
| Receivables: | | | | |
| Accounts (net of allowance) | - | - | - | - |
| Intergovernmental receivables | - | - | - | - |
| Total assets | <u>\$ 2,242,177</u> | <u>\$ 1,304,107</u> | <u>\$ 1,878,812</u> | <u>\$ 4,996,183</u> |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ - | \$ 568 | \$ 40,061 | \$ 1,008,214 |
| Unearned revenue | - | 1,303,539 | - | - |
| Due to other funds | - | - | - | - |
| Total liabilities | - | 1,304,107 | 40,061 | 1,008,214 |
| Deferred inflows of resources: | | | | |
| Unavailable revenue | - | - | - | - |
| Fund balances (deficits): | | | | |
| Nonspendable: | | | | |
| Permanent Endowment | - | - | - | - |
| Restricted: | - | - | - | - |
| Committed: | 2,242,177 | - | 1,838,751 | 3,987,969 |
| Assigned: | - | - | - | - |
| Unassigned: | - | - | - | - |
| Total fund balances (deficits) | 2,242,177 | - | 1,838,751 | 3,987,969 |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 2,242,177</u> | <u>\$ 1,304,107</u> | <u>\$ 1,878,812</u> | <u>\$ 4,996,183</u> |

Capital Projects

| Strategic Planning | Lifeguard Headquarters | Misc Facilities Financing |
|-------------------------------|-----------------------------------|--------------------------------------|
| \$ 56,872 | \$ 275,552 | \$ - |
| - | - | - |
| - | - | - |
| <u>\$ 56,872</u> | <u>\$ 275,552</u> | <u>\$ -</u> |
| | | |
| \$ - | \$ 241,690 | \$ - |
| - | - | - |
| - | - | 1,395 |
| <u>-</u> | <u>241,690</u> | <u>1,395</u> |
| | | |
| <u>-</u> | <u>-</u> | <u>-</u> |
| | | |
| - | - | - |
| - | - | - |
| 56,872 | 33,862 | - |
| - | - | - |
| - | - | (1,395) |
| <u>56,872</u> | <u>33,862</u> | <u>(1,395)</u> |
| <u>\$ 56,872</u> | <u>\$ 275,552</u> | <u>\$ -</u> |
| (continued) | | |

CITY OF NEWPORT BEACH
Other Governmental Funds
Combining Balance Sheet
June 30, 2014
(continued)

| | Permanent Fund | | Total Other Governmental Funds |
|---|-----------------------|------------------------------|---|
| | Bay Dredging | Ackerman Donation | |
| Assets | | | |
| Cash and investments | \$ 4,932,663 | \$ 1,186,142 | \$ 42,205,015 |
| Receivables: | | | |
| Accounts (net of allowance) | - | - | 365,885 |
| Intergovernmental receivables | - | - | 3,394,484 |
| Total assets | \$ 4,932,663 | \$ 1,186,142 | \$ 45,965,384 |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ - | \$ 1,500 | \$ 1,883,593 |
| Unearned revenue | - | - | 2,023,582 |
| Due to other funds | - | - | 126,134 |
| Total liabilities | - | 1,500 | 4,033,309 |
| Deferred inflows of resources: | | | |
| Unavailable revenue | - | - | 2,124,067 |
| Fund balances (deficits): | | | |
| Nonspendable: | | | |
| Permanent Endowment | 3,857,000 | 772,781 | 4,629,781 |
| Restricted: | 1,075,663 | 411,861 | 26,879,253 |
| Committed: | - | - | 8,409,390 |
| Assigned: | - | - | - |
| Unassigned: | - | - | (110,416) |
| Total fund balances (deficits) | 4,932,663 | 1,184,642 | 39,808,008 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 4,932,663 | \$ 1,186,142 | \$ 45,965,384 |

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CITY OF NEWPORT BEACH
Other Governmental Funds
Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
For the Year ended June 30, 2014

| | Special Revenue | | |
|--|--------------------------|-----------------------------|--------------------------|
| | State Gas Tax | Asset Forfeiture | OTS DUI Grant |
| Revenues: | | | |
| Other taxes | \$ - | \$ - | \$ - |
| Intergovernmental | 2,619,748 | 257,694 | 163,552 |
| Licenses, permits and fees | - | - | - |
| Investment income | 55,550 | 11,085 | - |
| Net increase in fair value of investments | 6,051 | 1,314 | - |
| Donations | - | - | - |
| Other | - | - | - |
| Total revenues | <u>2,681,349</u> | <u>270,093</u> | <u>163,552</u> |
| Expenditures: | | | |
| Current: | | | |
| Public safety | - | 377,397 | 221,768 |
| Public works | - | - | - |
| Community development | - | - | - |
| Capital outlay | 3,461,802 | - | - |
| Debt service: | | | |
| Principal | - | - | - |
| Interest and fiscal charges | - | - | - |
| Total expenditures | <u>3,461,802</u> | <u>377,397</u> | <u>221,768</u> |
| Excess (deficiency) of revenues over expenditures | <u>(780,453)</u> | <u>(107,304)</u> | <u>(58,216)</u> |
| Other financing sources (uses): | | | |
| Transfers in | - | - | - |
| Transfers out | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | (780,453) | (107,304) | (58,216) |
| Fund balances (deficits), beginning | <u>6,865,504</u> | <u>1,440,930</u> | <u>(50,805)</u> |
| Fund balances (deficits), ending | <u>\$ 6,085,051</u> | <u>\$ 1,333,626</u> | <u>\$ (109,021)</u> |

Special Revenue

| Circulation and Transportation | Building Excise Tax | Combined Transportation | Community Development Block Grant | Air Quality Management District |
|---|------------------------------------|------------------------------------|--|--|
| \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | 3,071,094 | 328,276 | 106,573 |
| 189,352 | 269,105 | - | - | - |
| 4,554 | 2,223 | 25,636 | - | 5,382 |
| 839 | 404 | 3,560 | - | 743 |
| 961,685 | - | - | - | - |
| - | - | - | - | - |
| <u>1,156,430</u> | <u>271,732</u> | <u>3,100,290</u> | <u>328,276</u> | <u>112,698</u> |
| - | - | - | - | - |
| - | - | - | - | 6,259 |
| - | - | - | 123,554 | - |
| 2,705 | 285,128 | 1,319,737 | - | - |
| - | - | - | 116,000 | - |
| - | - | - | 88,722 | - |
| <u>2,705</u> | <u>285,128</u> | <u>1,319,737</u> | <u>328,276</u> | <u>6,259</u> |
| <u>1,153,725</u> | <u>(13,396)</u> | <u>1,780,553</u> | <u>-</u> | <u>106,439</u> |
| 171,295 | - | - | - | 98,444 |
| <u>(174,676)</u> | <u>-</u> | <u>(171,295)</u> | <u>-</u> | <u>-</u> |
| <u>(3,381)</u> | <u>-</u> | <u>(171,295)</u> | <u>-</u> | <u>98,444</u> |
| 1,150,344 | (13,396) | 1,609,258 | - | 204,883 |
| <u>(198,953)</u> | <u>433,588</u> | <u>1,877,211</u> | <u>-</u> | <u>668,775</u> |
| <u>\$ 951,391</u> | <u>\$ 420,192</u> | <u>\$ 3,486,469</u> | <u>\$ -</u> | <u>\$ 873,658</u> |

(continued)

CITY OF NEWPORT BEACH
Other Governmental Funds
Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2014
(continued)

| | Special Revenue | | | |
|--|------------------------------------|---|---|-----------------------------------|
| | Environmental Liability | Supplemental Law Enforcement | Newport Coast Annexation | Prop 1B Transportation |
| Revenues: | | | | |
| Other taxes | \$ 540,856 | \$ - | \$ - | \$ - |
| Intergovernmental | - | 159,560 | - | 693,000 |
| Licenses, permits and fees | - | - | - | - |
| Investment income | 38,410 | - | 36,315 | - |
| Net increase in fair value of investments | 4,981 | - | 4,648 | - |
| Donations | - | - | - | - |
| Other | 30,092 | - | - | - |
| Total revenues | 614,339 | 159,560 | 40,963 | 693,000 |
| Expenditures: | | | | |
| Current: | | | | |
| Public safety | - | 159,560 | - | - |
| Public works | 137,921 | - | - | - |
| Community development | - | - | - | - |
| Capital outlay | - | - | - | 5,556 |
| Debt service: | | | | |
| Principal | - | - | 1,200,000 | - |
| Interest and fiscal charges | - | - | - | - |
| Total expenditures | 137,921 | 159,560 | 1,200,000 | 5,556 |
| Excess (deficiency) of revenues over expenditures | 476,418 | - | (1,159,037) | 687,444 |
| Other financing sources (uses): | | | | |
| Transfers in | - | - | - | - |
| Transfers out | - | - | (40,963) | - |
| Total other financing sources (uses) | - | - | (40,963) | - |
| Net change in fund balances | 476,418 | - | (1,200,000) | 687,444 |
| Fund balances (deficits), beginning | 4,732,143 | - | 4,800,000 | (687,444) |
| Fund balances (deficits), ending | <u>\$ 5,208,561</u> | <u>\$ -</u> | <u>\$ 3,600,000</u> | <u>\$ -</u> |

| Special Revenue | | Capital Projects | | |
|-----------------|---------------------|--------------------|--------------|--|
| Contributions | Assessment District | CIOSA Construction | Fire Station | |
| \$ - | \$ - | \$ - | \$ - | |
| 3,074,874 | - | - | - | |
| - | - | - | - | |
| 30,750 | 7,063 | - | 270 | |
| 3,783 | 349 | - | 239 | |
| - | - | - | - | |
| - | - | - | - | |
| 3,109,407 | 7,412 | - | 509 | |
| - | - | - | - | |
| - | 75,448 | - | - | |
| - | - | - | - | |
| 1,677,666 | - | 94,676 | 750 | |
| - | - | - | - | |
| - | - | - | - | |
| 1,677,666 | 75,448 | 94,676 | 750 | |
| 1,431,741 | (68,036) | (94,676) | (241) | |
| 72,074 | - | 94,676 | 250,000 | |
| (4,735) | - | - | - | |
| 67,339 | - | 94,676 | 250,000 | |
| 1,499,080 | (68,036) | - | 249,759 | |
| 1,024,147 | 977,590 | - | - | |
| \$ 2,523,227 | \$ 909,554 | \$ - | \$ 249,759 | |

(continued)

CITY OF NEWPORT BEACH
Other Governmental Funds
Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2014
(continued)

| | Capital Projects | | | |
|--|-----------------------------------|------------------------------|----------------------------------|------------------------------|
| | Facilities Maintenance | Misc SAH Projects | Civic Center and Park | Sunset Ridge Park |
| Revenues: | | | | |
| Other taxes | \$ - | \$ - | \$ - | \$ - |
| Intergovernmental | - | 1,768,228 | - | - |
| Licenses, permits and fees | - | - | - | - |
| Investment income | 8,045 | 10,982 | 44,823 | 7,234 |
| Net increase in fair value of investments | 2,154 | 318 | 1,743 | 4,789 |
| Donations | - | - | - | - |
| Other | - | - | - | - |
| Total revenues | 10,199 | 1,779,528 | 46,566 | 12,023 |
| Expenditures: | | | | |
| Current: | | | | |
| Public safety | - | - | - | - |
| Public works | - | - | - | - |
| Community development | - | - | - | - |
| Capital outlay | 13,178 | 1,417,843 | 7,979,367 | 3,098,894 |
| Debt service: | | | | |
| Principal | - | - | - | - |
| Interest and fiscal charges | - | - | 7,641 | - |
| Total expenditures | 13,178 | 1,417,843 | 7,987,008 | 3,098,894 |
| Excess (deficiency) of revenues over expenditures | (2,979) | 361,685 | (7,940,442) | (3,086,871) |
| Other financing sources (uses): | | | | |
| Transfers in | 1,250,000 | - | 4,000,000 | 9,000,000 |
| Transfers out | - | (342,588) | - | - |
| Total other financing sources (uses) | 1,250,000 | (342,588) | 4,000,000 | 9,000,000 |
| Net change in fund balances | 1,247,021 | 19,097 | (3,940,442) | 5,913,129 |
| Fund balances (deficits), beginning | 995,156 | (19,097) | 5,779,193 | (1,925,160) |
| Fund balances (deficits), ending | \$ 2,242,177 | \$ - | \$ 1,838,751 | \$ 3,987,969 |

Capital Projects

| Strategic Planning | Lifeguard Headquarters | Misc Facilities Financing |
|-------------------------------|-----------------------------------|--------------------------------------|
| \$ - | \$ - | \$ - |
| - | - | - |
| - | - | - |
| 168 | 1,337 | - |
| 56 | 270 | - |
| - | - | - |
| - | - | - |
| <u>224</u> | <u>1,607</u> | <u>-</u> |
| - | - | - |
| - | - | - |
| - | - | - |
| 133,480 | 2,168,903 | 1,395 |
| - | - | - |
| - | - | - |
| <u>133,480</u> | <u>2,168,903</u> | <u>1,395</u> |
| <u>(133,256)</u> | <u>(2,167,296)</u> | <u>(1,395)</u> |
| 300,000 | 2,376,269 | - |
| - | - | - |
| <u>300,000</u> | <u>2,376,269</u> | <u>-</u> |
| 166,744 | 208,973 | (1,395) |
| <u>(109,872)</u> | <u>(175,111)</u> | <u>-</u> |
| <u>\$ 56,872</u> | <u>\$ 33,862</u> | <u>\$ (1,395)</u> |

