

City of Mission Viejo California



Comprehensive Annual Financial Report
Year Ended June 30, 2011

ABOUT THE COVER: *Since Matt Heppert and an army of volunteers planted several hundred plants on a portion of the Jeronimo Open Space area in the spring, the fruits of his labor have continued to bloom. In fact, a sea of wild blackberry and wild rose plants are thriving in the "mediation" zone that Matt re-vegetated.*

The young man of Boy Scout Troop 787 completed the work for his Eagle Scout project. The Eagle Scout ranking is the highest in the Boy Scouts of America organization.

Matt and more than 40 volunteers spent about 158 hours on the project - planting, planning and preparing - that benefited the environment and helped to beautify the area.

Featured on the cover are photos from Matt Heppert's spring Eagle Scout project in the Jeronimo Open Space area. Matt, of Boy Scout Troop 787, led more than 40 volunteers to re-vegetate this "mediation" zone.

Cover design by Toni Nuñez, Design and Marketing Specialist for the City.

**CITY OF MISSION VIEJO
CALIFORNIA**



**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2011**

CITY COUNCIL

Dave Leckness, Mayor
Frank Ury, Mayor Pro Tem
Trish Kelley, Council Member
Rhonda Reardon, Council Member
Cathy Schlicht, Council Member

CITY MANAGER

Dennis R. Wilberg

**PREPARED BY
DEPARTMENT OF ADMINISTRATIVE SERVICES**

Cheryl Dyas
Director of Administrative Services

CITY OF MISSION VIEJO
Comprehensive Annual Financial Report
Year ended June 30, 2011

Table of Contents

	<u>Page</u>
<u>INTRODUCTORY SECTION</u>	
Letter of Transmittal	i
GFOA Certificate of Achievement for Excellence in Financial Reporting	vii
Organizational Structure	viii
List of Principal Officials	ix
 <u>FINANCIAL SECTION</u>	
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	5
 Basic Financial Statements:	
Basic Financial Statements - Overview	23
Government-wide Financial Statements:	
Statement of Net Assets	25
Statement of Activities	26
Fund Financial Statements:	
Description of Governmental Funds	28
Balance Sheet	30
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	33
Statement of Revenues, Expenditures and Changes in Fund Balances	34
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	36
Proprietary Funds:	
Statement of Net Assets	37
Statement of Revenues, Expenses and Changes in Fund Net Assets	38
Statement of Cash Flows	39
Fiduciary Fund:	
Statement of Fiduciary Assets and Liabilities - Agency Fund	40
 Notes to Basic Financial Statements	 41
 Required Supplementary Information:	
Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis):	
General Fund	89
Grants Special Revenue Fund	90
Developer Fees Special Revenue Fund	91
Measure M Special Revenue Fund	92
Low and Moderate Income Housing Special Revenue Fund	93
Notes to Required Supplementary Information	95

CITY OF MISSION VIEJO
Comprehensive Annual Financial Report
Year ended June 30, 2011

Table of Contents

Supplementary Schedules –

Other Governmental Funds:	99
Combining Balance Sheet	102
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	106

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
(Budgetary Basis):

Library Operations Fund	110
Law Enforcement Grants Fund	111
Gas Tax Fund	112
Air Quality Fund	113
Ladera Funding Fund	114
CDA Projects Fund	115
Mall Parking Lease Fund	116
CDFA 1999 Mall Bonds Fund	117
CDFA 1999 Revenue Bonds Fund	118
CDFA 2009 Lease Revenue Refunding Bonds	119
CDA Debt Service Fund	120

Agency Fund:	121
Statement of Changes in Assets and Liabilities	123

STATISTICAL SECTION

Description of Statistical Section Contents	125
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Financial Trends:

Net Assets by Component - Last Nine Fiscal Years	127
Changes in Net Assets - Last Nine Fiscal Years	128
Fund Balances of Governmental Funds - Last Ten Fiscal Years	131
Changes in Fund Balances of Governmental Funds - Last Ten Fiscal Years	132
Governmental Fund Revenues and Expenditures - Last Ten Fiscal Years	134
Tax Revenues by Source - Last Ten Fiscal Years	135

CITY OF MISSION VIEJO
Comprehensive Annual Financial Report
Year ended June 30, 2011

Table of Contents

Revenue Capacity:

Assessed Value and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years	136
Direct and Overlapping Property Tax Rates - Last Ten Fiscal Years	137
Principal Property Taxpayers - Current Year and Nine Years Ago.....	138
Property Tax Levies and Collections - Last Ten Fiscal Years	139

Debt Capacity:

Ratios of Outstanding Debt by Type - Last Ten Fiscal Years	140
Direct and Overlapping Debt	141
Legal Debt Margin Information - Last Ten Fiscal Years.....	142
Pledged - Revenue Coverage – Last Ten Fiscal Years.....	143

Demographic and Economic Information:

Demographic and Economic Statistics - Last Ten Fiscal Years.....	144
Principal Employers – Current Year and Nineteen Years Ago.....	145

Operating Information:

Full-Time Equivalent City Government Employees by Function - Last Ten Fiscal Years	146
Operating Indicators by Function - Last Ten Fiscal Years	147
Capital Asset Statistics by Function - Last Ten Fiscal Years	148



MISSION VIEJO

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City of Mission Viejo

Administrative Services Department

Dave Leckness
Mayor

Frank Ury
Mayor Pro Tem

Trish Kelley
Council Member

Rhonda Reardon
Council Member

Cathy Schlicht
Council Member

October 25, 2011

Honorable Mayor, Members of the City Council, City Manager and Citizens of Mission Viejo:

The Comprehensive Annual Financial Report (CAFR) of the City of Mission Viejo for the fiscal year ended June 30, 2011 is submitted herewith.

This report consists of management's representations concerning the finances of the City of Mission Viejo. Management assumes full responsibility for the completeness and reliability of all of the information presented in this report, based on a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatement.

The City's financial statements have been audited by Lance, Soll & Lunghard, LLP, certified public accountants. The auditors have issued an unqualified ("clean") opinion on these financial statements. Their report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of Mission Viejo

Mission Viejo is located in southern California approximately halfway between Los Angeles and San Diego, in the southern-most portion of Orange County commonly referred to as the Saddleback Valley. The City's current population is 93,483, making it the largest city in the Saddleback Valley and the ninth largest of the county's 34 cities.

The City of Mission Viejo is a 17.4 square-mile city. Although the City incorporated in 1988, the first homes in the community were built in the mid-1960's. It was developed as a master planned community by the former Mission Viejo Company. The City is best known for its recreational facilities and programs, and includes 41 park sites within its boundaries.

The City is governed under the Council-Manager form of government, with a five-member City Council elected at-large on a non-partisan basis. Council members serve staggered, four-year terms, with a three consecutive term limit. Council elections are held in November of even-numbered years. The Mayor is selected by the City Council from among its membership and serves a one-year term. The City Manager is appointed by the City Council to carry out the policies and direction of the City Council, oversee the

day-to-day operations of the City and appoint the heads of the various City departments. The current City Manager, Dennis Wilberg, has served in that position since November 2003.

The City provides a full range of municipal services, including police, public works, planning, building, recreation, library and animal control. However, Mission Viejo is a "contract city," and contracts with other governmental entities, private firms and individuals to deliver many of these services. Fire services are provided directly by the Orange County Fire Authority, and water and sewer services are provided by separate districts.

Mission Viejo has a AAA bond issuer credit rating from Standard and Poor's and an Aa2 rating from Moody's Investors Service. The City is financially accountable for three legally separate entities: the Mission Viejo Housing Authority, the Community Development Agency of the City of Mission Viejo and the Mission Viejo Community Development Financing Authority, the activities of which are included in these financial statements. Additional information on all three of these legally separate entities can be found in the Note 1 to the basic financial statements.

The City (the primary government) utilizes a two-year budget, which the Council adopts by June 30 or as soon thereafter as possible in odd-numbered years. Each year of the two-year budget is appropriated separately. The budget is prepared by program area (e.g., public safety), program (e.g., police patrol services) and fund. The City Manager can authorize appropriation transfers in the operating budget within the same program area and fund without limitation, and in the capital budget between capital projects within the same department and fund up to \$30,000. The City Council must authorize all other budget changes. The Community Development Agency budget is also prepared on a two-year basis. The Community Development Financing Authority utilizes a one-year budget. Both of these budgets are controlled at the fund level. The Housing Authority was created by the City Council in early 2011 and therefore, no budget was adopted in the current fiscal year.

State law mandates that Mission Viejo can only raise local tax rates with voter approval. In addition, certain user fees require voter approval and increases in user fees must follow procedures set forth in State law.

Local economy

Mission Viejo's central location in the Saddleback Valley area makes it a hub for regional commerce. It is also the home of major educational and health facilities for the area. It is primarily a "bedroom community" with a relatively small industrial base.

The two largest employers in the City are Saddleback College and Mission Hospital Regional Medical Center. Both have been major employers in the community since incorporation. Saddleback College is a two-year community college serving approximately 40,000 students annually and employing 2,196 people. It was established in 1968 and is part of the California Community College system. The college is fully accredited and offers over 300 associate degrees, certificate and occupational awards in 190 program areas, including accounting, computer science, engineering, fashion, journalism and nursing. Mission Hospital Regional Medical Center, the City's second largest employer with 1,349 employees, is a 552-bed facility. It is the largest hospital in South Orange County and one of only three trauma centers in all of Orange County. The hospital is in the middle of a multi-year expansion program to ensure that key services will meet patient care needs as the region continues to grow.

The commercial section of the City is anchored by The Shops at Mission Viejo, a regional mall of 1.1 million square feet. Tenants include Macy's, Nordstrom, Forever 21, Microsoft, Apple and a new Disney interactive store. Five high-end auto dealers are located in Mission Viejo – Lexus, Infiniti, Audi, Jaguar/Land Rover and Acura. Target and Home Depot also have a major presence in town. The Mission Viejo Freeway Center, located adjacent to Interstate 5, is home to Best Buy, Bed Bath and Beyond, Toys R Us and others.

Since its incorporation, Mission Viejo has had a strong and well-diversified tax base. Over the years, the relatively high property values and personal income levels within the City have generated tax revenues sufficient to support a very high level of municipal services and facilities for the community to enjoy, as well as healthy fund balances. The tax base has performed extremely well in good economic times, and it has also been able to weather the slower economic times. Since 2001, assessed valuation of property in the City has grown at an average annual rate of 4.1% despite the two recessions during this time period and the first-ever decline in assessed valuations in 2010. Our tax base is well diversified, with City property tax revenue now accounting for about 35% of total governmental revenues. Sales tax revenue has declined recently, but still represents about 20% of governmental revenues. The remainder of the tax base (Community Development Agency property tax increment, franchise taxes, real property transfer taxes and transient occupancy taxes) contributes another 14-15% of general governmental revenues.

