LAGUNA BEACH MUNICIPAL TRANSIT LINES

TRANSPORTATION DEVELOPMENT ACT FUNDS

Financial Statements and Supplemental Data

Year Ended June 30, 2017

LAGUNA BEACH MUNICIPAL TRANSIT LINES

TRANSPORTATION DEVELOPMENT ACT FUNDS

Financial Statements and Supplemental Data

Year Ended June 30, 2017

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT 1

FINANCIAL STATEMENTS

Statement of Net Position 4

Statement of Revenues, Expenses and Changes in Net Position 5

Statement of Cash Flows 6

Notes to Financial Statements 8

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Article 4 Funds' Proportionate Share of the Net Pension Liability 19

Schedule of Contributions 20

SUPPLEMENTARY INFORMATION

Schedule of Allocations Received and Expended, by Project Year 21

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* 22

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE difference

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Orange County Transportation Authority
Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Transportation Development Act (TDA) Article 4 Funds of the Operating and Capital Program (Funds) of the Laguna Beach Municipal Transit Lines (LBMTL), an enterprise fund of the City of Laguna Beach, California (City), as of and for the year ended June 30, 2017, and the related notes to the 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 an opinion 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 auditor considers internal control relevant to the entity'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 entity'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the LBMTL, an enterprise fund of the City, as of June 30, 2017, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

25231 Paseo De Alicia, Suite 100, Laguna Hills, CA 92653 P 949.768.0833 F 949.768.8408 W vtdcpa.com

Emphasis of Matter

As discussed in Note 1, the financial statements present only the LBMTL of the City and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2017, and the changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of the LBMTL's proportionate share of the net pension liability and schedule of contributions for the retirement plan (required supplementary information), on pages 19 and 20 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 required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the LBMTL's basic financial statements. The accompanying schedule of allocations received and expended, by project year (supplementary information) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Management has omitted management's discussion and analysis for the LBMTL that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Prior-Year Comparative Information

We have previously audited the 2016 financial statements of the LBMTL, an enterprise fund of the City, and we expressed an unmodified opinion on the financial statements in our report dated December 19, 2016. The financial statements include summarized prior-year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with LBMTL's financial statements for the year ended June 30, 2016, from which such summarized information was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2017, on our consideration of the City's internal control over financial reporting for the LBMTL and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting for the LBMTL and compliance.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
December 20, 2017

LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 4 FUNDS
OPERATING AND CAPITAL PROGRAM

STATEMENT OF NET POSITION
JUNE 30, 2017
(with Comparative Totals for June 30, 2016)

	Article 4	
	2017	2016
ASSETS		
Current Assets:		
Cash and investments	$ 874,877	$ 580,304
Receivables:		
Accrued revenues	61,533	1,874
Intergovernmental	737,595	970,016
Prepaid expenses	16,341	24,623
Total Current Assets	1,690,346	1,576,817
Capital Assets, Net (Note 3)	3,359,140	3,626,526
Total Assets	5,049,486	5,203,343
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred amount related to pensions	158,757	75,558
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	90,493	115,536
Compensated absences	2,282	1,581
Unearned revenue	8,271	-
Total Current Liabilities	101,046	117,117
Non-current Liabilities:		
Compensated absences	9,127	6,328
Net pension liability	460,106	385,609
Total Non-current Liabilities	469,233	391,937
Total Liabilities	570,279	509,054
DEFERRED INFLOWS OF RESOURCES:		
Deferred amount related to pensions	16,011	34,634
NET POSITION		
Investment in capital assets	3,359,140	3,626,526
Unrestricted	1,262,813	1,108,687
Total Net Position	$ 4,621,953	$ 4,735,213

See accompanying notes to financial statements.

LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 4 FUNDS
OPERATING AND CAPITAL PROGRAM

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2017
(with Comparative Totals for June 30, 2016)

	Article 4	
	2017	2016
Operating Revenues:		
Passenger revenues	$ 302,683	$ 313,458
Total Revenues	302,683	313,458
Operating Expenses:		
Transit administration	328,677	305,936
Transit maintenance	476,844	395,025
Transit operations	2,064,153	1,968,862
Depreciation	267,386	306,854
Total Operating Expenses	3,137,060	2,976,677
Operating income (loss)	(2,834,377)	(2,663,219)
Non-Operating Revenues:		
TDA allocation	1,031,639	1,115,108
Other	-	97
Investment income	-	1,034
Intergovernmental revenues (Note 4)	679,878	781,683
Total Non-Operating Revenues	1,711,517	1,897,922
Income (loss) before transfers	(1,122,860)	(765,297)
Transfers from the City of Laguna Beach (Note 5)	1,009,600	655,184
Change in Net Position	(113,260)	(110,113)
Net position at beginning of year	4,735,213	4,845,326
Net position at end of year	$ 4,621,953	$ 4,735,213

See accompanying notes to financial statements.

LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 4 FUNDS
OPERATING AND CAPITAL PROGRAM

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017
(with Comparative Totals for June 30, 2016)

	Article 4	
	2017	2016
Cash flows from operating activities:		
Cash received from customers	$ 251,295	$ 316,298
Cash payment to suppliers for goods and services	(944,071)	(1,570,885)
Cash payment to employees for services	(1,966,189)	(1,735,520)
Net cash used for operating activities	(2,658,965)	(2,990,107)
Cash flows from noncapital financing activities:		
Operating grant proceeds received	912,299	1,152,483
Cash received from operating grants (TDA Allocation)	1,031,639	1,115,108
Cash received from the City of Laguna Beach	1,009,600	655,184
Net cash provided by noncapital financing activities	2,953,538	2,922,775
Cash flows from investing activities:		
Interest received	-	1,034
Net increase (decrease) in cash and cash equivalents	294,573	(66,298)
Cash and cash equivalents at beginning of year	580,304	646,602
Cash and cash equivalents at end of year	$ 874,877	$ 580,304

See accompanying notes to financial statements.

LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 4 FUNDS
OPERATING AND CAPITAL PROGRAM

STATEMENT OF CASH FLOWS, CONTINUED
YEAR ENDED JUNE 30, 2017
(with Comparative Totals for June 30, 2016)

	Article 4	
	2017	2016
Reconciliation of operating loss to net cash used for operating activities:		
Operating income (loss)	$ (2,834,377)	$ (2,663,219)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	267,386	306,854
Pension expense	49,994	34,171
Other income	-	97
(Increase) / decrease in receivables	(59,659)	2,743
Decrease in prepaids	8,282	30,977
Increase in unearned revenue	8,271	-
Payments related to deferred outflows for contributions subsequent to measurement date	(77,319)	(74,746)
(Decrease) in accounts payable and accrued liabilities	(25,043)	(618,368)
Increase / (decrease) in compensated absences	3,500	(8,616)
Net cash provided by (used for) operating activities	$ (2,658,965)	$ (2,990,107)

See accompanying notes to financial statements.

NOTE 1 – GENERAL INFORMATION

The financial statements are intended to reflect the financial position and results of operations for the Laguna Beach Municipal Transit Lines' (LBMTL's) Transportation Development Act (TDA) Article 4 Funds of the Operating and Capital Program (Funds) only.

Pursuant to Section 99260 of the California Public Utilities Code, Article 4 monies may be used for the support of public transportation systems, aid to public transportation research and demonstration projects, and contributions for the construction of grade separation projects.

The City of Laguna Beach, California (City), acting on behalf of LBMTL, submits a claim to the Orange County Transportation Authority (OCTA) for disbursement of Article 4 funds. The City may submit the claim either prior or subsequent to incurring allowable expenses. After review and approval of the claim, OCTA issues the allocation disbursement instructions to the County of Orange Auditor-Controller. Following instructions from OCTA, funds are disbursed from the County of Orange, Local Transportation Fund to the City.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record assets, deferred outflows/inflows of resources, related liabilities, obligations, and net position segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The City accounts for the activity of LBMTL in its Municipal Transit Fund, which is an Enterprise Fund.

Enterprise Funds are used to account for operations that are financed primarily through user charges, or where the governing body has decided that determination of net income is appropriate. Fund operating revenues are those revenues that are generated from the primary operations of the fund, passenger fares. All other revenues are non-operating.