(continued)

CITY OF NEWPORT BEACH
Other Governmental Funds
Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2014
(continued)

| | Permanent Funds | | Total Other Governmental Funds |
|--|------------------------|------------------------------|---|
| | Bay Dredging | Ackerman Donation | |
| Revenues: | | | |
| Other taxes | \$ - | \$ - | \$ 540,856 |
| Intergovernmental | - | - | 12,242,599 |
| Licenses, permits and fees | - | - | 458,457 |
| Investment income | 38,212 | 9,204 | 337,243 |
| Net increase in fair value of investments | 4,735 | 1,139 | 42,115 |
| Donations | - | - | 961,685 |
| Other | - | - | 30,092 |
| Total revenues | 42,947 | 10,343 | 14,613,047 |
| Expenditures: | | | |
| Current: | | | |
| Public safety | - | - | 758,725 |
| Public works | - | - | 219,628 |
| Community development | - | 4,666 | 128,220 |
| Capital outlay | - | - | 21,661,080 |
| Debt service: | | | |
| Principal | - | - | 1,316,000 |
| Interest and fiscal charges | - | - | 96,363 |
| Total expenditures | - | 4,666 | 24,180,016 |
| Excess (deficiency) of revenues over expenditures | 42,947 | 5,677 | (9,566,969) |
| Other financing sources (uses): | | | |
| Transfers in | - | - | 17,612,758 |
| Transfers out | - | - | (734,257) |
| Total other financing sources (uses) | - | - | 16,878,501 |
| Net change in fund balances | 42,947 | 5,677 | 7,311,532 |
| Fund balances (deficits), beginning | 4,889,716 | 1,178,965 | 32,496,476 |
| Fund balances (deficits), ending | \$ 4,932,663 | \$ 1,184,642 | \$ 39,808,008 |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
State Gas Tax Special Revenue Fund
For the Year Ended June 30, 2014

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|---|-------------------------|---------------------|---------------------|---|
| | Original | Final | Actual | |
| Revenues: | | | | |
| Intergovernmental | \$ 2,517,083 | \$ 2,517,083 | \$ 2,619,748 | \$ 102,665 |
| Investment income | 20,947 | 20,947 | 55,550 | 34,603 |
| Net increase in fair value of investments | - | - | 6,051 | 6,051 |
| Total revenues | 2,538,030 | 2,538,030 | 2,681,349 | 143,319 |
| Expenditures: | | | | |
| Capital outlay | 6,426,990 | 4,598,662 | 3,461,802 | 1,136,860 |
| Net change in fund balance | (3,888,960) | (2,060,632) | (780,453) | 1,280,179 |
| Fund balance, beginning | 6,865,504 | 6,865,504 | 6,865,504 | - |
| Fund balance, ending | <u>\$ 2,976,544</u> | <u>\$ 4,804,872</u> | <u>\$ 6,085,051</u> | <u>\$ 1,280,179</u> |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Asset Forfeiture Special Revenue Fund
For the Year Ended June 30, 2014

| | Budget Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|-----------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Intergovernmental | \$ - | \$ 108,965 | \$ 257,694 | \$ 148,729 |
| Investment income | - | 7,695 | 11,085 | 3,390 |
| Net increase in fair value of investments | - | - | 1,314 | 1,314 |
| | | | | |
| Total revenues | - | 116,660 | 270,093 | 153,433 |
| | | | | |
| Expenditures | | | | |
| Public safety | 433,309 | 433,309 | 377,397 | 55,912 |
| | | | | |
| Net change in fund balance | (433,309) | (316,649) | (107,304) | 209,345 |
| | | | | |
| Fund balance, beginning | 1,440,930 | 1,440,930 | 1,440,930 | - |
| | | | | |
| Fund balance, ending | <u>\$ 1,007,621</u> | <u>\$ 1,124,281</u> | <u>\$ 1,333,626</u> | <u>\$ 209,345</u> |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
OTS DUI Grant Special Revenue Fund
For the Year Ended June 30, 2014

| | Budget Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|-----------------------------------|-----------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Intergovernmental | \$ 46,250 | \$ 163,552 | \$ 163,552 | \$ - |
| Expenditures | | | | |
| Public safety | - | 221,768 | 221,768 | - |
| Net change in fund balance | 46,250 | (58,216) | (58,216) | - |
| Fund balance (deficit), beginning | (50,805) | (50,805) | (50,805) | - |
| Fund balance (deficit), ending | <u>\$ (4,555)</u> | <u>\$ (109,021)</u> | <u>\$ (109,021)</u> | <u>\$ -</u> |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Circulation and Transportation Special Revenue Fund
For the Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|----------------------------|----------------------------|--------------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Licenses, permits and fees | \$ 373,024 | \$ 373,024 | \$ 189,352 | \$ (183,672) |
| Investment income | - | - | 4,554 | 4,554 |
| Net increase in fair value of investments | - | - | 839 | 839 |
| Private donations | - | - | 961,685 | 961,685 |
| Total revenues | <u>373,024</u> | <u>373,024</u> | <u>1,156,430</u> | <u>783,406</u> |
| Expenditures: | | | | |
| Capital outlay | <u>601,379</u> | <u>184,881</u> | <u>2,705</u> | <u>182,176</u> |
| Excess (deficiency) of revenues over expenditures | <u>(228,355)</u> | <u>188,143</u> | <u>1,153,725</u> | <u>965,582</u> |
| Other financing sources (uses): | | | | |
| Transfers in | - | - | 171,295 | 171,295 |
| Transfers out | <u>(266,512)</u> | <u>(266,512)</u> | <u>(174,676)</u> | <u>91,836</u> |
| Total other financing sources (uses) | <u>(266,512)</u> | <u>(266,512)</u> | <u>(3,381)</u> | <u>263,131</u> |
| Net change in fund balance | (494,867) | (78,369) | 1,150,344 | 1,228,713 |
| Fund balance (deficit), beginning | <u>(198,953)</u> | <u>(198,953)</u> | <u>(198,953)</u> | <u>-</u> |
| Fund balance (deficit), ending | <u><u>\$ (693,820)</u></u> | <u><u>\$ (277,322)</u></u> | <u><u>\$ 951,391</u></u> | <u><u>\$ 1,228,713</u></u> |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Building Excise Tax Special Revenue Fund
For the Year Ended June 30, 2014

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|---|-------------------------|--------------|---------------|---|
| | Original | Final | Actual | |
| Revenues: | | | | |
| Licenses, permits and fees | \$ 235,000 | \$ 235,000 | \$ 269,105 | \$ 34,105 |
| Investment income | 2,855 | 2,855 | 2,223 | (632) |
| Net increase in fair value of investments | - | - | 404 | 404 |
| | | | | |
| Total revenues | 237,855 | 237,855 | 271,732 | 33,877 |
| | | | | |
| Expenditures: | | | | |
| Capital outlay | 358,394 | 336,075 | 285,128 | 50,947 |
| | | | | |
| Net change in fund balance | (120,539) | (98,220) | (13,396) | 84,824 |
| | | | | |
| Fund balance, beginning | 433,588 | 433,588 | 433,588 | - |
| | | | | |
| Fund balance, ending | \$ 313,049 | \$ 335,368 | \$ 420,192 | \$ 84,824 |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Combined Transportation Special Revenue Fund
For the Year Ended June 30, 2014

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|--|-------------------------|---------------------|---------------------|---|
| | Original | Final | Actual | |
| Revenues: | | | | |
| Intergovernmental | \$ 2,760,717 | \$ 2,760,717 | \$ 3,071,094 | \$ 310,377 |
| Investment income | 30,809 | 30,809 | 25,636 | (5,173) |
| Net increase in fair value of investments | - | - | 3,560 | 3,560 |
| Total revenues | 2,791,526 | 2,791,526 | 3,100,290 | 308,764 |
| Expenditures: | | | | |
| Capital outlay | 7,346,444 | 4,819,651 | 1,319,737 | 3,499,914 |
| Excess (deficiency) of revenues over expenditures | (4,554,918) | (2,028,125) | 1,780,553 | 3,808,678 |
| Other financing uses: | | | | |
| Transfers out | - | - | (171,295) | (171,295) |
| Net change in fund balance | (4,554,918) | (2,028,125) | 1,609,258 | 3,637,383 |
| Fund balance, beginning | 1,877,211 | 1,877,211 | 1,877,211 | - |
| Fund balance (deficit), ending | <u>\$ (2,677,707)</u> | <u>\$ (150,914)</u> | <u>\$ 3,486,469</u> | <u>\$ 3,637,383</u> |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Community Development Block Grant Special Revenue Fund
For the Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|-----------------------------|-------------------------|--------------|---------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Intergovernmental | \$ 350,669 | \$ 350,669 | \$ 328,276 | \$ (22,393) |
| Expenditures: | | | | |
| Community development | 132,362 | 137,487 | 123,554 | 13,933 |
| Capital Outlay | 3,794 | - | - | - |
| Debt service: | | | | |
| Principal | 116,000 | 116,000 | 116,000 | - |
| Interest and fiscal charges | 88,722 | 88,722 | 88,722 | - |
| Total expenditures | 340,878 | 342,209 | 328,276 | 13,933 |
| Net change in fund balance | 9,791 | 8,460 | - | (8,460) |
| Fund balance, beginning | - | - | - | - |
| Fund balance, ending | \$ 9,791 | \$ 8,460 | \$ - | \$ (8,460) |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Air Quality Management District Special Revenue Fund
For the Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|-------------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Intergovernmental | \$ - | \$ 100,000 | \$ 106,573 | \$ 6,573 |
| Investment income | 2,882 | 2,882 | 5,382 | 2,500 |
| Net increase in fair value of investments | - | - | 743 | 743 |
| | | | | |
| Total revenues | 2,882 | 102,882 | 112,698 | 9,816 |
| | | | | |
| Expenditures: | | | | |
| Public works | 10,500 | 10,500 | 6,259 | 4,241 |
| | | | | |
| Excess (deficiency) of revenues over expenditures | (7,618) | 92,382 | 106,439 | 5,575 |
| | | | | |
| Other financing sources | | | | |
| Transfers in | - | - | 98,444 | 98,444 |
| | | | | |
| Net change in fund balance | (7,618) | 92,382 | 204,883 | 112,501 |
| | | | | |
| Fund balance, beginning | 668,775 | 668,775 | 668,775 | - |
| | | | | |
| Fund balance, ending | <u>\$ 661,157</u> | <u>\$ 761,157</u> | <u>\$ 873,658</u> | <u>\$ 112,501</u> |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Environmental Liability Special Revenue Fund
For the Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|-------------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Other taxes | \$ 484,160 | \$ 484,160 | \$ 540,856 | \$ 56,696 |
| Investment income | 34,042 | 34,042 | 38,410 | 4,368 |
| Net increase in fair value of investments | - | - | 4,981 | 4,981 |
| Other Revenue | - | - | 30,092 | 30,092 |
| Total revenues | 518,202 | 518,202 | 614,339 | 96,137 |
| Expenditures: | | | | |
| Public works | 180,528 | 180,528 | 137,921 | 42,607 |
| Net change in fund balance | 337,674 | 337,674 | 476,418 | 138,744 |
| Fund balance, beginning | 4,732,143 | 4,732,143 | 4,732,143 | - |
| Fund balance, ending | <u>\$ 5,069,817</u> | <u>\$ 5,069,817</u> | <u>\$ 5,208,561</u> | <u>\$ 138,744</u> |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Supplemental Law Enforcement Special Revenue Fund
For the Year Ended June 30, 2014

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|----------------------------|-------------------------|--------------|---------------|---|
| | Original | Final | Actual | |
| Revenues: | | | | |
| Intergovernmental | \$ 138,222 | \$ 138,222 | \$ 159,560 | \$ 21,338 |
| Expenditures: | | | | |
| Public safety | 138,222 | 138,222 | 159,560 | (21,338) |
| Net change in fund balance | - | - | - | - |
| Fund balance, beginning | - | - | - | - |
| Fund balance, ending | \$ - | \$ - | \$ - | \$ - |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Newport Coast Annexation Special Revenue Fund
For the Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|-------------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Investment income | \$ 29,211 | \$ 29,211 | \$ 36,315 | \$ 7,104 |
| Net increase in fair value of investments | - | - | 4,648 | 4,648 |
| Total revenues | 29,211 | 29,211 | 40,963 | 11,752 |
| Expenditures | | | | |
| Debt service: | | | | |
| Principal | 1,200,000 | 1,200,000 | 1,200,000 | - |
| Excess (deficiency) of revenues over expenditures | (1,200,000) | (1,200,000) | (1,200,000) | - |
| Other financing uses | | | | |
| Transfers out | (1,254,000) | (54,000) | (40,963) | 13,037 |
| Net change in fund balance | (2,424,789) | (1,224,789) | (1,200,000) | 24,789 |
| Fund balance, beginning | 4,800,000 | 4,800,000 | 4,800,000 | - |
| Fund balance, ending | <u>\$ 2,375,211</u> | <u>\$ 3,575,211</u> | <u>\$ 3,600,000</u> | <u>\$ 24,789</u> |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Proposition 1B Transportation Special Revenue Fund
For the Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|-----------------------------------|-------------------------|--------------|---------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental | \$ - | \$ 693,000 | \$ 693,000 | \$ - |
| Expenditures | | | | |
| Capital outlay | - | 5,556 | 5,556 | - |
| Net change in fund balance | - | 687,444 | 687,444 | - |
| Fund balance (deficit), beginning | (687,444) | (687,444) | (687,444) | - |
| Fund balance (deficit), ending | <u>\$ (687,444)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Contributions Fund Special Revenue Fund
For the Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|-------------------------|-------------------|---------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Intergovernmental | \$ 1,703,786 | \$ 2,700,143 | \$ 3,074,874 | \$ 374,731 |
| Investment income | - | - | 30,750 | 30,750 |
| Net increase in fair value of investments | - | - | 3,783 | 3,783 |
| Total revenues | <u>1,703,786</u> | <u>2,700,143</u> | <u>3,109,407</u> | <u>409,264</u> |
| Expenditures: | | | | |
| Capital outlay | <u>7,934,791</u> | <u>2,881,816</u> | <u>1,677,666</u> | <u>1,204,150</u> |
| Excess (deficiency) of revenues over expenditures | <u>(6,231,005)</u> | <u>(181,673)</u> | <u>1,431,741</u> | <u>1,613,414</u> |
| Other financing sources (uses): | | | | |
| Transfers in | - | 72,074 | 72,074 | - |
| Transfers out | <u>-</u> | <u>-</u> | <u>(4,735)</u> | <u>(4,735)</u> |
| Total other financing sources (uses) | <u>-</u> | <u>72,074</u> | <u>67,339</u> | <u>(4,735)</u> |
| Net change in fund balance | (6,231,005) | (109,599) | 1,499,080 | 1,608,679 |
| Fund balance, beginning | <u>1,024,147</u> | <u>1,024,147</u> | <u>1,024,147</u> | <u>-</u> |
| Fund balance (deficit), ending | <u>\$ (5,206,858)</u> | <u>\$ 914,548</u> | <u>\$ 2,523,227</u> | <u>\$ 1,608,679</u> |