Mission Viejo has generally maintained a low unemployment rate. The rate has traditionally not only been below the State and national rates, but also below the County unemployment rate. Except during periods of recession in the early 1990's and since 2008, the unemployment rate in the City has ranged between 1.4% and 2.9%. In the mid-1990's, it peaked at 6.6% and it reached 6.9% in 2010. The City's current unemployment rate is 6.7%.

Most economists seem to agree that the recession is over and the economy is beginning to recover, albeit slowly. Job growth will occur in Orange County and elsewhere and the unemployment rate will begin to decline. As a result of the City's diversified tax base and personal income levels, the Mission Viejo economy is expected to continue to perform as well as, or better than, the economies of Orange County and the State.

Long-term financial planning

The City prepares a Master Financial Plan (MFP) no less frequently than every two years; however, during the past few years, the MFP has been updated much more frequently as management has responded to the declining economy and its effects on the City's budget. It has been the goal of management and the City Council during this time to maintain a stable budget, while reducing operating expenditures and continuing to provide a high level of services to the citizens. Revenues were monitored and analyzed every two to three months. The frequent monitoring of revenues allowed management and the City Council to act quickly to manage and reduce expenditures as needed.

The most recent MFP for 2011-18 includes a seven-year General Fund revenue forecast and expenditure plan. The 2011-18 revenue forecast indicates that general fund revenue will grow throughout the forecast period on an average of 3.41% per year. The current forecast projects that General Fund revenues will return to pre-recession levels in FY 2014-15.

Although the recession ended in 2009, the City's current MFP was prepared with a conservative approach to future expenditure planning. Due to the permanent cuts to the operating budget over the past few years and additional cuts going forward, the current 2011-13 adopted budget is balanced without the use of reserves. The current MFP calls for the elimination of an additional 4.75 FTE's in 2011-12 and another 3-4 FTE reduction in 2012-13. These reductions will result in a total of 21 FTE positions eliminated citywide since 2008. The City also implemented a second tier pension plan for new employees to manage and reduce its exposure to pension liabilities. This new tier became effective on July 9, 2011. For many years the City's policy has been to compensate employees at above average levels as a means of attracting and retaining the highest quality staff to deliver City services in the most efficient and effective manner. The challenge in the coming years will be how the City can both attract and retain the best employees, and continue to deliver the amount and quality of services to which the public has grown accustomed, within available revenues.

Over the past several years, the City's ability to maintain service levels and adopt a balanced budget have been hampered by the State's continual efforts to chisel away at local government revenue as a way of dealing with its own budget challenges. The latest challenge occurred in June 2011 when the State budget was adopted with bills that eliminated redevelopment agencies and then allowed for the continued existence of these agencies if agencies opted to "pay" the State for the privilege to continue redevelopment activities. These redevelopment bills were challenged and the outcome of the constitutionality of these bills was ruled on by the California Supreme Court on December 29, 2011. The Court's ruling upheld the elimination of redevelopment agencies without the ability to "opt in" and continue to operate redevelopment agencies. At this time it is not clear what other lawsuits might be pursued or legislation that might be adopted pertaining to redevelopment agencies; however, the City expects Mission Viejo's redevelopment agency to be dissolved effective February 1, 2012.

Another unexpected action by the State as part of their budget adoption was the elimination of VLF revenue. The City adopted their 2011-13 budget with \$374,000 expected in VLF revenue in both FY 2011-12 and 2012-13. The City will need to address this loss of revenue during the FY 2011-12 mid-year review.

Major initiatives

A major goal of the City for the past several years has been to address the affordable housing needs of the City in an acceptable manner that meets both community expectations and the State's regional housing needs assessment (RHNA) requirements. The Community Development Agency, as required by the State, has been accumulating resources every year to assist and promote low to moderate income housing development. The State requires that these funds be spent in a timely manner. During fiscal year 2010-11, the Agency expended \$.3 million and committed another \$2.0 million, to assist a developer in providing 22 affordable units. The total project consists of 144 townhomes/condominiums to be located in the northern portion of Mission Viejo near the intersection of Jeronimo Road and Los Alisos Boulevard. Every homebuyer of an affordable unit must own and occupy their home. Any sale, refinancing or other transfer of the unit during the 45-year affordability period will require the new owner to also qualify as a low income or very low income homebuyer. The first unit for this project closed escrow in July 2011. With the commitment of funds to this project, the Agency resolved its "excess surplus" situation and avoided being sanctioned by the State for lack of action on affordable housing. The City has another \$5.7 million set aside specifically for low to moderate income housing development; however, this funding is in jeopardy as a result of the redevelopment lawsuit previously mentioned.

Another significant ongoing effort has been to manage and improve the flow of traffic throughout the City. The focus for the past several years has been to expand the capacity of the City's major east-west thoroughfares. In March of 2010, the City Council awarded a \$4.1 million construction contract for the Oso Parkway/ Marguerite Parkway intersection improvement project. This project was substantially complete at June 30, 2011 and improved the traffic flow at this major intersection by adding one through lane in each direction on Oso Parkway and additional turn lanes in all directions. Widening of other sections of Oso Parkway is scheduled for 2011-12 and beyond. Design work continued on the La Paz Bridge and Road Widening project, between Chrisanta Drive and Muirlands Boulevard. Finally, the City is a partner with the City of Laguna Niguel for the widening of Crown Valley Parkway at the I/5 Interstate. This project includes a dedicated right turn lane for the northbound ramp and four continuous eastbound through lanes from Cabot to match the four through lanes that begin in Mission Viejo at the northbound ramp.

Major resources are also currently being devoted to street resurfacing around the City. Nearly \$7 million was budgeted for residential street resurfacing in FY 2011-12 and 2012-13. Key arterials are also being resurfaced. The largest non-street project in the 2011-12 capital budget is the Marguerite Tennis Center Renovation project. This \$4.1 million project is designed to bring the 35-year old facility up to code and update it with modern energy-efficient equipment, replace tennis court lighting, add an eighth tennis court and upgrade the facility's parking lot.

Awards and acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Mission Viejo for its comprehensive annual financial report for the fiscal year ended June 30, 2010. The Certificate is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports. To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Mission Viejo received its first Certificate of Achievement in 1988-89, its first full year of incorporation as a city, and has received the certificate every year since then. I believe this 2010-11 CAFR continues to conform to the Certificate of Achievement program requirements, and it will be submitted to GFOA for award consideration.

The City also received the GFOA Distinguished Budget Presentation Award and CSMFO Excellence in Operational Budgeting Award for its 2009-2011 biennial budget document. To qualify for the GFOA award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device. The CSMFO award reflects excellence in the budget document and the underlying budget process through which the budget is implemented. The 2011-2013 biennial budget was submitted to both the CSMFO and GFOA award programs in October 2011 and I believe this report continues to conform to requirements of both budget programs.

Honorable Mayor, Members of the City Council, City Manager and Citizens of the City of Mission Viejo
October 25, 2011

The preparation and publication of the CAFR is a team effort, requiring the dedication and cooperation of the entire Administrative Services Department staff and the City's independent auditors, Lance, Soll & Lunghard, LLP, throughout the year as well as at year-end. I would like to acknowledge the following individuals who contributed significant effort toward the publication of this document: Senior Accountant Patricia Brunell, Accountant Kim Lashley and Administrative Assistant Sherry Merrifield.

In closing, I would like to express my appreciation to the City Council and City Manager for their leadership and support, and for their continuing efforts to maintain the City's fiscal health.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Cheryl Dya". The signature is fluid and cursive, with a large initial "C" and "D".

Cheryl Dya, CPA
Director of Administrative Services

CITY OF MISSION VIEJO
Comprehensive Annual Financial Report
June 30, 2011

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

City of Mission Viejo
California

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

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



President

Executive Director

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 Mission Viejo for our Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010.

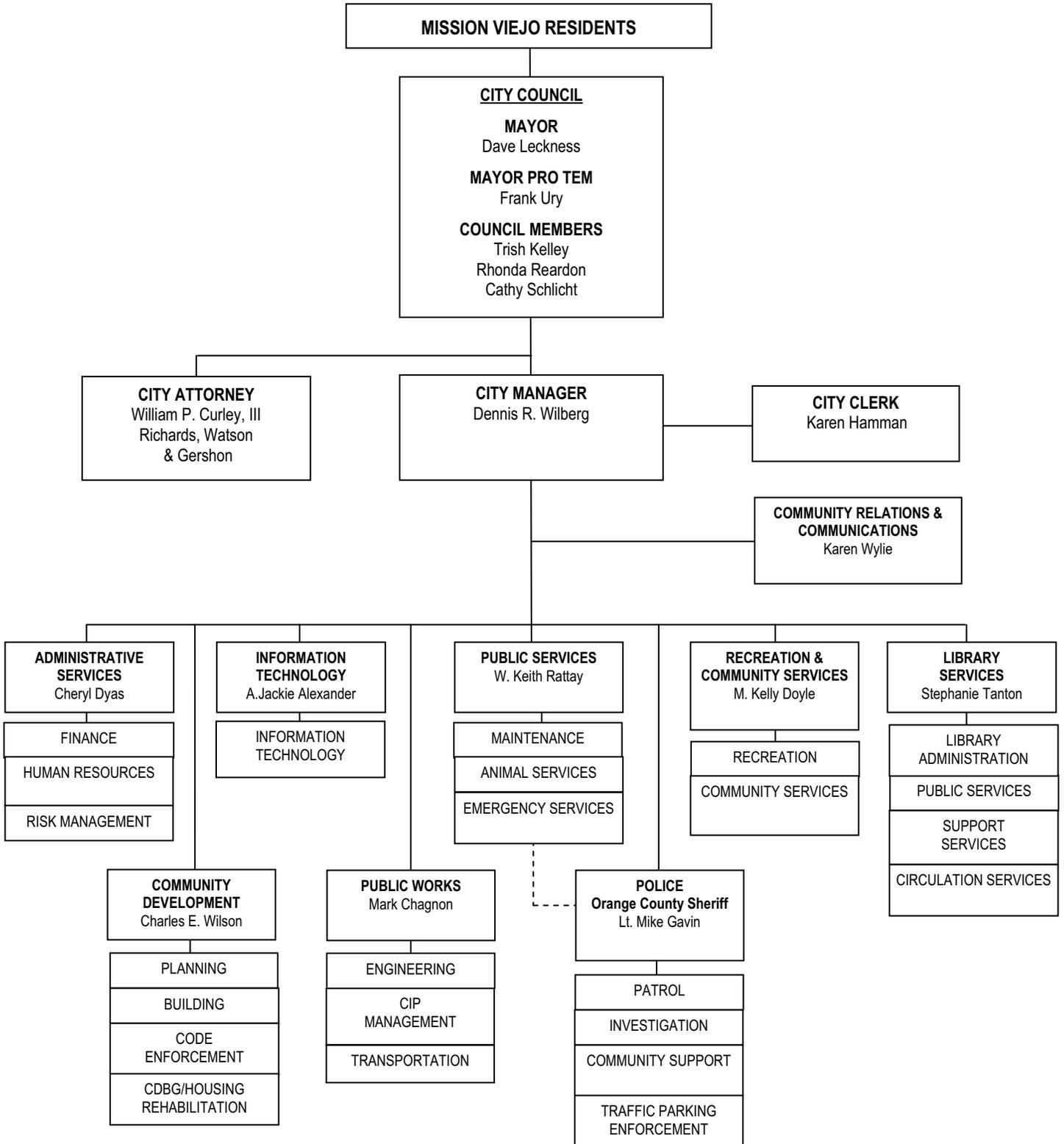
In order to be awarded a certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to industry standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