Measurement Focus and Basis of Accounting

Enterprise funds of the City are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Cash and Investments

Cash and investments are pooled to facilitate cash management and maximize investment opportunities and yields. Investment income resulting from this pooling is allocated to the respective funds including the LBMTL based upon the average cash balance. The investment policies and the risks related to Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures*, applicable to the LBMTL, are those of the City and are disclosed in the City's basic financial statements. The City's basic financial statements can be obtained at City Hall. For the purpose of the cash flow statement, amounts maintained in the City Pool are considered cash and cash equivalents.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

The LBMTL's cash and investments are reported at fair value. The fair value measurements are based on the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The LBMTL's deposits and withdrawals in the City Investment Pool are made on the basis of $1 and not fair value. Accordingly, the LBMTL's investment in the City Investment Pool is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input.

Capital Assets

Capital assets are recorded at cost where historical records are available and at estimated historical cost where no historical records exist. Contributed capital assets are valued at their acquisition value at the date of the contribution. Generally, capital asset purchases in excess of $1,000 are capitalized if they have an expected useful life of three years or more.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method. Depreciation is charged as an expense against operations and accumulated depreciation is reported in the respective statement of net position. The range of lives used for depreciation purposes for each fixed asset class is as follows:

Capital Asset Class	Useful Life (in Years)
Buildings and improvements	30
Office equipment and machinery	5
Furniture and fixtures	3 to 8
Equipment, machinery and tools	3 to 8
Automotive equipment	2 to 20

Deferred Outflows and Inflows of Resources

LBMTL reported deferred outflows and inflows or resources related to pensions. A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources represents an acquisition of net position by the government that is applicable to a future period. Pension related deferred outflows of resources include contributions made subsequent to the measurement date, which will be reflected as reduction of net pension liability in a future period. Pension related deferred inflows of resources include the net differences between projected and actual earnings on plan investments, and will be recognized as part of pension expense in future reporting periods. Refer to Note 6 for items identified as deferred inflows and outflows as of June 30, 2017.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Pensions

LBMTL participates in the City's miscellaneous agent multiple-employer pension plan. All amounts and disclosures are presented on a cost-sharing perspective where the LBMTL is a participant in the City's plan. For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the LBMTL's California Public Employees Retirement System (CalPERS) plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Compensated Absences

Accumulated unpaid vacation and sick leave amounts are currently funded and recorded as expenditures in the fund. These amounts are recorded as employee benefit charges and are accrued when incurred.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United State requires management to make estimates and assumptions that could affect certain reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates. Also, the preparation of the financial statements inherently requires rounding of amounts and estimates. Management believes that any differences due to rounding are not material.

Prior Year Data

Selected information from the prior fiscal year has been included in the accompanying financial statements in order to provide an understanding of changes in the LBMTL's financial position and operations. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the LBMTL's financial statements for the year ended June 30, 2016, from which this selected financial data was derived. The presentation of certain prior year balances have been reclassified to conform to the current year presentation.

New Accounting Pronouncements - Effective in Future Fiscal Years

GASB Statement No. 75 - In June, 2015, GASB released Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The objective of the Statement is to replace the requirements of GASB Statement No. 45. In addition, the Statement requires governments to report a liability on the face of the financial statements for the OPEB provided and requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The Statement is effective for fiscal years beginning after June 15, 2017, or the 2017-18 fiscal year. The LBMTL has not yet determined the effect on the financial statements.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

New Accounting Pronouncements - Effective in Future Fiscal Years (Continued)

GASB Statement No. 81 - In March 2016, GASB issued Statement No. 81, *Irrevocable Split–Interest Agreements*. The objective of the Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, the Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. The Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The Statement is effective for the reporting periods beginning after December 15, 2016, or the 2017-2018 fiscal year. The LBMTL has not yet determined the effect on the financial statements.

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or the 2018-19 fiscal year. The LBMTL has not determined the effect of the Statement.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the 2019-20 fiscal year. The LBMTL has not determined the effect of this Statement.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-2018 fiscal year. The LBMTL has not determined the effect of the Statement.

GASB Statement No. 86 – In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-2018 fiscal year. The LBMTL has not determined the effect of the Statement.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

New Accounting Pronouncements - Effective in Future Fiscal Years (Continued)

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or 2020-2021 fiscal year. The LBMTL has not determined the effect of the Statement.