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FINANCIAL SECTION

SUPPLEMENTARY
INFORMATION

INTERNAL SERVICE FUNDS

FINANCIAL SECTION

INTERNAL SERVICE FUNDS

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

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

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

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

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

The ***Equipment Maintenance Fund*** is used to account for the cost of maintaining and replacing the City's rolling stock fleet, parking equipment and coordinated communications system equipment.

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

CITY OF NEWPORT BEACH
All Internal Service Funds
Combining Statement of Net Position
June 30, 2014

| | Insurance Reserve | Compensated Absences | Retiree Insurance | Equipment Maintenance | Information Technology | Total Internal Service Funds |
|---|------------------------------|---------------------------------|------------------------------|----------------------------------|-----------------------------------|---|
| Assets | | | | | | |
| Current assets: | | | | | | |
| Cash and investments | \$20,771,804 | \$ 1,311,925 | \$ - | \$ 18,518,097 | \$ 6,839,638 | \$ 47,441,464 |
| Receivables: | | | | | | |
| Accounts | 38,562 | - | 2,732,162 | 16,084 | - | 2,786,808 |
| Inventories | - | - | - | 361,090 | - | 361,090 |
| Net other pension employment benefits | - | - | 1,500,000 | - | - | 1,500,000 |
| Prepaid items | - | - | 175,716 | 1,073,408 | 55,867 | 1,304,991 |
| Total current assets | <u>20,810,366</u> | <u>1,311,925</u> | <u>4,407,878</u> | <u>19,968,679</u> | <u>6,895,505</u> | <u>53,394,353</u> |
| Noncurrent assets: | | | | | | |
| Capital assets: | | | | | | |
| Equipment | - | - | - | 26,344,611 | 2,813,303 | 29,157,914 |
| Software | - | - | - | - | 1,687,212 | 1,687,212 |
| Work in progress | - | - | - | 195,729 | 718,908 | 914,637 |
| Less accumulated depreciation | - | - | - | (17,924,293) | (1,247,126) | (19,171,419) |
| Total capital assets (net of accumulated depreciation) | <u>-</u> | <u>-</u> | <u>-</u> | <u>8,616,047</u> | <u>3,972,297</u> | <u>12,588,344</u> |
| Total assets | <u>20,810,366</u> | <u>1,311,925</u> | <u>4,407,878</u> | <u>28,584,726</u> | <u>10,867,802</u> | <u>65,982,697</u> |
| Liabilities | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | 185,647 | 6,988 | 1,501,540 | 342,186 | 182,432 | 2,218,793 |
| Accrued payroll | - | - | - | 53,073 | 97,193 | 150,266 |
| Due to other funds | - | - | 989,488 | - | - | 989,488 |
| Workers' compensation - current | 2,730,836 | - | - | - | - | 2,730,836 |
| General liability - current | 5,240,695 | - | - | - | - | 5,240,695 |
| Compensated absences - current | - | 1,996,561 | - | - | - | 1,996,561 |
| Total current liabilities | <u>8,157,178</u> | <u>2,003,549</u> | <u>2,491,028</u> | <u>395,259</u> | <u>279,625</u> | <u>13,326,639</u> |
| Noncurrent liabilities: | | | | | | |
| Workers' compensation | 11,225,164 | - | - | - | - | 11,225,164 |
| General liability | 4,651,670 | - | - | - | - | 4,651,670 |
| Compensated absences | - | 7,438,931 | - | - | - | 7,438,931 |
| Total noncurrent liabilities | <u>15,876,834</u> | <u>7,438,931</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>23,315,765</u> |
| Total liabilities | <u>24,034,012</u> | <u>9,442,480</u> | <u>2,491,028</u> | <u>395,259</u> | <u>279,625</u> | <u>36,642,404</u> |
| Net Position | | | | | | |
| Investment in capital assets | - | - | - | 8,616,047 | 3,972,297 | 12,588,344 |
| Unrestricted | <u>(3,223,646)</u> | <u>(8,130,555)</u> | <u>1,916,850</u> | <u>19,573,420</u> | <u>6,615,880</u> | <u>16,751,949</u> |
| Total net position | <u>\$ (3,223,646)</u> | <u>\$ (8,130,555)</u> | <u>\$ 1,916,850</u> | <u>\$ 28,189,467</u> | <u>\$ 10,588,177</u> | <u>\$ 29,340,293</u> |

CITY OF NEWPORT BEACH
Internal Service Funds
Combining Statement of Revenues, Expenses
and Changes in Net Position
For the Year Ended June 30, 2014

| | Insurance Reserve | Compensated Absences | Retiree Insurance | Equipment Maintenance | Information Technology | Total Internal Service Funds |
|---|------------------------------|---------------------------------|------------------------------|----------------------------------|-----------------------------------|---|
| Operating revenues: | | | | | | |
| Charges for services | \$ 5,774,570 | \$ 2,250,007 | \$ 3,381,000 | \$ 6,219,260 | \$ 3,374,407 | \$ 20,999,244 |
| Retiree reimbursements | - | - | 281,477 | - | - | 281,477 |
| Employee contributions | - | - | 177,447 | - | - | 177,447 |
| Other | 332,436 | - | 48,181 | 31,560 | 1,439 | 413,616 |
| Total operating revenues | <u>6,107,006</u> | <u>2,250,007</u> | <u>3,888,105</u> | <u>6,250,820</u> | <u>3,375,846</u> | <u>21,871,784</u> |
| Operating expenses: | | | | | | |
| Salaries and wages | - | - | - | 1,275,061 | 2,246,946 | 3,522,007 |
| Depreciation | - | - | - | 2,024,466 | 458,375 | 2,482,841 |
| Professional services | - | - | - | 93,408 | 55,855 | 149,263 |
| Maintenance and supplies | - | - | - | 855,438 | 791,587 | 1,647,025 |
| Fleet parts and supplies | - | - | - | 443,942 | - | 443,942 |
| 800 MHz | - | - | - | 22,259 | - | 22,259 |
| Telecommunication | - | - | - | - | 216,697 | 216,697 |
| Hardware | - | - | - | - | 301,155 | 301,155 |
| Software | - | - | - | - | 31,177 | 31,177 |
| Workers' compensation | 384,056 | - | - | - | - | 384,056 |
| Claims and judgments | 9,870,699 | - | - | - | - | 9,870,699 |
| Compensated absences | - | 1,965,699 | - | - | - | 1,965,699 |
| Voluntary Separation Incentive Program | - | 397,154 | - | - | - | 397,154 |
| OPEB ARC- Cash subsidy | - | - | 3,381,000 | - | - | 3,381,000 |
| Other | - | - | 531,164 | - | - | 531,164 |
| Total operating expenses | <u>10,254,755</u> | <u>2,362,853</u> | <u>3,912,164</u> | <u>4,714,574</u> | <u>4,101,792</u> | <u>25,346,138</u> |
| Operating income (loss) | <u>(4,147,749)</u> | <u>(112,846)</u> | <u>(24,059)</u> | <u>1,536,246</u> | <u>(725,946)</u> | <u>(3,474,354)</u> |
| Nonoperating revenues: | | | | | | |
| Investment income | 147,942 | 12,594 | 10,211 | 143,127 | 47,024 | 360,898 |
| Net increase in fair value of investments | 19,348 | 1,258 | - | 16,049 | 6,566 | 43,221 |
| Gain (loss) on sale of capital assets | - | - | - | 1,133,050 | (48,094) | 1,084,956 |
| Total nonoperating revenues | <u>167,290</u> | <u>13,852</u> | <u>10,211</u> | <u>1,292,226</u> | <u>5,496</u> | <u>1,489,075</u> |
| Income (loss) before transfers | <u>(3,980,459)</u> | <u>(98,994)</u> | <u>(13,848)</u> | <u>2,828,472</u> | <u>(720,450)</u> | <u>(1,985,279)</u> |
| Transfers in | 3,000,000 | - | 1,500,000 | 1,500,000 | 2,120,000 | 8,120,000 |
| Transfers out | - | - | - | (2,098,444) | - | (2,098,444) |
| Change in net position | <u>(980,459)</u> | <u>(98,994)</u> | <u>1,486,152</u> | <u>2,230,028</u> | <u>1,399,550</u> | <u>4,036,277</u> |
| Net position, beginning | <u>(2,243,187)</u> | <u>(8,031,561)</u> | <u>430,698</u> | <u>25,959,439</u> | <u>9,188,627</u> | <u>25,304,016</u> |
| Net position, ending | <u>\$ (3,223,646)</u> | <u>\$ (8,130,555)</u> | <u>\$ 1,916,850</u> | <u>\$ 28,189,467</u> | <u>\$ 10,588,177</u> | <u>\$ 29,340,293</u> |

CITY OF NEWPORT BEACH
Combining Statement of Cash Flows - Internal Service Funds
For the Year Ended June 30, 2014

| | Insurance Reserve | Compensated Absences | Retiree Insurance | Equipment Maintenance | Information Technology | Total Internal Service Funds |
|---|----------------------|-------------------------|----------------------|--------------------------|---------------------------|------------------------------------|
| Cash flows from operating activities | | | | | | |
| Receipts from user departments | \$ 6,365,739 | \$ 2,250,007 | \$ 3,662,477 | \$ 6,208,998 | \$ 3,374,506 | \$ 21,861,727 |
| Payments to employees | (2,984,056) | (3,069,473) | - | (1,272,880) | (2,236,924) | (9,563,333) |
| Payments to suppliers | (7,397,783) | - | (8,074,109) | (1,563,410) | (1,383,453) | (18,418,755) |
| Other operating cash receipts | 332,436 | - | 225,628 | 31,560 | 1,439 | 591,063 |
| Net cash provided (used) by operating activities | (3,683,664) | (819,466) | (4,186,004) | 3,404,268 | (244,432) | (5,529,298) |
| Cash flows from noncapital financing activities: | | | | | | |
| Cash received from other funds | 3,000,000 | - | 2,489,488 | 1,500,000 | 2,120,000 | 9,109,488 |
| Cash paid to other funds | - | - | - | (2,098,444) | - | (2,098,444) |
| Net cash provided by noncapital financing activities | 3,000,000 | - | 2,489,488 | (598,444) | 2,120,000 | 7,011,044 |
| Cash flows from capital and related financing activities: | | | | | | |
| Acquisition of capital assets | - | - | - | (4,495,217) | (2,232,384) | (6,727,601) |
| Proceeds from sale of capital assets | - | - | - | 1,624,939 | - | 1,624,939 |
| Net cash used for capital and related financing activities | - | - | - | (2,870,278) | (2,232,384) | (5,102,662) |
| Cash flows from investing activities: | | | | | | |
| Interest on investments | 167,290 | 13,852 | 10,211 | 159,176 | 53,590 | 404,119 |
| Net cash provided by investing activities | 167,290 | 13,852 | 10,211 | 159,176 | 53,590 | 404,119 |
| Net increase (decrease) in cash and cash equivalents | (516,374) | (805,614) | (1,686,305) | 94,722 | (303,226) | (3,216,797) |
| Cash and cash equivalents, beginning | 21,288,178 | 2,117,539 | 1,686,305 | 18,423,375 | 7,142,864 | 50,658,261 |
| Cash and cash equivalents, ending | \$ 20,771,804 | \$ 1,311,925 | \$ - | \$ 18,518,097 | \$ 6,839,638 | \$ 47,441,464 |
| Reconciliation of cash equivalents to the statement of net position | | | | | | |
| Cash and investments reported on statement of net position | 20,771,804 | 1,311,925 | - | 18,518,097 | 6,839,638 | 47,441,464 |
| Cash and cash equivalents | \$ 20,771,804 | \$ 1,311,925 | \$ - | \$ 18,518,097 | \$ 6,839,638 | \$ 47,441,464 |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | | | |
| Cash flows from operating activities | | | | | | |
| Operating income (loss) | \$ (4,147,749) | \$ (112,846) | \$ (24,059) | \$ 1,536,246 | \$ (725,946) | \$ (3,474,354) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | | | | |
| Depreciation | - | - | - | 2,024,466 | 458,375 | 2,482,841 |
| Changes in operating assets and liabilities: | | | | | | |
| (Increase) decrease in accounts receivable | 591,169 | - | (1,108,273) | (10,262) | 99 | (527,267) |
| Decrease in inventories | - | - | - | 7,739 | - | 7,739 |
| (Increase) decrease in net other pension employment benefits | - | - | (1,500,000) | - | - | (1,500,000) |
| (Increase) decrease in prepaid items | - | - | (4,212) | 539,896 | 19,950 | 555,634 |
| Increase (decrease) in accounts payable and accrued payroll | (235,034) | 2,876 | (1,549,460) | (693,817) | 3,090 | (2,472,345) |
| (Decrease) in workers' compensation | (2,600,000) | - | - | - | - | (2,600,000) |
| Increase in general liability | 2,707,950 | - | - | - | - | 2,707,950 |
| Increase in compensated absences | - | 250,900 | - | - | - | 250,900 |
| (Decrease) in early retirement incentive program | - | (960,396) | - | - | - | (960,396) |
| Total adjustments | 464,085 | (706,620) | (4,161,945) | 1,868,022 | 481,514 | (2,054,944) |
| Net cash provided (used) by operating activities | \$ (3,683,664) | \$ (819,466) | \$ (4,186,004) | \$ 3,404,268 | \$ (244,432) | \$ (5,529,298) |
| Noncash investing, capital, and financing activities: | | | | | | |
| Residual equity transfer | | | | | | |
| Net increase in fair value of investments | \$ 19,348 | \$ 1,258 | \$ - | \$ 16,049 | \$ 6,566 | \$ 43,221 |
| Gain (loss) on sale of capital assets | - | - | - | 1,133,050 | (48,094) | 1,084,956 |
| Total of noncash activities | \$ - | \$ - | \$ - | \$ 1,149,099 | \$ (41,528) | \$ 1,128,177 |