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

CITY OF MISSION VIEJO

Organizational Structure

June 30, 2011



CITY OF MISSION VIEJO

List of Principal Officials
as of June 30, 2011

City Manager	Dennis R. Wilberg
City Attorney	William P. Curley III
City Clerk.....	Karen Hamman
Director of Administrative Services.....	Cheryl Dyas
Deputy City Manager/Community Relations & Communications Manager	Karen Wylie
Director of Community Development.....	Charles E. Wilson
Director of Information Technology.....	A. Jackie Alexander
Director of Library Services	Stephanie Tanton
Director of Public Services	W. Keith Rattay
Director of Public Works	Mark Chagnon
Director of Recreation and Community Services	M. Kelly Doyle
Chief of Police Services (O.C. Sheriff Department)	Lt. Mike Gavin



MISSION VIEJO

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CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, CPA
- David E. Hale, CPA, CFP
A Professional Corporation
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA
- Deborah A. Harper, CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of City Council
City of Mission Viejo, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Mission Viejo, California, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Mission Viejo, California's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mission Viejo, California, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We would like to draw the reader's attention to Note 20 – "California Redevelopment Agency Dissolution". The note provides information on two bills passed, ABX1 26 and ABX1 27 which dissolve redevelopment agencies and provide an option to avoid dissolution by making certain defined payments. The Note also provides further information on the California Supreme Court ruling dated December 29, 2011 in regards to these two bills.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2011, on our consideration of the City of Mission Viejo, California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



To the Honorable Mayor and Members of City Council
City of Mission Viejo, California

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary information, and other information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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.

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

Lance, Soll & Loughard, LLP

Brea, California

October 25, 2011 (except for Note 20 which is as of December 29, 2011)



MANAGEMENT'S DISCUSSION AND ANALYSIS



MISSION VIEJO

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CITY OF MISSION VIEJO
Management's Discussion and Analysis
Year ended June 30, 2011

As management of the City of Mission Viejo ("City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011. Please read it in conjunction with the accompanying transmittal letter at the front of this report, and the basic financial statements, which follow this section.

Financial Highlights

- The assets of the City exceeded its liabilities at June 30, 2011 by \$708.5 million. This amount is referred to as the net assets of the City. Of this amount, \$39.0 million is unrestricted net assets and may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net assets increased by \$0.4 million during the past year. This compares to the prior year decrease in net assets of \$6.4 million. FY 2010-11 revenues increased by \$4.3 million from FY 2009-10 levels, and expenses (both expenditures and non-cash expenses such as depreciation) declined by \$2.5 million. (See page 11-13 for a more detailed discussion of expenses.)
- As of the close of the 2010-11 fiscal year, the City's governmental funds (the General Fund plus Special Revenue, Debt Service and Capital Projects funds) reported combined ending fund balances of \$52.0 million. Governmental fund expenditures and other financing uses exceeded revenues and other financing sources by \$2.5 million in FY 2010-11 due to timing differences in recognizing grant related expenditures in FY 2010-11 and delaying offsetting grant revenue to future years. Of the \$52.0 million combined ending fund balances at June 30, 2011, \$28.1 million is available for spending at the government's discretion (termed "unassigned fund balance"). The \$18.8 million balance is comprised of amounts restricted for specific purposes, such as \$8.3 million for debt service and \$7.4 million for low and moderate income housing projects and \$5.1 is categorized as non-spendable.
- The \$32.5 million unassigned fund balance of the General Fund was 67% of General Fund revenues. This percentage is six percent higher than from June 30, 2010. Approximately \$16.6 million of the June 30, 2011 unassigned fund balance has been designated by the City Council for rehabilitation and replacement of current City assets and \$6.2 million has been designated for subsequent year's expenditures.
- The City's total long-term liabilities decreased by \$1.7 million, or 3.0%, during the fiscal year ending June 30, 2011, to a level of \$53.9 million. The City's issuer credit rating from Standard and Poor's and Moody's remained the same during the year at AAA and Aa2, respectively.

CITY OF MISSION VIEJO
Management's Discussion and Analysis
Year ended June 30, 2011

Overview of the Financial Statements

This discussion and analysis is an introduction to the City's basic financial statements, which consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also consists of supplementary information in addition to the basic financial statements.

Government-wide financial statements. These statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business. There are two government-wide financial statements: the Statement of Net Assets and the Statement of Activities. They present information for the government as a whole and present a longer-term view of the City's finances. These two statements help to answer the question: "Is the City as a whole better off or worse off as a result of this year's activities?"

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. In time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information on how the City's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused employee leaves).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include police services, public works, infrastructure maintenance, most general government activities, recreation and community services, community development and library services. The business-type activities of the City include animal services and government-access cable television.

The government-wide financial statements include not only the City of Mission Viejo itself (known as the primary government), but also three other legally separate entities: the City's redevelopment agency, known as the Community Development Agency of the City of Mission Viejo (the "Agency" or "CDA"); the Mission Viejo Housing Authority (the "MVHA"); and the Mission Viejo Community Development Financing Authority (the "Authority"), a joint powers authority formed by the City and the Agency to issue bonds for the construction of major capital facilities. The City is financially accountable for all three of these legally separate entities, which are referred to as component units. The Agency, MVHA and Authority function for all practical purposes as departments of the City, and therefore, these component units have been included in these financial statements as an integral part of the primary government.

CITY OF MISSION VIEJO
Management's Discussion and Analysis
Year ended June 30, 2011

The government-wide financial statements can be found on pages 25-27 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus 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. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 17 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Grants Fund, Developer Fees Fund, Measure M Fund, Low and Moderate Income Housing Fund and CDA Debt Service Fund, which are considered to be the City's six major funds. Data from the other 11 governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these other governmental funds is provided in the form of combining statements elsewhere in the report.

The City (the primary government) adopts a biennial budget for all its governmental and proprietary funds. The Community Development Agency also adopts a two-year budget. Annual appropriations are approved prior to the beginning of each year of the biennial budget period. The Authority adopts an annual budget. A budgetary comparison statement has been provided for each of the governmental funds to demonstrate compliance with this budget. The definition of the General Fund for purposes of these audited financial statements is different than for budgetary purposes. For budgeting purposes, the City maintains two asset replacement funds separate from the General Fund, but for these financial statements, these funds are combined into the General Fund. There was no budget adopted for the MVHA.

The basic governmental fund financial statements can be found on pages 30-36 of this report.

CITY OF MISSION VIEJO
Management's Discussion and Analysis
Year ended June 30, 2011

Proprietary funds. The City maintains two enterprise funds, a type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its animal services operation and government-access cable television station.

The basic proprietary fund financial statements can be found on pages 37-39 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City utilizes one agency fund, which is a type of fiduciary fund, to account for assets of Community Facilities District No. 92-1 (Mission Viejo Freeway Center).

The basic fiduciary fund financial statements can be found on page 40 of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 41-85 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's "modified approach" method of accounting for its street infrastructure assets and budgetary policies. Required supplementary information can be found on pages 89-98 of this report.

The combining statements referred to earlier in connection with other governmental funds are presented immediately following the required supplementary information as supplementary schedules. Combining and individual fund statements and schedules can be found on pages 102-120 of this report.

Government-wide Financial Analysis

Net assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, net assets were approximately \$708.5 million as of June 30, 2011. Net assets increased \$0.4 million during fiscal year 2010-11. Assets decreased 0.4% and liabilities decreased by 5.4% compared to June 30, 2010.

By far the largest portion of the City's net assets at June 30, 2011 (\$646.2 million, or 91.2% of total net assets) reflects its investment in capital assets (e.g., land, infrastructure, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related

CITY OF MISSION VIEJO
Management's Discussion and Analysis
Year ended June 30, 2011

debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Mission Viejo							
Net Assets at Year-End							
(in millions)							
	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>		<u>Total</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>Percentage</u>
							<u>Change</u>
							<u>2010-2011</u>
Current and other non-current assets	\$ 73.6	\$ 76.7	\$ 2.4	\$ 2.1	\$ 76.0	\$ 78.8	-3.6%
Capital assets	<u>696.3</u>	<u>696.7</u>	<u>2.2</u>	<u>2.3</u>	<u>698.5</u>	<u>699.0</u>	-0.1%
Total assets	<u>769.9</u>	<u>773.4</u>	<u>4.6</u>	<u>4.4</u>	<u>774.5</u>	<u>777.8</u>	-0.4%
Long-term liabilities							
Outstanding	53.8	55.4	0.1	0.1	53.9	55.5	-2.9%
Other liabilities	<u>12.0</u>	<u>14.2</u>	<u>0.1</u>	<u>0.1</u>	<u>12.1</u>	<u>14.3</u>	-15.4%
Total liabilities	<u>65.8</u>	<u>69.6</u>	<u>0.2</u>	<u>0.2</u>	<u>66.0</u>	<u>69.8</u>	-5.4%
Net assets:							
Invested in capital assets, net of debt	644.0	651.8	2.2	2.4	646.2	654.2	-1.2%
Restricted	23.3	22.8	-	-	23.3	22.8	2.2%
Unrestricted	<u>36.8</u>	<u>29.2</u>	<u>2.2</u>	<u>1.8</u>	<u>39.0</u>	<u>31.0</u>	25.8%
Total net assets	<u>\$ 704.1</u>	<u>\$ 703.8</u>	<u>\$ 4.4</u>	<u>\$ 4.2</u>	<u>\$ 708.5</u>	<u>\$ 708.0</u>	0.1%

An additional \$23.3 million of the City's net assets is restricted net assets, representing resources that are subject to external restrictions on how they may be used. The remaining \$39.0 million is unrestricted net assets, which may be used to meet the government's ongoing obligations to citizens and creditors. Unrestricted net assets increased \$8.0 million, or 25.8% from June 30, 2010.