NOTE 3 – CAPITAL ASSETS

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

	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017
Capital assets not being depreciated:				
Land	$ 196,106	$ -	$ -	$ 196,106
Total capital assets not being depreciated	196,106	-	-	196,106
Capital assets being depreciated:				
Buildings and improvements	1,948,393	-		1,948,393
Office equipment and machinery	59,145	-	-	59,145
Furniture and fixtures	1,500	-	-	1,500
Equipment, machinery and tools	27,963	-	-	27,963
Automotive equipment	5,169,805	-	-	5,169,805
Total capital assets being depreciated	7,206,806	-	-	7,206,806
Accumulated depreciation	(3,776,386)	(267,386)	-	(4,043,772)
Total capital assets being Depreciated, net	3,430,420	(267,386)	-	3,163,034
Capital assets, net	$ 3,626,526	$ (267,386)	$ -	$ 3,359,140

NOTE 4 – INTERGOVERNMENTAL REVENUES

Intergovernmental revenues represent grants earned during fiscal year 2016-17 from other governments as follows:

	Year Ended June 30, 2017
OCTA Prop 1B Funding	$ 14,782
OCTA Operating Assistance	194,024
State Transit Funding	176,651
Project V Grant	294,421
Total	$ 679,878

NOTE 5 – TRANSFERS FROM THE CITY OF LAGUNA BEACH

Transfers from the City represent the amount of operating funds transferred to the Municipal Transit Fund as follows:

	Year Ended June 30, 2017
Transfers from the City of Laguna Beach Parking Fund	$ 1,009,600
Total	$ 1,009,600

LBMTL is eligible to receive TDA Article 4 funding up to 50 percent of its operating expenses. The City transferred the following from its General Fund to cover expenses above the 50 percent TDA limit: 1)$47,000 were for expenses related to the lease of two additional trolleys; 2) $855,500 were to cover the balance of operating and capital expenses not funded from grants and other revenues; 3) $107,100 were for expenses related to an equipment mechanic position.

NOTE 6 – PENSION PLAN

Plan Description

All qualified permanent and probationary employees are eligible to participate in the City's Miscellaneous Pension Plan, an agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. The employees of the LBMTL are participants in the Miscellaneous Plan of the City. Accordingly, all amounts and disclosures are presented on a cost-sharing perspective where the LBMTL is a participant in the City's plan. Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

NOTE 6 – PENSION PLAN, (CONTINUED)

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

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

	Miscellaneous	
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Formula	2.5% @55	2.0% @62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	52-55	52-67
Monthly benefits, as a % of annual salary	2% to 2.5%	1% to 2.5%
Required employee contribution rates	8%	6.25%
Required employer contribution rates	20.478%	6.25%

Contributions

Section 20814(c) of the California Public Employees' Retirement law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The LBMTL is required to contribute the difference between the actuarially determined rate and the contribution rates of employees. The expense associated with contributions for the LBMTL employees is charged to payroll at the required employer and employer rates previously noted.

Contributions recognized by the pension plan, and contributed by the LBMTL, from the employer for the year ended June 30, 2017 were $77,319, including excess contributions of $24,000.

NOTE 6 – PENSION PLAN, (CONTINUED)

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

As of June 30, 2017, the net pension liability reported by the LBMTL for its proportionate share of the net pension liability of the Plan, as allocated by the City, was $460,106.

The LBMTL's net pension liability was measured as the proportionate share of the City's net pension liability for the Miscellaneous Plan. The net pension liability of the Plan was measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The LBMTL's proportion of the net pension liability was based on contributions paid by the LBMTL in relation to the total City's contribution paid for the Miscellaneous Plan, as determined by the City. The LBMTL's proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2016 were as follows:

	Miscellaneous
Proportion - June 30, 2014	1.72075%
Proportion - June 30, 2015	1.76030%
Change - Increase (Decrease)	0.03955%

For the year ended June 30, 2017, the LBMTL recognized pension expense of $49,994. At June 30, 2017, the LBTML reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
LBMTL's contributions subsequent to the measurement date	$ 77,319	$ -
Changes of assumptions	-	10,157
Difference between expected and actual experience	384	5,854
Net difference between projected and actual earnings on pension plan investments	81,054	
Total	$ 158,757	$ 16,011

NOTE 6 – PENSION PLAN, (CONTINUED)

The amount of $77,319 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ended June 30,		
2018	$	(1,121)
2019		8,652
2020		36,731
2021		21,165
	$	65,427

Actuarial Assumptions

The total pension liabilities in the June 30, 2015 actuarial valuation for the City's Miscellaneous Plan was determined using the following actuarial assumptions applied to all periods included in the measurement:

	Miscellaneous
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.5% (1)
Mortality	(2)

(1) Net of pension plan investment and administrative expenses; including inflation.
(2) Derived using CalPERS' Membership Data for all Funds

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. The mortality table includes 20 years of mortality improvements using Society of Actuaries Scale BB. Further details of the Experience Study can found on the CalPERS website.