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FINANCIAL SECTION

SUPPLEMENTARY
INFORMATION
FIDUCIARY FUNDS

FINANCIAL SECTION

FIDUCIARY FUNDS

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

The City of Newport Beach Fiduciary Funds are listed below:

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

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

CITY OF NEWPORT BEACH
Agency Funds
Combining Statement of Fiduciary Assets and Liabilities
June 30, 2014

| Assets | Special Assessment District | Business Improvement | Totals |
|------------------------|--|---------------------------------|---------------------|
| Cash and investments | \$ 191,547 | \$ 414,980 | \$ 606,527 |
| Cash with fiscal agent | 5,310,284 | - | 5,310,284 |
| Total assets | <u>\$ 5,501,831</u> | <u>\$ 414,980</u> | <u>\$ 5,916,811</u> |
| Liabilities | | | |
| Due to bondholders | \$ 5,501,831 | \$ - | \$ 5,501,831 |
| Due to others | - | 414,980 | 414,980 |
| Total liabilities | <u>\$ 5,501,831</u> | <u>\$ 414,980</u> | <u>\$ 5,916,811</u> |

CITY OF NEWPORT BEACH
Statement of Changes in Fiduciary Assets and Liabilities
All Agency Funds
For the Year Ended June 30, 2014

| | Balance June 30, 2013 | Additions | Deductions | Balance June 30, 2014 |
|---------------------------------------|--------------------------|---------------------|-----------------------|--------------------------|
| Special Assessment District: | | | | |
| Assets | | | | |
| Cash and investments | \$ 266,865 | \$ 2,785,642 | \$ (2,860,960) | \$ 191,547 |
| Cash with fiscal agent | 5,308,082 | 2,926,842 | (2,924,640) | 5,310,284 |
| Total Assets | <u>\$ 5,574,947</u> | <u>\$ 5,712,484</u> | <u>\$ (5,785,600)</u> | <u>\$ 5,501,831</u> |
| Liabilities | | | | |
| Due to bondholders | \$ 5,574,947 | \$ 5,712,484 | \$ (5,785,600) | \$ 5,501,831 |
| Due to City of Newport Beach | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Liabilities | <u>\$ 5,574,947</u> | <u>\$ 5,712,484</u> | <u>\$ (5,785,600)</u> | <u>\$ 5,501,831</u> |
| Business Improvement District: | | | | |
| Assets | | | | |
| Cash and investments | \$ 252,579 | \$ 2,636,242 | \$ (2,473,841) | \$ 414,980 |
| Receivable | 17,342 | - | (17,342) | - |
| | <u>\$ 269,921</u> | <u>\$ 2,636,242</u> | <u>\$ (2,491,183)</u> | <u>\$ 414,980</u> |
| Liabilities | | | | |
| Due to others | <u>\$ 269,921</u> | <u>\$ 2,636,242</u> | <u>\$ (2,491,183)</u> | <u>\$ 414,980</u> |
| Totals - All Agency Funds: | | | | |
| Assets | | | | |
| Cash and investments | \$ 519,444 | \$ 5,421,884 | \$ (5,334,801) | \$ 606,527 |
| Cash with fiscal agent | 5,308,082 | 2,926,842 | (2,924,640) | 5,310,284 |
| Receivable | 17,342 | - | (17,342) | - |
| Total Assets | <u>\$ 5,844,868</u> | <u>\$ 8,348,726</u> | <u>\$ (8,276,783)</u> | <u>\$ 5,916,811</u> |
| Liabilities | | | | |
| Due to bondholders | \$ 5,574,947 | \$ 5,712,484 | \$ (5,785,600) | \$ 5,501,831 |
| Due to others | 269,921 | 2,636,242 | (2,473,841) | 414,980 |
| Total Liabilities | <u>\$ 5,844,868</u> | <u>\$ 8,348,726</u> | <u>\$ (8,259,441)</u> | <u>\$ 5,916,811</u> |

STATISTICAL SECTION

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FINANCIAL TRENDS

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

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

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

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

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

| | Fiscal Year | | | |
|----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2005 | 2006 | 2007 | 2008 |
| Governmental activities: | | | | |
| Net investment in capital assets | \$ 1,915,348,883 | \$ 2,005,643,651 | \$ 2,027,026,053 | \$ 2,050,925,370 |
| Restricted | 54,285,743 | 51,901,103 | 35,017,831 | 40,988,923 |
| Unrestricted | 61,894,956 | 56,662,229 | 75,989,169 | 87,802,996 |
| Total governmental activities | <u>\$ 2,031,529,582</u> | <u>\$ 2,114,206,983</u> | <u>\$ 2,138,033,053</u> | <u>\$ 2,179,717,289</u> |
| Business-type activities: | | | | |
| Net investment in capital assets | \$ 99,641,411 | \$ 104,602,266 | \$ 107,231,308 | \$ 107,313,603 |
| Restricted | - | - | - | - |
| Unrestricted | 19,665,535 | 16,907,367 | 15,808,357 | 13,639,027 |
| Total business-type activities | <u>\$ 119,306,946</u> | <u>\$ 121,509,633</u> | <u>\$ 123,039,665</u> | <u>\$ 120,952,630</u> |
| Primary government: | | | | |
| Net investment in capital assets | \$ 2,014,990,294 | \$ 2,110,245,917 | \$ 2,134,257,361 | \$ 2,158,238,973 |
| Restricted | 54,285,743 | 51,901,103 | 35,017,831 | 40,988,923 |
| Unrestricted | 81,560,491 | 73,569,596 | 91,797,526 | 101,442,023 |
| Total primary government | <u>\$ 2,150,836,528</u> | <u>\$ 2,235,716,616</u> | <u>\$ 2,261,072,718</u> | <u>\$ 2,300,669,919</u> |

¹ Reflects restatement of net position due to the implementation of GASB 65 in fiscal year ended June 30, 2013. Additional information on the City's implementation of GASB 65 can be found in the Notes to the Financial Statements.

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

The City of Newport Beach implemented GASB 63 and GASB 65 for the fiscal year ended June 30, 2013.

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

| Fiscal Year | | | | | |
|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| 2009 | 2010 | 2011 | 2012 ¹ | 2013 | 2014 |
| \$ 2,061,635,642 | \$ 2,084,912,221 | \$ 2,087,403,003 | \$ 2,098,349,998 | \$ 2,124,797,794 | \$ 2,149,191,364 |
| 44,212,747 | 34,236,929 | 63,940,282 | 61,923,719 | 72,119,674 | 59,998,344 |
| 96,276,381 | 86,049,492 | 67,500,916 | 82,515,232 | 77,966,414 | 82,653,213 |
| <u>\$ 2,202,124,770</u> | <u>\$ 2,205,198,642</u> | <u>\$ 2,218,844,201</u> | <u>\$ 2,242,788,949</u> | <u>\$ 2,274,883,882</u> | <u>\$ 2,291,842,921</u> |
| | | | | | |
| \$ 108,510,361 | \$ 108,449,847 | \$ 108,976,459 | \$ 108,981,237 | \$ 111,177,135 | \$ 115,948,522 |
| - | - | - | - | - | - |
| 11,435,306 | 10,173,912 | 9,442,988 | 15,089,798 | 19,172,398 | 21,978,261 |
| <u>\$ 119,945,667</u> | <u>\$ 118,623,759</u> | <u>\$ 118,419,447</u> | <u>\$ 124,071,035</u> | <u>\$ 130,349,533</u> | <u>\$ 137,926,783</u> |
| | | | | | |
| \$ 2,170,146,003 | \$ 2,193,362,068 | \$ 2,196,379,462 | \$ 2,207,331,235 | \$ 2,235,974,929 | \$ 2,265,139,886 |
| 44,212,747 | 34,236,929 | 63,940,282 | 61,923,719 | 72,119,674 | 59,998,344 |
| 107,711,687 | 96,223,404 | 76,943,904 | 97,605,030 | 97,138,812 | 104,631,474 |
| <u>\$ 2,322,070,437</u> | <u>\$ 2,323,822,401</u> | <u>\$ 2,337,263,648</u> | <u>\$ 2,366,859,984</u> | <u>\$ 2,405,233,415</u> | <u>\$ 2,429,769,704</u> |

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

| | Fiscal Year | | | | | | | | | |
|---|-----------------|-------------------------|-----------------|-------------------------|-----------------|------------------|------------------|------------------|-------------------------|------------------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Expenses: | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| General government | \$ 11,378,609 | \$ 14,509,827 | \$ 14,166,168 | \$ 15,556,657 | \$ 16,430,529 | \$ 17,082,705 | \$ 15,857,397 | \$ 14,325,966 | \$ 15,830,575 | \$ 18,834,165 |
| Public safety | 63,214,291 | 67,789,121 | 69,795,386 | 75,821,082 | 79,301,600 | 79,402,600 | 78,128,006 | 75,696,570 | 83,235,188 | 87,676,061 |
| Public works | 46,359,871 | 33,870,359 | 39,179,844 | 42,631,401 | 45,600,429 | 55,445,327 | 40,341,323 | 48,913,412 | 47,794,631 | 42,953,119 |
| Community development | 6,437,006 | 8,157,925 | 9,020,868 | 10,052,871 | 10,283,528 | 10,082,454 | 8,637,525 | 9,365,676 | 9,223,098 | 10,283,481 |
| Community services | 13,073,215 | 13,803,755 | 23,304,053 | 19,146,588 | 20,589,094 | 17,232,357 | 17,272,374 | 21,554,696 | 22,244,661 | 21,357,271 |
| Interest on long-term debt | 508,869 | 479,529 | 523,401 | 532,569 | 437,207 | 372,502 | 5,078,881 | 8,204,928 | 7,989,339 | 7,888,192 |
| Total governmental activities expenses | 140,971,861 | 138,610,516 | 155,989,720 | 163,741,168 | 172,642,387 | 179,617,945 | 165,315,506 | 178,061,248 | 186,317,492 | 188,992,289 |
| Business-type activities: | | | | | | | | | | |
| Water | 14,467,233 | 16,228,213 | 17,399,900 | 20,148,517 | 18,210,789 | 18,732,351 | 19,824,996 | 18,358,646 | 20,208,300 | 22,037,284 |
| Wastewater | 2,740,908 | 3,143,629 | 3,259,837 | 3,423,592 | 3,753,042 | 3,599,034 | 3,936,949 | 3,360,418 | 3,462,165 | 3,368,656 |
| Total business-type activities expenses | 17,208,141 | 19,371,842 | 20,659,737 | 23,572,109 | 21,963,831 | 22,331,385 | 23,761,945 | 21,719,064 | 23,670,465 | 25,405,940 |
| Total primary government expenses | 158,180,002 | 157,982,358 | 176,649,457 | 187,313,277 | 194,606,218 | 201,949,330 | 189,077,451 | 199,780,312 | 209,987,957 | 214,398,229 |
| Program revenues: | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| General government | 2,412,769 | 2,623,272 | 2,944,100 | 3,055,982 | 2,543,880 | 2,909,603 | 2,722,527 | 2,593,741 | 2,759,306 | 3,046,232 |
| Public safety | 16,264,493 | 13,669,509 | 15,756,327 | 16,649,400 | 14,757,266 | 15,006,601 | 15,686,314 | 16,240,135 | 16,008,421 | 19,124,112 |
| Public works | 6,031,248 | 5,133,728 | 5,482,167 | 5,616,118 | 5,532,871 | 6,392,877 | 2,938,315 | 4,576,208 | 5,019,835 | 5,517,103 |
| Community development | 5,129,858 | 5,667,289 | 5,682,636 | 5,597,309 | 4,852,534 | 4,806,745 | 5,599,737 | 6,202,080 | 7,057,010 | 8,043,390 |
| Community services | 3,952,862 | 9,433,278 | 9,054,504 | 9,203,513 | 9,052,330 | 8,673,465 | 8,962,818 | 14,119,869 | 13,176,050 | 13,270,316 |
| Interest on long-term debt | - | - | - | - | - | - | - | - | - | - |
| Operating Grants and Contributions: | | | | | | | | | | |
| Capital Grants and Contributions: | 17,480,834 | 12,772,599 | 16,172,023 | 15,778,851 | 13,404,286 | 15,677,617 | 10,710,266 | 11,418,147 | 11,290,989 | 15,196,696 |
| Contributions: | 20,205,948 | 69,473,891 ¹ | 6,904,716 | 31,037,915 ² | 24,633,716 | 12,350,100 | 11,101,239 | 14,838,783 | 25,613,846 ³ | 563,786 |
| Total governmental activities program revenues | 71,478,012 | 118,773,566 | 61,996,473 | 86,939,088 | 74,776,883 | 65,817,008 | 57,721,216 | 69,988,962 | 80,925,457 | 64,761,636 |
| Business-type activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| Water | 17,573,196 | 17,923,523 | 17,918,968 | 17,270,511 | 16,966,621 | 17,412,634 | 20,097,227 | 23,877,685 | 26,795,767 | 29,397,882 |
| Wastewater | 2,900,672 | 3,311,089 | 3,535,050 | 3,552,780 | 3,479,565 | 3,368,327 | 3,348,433 | 3,382,905 | 3,450,638 | 3,438,670 |
| Total business-type activities program revenues | 20,473,868 | 21,234,612 | 21,454,018 | 20,823,291 | 20,446,186 | 20,780,961 | 23,445,660 | 27,260,590 | 30,246,405 | 32,836,552 |
| Total primary government program revenues | 91,951,880 | 140,008,178 | 83,450,491 | 107,762,379 | 95,223,069 | 86,597,969 | 81,166,876 | 97,249,552 | 111,171,862 | 97,598,188 |
| Net revenues (expenses): | | | | | | | | | | |
| Governmental activities | (69,493,849) | (19,836,950) | (93,993,247) | (76,802,080) | (97,865,504) | (113,800,937) | (107,594,290) | (108,072,286) | (105,392,035) | (124,230,653) |
| Business-type activities | 3,265,727 | 1,862,770 | 794,281 | (2,748,818) | (1,517,645) | (1,550,424) | (316,285) | 5,541,526 | 6,575,940 | 7,430,612 |
| Total net revenues (expenses) | \$ (66,228,122) | \$ (17,974,180) | \$ (93,198,966) | \$ (79,550,898) | \$ (99,383,149) | \$ (115,351,361) | \$ (107,910,575) | \$ (102,530,760) | \$ (98,816,095) | \$ (116,800,041) |