Changes in net assets. As noted in the following table, the City's net assets increased by \$0.4 million during the current fiscal year. The FY 2010-11 increase in net assets compares to the FY 2009-10 decrease of \$6.4 million.

CITY OF MISSION VIEJO
 Management's Discussion and Analysis
 Year ended June 30, 2011

City of Mission Viejo Changes in Net Assets (in millions)							
	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2010-2011
	2011	2010	2011	2010	2011	2010	
Revenues							
Program revenues:							
Charges of services	\$ 7.0	\$ 5.4	\$ 1.2	\$ 0.7	\$ 8.2	\$ 6.1	34.4%
Operating grants and contributions	7.6	7.3	0.2	0.6	7.8	7.9	-1.3%
Capital grants and contributions	6.7	5.5	-	-	6.7	5.5	21.8%
General revenues:							
Taxes:							
Property taxes	33.0	34.4	-	-	33.0	34.4	-4.1%
Sales and use taxes	11.1	10.5	-	-	11.1	10.5	5.7%
Property taxes in lieu of sales and use taxes	3.7	2.7	-	-	3.7	2.7	37.0%
Other taxes	3.7	3.4	-	-	3.7	3.4	8.8%
Motor vehicle in lieu fees	0.5	0.3	-	-	0.5	0.3	66.7%
Investment earnings	1.3	1.0	-	-	1.3	1.0	30.0%
Other	0.6	0.6	0.1	-	0.7	0.6	16.7%
Total revenues	<u>75.2</u>	<u>71.1</u>	<u>1.5</u>	<u>1.3</u>	<u>76.7</u>	<u>72.4</u>	5.9%
Expenses							
General government- legislative	1.3	2.3	-	-	1.3	2.3	-43.5%
General government- management/support	14.8	16.2	-	-	14.8	16.2	-8.6%
Public safety	16.8	16.5	-	-	16.8	16.5	1.8%
Community development	2.6	2.4	-	-	2.6	2.4	8.3%
Public works – engineering/transportation	3.0	3.2	-	-	3.0	3.2	-6.3%
Infrastructure maintenance	25.2	24.7	-	-	25.2	24.7	2.0%
Recreation, community and library services	9.1	9.5	-	-	9.1	9.5	-4.2%
Animal services and other	-	-	1.7	1.7	1.7	1.7	0.0%
Mission Viejo television	-	-	0.1	0.1	0.1	0.1	0.0%
Interest on long-term debt	1.7	2.2	-	-	1.7	2.2	-22.7%
Total expenses	<u>74.5</u>	<u>77.0</u>	<u>1.8</u>	<u>1.8</u>	<u>76.3</u>	<u>78.8</u>	-3.2%
Increase/(decrease) in net assets before transfers	0.7	(5.9)	(0.3)	(0.5)	0.4	(6.4)	-106.3%
Transfers	(0.5)	(0.1)	0.5	0.1	-	-	0.0%
Increase in net assets	0.2	(6.0)	0.2	(0.4)	0.4	(6.4)	-106.3%
Net assets, beginning of year	<u>703.9</u>	<u>709.8</u>	<u>4.2</u>	<u>4.6</u>	<u>708.1</u>	<u>714.4</u>	-0.9%
Net assets, end of year	<u>\$ 704.1</u>	<u>\$ 703.8</u>	<u>\$ 4.4</u>	<u>\$ 4.2</u>	<u>\$ 708.5</u>	<u>\$ 708.0</u>	0.1%

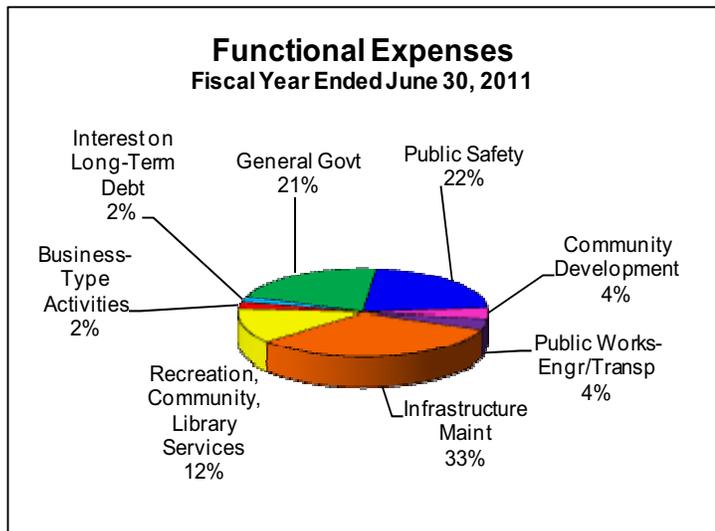
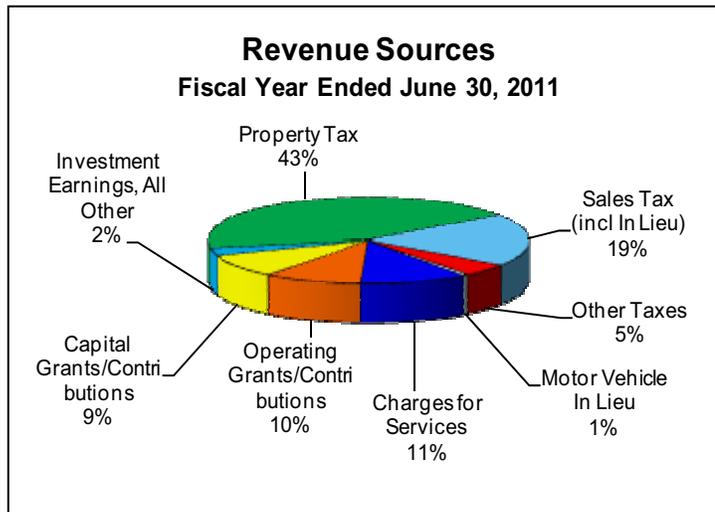
The City's total revenues were \$76.7 million in FY 2010-11, while the total cost of all programs and services was \$76.3 million. Revenues increased by \$4.3 million, or 5.9%, over prior year levels and expenses (expenditures plus non-cash expenses) decreased by \$2.5 million, or 3.2%.

CITY OF MISSION VIEJO
 Management's Discussion and Analysis
 Year ended June 30, 2011

Approximately 69% of all revenues this past year came from some form of tax (down slightly from 71% in FY 2009-10). Property tax revenue (including property tax increment revenues to the City's Community Development Agency), the City's largest revenue source, this year accounted for 43% of total City revenues, compared to 48% last year and 45% the year before. Sales tax revenue, including the ¼-cent of sales tax diverted by the State and paid to cities as additional property tax revenue, was the second largest revenue source at 19% of total revenues, up from 18% last year and even with 19% the year before.

Governmental activities. Revenues associated with governmental activities increased by \$4.1 million compared to FY 2009-10 due to the recovering economy. The largest component of the \$4.1 increase was due to the receipt of \$2.0 million in park developer fees from Lennar for The Ridge development project. These fees are reflected as part of charges for services in the Recreation, Community and Library Services function. The City also received an increase in operating and capital contributions and grants in the amount of \$1.5 million. The most significant capital project during FY 2010-11, funded primarily with grants and developer fees was the Oso/Marguerite Intersection improvement project.

Finally, total General Fund taxes were up \$0.7 million from the prior year. While property taxes declined \$1.4 million from the previous year, this decline was offset by an increase in sales tax revenue in the amount of \$1.6 million. The City also experienced increase in other taxes and Motor Vehicle in Lieu fees in the amount of \$0.5 million.



Expenses associated with governmental activities decreased this past year by \$2.5 million, or 3.2%. The cost of all governmental activities in FY 2010-11 was \$74.5 million. That cost was financed by:

CITY OF MISSION VIEJO

Management's Discussion and Analysis

Year ended June 30, 2011

- Those who directly benefited from the programs and services (9%);
- Other governments and organizations that subsidized certain programs and projects with grants and contributions (19%); and
- General tax revenues and other general revenues of the City (72%).

Compared to last year, the percentage of costs financed by general tax revenues was 4% lower and the amount financed by the other two categories was 4% greater.

As shown in the Changes in Net Assets table above, the largest increase in total cost of services this year was in the infrastructure maintenance program area. This area's costs were up a net of \$0.5 million due to: (1) an increase in capital additions over the prior year in the amount of \$2.4 million for streets not eligible for capitalization due to the City's use of the modified approach; (2) lower routine maintenance costs for parks, medians and slopes in the current year in the amount of \$0.4 million; (3) a \$0.1 million reduction in depreciation expense from the prior year; and (4) decrease in disposals of infrastructure assets prior to being fully depreciated in the amount of \$1.4 million.

The Community Development program areas costs were also up \$0.2 million due to an increase in professional services in the Low and Moderate Income Housing Fund in the amount of \$85,000 and an increase in rehabilitation grants and loans in the amount of \$75,000. Public Safety program area costs also increased over the prior year in the amount of \$0.3 million due to increases in costs included in the police services contract with the Orange County Sheriff's Department.

General government – Legislative program area costs decreased \$1.0 from the prior year. Costs for the Election program was down \$419,000 in the current year. Cost in FY 2009-10 were significantly higher due to a recall special election. Legal expenses in the current year also declined \$244,000 from the prior year. Finally, depreciation expense decreased \$237,000. The General government – management and support program area costs were down \$1.4 million due to the reduction of the State's requirement to pay Community Development Agency funds to the Supplemental Educational Revenue Augmentation Fund (SERAF) from \$1.7 million in the prior year to \$0.3 million in the current year. These payments were part of the State of California's raid of local revenues to assist in balancing the State's budget. Expenses in the Public Works – Engineering and Transportation program area also declined by \$0.2 million due to a reduction in gas tax fund expenditures of \$0.1 related to contracts for professional services to update the pavement management program in the prior year and the reduction of \$0.1 million in personnel costs in the General Fund. The Recreation, Community and Library Services program area decreased costs in the amount of \$0.4 million due to a decrease in personnel costs in the amount of \$0.2 million and reduction to library materials, professional services contracts and equipment purchases in the amount of \$0.2 million.