NOTE 6 – PENSION PLAN, (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation was not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

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

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses and are summarized in the following table:

Asset Class	New Strategic Allocation	Long-term Expected Real Return Years 1-10 (a)	Long-term Expected Real Return Years 11+(b)
Global Equity	51%	5.25%	5.71%
Global Fixed Income	20%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	1%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

NOTE 6 – PENSION PLAN, (CONTINUED)

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

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

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
LBMTL's proportionate share of the net pension liability	$ 686,005	$ 460,106	$ 272,041

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the City's CAFR, as well as the separately issued CalPERS financial reports.

REQUIRED SUPPLEMENTARY INFORMATION

LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 4 FUNDS
OPERATING AND CAPITAL PROGRAM

SCHEDULE OF THE ARTICLE 4 FUNDS' PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST TEN YEARS*
FISCAL YEAR ENDED JUNE 30, 2017

	2017	2016	2015
Proportion of the net pension liability	1.76030%	1.72075%	1.70288%
Proportionate share of the net pension liability	$ 460,106	$ 385,609	$ 358,477
Covered payroll	$ 210,476	$ 194,570	$ 193,261
Proportionate Share of the net pension liability as a percentage of covered payroll	218.60%	198.19%	185.49%
Plan fiduciary net position as a percentage of the total pension liability	74.21%	76.91%	77.60%
Measurement Date	June 30, 2016	June 30, 2015	June 30, 2014

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

Changes in Assumptions: The discount rate was revised from 7.5% to 7.65% during the measurement period ending June 30, 2015.

LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 4 FUNDS
OPERATING AND CAPITAL PROGRAM

SCHEDULE OF CONTRIBUTIONS
LAST TEN YEARS*
FISCAL YEAR ENDED JUNE 30, 2017

	2017	2016	2015
Actuarially determined contributions, allocated to the LBMTL	$ 53,319	$ 50,655	$ 58,880
Contributions in relation to the actuarially determined contribution	(77,319)	(74,746)	(58,880)
Contribution deficiency (excess)	$ (24,000)	$ (24,091)	$ -
Covered payroll**	$ 254,177	$ 210,476	$ 194,570
Contributions as a percentage of covered payroll	30.42%	35.51%	30.26%

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

SUPPLEMENTARY INFORMATION

LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 4 FUNDS
OPERATING AND CAPITAL PROGRAM

SCHEDULE OF ALLOCATIONS RECEIVED AND EXPENDED, BY PROJECT YEAR
YEAR ENDED JUNE 30, 2017

Project Description	Project Type	Year Allocated	Allocation Amount	Unspent Allocations at 06/30/2016	Receipts	Expenditures	Unspent Allocations at 06/30/2017	Project Status
Transit Program	Local	2016-17	$ 1,031,639	$ -	$ 1,031,639	$ 1,031,639	$ -	Closed
Totals			$ 1,031,639	$ -	$ 1,031,639	$ 1,031,639	$ -	

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Orange County Transportation Authority
Orange, California

We have audited, in accordance with the 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, the financial statements of the Transportation Development Act (TDA) Article 4 Funds of the Operating and Capital Program (Funds) of the Laguna Beach Municipal Transit Lines (LBMTL), an enterprise fund of the City of Laguna Beach, California (City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 20, 2017. Our report included an emphasis of matter stating that the financial statements of the LBMTL do not purport to, and do not, present fairly the financial position of the City as of June 30, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) of the LBTML to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

25231 Paseo De Alicia, Suite 100, Laguna Hills, CA 92653 P 949.768.0833 F 949.768.8408 W vtdcpa.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements of the LBMTL are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including Section 6667 of Part 21 of the California Code of Regulations and the allocation instructions of the Orange County Transportation Authority, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards,* including the requirements of Section 6667 of part 21 of the California Code of Regulations and the allocation instructions of the Orange County Transportation Authority.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
December 20, 2017