¹ 2006 data varies from trend because of increased capital assets related mostly to Bristol St. Relinquishment, Newport Coast Community Center, and Fire Station # 7.

² 2008 data varies from trend because of increased capital assets related to Santa Ana Heights Annexation.

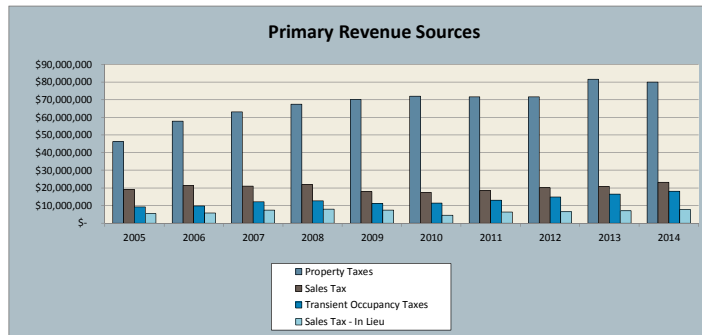
³ 2013 data varies from trend because of increased capital assets related to contribution from State of California.

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

The City of Newport Beach implemented GASB 63 and GASB 65 for the fiscal year ended June 30, 2013.

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

| | Fiscal Year | | | | | | | | | |
|---|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| General revenues and other changes in net position: | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Taxes: | | | | | | | | | | |
| Property taxes | \$ 46,303,366 | \$ 57,888,545 | \$ 63,003,057 | \$ 67,388,838 | \$ 70,126,680 | \$ 71,999,680 | \$ 71,630,345 | \$ 71,546,249 | \$ 81,603,194 | \$ 79,889,346 |
| Sales tax | 18,977,828 | 21,465,557 | 21,088,118 | 21,855,242 | 17,925,956 | 17,440,736 | 18,455,181 | 20,107,597 | 20,764,204 | 23,142,065 |
| Sales tax in-lieu | 5,339,827 | 5,720,028 | 7,348,253 | 8,017,539 | 7,503,113 | 4,539,946 | 6,284,266 | 6,523,492 | 7,078,517 | 7,727,876 |
| Transient occupancy taxes | 9,215,862 | 9,832,729 | 12,059,008 | 12,751,518 | 11,170,956 | 11,400,710 | 13,082,451 | 14,798,191 | 16,500,285 | 18,176,369 |
| Business license | 3,458,165 | 3,848,381 | 3,770,172 | 4,119,108 | 4,273,642 | 4,026,614 | 4,090,634 | 4,073,725 | 4,145,666 | 4,156,130 |
| Franchise taxes | 3,029,476 | 3,162,588 | 4,613,932 | 3,853,119 | 3,961,634 | 3,715,946 | 3,730,819 | 3,845,901 | 3,820,723 | 3,998,943 |
| Motor vehicle license fees | 6,395,860 | 300,751 | 391,559 | 304,920 | 356,237 | 314,957 | 403,042 | 42,911 | - | - |
| Motor vehicle fines | - | - | - | - | - | - | - | - | - | - |
| Other taxes | 240,534 | 508,331 | 515,128 | 373,350 | 230,115 | 201,893 | 226,257 | 278,521 | 286,880 | 216,604 |
| Investment income | 1,209,074 | 1,939,941 | 3,175,582 | 3,655,314 | 1,764,827 | 706,855 | 366,081 | 405,674 | 219,091 | 542,915 |
| Net increase in fair value of investments | (258,125) | (715,615) | (545,533) | 508,485 | 1,096,848 | 707,200 | 369,235 | 246,119 | - | 53,783 |
| Gain on sale of assets | - | - | - | - | - | - | - | - | - | - |
| Other | 761,111 | 776,907 | 2,232,070 | 1,858,883 | 1,862,977 | 1,820,272 | 2,601,538 | 2,789,471 | 2,748,524 | 3,803,728 |
| Property income | - | - | - | - | - | - | - | - | - | - |
| Share of joint venture net income | 100,325 | (513,791) | 253,207 | - | - | - | - | - | - | - |
| Change in accounting estimates | - | - | - | - | - | - | - | 8,484,000 | - | - |
| Capital contributions | 213,779,060 | - | - | - | - | - | - | 7,352 | 319,884 | - |
| Sale of service rights | - | - | - | - | - | - | - | - | - | - |
| Transfers | - | 40,000 | - | - | - | - | - | - | - | - |
| Total governmental activities | 308,552,363 | 104,254,352 | 117,904,553 | 124,686,316 | 120,272,985 | 116,874,809 | 121,239,849 | 133,149,203 | 137,486,968 | 141,707,759 |
| Business-type activities: | | | | | | | | | | |
| Investment income | 424,157 | 549,012 | 792,936 | 588,870 | 374,893 | 128,399 | 52,996 | 49,718 | 22,442 | 128,439 |
| Net increase in fair value of investments | (87,921) | (169,095) | (57,185) | 72,913 | 135,789 | 100,117 | 58,977 | 67,696 | - | 18,199 |
| Property income | 26,970 | - | - | - | - | - | - | - | - | - |
| Capital contributions | - | - | - | - | - | - | - | (7,352) | (319,884) | - |
| Transfers | - | (40,000) | - | - | - | - | - | - | - | - |
| Total business-type activities | 363,206 | 339,917 | 735,751 | 661,783 | 510,682 | 228,516 | 111,973 | 110,062 | (297,442) | 146,638 |
| Total primary government | 308,915,569 | 104,594,269 | 118,640,304 | 125,348,099 | 120,783,667 | 117,103,325 | 121,351,822 | 133,259,265 | 137,189,526 | 141,854,397 |
| Changes in net position: | | | | | | | | | | |
| Governmental activities | 239,058,514 | 84,417,402 | 23,911,306 | 47,884,236 | 22,407,481 | 3,073,872 | 13,645,559 | 25,076,917 | 32,094,933 | 17,477,106 |
| Business-type activities | 3,628,933 | 2,202,687 | 1,530,032 | (2,087,035) | (1,006,963) | (1,321,908) | (204,312) | 5,651,588 | 6,278,498 | 7,577,250 |
| Total primary government | \$ 242,687,447 | \$ 86,620,089 | \$ 25,441,338 | \$ 45,797,201 | \$ 21,400,518 | \$ 1,751,964 | \$ 13,441,247 | \$ 30,728,505 | \$ 38,373,431 | \$ 25,054,356 |



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

| | Fiscal Year ² | | | |
|------------------------------------|--------------------------|------|------|------|
| | 2005 | 2006 | 2007 | 2008 |
| General fund: | | | | |
| Nonspendable | | | | |
| Restricted | | | | |
| Committed | | | | |
| Assigned | | | | |
| Unassigned | | | | |
| Total general fund | | | | |
| All other governmental funds: | | | | |
| Nonspendable | | | | |
| Restricted | | | | |
| Committed | | | | |
| Assigned | | | | |
| Unassigned | | | | |
| Total all other governmental funds | | | | |
| Total all governmental funds | | | | |

| | Fiscal Year | | | |
|------------------------------------|-----------------------|-----------------------|----------------------|-----------------------|
| | 2005 | 2006 | 2007 | 2008 |
| General fund: | | | | |
| Reserved | \$ 4,673,198 | \$ 9,374,722 | \$ 7,233,703 | \$ 6,807,094 |
| Unreserved | 49,814,197 | 45,212,339 | 62,679,499 | 72,252,045 |
| Total general fund | <u>\$ 54,487,395</u> | <u>\$ 54,587,061</u> | <u>\$ 69,913,202</u> | <u>\$ 79,059,139</u> |
| All other governmental funds: | | | | |
| Reserved | \$ 13,000,882 | \$ 36,134,686 | \$ 11,168,955 | \$ 12,060,365 |
| Unreserved, reported in: | | | | |
| Special revenue funds | 26,391,109 | 7,533,654 | 18,917,308 | 21,670,956 |
| Capital projects funds | 6,076,969 | 2,077,124 | (3,258,201) | 3,271,954 |
| Permanent funds | 285,506 | 404,771 | 660,029 | 934,648 |
| Total all other governmental funds | <u>\$ 45,754,466</u> | <u>\$ 46,150,235</u> | <u>\$ 27,488,091</u> | <u>\$ 37,937,923</u> |
| Total all governmental funds | <u>\$ 100,241,861</u> | <u>\$ 100,737,296</u> | <u>\$ 97,401,293</u> | <u>\$ 116,997,062</u> |

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

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

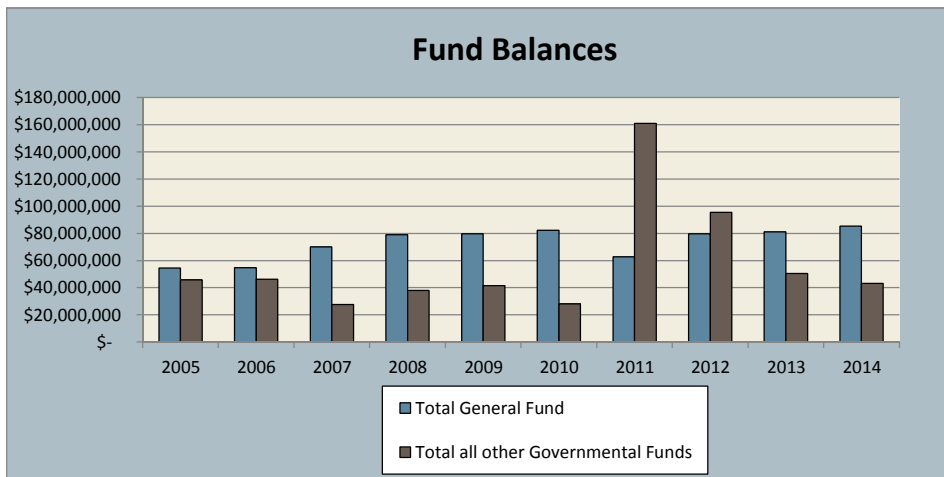
³ 2011 general fund data varies from trend due to \$31.3 million transfer from General Fund to Facilities Financial Planning Reserve Fund.