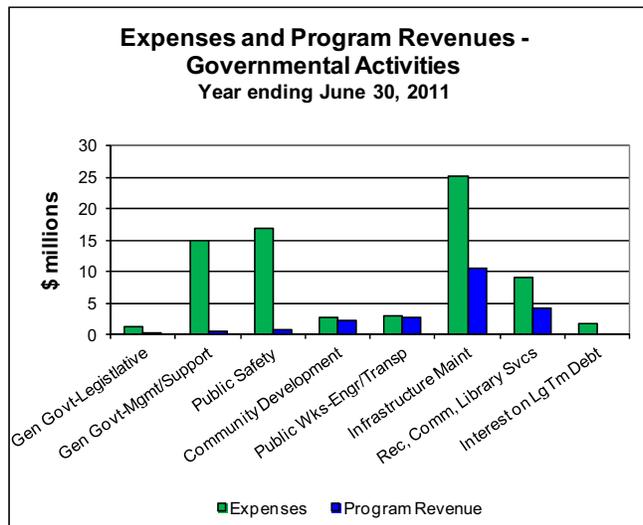
Finally, interest on long-term debt was down \$0.5 million due. The primary reason for this reduction is related to the interest cost savings of \$0.4 million from the issue of the 2009 Lease Revenue Refunding bonds in the prior year to refund the 2001 Lease Revenue Bonds.

CITY OF MISSION VIEJO
 Management's Discussion and Analysis
 Year ended June 30, 2011

City of Mission Viejo Net Cost of Governmental Activities (in millions)						
	2011			2010		
	Total Cost of Services	Net Cost of Services	% of Total Cost Borne By General Revenues	Total Cost of Services	Net Cost of Services	% of Total Cost Borne By General Revenues
General government- legislative	\$ 1.3	\$ 1.2	92.3%	\$ 2.3	\$ 2.3	100.0%
General government- management/support	\$ 14.8	\$ 14.3	96.6%	\$ 16.2	\$ 15.8	97.5%
Public safety	16.8	15.9	94.6%	16.5	14.9	90.3%
Community development	2.6	0.3	11.5%	2.4	0.3	12.5%
Public works- engineering/ transportation	3.0	0.4	13.3%	3.2	2.3	71.9%
Infrastructure maintenance	25.2	14.6	57.9%	24.7	14.1	57.1%
Recreation, community and library services	9.1	4.9	53.8%	9.5	6.9	72.6%
Interest on long-term debt	1.7	1.7	100.0%	2.2	2.2	100.0%
	<u>\$ 74.5</u>	<u>\$ 53.3</u>	71.5%	<u>\$ 77.0</u>	<u>\$ 58.8</u>	76.4%

The table above illustrates that the net cost of governmental services (expenses less program revenues) declined \$5.5 million this year and the percentage of the total cost of services that was funded from general revenues decreased from 76.4% to 71.5%. The Legislative and Management Support Program areas under General Government, as well as Community Development, Public Works – Engineering and Transportation and Recreation, Community and Library Services were the five program areas that required a smaller percentage of costs to be borne by general tax revenues in FY 2010-11 than in FY 2009-10. These declines were primarily due to the reduction of costs as highlighted on the previous page. Public Safety and Infrastructure Maintenance required higher percentages of costs to be borne by general tax revenues in FY 2010-11 than in FY 2009-10. The higher percentage for all three areas is partially caused by the increase in costs as previously discussed. In addition, there was a reduction in public safety charges for services program revenue of \$0.7 million from the prior year.

Business-type activities. The business-type activities of the City continue to be a relatively small component of overall City operations, representing less than 1% of total City net assets. Net assets for business-type activities of the City increased by \$0.2 million in FY 2010-11, compared to a decrease of \$0.4 million in FY 2009-10. The decrease in FY



CITY OF MISSION VIEJO
 Management's Discussion and Analysis
 Year ended June 30, 2011

2009-10 was a result of the return of prior year subsidies in excess of amounts needed to fund operations. There was no such transfer required in FY 2010-11.

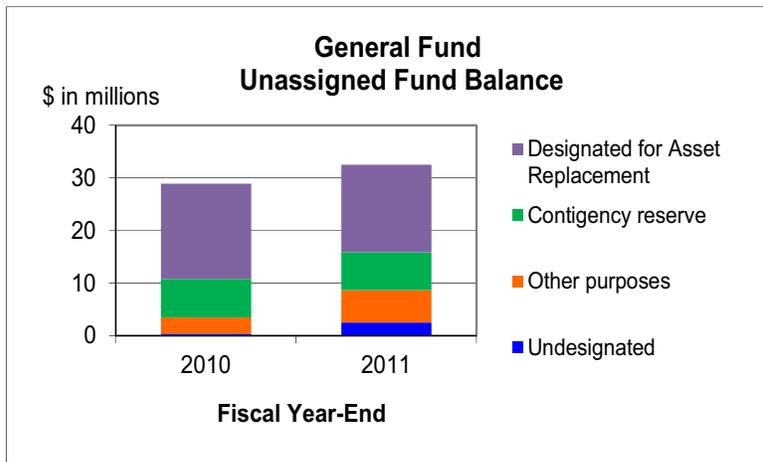
Financial Analysis of the City's Funds

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

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City of Mission Viejo's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

The City's governmental funds (as presented in the balance sheet on pages 30-31) reported combined ending fund balances of \$52.0 million as of June 30, 2011. This represents a decrease of \$2.5 million compared to the prior year. Approximately \$28.1 million of this total amount constitutes unassigned fund balances, which are available for spending at the City's discretion. The remaining amount (\$23.9 million) is either restricted for specific purposes or is non-spendable. The primary non-spendable designations are: 1) long-term receivables from outside sources (\$0.6 million); 2) advances between City funds that are not immediately due (\$2.0 million); and (3) amounts due from developers (\$2.4 million). Primary restrictions include 1) low and moderate income housing development projects (\$7.4 million); and 2) debt service requirements (\$8.3 million).

The General Fund is the chief operating fund of the City. As of June 30, 2011, the total fund balance of the General Fund was \$33.3 million, while the unassigned portion of the fund balance was \$32.5 million. At June 30, 2010, the total fund balance was \$33.4 million and the unassigned portion was \$29.1 million.



The total fund balance (non-spendable, restricted and unassigned portions) decreased by \$0.1 million during the year ended June 30, 2011. While total General Fund revenues exceeded expenditures by \$1.2 million, this excess was offset by the net outflow of other financing uses of \$1.3 million. Similar to last year, this net amount includes such items as debt service on bonds, transfers to the Animal Services Enterprise fund for Mission Viejo's share of the three-city operation's costs, transfers to the Library Operations Fund and the receipt of rolling reserve funds from the bond trustee from the CDFA 1999 Mall Bonds Debt Service Fund.

CITY OF MISSION VIEJO
Management's Discussion and Analysis
Year ended June 30, 2011

As a measure of the General Fund's relative fiscal strength, it is useful to calculate the unassigned fund balance amount as a percentage of total fund revenues. At June 30, 2011, the unassigned fund balance was 67% of total FY 2010-09 General Fund revenues. This is six percent higher than the prior year.

Of the \$32.5 million unassigned fund balance, a total of \$6.2 million is designated by the City Council for subsequent years' expenditures (unspent operating and capital budget appropriations as of June 30, 2011 to be carried over to FY 2011-12). Excluding this designation, the remaining unassigned fund balance of the General Fund at year-end was \$26.3 million, and the percent of revenues was 61.8%.

As illustrated in the above graph, the major designation of unassigned fund balance in the General Fund in these financial statements is for asset replacement. (As noted earlier, the asset replacement funds are separate funds for budgetary purposes but are combined with the General Fund in these financial statements.) A total of \$16.6 million of unassigned fund balance is designated for asset replacement at June 30, 2011, down from \$18.1 million last year. This leaves the undesignated portion of unassigned fund balance at \$2.5 million as of June 30, 2011, which is an increase of \$2.1 million from the \$0.4 million level at June 30, 2010.

The City has five other major funds: the Grants Fund, the Developer Fees Fund, the Measure M Fund, the Low and Moderate Income Housing Fund, and the CDA Debt Service Fund. The Grants Fund had an overall fund balance deficit as of June 30, 2011 of \$0.1 million, compared to a positive fund balance of \$0.2 million at June 30, 2010. The decrease in the fund balance this year is the result of grant fund expenditures exceeding grant fund receipts on various projects during the year. Accounting standards require that the recognition of grant fund revenue not received within 60 of year end be deferred to subsequent years. This delay in recognition results in a deficit fund balance. The Developer Fees Fund has a total fund deficit of \$1.4 million as of June 30, 2011. The prior year's fund deficit was \$2.2 million. The decrease of the fund deficit is due to the receipt of unreimbursed expenditures incurred in previous fiscal years. The Measure M Fund ended the year with a total fund balance of \$.2 million, a decrease of \$2.6 million from the prior year. This decrease is due to an increase in expenditures of \$6.0 million this year as compared to \$1.9 million in the prior year. Current year spending utilized the receipt of current year revenue in the amount of \$3.4 million in addition to accumulated resources from prior years in the amount of \$2.6.

The Low and Moderate Income Housing Fund had an overall fund balance of \$6.1 million at the end of fiscal year 2010-11, compared to \$10.6 million at the end of the prior year. The decrease is primarily due to the transfer of \$5.7 million to the Mission Viejo Housing Authority. Of the \$6.1 million total fund balance, \$4.5 million represents amounts not currently available for spending. The balance of \$1.7 million is restricted for affordable housing purposes, with \$1.5 million encumbered toward the Lennar "The Ridge" development project on the corner of Los Alisos and Jeronimo.