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

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

| Fiscal Year ² | | | | | |
|--------------------------|------|------------------------------------|-----------------------|-----------------------|-----------------------|
| 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| | | \$ 1,031,742 | \$ 7,854,478 | \$ 9,919,486 | \$ 16,316,499 |
| | | 1,681,333 | 2,263,049 | 2,410,373 | 3,939,751 |
| | | 27,619,902 | 29,673,333 | 29,371,507 | 12,782,235 |
| | | 11,865,835 | 19,431,475 | 6,843,417 | 1,326,170 |
| | | 20,570,033 | 20,570,023 | 32,585,375 | 51,015,820 |
| | | <u>\$ 62,768,845</u> ³ | <u>\$ 79,792,358</u> | <u>\$ 81,130,158</u> | <u>\$ 85,380,475</u> |
| | | \$ 5,898,234 | \$ 5,396,436 | \$ 4,697,220 | \$ 4,629,781 |
| | | 36,445,842 | 30,957,184 | 27,433,342 | 33,243,790 |
| | | 115,923,344 | 70,500,156 | 33,961,163 | 19,513,389 |
| | | 5,633,558 | - | - | - |
| | | (2,988,102) | (11,339,671) | (15,723,261) | (14,291,969) |
| | | <u>\$ 160,912,876</u> ⁴ | <u>\$ 95,514,105</u> | <u>\$ 50,368,464</u> | <u>\$ 43,094,991</u> |
| | | <u>\$ 223,681,721</u> | <u>\$ 175,306,463</u> | <u>\$ 131,498,622</u> | <u>\$ 128,475,466</u> |

| Fiscal Year | |
|-----------------------|-----------------------|
| 2009 | 2010 |
| \$ 5,907,205 | \$ 5,472,481 |
| 73,703,759 | 76,685,385 |
| <u>\$ 79,610,964</u> | <u>\$ 82,157,866</u> |
| \$ 8,831,229 | \$ 9,363,673 |
| 23,849,191 | 27,973,528 |
| 7,671,450 | (10,571,278) |
| 1,170,009 | 1,294,924 |
| <u>\$ 41,521,879</u> | <u>\$ 28,060,847</u> |
| <u>\$ 121,132,843</u> | <u>\$ 110,218,713</u> |



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

| | Fiscal Year | | | |
|---|----------------------------|--------------------|-----------------------|----------------------|
| | 2005 | 2006 | 2007 | 2008 |
| Revenues: | | | | |
| Taxes | \$ 91,606,863 ¹ | \$ 102,737,810 | \$ 112,230,054 | \$ 118,758,201 |
| Intergovernmental | 19,513,589 | 14,842,994 | 18,866,929 | 21,005,429 |
| Licenses and permits | 4,968,234 | 5,708,965 | 4,574,659 | 6,474,789 |
| Charges for services | 13,104,478 | 13,135,366 | 14,452,723 | 15,073,178 |
| Fines and forfeitures | 3,422,735 | 3,841,843 | 4,126,351 | 4,662,442 |
| Investment income | 2,356,747 | 3,847,982 | 5,431,137 | 5,463,066 |
| Net increase (decrease) in fair value of investments | (493,879) | (1,325,211) | (626,881) | 720,488 |
| Property income | 12,337,339 | 13,625,142 | 13,965,815 | 15,217,803 |
| Donations | 1,087,826 | 883,405 | 1,379,461 | 2,159,637 |
| Contributions from property owners | 14,779,013 | - | - | - |
| Other | 980,446 | 1,042,882 | 1,967,465 | 4,205,095 |
| Total revenues | <u>163,663,391</u> | <u>158,341,178</u> | <u>176,367,713</u> | <u>193,740,128</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | 10,920,667 | 12,531,200 | 13,706,061 | 14,508,103 |
| Public safety | 59,482,134 | 65,262,069 | 68,843,947 | 73,486,413 |
| Public works | 24,365,996 | 26,430,751 | 28,352,293 | 30,108,941 |
| Community development | 6,144,917 | 7,900,503 | 7,753,035 | 8,703,841 |
| Community services | 10,351,414 | 12,730,727 | 13,988,589 | 14,478,146 |
| Capital outlay | 33,486,048 | 24,811,237 | 45,615,169 | 20,524,638 |
| Debt service: | | | | |
| Principal retirement | 1,688,801 | 1,715,542 | 3,736,587 | 3,263,948 |
| Interest and fiscal charges | 499,077 | 480,909 | 458,035 | 577,299 |
| Issuance of debt costs | - | - | - | - |
| Total expenditures | <u>146,939,054</u> | <u>151,862,938</u> | <u>182,453,716</u> | <u>165,651,329</u> |
| Excess (deficiency) of revenues over (under) expenditures | 16,724,337 | 6,478,240 | (6,086,003) | 28,088,799 |
| Other financing sources (uses): | | | | |
| Transfers in | 20,601,957 | 25,194,920 | 20,271,396 | 27,583,922 |
| Transfers out | (20,612,176) | (31,177,725) | (22,521,396) | (36,076,952) |
| Proceeds from issuance of debt | - | - | 5,000,000 | - |
| Issuance of debt premium | - | - | - | - |
| Total other financing sources (uses) | <u>(10,219)</u> | <u>(5,982,805)</u> | <u>2,750,000</u> | <u>(8,493,030)</u> |
| Net change in fund balances | <u>\$ 16,714,118</u> | <u>\$ 495,435</u> | <u>\$ (3,336,003)</u> | <u>\$ 19,595,769</u> |
| Debt service as a percentage of noncapital expenditures | 1.7% | 1.7% | 2.8% | 2.5% |

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

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

| Fiscal Year | | | | | |
|----------------|-----------------|----------------|-----------------|-----------------|----------------|
| 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| \$ 115,711,574 | \$ 113,809,443 | \$ 117,983,765 | \$ 121,710,955 | \$ 134,733,550 | \$ 137,910,879 |
| 11,434,885 | 15,379,698 | 11,467,471 | 12,122,963 | 11,393,589 | 16,825,839 |
| 5,883,515 | 3,950,967 | 5,198,986 | 6,691,125 | 7,682,555 | 6,659,203 |
| 14,498,120 | 15,293,362 | 15,285,813 | 16,020,825 | 16,254,399 | 16,864,092 |
| 4,572,611 | 4,105,632 | 3,545,229 | 3,795,787 | 3,649,532 | 3,272,951 |
| 3,245,677 | 1,289,890 | 1,045,592 | 1,142,935 | 372,514 | 1,136,062 |
| 1,472,335 | 1,155,363 | 882,317 | 704,656 | - | 124,439 |
| 14,032,342 | 14,624,923 | 15,538,387 | 17,458,143 | 19,847,371 | 22,214,256 |
| 6,760,140 | 5,497,640 | 1,790,073 | 13,977,850 | 587,445 | 1,170,171 |
| - | - | - | - | - | - |
| 8,501,014 | 7,646,274 | 5,091,527 | 691,125 | 3,543,894 | 1,400,048 |
| 186,112,213 | 182,753,192 | 177,829,160 | 194,316,364 | 198,064,849 | 207,577,940 |
| 15,567,654 | 15,169,546 | 15,424,734 | 12,896,492 | 13,671,480 | 14,471,167 |
| 78,554,344 | 77,202,445 | 74,947,173 | 75,377,871 | 80,546,969 | 82,642,988 |
| 30,619,405 | 39,922,406 | 31,442,076 | 32,399,178 | 32,451,624 | 32,414,457 |
| 9,971,536 | 9,556,066 | 8,430,813 | 8,939,825 | 8,994,710 | 9,768,928 |
| 17,485,605 | 14,916,230 | 15,662,011 | 19,296,505 | 18,872,022 | 19,047,813 |
| 26,002,338 | 36,796,653 | 37,645,882 | 80,617,948 | 72,133,582 | 33,572,193 |
| 3,292,641 | 1,820,679 | 6,230,080 | 4,529,854 | 3,998,000 | 4,091,000 |
| 482,908 | 383,297 | 1,179,612 | 8,320,500 | 8,152,488 | 8,052,927 |
| - | - | 1,219,071 | - | - | - |
| 181,976,431 | 195,767,322 | 192,181,452 | 242,378,173 | 238,820,875 | 204,061,473 |
| 4,135,782 | (13,014,130) | (14,352,292) | (48,061,809) | (40,756,026) | 3,516,467 |
| 23,354,366 | 22,380,521 | 58,763,620 | 24,640,318 | 47,875,107 | 41,223,727 |
| (23,354,366) | (21,780,521) | (58,763,620) | (24,953,767) | (50,926,922) | (47,245,283) |
| - | 1,500,000 | 126,660,000 | - | - | - |
| - | - | 1,155,300 | - | - | - |
| - | 2,100,000 | 127,815,300 | (313,449) | (3,051,815) | (6,021,556) |
| \$ 4,135,782 | \$ (10,914,130) | \$ 113,463,008 | \$ (48,375,258) | \$ (43,807,841) | \$ (2,505,089) |
| 2.3% | 1.4% | 4.8% | 8.3% | 15.8% | 6.9% |

REVENUE CAPACITY

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

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

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

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

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

| Fiscal Year Ended June 30 | Secured | | | Unsecured | Total Taxable Assessed Value | Change | Total Direct Tax Rate |
|---------------------------------|-------------------|------------------|------------------|------------------|---------------------------------|--------|--------------------------|
| | Residential | Commercial | Other | | | | |
| 2005 | \$ 19,647,606,379 | \$ 3,032,349,738 | \$ 2,277,666,186 | \$ 1,720,058,983 | 26,677,681,286 | 8.69% | 1.000% |
| 2006 | 22,366,613,801 | 3,301,326,557 | 2,469,953,871 | 1,912,820,330 | 30,050,714,559 | 12.64% | 1.000% |
| 2007 | 25,031,963,262 | 3,668,372,732 | 2,740,012,058 | 1,552,992,239 | 32,993,340,291 | 9.79% | 1.000% |
| 2008 | 27,177,546,525 | 4,075,857,422 | 3,002,432,812 | 1,600,747,166 | 35,856,583,925 | 8.68% | 1.000% |
| 2009 | 28,776,625,105 | 4,483,982,262 | 3,229,746,289 | 1,484,291,896 | 37,974,645,552 | 5.91% | 1.000% |
| 2010 | 29,045,540,944 | 4,612,744,514 | 3,404,817,190 | 1,580,301,473 | 38,643,404,121 | 1.76% | 1.000% |
| 2011 | 30,817,858,325 | 4,705,710,093 | 1,514,325,933 | 1,669,270,834 | 38,707,165,185 | 0.16% | 1.000% |
| 2012 | 31,596,770,630 | 4,503,331,467 | 1,442,293,084 | 1,556,752,313 | 39,099,147,494 | 1.01% | 1.000% |
| 2013 | 32,819,489,335 | 4,388,629,627 | 1,430,150,476 | 1,593,908,426 | 40,232,177,864 | 2.90% | 1.000% |
| 2014 | 34,944,401,929 | 4,433,050,396 | 1,482,712,541 | 1,464,486,452 | 42,324,651,318 | 5.20% | 1.000% |

NOTE:

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

Source: HdL, Coren & Cone

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

| | Fiscal Year | | | | | | | | | |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------|----------------|----------------|----------------|----------------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| City Direct Rates: | | | | | | | | | | |
| City basic rate | \$ 1.000 | \$ 1.000 | \$ 1.000 | \$ 1.000 | \$ 1.000 | \$1.000 | \$1.000 | \$1.000 | \$1.000 | \$1.000 |
| Total City Direct Rate | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| Overlapping Rates: | | | | | | | | | | |
| Water Districts | 0.006 | 0.069 | 0.078 | 0.096 | 0.096 | 0.110 | 0.110 | 0.110 | 0.110 | 0.110 |
| School Districts | 0.1439 | 0.1137 | 0.1103 | 0.1092 | 0.1009 | 0.1521 | 0.1548 | 0.1546 | 0.1646 | 0.1702 |
| Total Overlapping Rate | 0.150 | 0.182 | 0.189 | 0.205 | 0.197 | 0.262 | 0.265 | 0.264 | 0.274 | 0.280 |
| Total Direct & Overlapping Rate | <u>\$ 1.150</u> | <u>\$ 1.182</u> | <u>\$ 1.189</u> | <u>\$ 1.205</u> | <u>\$ 1.197</u> | <u>\$1.262</u> | <u>\$1.265</u> | <u>\$1.264</u> | <u>\$1.274</u> | <u>\$1.280</u> |

NOTE:

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

Source: HdL, Coren & Cone

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

| Taxpayer | 2014 | | | 2005 | | |
|------------------------------|-------------------------|------|--|-------------------------|------|--|
| | Taxable Assessed Value | Rank | Percent of Total City Taxable Assessed Value | Taxable Assessed Value | Rank | Percent of Total City Taxable Assessed Value |
| The Irvine Company | \$ 1,690,011,263 | 1 | 3.99% | \$ 1,331,451,013 | 1 | 4.99% |
| Newport Bluffs LLC | 144,534,708 | 2 | 0.34% | N/A | | 0.00% |
| UDR Newport Beach North LP | 124,924,813 | 3 | 0.30% | 135,348,178 | 5 | 0.55% |
| Coronado South Apartments LP | 119,910,858 | 4 | 0.28% | N/A | | 0.00% |
| Jazz Semiconductor Inc | 114,049,565 | 5 | 0.27% | 564,285,926 | 2 | 2.30% |
| Balboa Bay Club Inc. | 106,618,895 | 6 | 0.25% | 121,143,929 | 6 | 0.49% |
| Newport Healthcare Center | 102,000,000 | 7 | 0.24% | N/A | | 0.00% |
| 100 Bayview LLC | 98,849,740 | 8 | 0.23% | N/A | | 0.00% |
| HHR Newport Beach LLC | 87,377,106 | 9 | 0.21% | N/A | | 0.00% |
| Promontory PT Apartments LLC | 81,149,332 | 10 | 0.19% | N/A | | 0.00% |
| | <u>\$ 2,669,426,280</u> | | <u>6.31%</u> | <u>\$ 2,152,229,046</u> | | <u>8.33%</u> |

Source: HdL, Coren and Cone Co.

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

| Fiscal Year Ended June 30 | Taxes Levied for the Fiscal Year | Collected within the Fiscal Year of Levy | | Collections in Subsequent Years ² | Total Collections to Date | |
|---------------------------------|-------------------------------------|---|--------------------|--|---------------------------|--------------------|
| | | Amount ¹ | Percent of Levy | | Amount | Percent of Levy |
| 2005 | 45,111,328 | 44,112,400 | 97.79% | 483,804 | 44,596,204 | 98.86% |
| 2006 | 47,286,816 | 45,558,039 | 96.34% | 728,365 | 46,286,404 | 97.88% |
| 2007 | 70,194,492 | 68,820,402 | 98.04% | 1,307,043 | 70,127,445 | 99.90% |
| 2008 | 69,315,116 | 66,675,541 | 96.19% | 2,163,679 | 68,839,220 | 99.31% |
| 2009 | 71,006,357 | 68,266,624 | 96.14% | 2,123,097 | 70,389,721 | 99.13% |
| 2010 | 68,412,731 | 66,282,513 ³ | 96.89% | 1,507,391 | 67,789,904 | 99.09% |
| 2011 | 70,476,893 | 68,577,472 | 97.30% | 1,069,122 | 69,646,594 | 98.82% |
| 2012 | 71,157,295 | 69,435,794 | 97.58% | 985,344 | 70,421,138 | 98.97% |
| 2013 | 74,165,333 | 72,532,734 | 97.80% | 736,983 | 73,269,717 | 98.79% |
| 2014 | 79,195,727 | 77,758,504 | 98.19% | - ⁴ | 77,758,504 | 98.19% |

¹ Net collections reflect deductions for refunds and Impoundments.

² Exclusive of penalty charges

³ In Fiscal Year 2009-10 the State borrowed approximately \$6.2 million of property tax revenue in accordance with Proposition 1A (2004). Collections include the full amount of the borrowing as the City recovered the \$6.2 million in Fiscal Year 2009-10 by participating in a securitization program through the California Statewide Communities Development Authority.

⁴ The total amount of Fiscal Year 2013 delinquent taxes collected in subsequent years was not available as of the date the information was collected for the City's Comprehensive Annual Financial Report.

Source: Orange County Auditor Controller's Office

DEBT CAPACITY

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

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

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

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

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

| Fiscal Year Ended June 30 | Governmental Activities | | | | | |
|------------------------------------|---|--------------|---------------------------------|-----------|----------------|----------------------------------|
| | Certificates of Participation ¹ | Note Payable | Pre- Annexation Agreement | CDBG Loan | Capital Leases | Purchase Agreement Payable |
| 2005 | 5,570,000 | 1,789,332 | 14,400,000 | 2,276,000 | 420,773 | N/A |
| 2006 | 5,280,000 | 1,632,789 | 13,200,000 | 2,207,000 | 166,056 | N/A |
| 2007 | 4,980,000 | 1,469,202 | 12,000,000 | 2,134,000 | 49,490 | 3,000,000 |
| 2008 | 4,665,000 | 1,298,254 | 10,800,000 | 2,056,000 | - | 1,500,000 |
| 2009 | 4,335,000 | 1,119,613 | 9,600,000 | 1,972,000 | - | N/A |
| 2010 | 3,990,000 | 932,934 | 8,400,000 | 1,883,000 | - | 1,500,000 |
| 2011 | 127,744,977 | 737,854 | 7,200,000 | 1,788,000 | - | 750,000 |
| 2012 | 125,884,424 | - | 6,000,000 | 1,686,000 | - | - |
| 2013 | 123,073,871 | - | 4,800,000 | 1,578,000 | - | - |
| 2014 | 120,178,318 | - | 3,600,000 | 1,462,000 | - | - |

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

¹ Amounts include any applicable bond premium.

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

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

| Business-type Activities | | | | | |
|-------------------------------------|------------------------|------------------------------------|-----------------------------|--|---------------------------------|
| Total Governmental Activities | Water Revenue Bonds | Total Business- type Activities | Total Primary Government | Percentage of Personal Income ² | Debt Per Capita ² |
| 24,456,105 | 7,255,000 | 7,255,000 | 31,711,105 | 0.56% | 382 |
| 22,485,845 | 5,925,000 | 5,925,000 | 28,410,845 | 0.45% | 341 |
| 23,632,692 | 4,540,000 | 4,540,000 | 28,172,692 | 0.43% | 335 |
| 20,319,254 | 3,095,000 | 3,095,000 | 23,414,254 | 0.33% | 277 |
| 17,026,613 | 1,585,000 | 1,585,000 | 18,611,613 | 0.25% | 216 |
| 16,705,934 | - | - | 16,705,934 | 0.25% | 193 |
| 138,220,831 | - | - | 138,220,831 | 2.34% | 1,619 |
| 133,570,424 | - | - | 133,570,424 | 2.30% | 1,553 |
| 129,451,871 | - | - | 129,451,871 | 1.85% | 1,498 |
| 125,240,318 | - | - | 125,240,318 | 1.81% | 1,442 |

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

| <u>Fiscal Year Ended June 30</u> | <u>Certificates of Participation¹</u> | <u>Amounts restricted for debt service</u> | <u>Total</u> | <u>Percent of Assessed Value²</u> | <u>General Bonded Debt Per Capita</u> |
|--------------------------------------|--|--|--------------|--|---|
| 2005 | 5,570,000 | (290,000) | 5,280,000 | 0.02% | 64 |
| 2006 | 5,280,000 | (300,000) | 4,980,000 | 0.02% | 60 |
| 2007 | 4,980,000 | (315,000) | 4,665,000 | 0.01% | 55 |
| 2008 | 4,665,000 | (330,000) | 4,335,000 | 0.01% | 51 |
| 2009 | 4,335,000 | (345,000) | 3,990,000 | 0.01% | 46 |
| 2010 | 3,990,000 | (360,000) | 3,630,000 | 0.01% | 42 |
| 2011 | 127,744,977 | (1,488,670) | 126,256,307 | 0.33% | 1,479 |
| 2012 | 125,884,424 | (2,532,561) | 123,351,863 | 0.32% | 1,434 |
| 2013 | 123,073,871 | (1,157,250) | 121,916,621 | 0.30% | 1,410 |
| 2014 | 120,178,318 | (2,352,746) | 117,825,572 | 0.28% | 1,356 |

¹ Amounts include any applicable bond premium.

² Assessed value was used because the actual value of taxable property is not readily available in the State of California.

CITY OF NEWPORT BEACH
Direct and Overlapping Debt
June 30, 2014

City Net Assessed Valuation: \$ 42,324,651,318

| | Percentage Applicable ⁽¹⁾ | Outstanding Debt 6/30/14 | Estimated Share of Overlapping Debt |
|--|---|-----------------------------|--|
| OVERLAPPING DEBT: | | | |
| Metropolitan Water District | 1.937% | \$ 132,275,000 | \$ 2,562,167 |
| Coast Community College District | 33.193% | 632,413,698 | 209,917,079 |
| Rancho Santiago Community College District | 2.499% | 285,430,201 | 7,132,901 |
| Laguna Beach Unified School District | 15.192% | 28,470,000 | 4,325,162 |
| Laguna Beach U.S.D. Community Facilities District No. 98-1 | 100.000% | 9,160,000 | 9,160,000 |
| Newport Mesa Unified School District | 72.896% | 236,854,150 | 172,657,201 |
| Newport Mesa U.S.D. Community Facilities District No. 90-1 | 100.000% | 8,790,000 | 8,790,000 |
| Santa Ana Unified School District | 5.908% | 289,561,562 | 17,107,297 |
| Irvine Ranch Water District Improvement Districts | 20.256% - 100.000% | 70,252,550 | 41,666,828 |
| Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1 | 100.000% | 36,355,000 | 36,355,000 |
| City of Newport Beach Special Improvement District No. 95-1 | 100.000% | 3,445,000 | 3,445,000 |
| City of Newport Beach 1915 Act Bonds | 100.000% | 12,216,670 | 12,216,670 |
| Orange County Assessment District No. 88-1 | 100.000% | 29,220,000 | 29,220,000 |
| Orange County Reassessment District No. 99-1R | 100.000% | 8,515,000 | 8,515,000 |
| Orange County Assessment District No. 01-1 | 100.000% | 42,330,000 | 42,330,000 |
| Orange County Reassessment District No. 01-1R | 100.000% | 3,750,000 | 3,750,000 |
| Orange County General Fund Obligations | 9.566% | 145,476,000 | 13,916,234 |
| Orange County Pension Obligations | 9.566% | 32,195,288 | 3,079,801 |
| Orange County Board of Education Certificates of Participation | 9.566% | 15,500,000 | 1,482,730 |
| Municipal Water District of O.C. Water Facilities Corporation | 11.459% | 7,775,000 | 890,937 |
| Santa Ana Unified School District Certificates of Participation | 5.908% | 76,291,353 | 4,507,293 |
| Overlapping Tax Increment Debt (Successor Agency): | 3.258% - 64.223% | 36,245,000 | 13,959,126 |
| TOTAL GROSS OVERLAPPING DEBT | | \$ 2,142,521,472 | \$ 646,986,426 |
| Less: MWDOC Water Facilities Corporation (100% self-supporting) | | | (890,937) |
| TOTAL NET OVERLAPPING DEBT | | | <u>\$ 646,095,489</u> |
| DIRECT DEBT: | | | |
| City of Newport Beach Certificates of Participation | 100.000% | 120,178,318 | \$ 120,178,318 |
| Newport Coast Annexation | 100.000% | 3,600,000 | 3,600,000 |
| Community Development Block Grant Loan | 100.000% | 1,462,000 | 1,462,000 |
| TOTAL DIRECT DEBT | | <u>\$ 125,240,318</u> | <u>\$ 125,240,318</u> |
| TOTAL NET DIRECT AND OVERLAPPING DEBT | | | <u>\$ 771,335,807</u> |
| GROSS COMBINED TOTAL DEBT ⁽²⁾ | | | \$ 772,226,744 |

¹ 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.

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

Ratios to 2013-14 Net Assessed Valuation:

| | |
|-----------------------------------|-------|
| Total Net Overlapping Debt | 1.53% |
| Total Direct Debt (\$125,240,318) | 0.30% |
| Gross Combined Total Debt | 1.82% |
| Net Combined Total Debt | 1.82% |

Ratios to Redevelopment Incremental Valuation (\$863,065,179)

| | |
|--------------------------------------|-------|
| Total Overlapping Tax Increment Debt | 1.62% |
|--------------------------------------|-------|

Source: California Municipal Statistics, Inc.

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

| | Fiscal Year | | | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2005 | 2006 | 2007 | 2008 |
| Assessed valuation | \$ 26,677,681,286 | \$ 30,050,714,559 | \$ 32,993,340,291 | \$ 35,856,583,925 |
| Conversion percentage | 25% | 25% | 25% | 25% |
| Adjusted assessed valuation | 6,669,420,322 | 7,512,678,640 | 8,248,335,073 | 8,964,145,981 |
| Debt limit percentage | 15% | 15% | 15% | 15% |
| Debt limit | 1,000,413,048 | 1,126,901,796 | 1,237,250,261 | 1,344,621,897 |
| Total net debt applicable to limit: General obligation bonds | - | - | - | - |
| Legal debt margin | <u>\$ 1,000,413,048</u> | <u>\$ 1,126,901,796</u> | <u>\$ 1,237,250,261</u> | <u>\$ 1,344,621,897</u> |
| Total debt applicable to the limit as a percentage of debt limit | 0.0% | 0.0% | 0.0% | 0.0% |

NOTE:

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

Source: City Finance Department

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

| Fiscal Year | | | | | |
|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| \$ 37,974,645,552 | \$ 38,643,404,121 | \$ 38,707,165,185 | \$ 39,099,147,494 | \$ 40,232,177,864 | \$ 42,324,651,318 |
| 25% | 25% | 25% | 25% | 25% | 25% |
| 9,493,661,388 | 9,660,851,030 | 9,676,791,296 | 9,774,786,874 | 10,058,044,466 | 10,581,162,830 |
| 15% | 15% | 15% | 15% | 15% | 15% |
| 1,424,049,208 | 1,449,127,655 | 1,451,518,694 | 1,466,218,031 | 1,508,706,670 | 1,587,174,424 |
| - | - | - | - | - | - |
| <u>\$ 1,424,049,208</u> | <u>\$ 1,449,127,655</u> | <u>\$ 1,451,518,694</u> | <u>\$ 1,466,218,031</u> | <u>\$ 1,508,706,670</u> | <u>\$ 1,587,174,424</u> |
| 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |

DEMOGRAPHIC AND ECONOMIC INFORMATION

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

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

- Demographic and Economic Statistics
- Principal Employers

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

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

| Fiscal Year | Population ¹ | Personal Income (in thousands) | Per Capita Income ⁽²⁾ | Unemployment Rate ⁽³⁾ |
|-------------|-------------------------|-----------------------------------|-------------------------------------|-------------------------------------|
| 2005 | 83,120 | 5,635,370 | 67,798 | 2.4% |
| 2006 | 83,361 | 6,335,186 | 75,997 | 2.1% |
| 2007 | 84,218 | 6,518,052 | 77,395 | 2.6% |
| 2008 | 84,554 | 7,059,752 | 83,494 | 2.4% |
| 2009 | 86,252 | 7,468,216 | 86,586 | 6.1% |
| 2010 | 86,738 | 6,676,484 | 76,973 | 6.0% |
| 2011 | 85,376 | 5,916,215 | 69,296 | 5.8% |
| 2012 | 85,990 | 5,809,828 | 67,564 | 5.1% |
| 2013 | 86,436 | 6,995,784 | 80,936 | 4.2% |
| 2014 | 86,874 | 6,926,725 | 79,733 | 3.6% |

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

Sources:

⁽¹⁾ California State Department of Finance, E-4 Population Estimates for Cities, Counties and State 2001-2010; and, E-1 Population Estimates for Cities, Counties and State January 1, 2011, 2012, 2013 and 2014.