The CDA Debt Service Fund at June 30, 2011, had a total fund deficit of \$1.8 million versus \$2.9 million last year. The deficit is the result of loans and advances due in future years to the General Fund, which will be repaid from future property tax increment revenue. The \$1.1 million decrease in

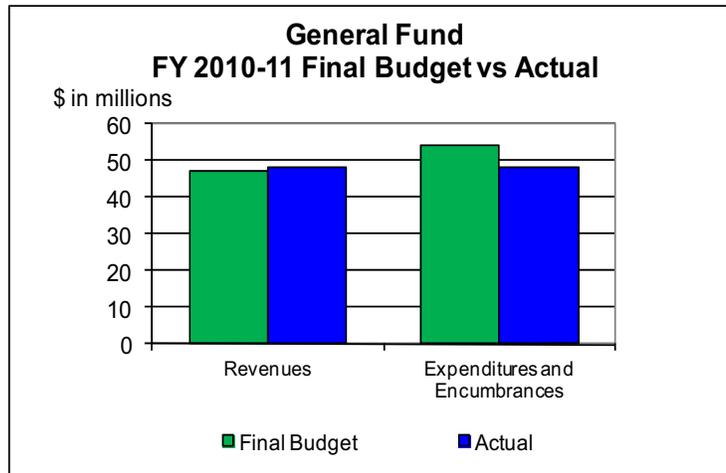
CITY OF MISSION VIEJO
Management's Discussion and Analysis
Year ended June 30, 2011

the size of the fund deficit was primarily the result of a partial payment of the loan to the City's General Fund in the amount of \$920,000 during the year.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements for the City's business-type activities, but in more detail. Unrestricted net assets of the combined proprietary funds at the end of fiscal year 2010-11 were \$2.2 million, \$0.3 million higher than the fiscal year 2009-10 total of \$1.9 million. The combined operating loss for the two proprietary fund operations (animal services and government-access cable television station) was \$0.4 million in FY 2010-11. In FY 2009-10, the combined operating loss was \$0.5 million. As in prior years, the FY 2010-11 operating loss was funded predominantly by a transfer from the General Fund.

General Fund Budgetary Highlights

Under the budgetary basis of accounting, expenditures include all encumbrances in existence at year-end, in addition to all expenditures as defined by generally accepted accounting principles. Encumbrances are commitments to outside vendors that have been made in the form of outstanding contracts and purchase orders. As a result, using the budgetary basis of accounting, General Fund revenues for FY 2011-12 were less than General Fund expenditures by a greater margin than the amount based on generally accepted accounting principles (GAAP). On the budgetary basis, revenues were less than expenditures by \$0.2 million, whereas on a GAAP basis, revenues were greater than expenditures by \$1.2 million.



As in prior years, a number of amendments were made to the budget during the year. Most of these amendments affected the General Fund. The General Fund revenue budget was increased by a net amount of \$0.6 million during the year and the operating budget increased by a net amount of \$7.3 million due to appropriations carried over from FY 2009-10 and mid-year budget adjustments. The City Council approved the carry over \$1.7 million of operating appropriations and \$5.0 million of capital project appropriations for various projects. For capital projects, the most significant carry over appropriation was \$3.2 million for the Marguerite Tennis Center Renovation project. Of the \$0.6 million mid-year adjustment in the General Fund, the most significant amendment was a \$0.4 million increase for storm drain maintenance expenditures due to the 2010 winter storms. This appropriation was offset by the recognition of federal and state disaster assistance revenue.

CITY OF MISSION VIEJO
Management's Discussion and Analysis
Year ended June 30, 2011

Actual revenues for the year were \$1.1 million greater than revised budget estimates, and actual expenditures and encumbrances combined were \$5.8 million less than the final appropriations budget. Of the total \$5.8 million, operating expenditures were \$2.1 million less than budget and capital projects came in \$3.7 million under budget. Operating budget savings were achieved in large part by less than anticipated spending on computer hardware and infrastructure maintenance. Of the \$2.1 million current year savings, \$1.2 million is being carried over to FY 2011-12. Capital budget savings was primarily due to the fact that the Marguerite Tennis Center renovation project had not begun as of fiscal year-end. The unspent appropriations for all projects are being carried over to FY 2011-12.

Capital Asset and Debt Administration

Capital Assets. Capital assets net of depreciation decreased by \$0.6 million, or 0.1%, during FY 2010-11. Total net depreciation for all assets was \$6.5 million and \$.1 million respectively for governmental activities and business-type activities. Depreciation was off-set by net additions to capital assets in the amount of \$6.0 million.

City of Mission Viejo Capital Assets At Year-End (Net of Depreciation, in Millions)							
	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2011	2010	2011	2010	2011	2010	2010-2011
Land	\$ 48.7	\$ 48.7	\$ 1.0	\$ 1.0	\$ 49.7	\$ 49.7	0.0%
Rights of way	241.7	241.6	-	-	241.7	241.6	0.0%
Buildings and Improvements	78.5	82.1	1.0	0.9	79.5	83.0	-4.2%
Machinery, equipment and furniture	3.6	3.2	0.2	0.5	3.8	3.7	2.7%
Vehicles	0.1	0.1	-	-	0.1	0.1	0.0%
Infrastructure	312.4	314.1	-	-	312.4	314.1	-0.5%
Construction in progress	<u>11.3</u>	<u>6.9</u>	<u>-</u>	<u>-</u>	<u>11.3</u>	<u>6.9</u>	63.8%
Total	<u>\$ 696.3</u>	<u>\$ 696.7</u>	<u>\$ 2.2</u>	<u>\$ 2.4</u>	<u>\$ 698.5</u>	<u>\$ 699.1</u>	-0.1%

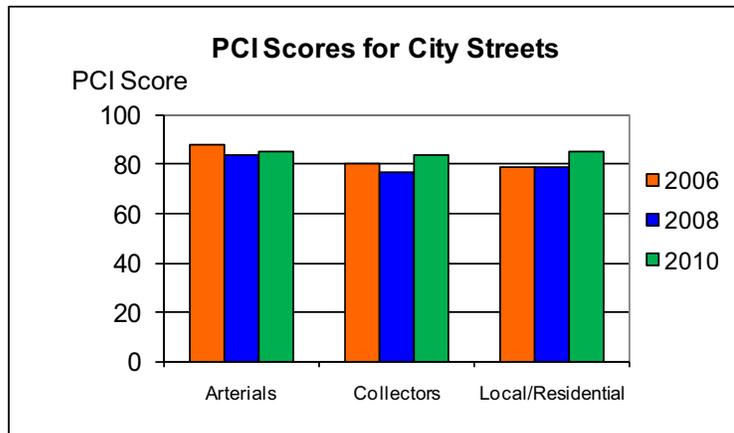
CITY OF MISSION VIEJO
Management's Discussion and Analysis
Year ended June 30, 2011

The most significant increase in capital assets was the addition of \$6.2 million under construction in progress. At June 30, 2011, additions to projects in progress included the Oso/Marguerite Intersection Improvement project, Oso Creek Restoration, Traffic Safety/Signal Coordination project, and the Crown Valley Parkway Widening project which accounted for \$4.8 million of the total \$6.2 million addition. As the Notice of Completion is filed on each project, the costs associated with each project will be deleted from the Construction in Progress capital asset category and added to the appropriate infrastructure capital asset category. There were no assets added or deleted during the current fiscal year for business-type activities.

As allowed by GASB Statement No. 34, the City has adopted an alternative process to recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the "modified approach," the City expenses certain maintenance and preservation costs and does not report depreciation expense. The assets accounted for under the "modified approach" are the 228 miles of roads that the City is responsible for maintaining.

The City has continued to maintain the condition of its roads at a high level. The City Council's established minimum condition level is for all three categories of roads to have a PCI rating of 71 or above, using the Pavement Condition Index (PCI) methodology. There are five PCI categories ranging from "Very Good" to "Very Poor". The most recent condition assessment, completed for fiscal year 2009-10, indicated that arterials and local/residential roadways were all in "very good" condition and collector roads were in "good" condition. With average PCI ratings in 2010 of 85, 84 and 85 respectively for the arterials, collectors and local/residential roadways, the scores for collector and local/residential streets showed significant improvement over the 2008 assessment. All of the City's streets are still comfortably above the City Council's minimum acceptable rating of 71.

For the last five fiscal years, actual maintenance and preservation expenditures exceeded the original estimates. The amounts actually spent were higher than the estimates due in part to the increase in the cost of asphalt as well as some of the assumptions used to calculate the estimate. The estimate assumes the streets in the worst condition will be repaired first. However, for street maintenance purposes the City is divided into seven geographic areas. By grouping the streets into these seven areas the City can maintain and preserve its streets in a more economical and productive manner. Once every seven years all streets in each area receive the required maintenance and preservation work required to maintain the streets at or above the condition level adopted by City Council. However, over the past seven years, six of those years have shown actual expenditures for maintenance and preservation to be in excess of estimated amount needed. Staff will be further reviewing the reasons behind this continued overage.



See independent auditors' report

CITY OF MISSION VIEJO
Management's Discussion and Analysis
Year ended June 30, 2011

The primary government's fiscal year 2011-12 capital budget is \$22.3 million, including \$15.7 million of unspent capital project appropriations carried forward from FY 2010-11. The five largest projects and their remaining budgets are the residential resurfacing project (\$5.3 million), Marguerite Tennis Center renovation and lighting project (\$4.1 million), the Oso Parkway Widening project (\$3.7 million), the La Paz Road railroad bridge widening project (\$3.6 million), and Oso/Marguerite Intersection Improvement project (\$1.9 million). More detailed information about the City's capital assets is presented in Note 6 of the Notes to the Basic Financial Statements on pages 62-65 of this report and Note 1 of the Notes to the Required Supplementary Information on pages 95-97.

Long-Term Liabilities. As of June 30, 2011, the City had total long-term liabilities outstanding of \$53.9 million, a decrease of \$1.7 million, or 3.1% from June 30, 2010.

City of Mission Viejo							
Long-Term Liabilities at Year-End							
(in millions)							
	Governmental		Business-Type		Total		Total
	Activities		Activities				Percentage
	2011	2010	2011	2010	2011	2010	Change
							2010-2011
Revenue bonds	\$ 51.4	\$ 53.0	\$ -	\$ -	\$ 51.4	\$ 53.0	-3.0%
Bond Premium	<u>0.8</u>	<u>0.9</u>	<u>-</u>	<u>-</u>	<u>0.8</u>	<u>0.9</u>	-11.1%
Subtotal – bonds payable	52.2	53.9	-	-	52.2	53.9	-3.2%
Compensated absences	<u>1.6</u>	<u>1.6</u>	<u>0.1</u>	<u>0.1</u>	<u>1.7</u>	<u>1.7</u>	0.0%
Total	<u>\$ 53.8</u>	<u>\$ 55.5</u>	<u>\$ 0.1</u>	<u>\$ 0.1</u>	<u>\$ 53.9</u>	<u>\$ 55.6</u>	-3.1%

The California State Constitution limits the amount of general obligation bond debt a city may incur to 3.75% of its total assessed valuation, which for the City of Mission Viejo was \$493 million at June 30, 2011. The City has no general obligation bond debt outstanding.

Additional information on the City's long-term liabilities can be found in Note 7 of the Notes to the Basic Financial Statements on pages 65-70 of this report.

Next Year's Budget, Tax Rates and Fee Levels

The fiscal year 2011-12 City budget was prepared conservatively. Property tax and sales tax estimates were projected with no growth from the previous fiscal year. Appropriations were also reduced by almost \$1.9 million from the previous year's adopted budget. There were no tax rate or fee increases as part of the preparation and adoption of the 2011-2012 budget. Total discretionary

CITY OF MISSION VIEJO

Management's Discussion and Analysis

Year ended June 30, 2011

fund balance in the General Fund is projected to remain the same and a decline of \$0.1 is anticipated for all other funds combined. Nevertheless, the ending unassigned fund balance of the General Fund is expected to be 55% of General Fund revenues at June 30, 2012.

Requests for Information

This financial report is designed to provide a general overview of the City of Mission Viejo's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Administrative Services, City of Mission Viejo, 200 Civic Center, Mission Viejo, California 92691 or to adminserves@cityofmissionviejo.org.



BASIC FINANCIAL STATEMENTS



MISSION VIEJO

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CITY OF MISSION VIEJO

Basic Financial Statements - Overview

Year ended June 30, 2011

The following basic financial statements, which consist of Government-wide Financial Statements and Fund Financial Statements, along with the Notes to Basic Financial Statements, present an overview of the City's financial position at June 30, 2011 and the results of its operations and cash flows for the fiscal year.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement on the full accrual basis of accounting even though some items will only result in cash flows in future fiscal periods.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Fund Types

These funds (General, Special Revenue, Debt Service and Capital Projects) are those through which most governmental functions are typically financed. The governmental fund measurement focus is on "financial flow", the accounting for sources and uses of available spendable resources, not on net income determination.

Proprietary Fund Type

The Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary and useful for sound financial management. This fund type is accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets.

Fiduciary Fund Type

This fund type (Agency) is used to account for assets held by the City as an agent for others.



MISSION VIEJO

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CITY OF MISSION VIEJO

STATEMENT OF NET ASSETS
JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments (note 2)	\$ 45,855,650	\$ 2,311,113	\$ 48,166,763
Accounts receivable	80,810	-	80,810
Taxes receivable	3,527,855	36,160	3,564,015
Loans receivable	2,449,676	-	2,449,676
Interest receivable	218,256	-	218,256
Prepaid items	1,091,951	68,914	1,160,865
Deposits	9,504	-	9,504
Intergovernmental receivable	5,055,792	-	5,055,792
Due from developers (note 5)	7,247,714	-	7,247,714
Restricted assets:			
Cash with fiscal agent (note 2)	8,116,627	-	8,116,627
Capital assets not being depreciated (note 6)	502,727,292	1,000,764	503,728,056
Capital assets, net of depreciation (note 6)	193,533,089	1,231,222	194,764,311
	769,914,216	4,648,173	774,562,389
Total Assets			
Liabilities:			
Accounts payable	5,774,701	53,534	5,828,235
Accrued payroll	721,171	71,972	793,143
Accrued interest payable	1,779,258	-	1,779,258
Unearned revenue	92,005	-	92,005
Deposits	1,464,438	270	1,464,708
Intergovernmental payable	1,659,357	46,224	1,705,581
Retainage payable	50,160	-	50,160
Advances from other governments	412,322	-	412,322
Noncurrent liabilities:			
Due within one year (note 7)	1,885,892	1,018	1,886,910
Due in more than one year (note 7)	51,908,724	64,640	51,973,364
	65,748,028	237,658	65,985,686
Total Liabilities			
Net Assets:			
Invested in capital assets, net of related debt	644,039,024	2,231,986	646,271,010
Restricted for:			
Community development projects	11,846,687	-	11,846,687
Public safety	17	-	17
Parks and recreation	1,254,645	-	1,254,645
Public works	1,392,879	-	1,392,879
Capital projects	420,495	-	420,495
Debt service	8,347,167	-	8,347,167
Unrestricted	36,865,274	2,178,529	39,043,803
	\$ 704,166,188	\$ 4,410,515	\$ 708,576,703
Total Net Assets			

CITY OF MISSION VIEJO
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>
Functions/Programs				
Primary Government:				
Governmental Activities:				
General government - legislative	\$ 1,295,007	\$ 74,892	\$ 392	\$ -
General government - management and support	14,807,567	311,665	221,454	-
Public safety	16,781,149	712,997	143,384	-
Community development	2,571,601	1,279,153	697,051	308,839
Public works - engineering and transportation	2,998,197	467,949	361,472	1,796,159
Infrastructure maintenance	25,209,859	167,066	5,862,959	4,592,835
Recreation, community and library services	9,153,074	3,951,337	286,597	-
Interest on long-term debt	1,681,786	-	-	-
Total Governmental Activities	74,498,240	6,965,059	7,573,309	6,697,833
Business-Type Activities:				
Animal Services	1,684,758	1,241,507	55,559	-
Mission Viejo Television	131,138	100	145,426	-
Total Business-Type Activities	1,815,896	1,241,607	200,985	-
Total Primary Government	\$ 76,314,136	\$ 8,206,666	\$ 7,774,294	\$ 6,697,833

General Revenues:

Taxes:

Property taxes

Sales and uses taxes

Property taxes in lieu of sales and use taxes

Other taxes

Unrestricted motor vehicle in lieu fees

Investment earnings

Other

Gain on sale of capital asset

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets at Beginning of Year

Restatement of Net Assets

Net Assets at End of Year

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (1,219,723)	\$ -	\$ (1,219,723)
(14,274,448)	-	(14,274,448)
(15,924,768)	-	(15,924,768)
(286,558)	-	(286,558)
(372,617)	-	(372,617)
(14,586,999)	-	(14,586,999)
(4,915,140)	-	(4,915,140)
(1,681,786)	-	(1,681,786)
(53,262,039)	-	(53,262,039)
-	(387,692)	(387,692)
-	14,388	14,388
-	(373,304)	(373,304)
(53,262,039)	(373,304)	(53,635,343)
32,983,492	-	32,983,492
11,059,525	-	11,059,525
3,731,802	-	3,731,802
3,705,433	-	3,705,433
497,722	-	497,722
1,305,766	69,376	1,375,142
655,288	5,941	661,229
3,151	-	3,151
(476,611)	476,611	-
53,465,568	551,928	54,017,496
203,529	178,624	382,153
703,810,916	4,231,891	708,042,807
151,743	-	151,743
\$ 704,166,188	\$ 4,410,515	\$ 708,576,703

CITY OF MISSION VIEJO
Basic Financial Statements - Overview
Year ended June 30, 2011

DESCRIPTION OF GOVERNMENTAL FUNDS

MAJOR GOVERNMENTAL FUNDS:

GENERAL FUND

The General Fund, which is required to be classified as a major fund, is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues (other than major capital projects) and the related expenditures which are legally required to be accounted for in a separate fund.

The City of Mission Viejo has the following major Special Revenue Funds:

GRANTS – The City receives grant awards from various sources based on an application process. Currently included in these funds are monies from Federal, State, and County governments which are used to fund several specific transportation and park capital improvement projects.

DEVELOPER FEES - This fund was established to account for receipts and expenditures of developer fees to fund various projects in the City.

MEASURE M – This fund represents funds received by the City as a result of the voter-approved ballot measure in 1990 to increase sales tax by ½ percent in Orange County to fund transportation projects, and includes both Measure M apportionment and funds awarded through competitive allocation.

LOW AND MODERATE INCOME HOUSING – To account for Community Development Agency tax increment revenues required by law to be set aside for low and moderate income housing projects.

DEBT SERVICE FUNDS:

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest.

The City of Mission Viejo has the following major Debt Service Fund:

CDA DEBT SERVICE – To accumulate funds for payment of Community Development Agency debt. Debt service is financed by property tax increment.

CITY OF MISSION VIEJO
Basic Financial Statements - Overview
Year ended June 30, 2011

DESCRIPTION OF GOVERNMENTAL FUNDS (CONTINUED)

OTHER GOVERNMENTAL FUNDS:

These funds constitute all other governmental funds that do not meet the criteria to be a major fund, which is 10% or more of assets, liabilities, revenues or expenditures for the governmental funds and 5% or more of total assets, liabilities, revenues or expenditures for the total governmental and enterprise funds combined. These funds include other Special Revenue Funds, other Debt Service Funds, and the Capital Projects Fund of the City.

DESCRIPTION OF PROPRIETARY FUNDS

ENTERPRISE FUNDS

Enterprise Funds may be used to report any activity for which a fee is charged to external users for goods or services. The City of Mission Viejo utilizes enterprise funds for two activities partially funded by fees and charges.

The City of Mission Viejo has the following Enterprise Funds:

ANIMAL SERVICES - To account for the City's animal services program, which provides animal licensing, field patrol and shelter services to residents of Mission Viejo, the City of Laguna Niguel, and the City of Aliso Viejo and shares operating and capital costs of the program with those cities on a basis proportional to population.

MISSION VIEJO TELEVISION - To account for the operation of Mission Viejo Television (MVTV), a government access channel funded by user fees and charges as well as by a portion of the franchise fee paid by the City's cable television provider.

DESCRIPTION OF FIDUCIARY FUNDS

AGENCY FUND

The Agency Fund is used to account for assets held by the City as an agent for individuals, private organizations, other governments and/or other funds. The City of Mission Viejo maintains the following agency fund:

COMMUNITY FACILITIES DISTRICT No. 92-1 - This fund is used to account for assets and liabilities of the Community Facilities District No. 92-1, a district formed to finance the acquisition and construction of public flood control facilities in the area of the Mission Viejo Freeway Center.