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

⁽³⁾ State of California, Employment Development Department

CITY OF NEWPORT BEACH
Principal Employers¹
Current Year and 9 years ago

| Employer | 2014 | | | 2005 | | |
|--------------------------------------|---------------------|------|-----------------------------|---------------------|------|-----------------------------|
| | Number of Employees | Rank | Percent of Total Employment | Number of Employees | Rank | Percent of Total Employment |
| Hoag Memorial Hospital | 5,001 | 1 | 5.97% | 3,640 | 1 | 4.37% |
| PIMCO Advisors | 1,179 | 2 | 1.41% | 530 | 7 | 0.64% |
| Glidewell Dental | 1,086 | 3 | 1.30% | N/A ² | - | N/A |
| Pacific Life Insurance | 1,074 | 4 | 1.32% | 2,788 | 2 | 3.35% |
| Resort at Pelican Hill | 900 | 5 | 1.10% | N/A ² | - | N/A |
| Newport-Mesa Unified School District | 845 | 6 | 1.04% | N/A ² | - | N/A |
| City of Newport Beach | 736 | 7 | 0.90% | 788 | 4 | 0.95% |
| Jazz Semi-Conductor | 671 | 8 | 0.82% | 730 | 5 | 0.88% |
| Balboa Bay Club and Resort | 480 | 9 | 0.59% | N/A ² | - | N/A |
| Fletcher Jones Motor Cars Inc. | 480 | 10 | 0.59% | N/A ² | - | N/A |
| The Island Hotel | 380 | 11 | 0.47% | 525 ³ | 8 | 0.63% |
| Marriott-Newport Beach | 330 | 12 | 0.40% | 475 | 9 | 0.57% |

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

² Company listed was unable to provide reliable employee data for 2005.

³ The Island Hotel was formerly the Four Seasons Hotel.

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

OPERATING INFORMATION

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

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

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

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

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

| Function | Full-Time Employees as of June 30 | | | | | | | | | |
|-----------------------|-----------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| General government | 86 | 90 | 93 | 93 | 99 | 92 | 94 | 95 | 94 | 79 |
| Public safety | 385 | 388 | 393 | 397 | 397 | 394 | 381 | 359 | 357 | 366 |
| Community development | 47 | 48 | 52 | 56 | 57 | 53 | 51 | 58 | 56 | 53 |
| Public works | 162 | 163 | 163 | 165 | 160 | 147 | 144 | 130 | 128 | 119 |
| Community services | 60 | 65 | 66 | 68 | 71 | 69 | 70 | 68 | 70 | 74 |
| Balboa yacht basin | 1 | - | - | - | - | - | - | - | - | - |
| Water | 34 | 34 | 34 | 35 | 35 | 36 | 37 | 38 | 32 | 32 |
| Wastewater | 13 | 13 | 13 | 13 | 13 | 14 | 15 | 15 | 15 | 13 |
| Total | <u>788</u> | <u>801</u> | <u>814</u> | <u>827</u> | <u>832</u> | <u>805</u> | <u>792</u> | <u>763</u> | <u>752</u> | <u>736</u> |

Source: City Finance Department

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

| | Fiscal Year | | | |
|---|-------------|-----------|-----------|-----------|
| | 2005 | 2006 | 2007 | 2008 |
| Police: | | | | |
| Adult Arrests | 3,079 | 2,999 | 3,289 | 3,196 |
| Parking Citations Issued | 72,665 | 74,780 | 67,170 | 70,150 |
| Fire: | | | | |
| Fire Responses | 228 | 214 | 175 | 393 |
| Fire Inspections | 4,550 | 6,470 | 7,136 | 7,250 |
| General Services: | | | | |
| Street Patching (tons of mix) | 4,500 | 4,600 | 4,980 | 4,644 |
| Sidewalk Repair (square feet) | 50,000 | 55,000 | 59,459 | 58,000 |
| Recreation & Senior Services: | | | | |
| Co-Sponsored Youth Organizations | 194,749 | 194,722 | 201,258 | 318,779 |
| Senior Transportation Services | 11,936 | 12,628 | 14,728 | 15,279 |
| Water: | | | | |
| New connections | 55 | 52 | 95 | 60 |
| Average daily consumption (hundred cubic ft.) | 17 | 17 | 17 | 17 |
| Sewer: | | | | |
| New connections | 24 | 24 | 45 | 45 |
| Miles of Pipe Cleaned | 205 | 335 | 226 | 212 |
| Library Services: | | | | |
| Library Circulation of Materials | 1,475,025 | 1,443,078 | 1,622,573 | 1,701,476 |

Source: City of Newport Beach

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

| Fiscal Year | | | | | |
|-------------|-----------|-----------|-----------|-----------|-----------|
| 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| 3,245 | 2,967 | 3,093 | 2,982 | 3,161 | 2,774 |
| 65,176 | 66,310 | 67,459 | 55,418 | 58,823 | 51,609 |
| 371 | 172 | 165 | 201 | 338 | 338 |
| 6,912 | 7,000 | 7,100 | 4,315 | 4,338 | 4,024 |
| 3,882 | 3,467 | 2,580 | 2,246 | 1,708 | 2,408 |
| 49,644 | 49,540 | 39,972 | 34,000 | 37,607 | 30,194 |
| 318,000 | 350,000 | 322,000 | 257,322 | 293,938 | 294,000 |
| 16,035 | 15,458 | 15,063 | 15,264 | 13,112 | 13,940 |
| 26 | 19 | 28 | 35 | 54 | 72 |
| 17 | 17.25 | 17.25 | 15.15 | 14.02 | 15.96 |
| 12 | 9 | 6 | 15 | 14 | 22 |
| 209 | 200 | 235 | 248 | 215 | 245 |
| 1,575,518 | 1,819,122 | 1,770,683 | 1,582,953 | 1,582,914 | 1,650,454 |

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

| | Fiscal Year | | | |
|---|-------------|--------|--------|--------|
| | 2005 | 2006 | 2007 | 2008 |
| Police: | | | | |
| Stations | 1 | 1 | 1 | 1 |
| Fire: | | | | |
| Fire stations | 8 | 8 | 8 | 8 |
| Lifeguard Headquarters | 1 | 1 | 1 | 1 |
| Public works: | | | | |
| Streets (miles) | 333 | 333 | 395 | 395 |
| Streetlights | 7,277 | 7,277 | 7,278 | 7,278 |
| Traffic signals | 144 | 147 | 147 | 148 |
| Recreation & Senior Services: | | | | |
| Parks | 61 | 61 | 61 | 62 |
| Community centers | 13 | 13 | 13 | 14 |
| Aquatic Center | 1 | 1 | 1 | 1 |
| Water: | | | | |
| Water mains (miles) | 298.42 | 299.88 | 300.35 | 300.17 |
| Maximum daily capacity (thousands of gallons) | 20,633 | 19,369 | 20,392 | 20,365 |
| Wastewater: | | | | |
| Sanitary sewers (miles) | 179.15 | 179.15 | 202.80 | 202.80 |
| Storm sewers (miles) | 57.60 | 57.60 | 95.50 | 95.50 |
| Library Services: | | | | |
| Libraries | 4 | 4 | 4 | 4 |

Source: City of Newport Beach

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

| Fiscal Year | | | | | |
|-------------|--------|--------|--------|--------|--------|
| 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| 1 | 1 | 1 | 1 | 1 | 1 |
| 8 | 8 | 8 | 8 | 8 | 8 |
| 1 | 1 | 1 | 1 | 1 | 1 |
| 395 | 395 | 395 | 395 | 395 | 395 |
| 7,278 | 7,278 | 7,278 | 7,277 | 7,277 | 7,277 |
| 148 | 148 | 148 | 153 | 153 | 153 |
| 63 | 63 | 63 | 63 | 64 | 64 |
| 14 | 14 | 14 | 14 | 14 | 14 |
| 1 | 1 | 1 | 1 | 1 | 1 |
| 300.31 | 303.27 | 303.25 | 303.25 | 303.25 | 313.57 |
| 19,707 | 19,341 | 28,540 | 27,508 | 26,916 | 27,704 |
| 202.80 | 202.80 | 202.40 | 202.40 | 202.40 | 205.96 |
| 95.50 | 95.50 | 95.40 | 95.40 | 95.40 | 98.12 |
| 4 | 4 | 4 | 4 | 4 | 4 |

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

| | Fiscal Year | | | | | | | | | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Type of Customer: | | | | | | | | | | |
| Residential | \$ 4,289,629 | \$ 4,190,791 | \$ 4,492,489 | \$ 4,046,969 | \$ 3,989,816 | \$ 4,251,996 | \$ 3,656,705 | \$ 4,001,344 | \$ 3,890,973 | \$ 3,902,007 |
| Commercial | 1,568,462 | 1,440,377 | 1,302,578 | 1,184,904 | 1,188,553 | 1,165,128 | 1,145,843 | 2,369,492 | 2,389,822 | 2,525,169 |
| Government | 487,189 | 607,650 | 601,659 | 361,457 | 420,697 | 349,334 | 320,821 | 374,091 | 394,787 | 455,251 |
| Total | <u>\$ 6,345,280</u> | <u>\$ 6,238,818</u> | <u>\$ 6,396,726</u> | <u>\$ 5,593,330</u> | <u>\$ 5,599,066</u> | <u>\$ 5,766,458</u> | <u>\$ 5,123,369</u> | <u>\$ 6,744,927</u> | <u>\$ 6,675,582</u> | <u>\$ 6,882,427</u> |
| Total direct rate per 100 cubic ft. | \$ 2.00 | \$ 2.08 | \$ 2.08 | \$ 2.08 | \$ 2.08 | \$ 2.20 | \$ 2.46 | \$ 2.73 | \$ 2.96 | \$ 3.08 |

Source: City Utilities Department

CITY OF NEWPORT BEACH

Water Rates

Last Ten Fiscal Years

| Fiscal Year Ended June 30 | Monthly Base Rate | Rate per 100 cubic ft |
|---------------------------------|----------------------|--------------------------|
| 2005 | 7.10 | 2.25 |
| 2006 | 9.00 | 2.38 |
| 2007 | 9.00 | 2.43 |
| 2008 | 9.00 | 2.43 |
| 2009 | 9.00 | 2.43 |
| 2010 | 12.77 | 2.55 |
| 2011 | 17.59 | 2.81 |
| 2012 | 19.61 | 3.08 |
| 2013 | 21.13 | 3.31 |
| 2014 | 21.77 | 3.43 |

Note: Rates are based on 5/8" or 3/4" meter, which are the standard household meter sizes. Rates include sewer service. The City charges an excess-use rate above normal demand.

Source: City Revenue Division

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

| Water Customer | 2014 | | | 2005 | | |
|--------------------------------------|---------------------|------|---------------------------------|---------------------|------|---------------------------------|
| | Water Charges | Rank | Percent of Total Water Revenues | Water Charges | Rank | Percent of Total Water Revenues |
| The Irvine Company | \$ 335,664 | 1 | 1.14% | \$ 240,869 | 1 | 1.37% |
| Big Canyon Country Club | 189,865 | 2 | 0.65% | 162,498 | 3 | 0.93% |
| Newport Beach Country Club | 143,220 | 3 | 0.49% | 118,594 | 4 | 0.68% |
| Hoag Memorial Hospital | 116,000 | 4 | 0.39% | 117,346 | 5 | 0.67% |
| Bluffs Homeowners Association | 97,532 | 5 | 0.33% | 106,215 | 6 | 0.60% |
| Newport-Mesa USD | 96,685 | 6 | 0.33% | 67,046 | 11 | 0.38% |
| Park Newport Ltd | 91,178 | 7 | 0.31% | 100,012 | 7 | 0.57% |
| Irvine Company Retail Property | 90,309 | 8 | 0.31% | 173,495 | 2 | 0.99% |
| UDR Newport Beach | 84,187 | 9 | 0.29% | 49,772 | 12 | 0.28% |
| Pacific View - Pierce Bros. | 60,863 | 10 | 0.21% | 48,872 | 14 | 0.28% |
| Jasmine Creek Community Association | 48,169 | 11 | 0.16% | 75,131 | 8 | 0.43% |
| Newport Dunes Resort | 43,708 | 12 | 0.15% | 42,417 | 18 | 0.24% |
| Balboa Village Community Association | 38,440 | 13 | 0.13% | 68,885 | 10 | 0.39% |
| Hyatt Newporter | 36,624 | 14 | 0.12% | 17,998 | 39 | 0.10% |
| IOIC/PMS Engineering Department | 36,305 | 15 | 0.12% | 37,784 | 20 | 0.22% |
| | <u>\$ 1,508,749</u> | | <u>5.14%</u> | <u>\$ 1,186,065</u> | | <u>8.14%</u> |

Source: City Revenue Division



City of Newport Beach

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