CITY OF MISSION VIEJO

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

Special Revenue Funds

	<u>General</u>	<u>Grants</u>	<u>Developer Fees</u>	<u>Measure M</u>
Assets:				
Cash and investments (note 2)	\$ 31,257,040	\$ 400,096	\$ 63,811	\$ 1,516,795
Accounts receivable	80,810	-	-	-
Taxes receivable	3,154,466	-	-	199,314
Loans receivable	16,456	1,833,416	-	-
Interest receivable	183,572	-	-	-
Prepaid items	23,443	-	-	-
Deposits	9,504	-	-	-
Intergovernmental receivable	26,564	626,517	1,414,442	1,458,395
Interfund receivables (note 3)	4,615,080	-	-	-
Advances receivable (note 4)	605,000	-	-	-
Due from developers (note 5)	2,550,800	-	-	-
Restricted assets:				
Cash and investments with fiscal agents (note 2)	-	-	-	-
Total Assets	<u>\$ 42,522,735</u>	<u>\$ 2,860,029</u>	<u>\$ 1,478,253</u>	<u>\$ 3,174,504</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 4,571,688	\$ 52,190	\$ 42,791	\$ 353,540
Accrued payroll	562,375	5,725	-	7,564
Deferred revenues	2,550,800	2,150,846	1,414,442	936,315
Unearned revenues	92,005	-	-	-
Deposits	1,464,438	-	-	-
Intergovernmental payable	-	-	-	-
Interfund payable (note 3)	-	522,095	1,399,984	1,439,017
Advances payable (note 4)	-	-	-	-
Retainage payable	-	-	-	37,386
Advances from other governments	-	248,921	-	163,401
Total Liabilities	<u>9,241,306</u>	<u>2,979,777</u>	<u>2,857,217</u>	<u>2,937,223</u>
Fund Balances: (note 10)				
Nonspendable:				
Prepaid items	23,443	-	-	-
Long-term receivables	16,456	-	-	-
Advances to other funds	605,000	-	-	-
Deposits	9,504	-	-	-
Due from developers	-	-	-	-
Restricted for:				
Community development projects	-	-	-	-
Public safety	-	-	-	-
Parks and recreation	140,427	-	-	-
Public works	-	-	-	-
Capital Projects	-	-	-	237,281
Debt service	-	-	-	-
Unassigned	32,486,599	(119,748)	(1,378,964)	-
Total Fund Balances	<u>33,281,429</u>	<u>(119,748)</u>	<u>(1,378,964)</u>	<u>237,281</u>
Total Liabilities and Fund Balances	<u>\$ 42,522,735</u>	<u>\$ 2,860,029</u>	<u>\$ 1,478,253</u>	<u>\$ 3,174,504</u>

CITY OF MISSION VIEJO

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>		
	<u>Low and Moderate Income Housing</u>	<u>CDA Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and investments (note 2)	\$ 1,796,577	\$ 2,122,543	\$ 8,698,788	\$ 45,855,650
Accounts receivable	-	-	-	80,810
Taxes receivable	-	125,882	48,193	3,527,855
Loans receivable	599,804	-	-	2,449,676
Interest receivable	-	29,433	5,251	218,256
Prepaid items	-	-	70	23,513
Deposits	-	-	-	9,504
Intergovernmental receivable	-	-	1,529,874	5,055,792
Interfund receivables (note 3)	-	-	369,469	4,984,549
Advances receivable (note 4)	1,420,643	-	-	2,025,643
Due from developers (note 5)	4,696,914	-	-	7,247,714
Restricted assets:				
Cash and investments with fiscal agents (note 2)	-	-	8,116,627	8,116,627
Total Assets	\$ 8,513,938	\$ 2,277,858	\$ 18,768,272	\$ 79,595,589
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 90,229	\$ 30,399	\$ 633,864	\$ 5,774,701
Accrued payroll	-	-	145,507	721,171
Deferred revenues	2,260,867	-	1,092,917	10,406,187
Unearned revenues	-	-	-	92,005
Deposits	-	-	-	1,464,438
Intergovernmental payable	-	1,659,357	-	1,659,357
Interfund payable (note 3)	16,155	369,469	1,237,829	4,984,549
Advances payable (note 4)	-	2,025,643	-	2,025,643
Retainage payable	-	-	12,774	50,160
Advances from other governments	-	-	-	412,322
Total Liabilities	2,367,251	4,084,868	3,122,891	27,590,533
Fund Balances: (note 10)				
Nonspendable:				
Prepaid items	-	-	70	23,513
Long-term receivables	599,804	-	-	616,260
Advances to other funds	1,420,643	-	-	2,025,643
Deposits	-	-	-	9,504
Due from developers	2,436,047	-	-	2,436,047
Restricted for:				
Community development projects	1,690,193	-	5,700,000	7,390,193
Public safety	-	-	17	17
Parks and recreation	-	-	1,114,218	1,254,645
Public works	-	-	1,392,879	1,392,879
Capital Projects	-	-	183,214	420,495
Debt service	-	-	8,347,167	8,347,167
Unassigned	-	(1,807,010)	(1,092,184)	28,088,693
Total Fund Balances	6,146,687	(1,807,010)	15,645,381	52,005,056
Total Liabilities and Fund Balances	\$ 8,513,938	\$ 2,277,858	\$ 18,768,272	\$ 79,595,589



MISSION VIEJO

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CITY OF MISSION VIEJO

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

Fund balances of governmental funds	\$ 52,005,056
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.	696,260,381
Long-term debt and compensated absences that have not been included in the governmental fund activity:	
Long-term liabilities	(52,221,357)
Compensated Absences	(1,573,259)
Governmental funds report all OPEB contributions as expenditures, however in the Statement of Net Assets any excesses or deficiencies in contributions in relation to the Annual Required Contribution (ARC) are recorded as a asset or liability.	1,068,438
Accrued interest payable for the current portion of interest due on Bonds has not been reported in the governmental funds.	(1,779,258)
Revenues reported as deferred revenue in the governmental funds and recognized in the Statement of Activities. These are included in the intergovernmental revenues in the governmental fund activity.	<u>10,406,187</u>
Net assets of governmental activities	<u>\$ 704,166,188</u>

CITY OF MISSION VIEJO

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	Special Revenue Funds			
	General	Grants	Developer Fees	Measure M
Revenues:				
Taxes	\$ 41,260,864	\$ -	\$ -	\$ -
Licenses and permits	1,241,009	-	-	-
Intergovernmental	879,306	3,176,456	-	3,380,242
Charges for services	2,047,301	-	-	-
Investment earnings	1,105,504	13,231	(513)	15,091
Fines and forfeitures	837,469	-	-	-
Developer fees	-	-	2,000,000	-
Other	792,301	64,095	-	46,493
Total Revenues	48,163,754	3,253,782	1,999,487	3,441,826
Expenditures:				
Current:				
General government - legislative	1,294,261	-	-	-
General government - management and support	8,617,181	10,698	-	-
Public safety	16,220,882	-	-	-
Community development	1,584,511	547,403	-	-
Public works - engineering and transportation	1,840,138	110,103	-	4,508
Infrastructure maintenance	11,216,126	-	-	-
Recreation/community/library services	4,640,285	-	-	-
Capital Projects	1,566,396	2,949,595	1,154,143	6,013,046
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	7,607	-	-	-
Total Expenditures	46,987,387	3,617,799	1,154,143	6,017,554
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,176,367	(364,017)	845,344	(2,575,728)
Other Financing Sources (Uses):				
Transfers in (note 11)	1,068,308	-	-	-
Transfers out (note 11)	(2,374,374)	-	-	-
Proceeds from sale of capital asset	3,151	-	-	-
Total Other Financing Sources (Uses)	(1,302,915)	-	-	-
Net Change in Fund Balances	(126,548)	(364,017)	845,344	(2,575,728)
Fund Balances, Beginning of Year, as previously reported	33,407,977	244,269	(2,224,308)	2,813,009
Restatements (note 22)	-	-	-	-
Fund Balances, Beginning of Year, as restated	33,407,977	244,269	(2,224,308)	2,813,009
Fund Balances, End of Year	\$ 33,281,429	\$ (119,748)	\$ (1,378,964)	\$ 237,281

CITY OF MISSION VIEJO

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	Special Revenue Fund <u>Low and Moderate Income</u>	Debt Service Fund <u>CDA Debt Service</u>	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ -	\$ 7,074,818	\$ 3,144,570	\$ 51,480,252
Licenses and permits	-	-	-	1,241,009
Intergovernmental	-	-	4,633,108	12,069,112
Charges for services	-	-	253,818	2,301,119
Investment earnings	148,197	12,439	206,970	1,500,919
Fines and forfeitures	-	-	131,793	969,262
Developer fees	-	-	394,099	2,394,099
Other	-	-	61,054	963,943
Total Revenues	148,197	7,087,257	8,825,412	72,919,715
Expenditures:				
Current:				
General government - legislative	-	-	-	1,294,261
General government - management and support	-	3,835,041	242,668	12,705,588
Public safety	-	-	502,149	16,723,031
Community development	315,878	-	122,688	2,570,480
Public works - engineering and transportation	-	-	540,296	2,495,045
Infrastructure maintenance	-	-	2,696,363	13,912,489
Recreation/community/library services	-	-	2,638,723	7,279,008
Capital Projects	-	-	3,300,963	14,984,143
Debt service:				
Principal retirement	-	-	1,620,000	1,620,000
Interest and fiscal charges	-	56,882	1,304,368	1,368,857
Total Expenditures	315,878	3,891,923	12,968,218	74,952,902
Excess (Deficiency) of Revenues Over (Under) Expenditures	(167,681)	3,195,334	(4,142,806)	(2,033,187)
Other Financing Sources (Uses):				
Transfers in (note 11)	1,414,964	-	9,390,396	11,873,668
Transfers out (note 11)	(5,700,000)	(2,080,969)	(2,194,936)	(12,350,279)
Proceeds from sale of capital asset	-	-	-	3,151
Total Other Financing Sources (Uses)	(4,285,036)	(2,080,969)	7,195,460	(473,460)
Net Change in Fund Balances	(4,452,717)	1,114,365	3,052,654	(2,506,647)
Fund Balances, Beginning of Year, as previously reported	10,599,404	(2,921,375)	12,440,984	54,359,960
Restatements (note 22)	-	-	151,743	151,743
Fund Balances, Beginning of Year, as restated	10,599,404	(2,921,375)	12,592,727	54,511,703
Fund Balances, End of Year	\$ 6,146,687	\$ (1,807,010)	\$ 15,645,381	\$ 52,005,056

CITY OF MISSION VIEJO

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

Net change in fund balances - total governmental funds \$ (2,506,647)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital expenditures	\$6,549,656	
Disposition of capital assets	(203,524)	
Depreciation	<u>(6,790,822)</u>	(444,690)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets 1,679,552

Accrued interest for long-term liabilities. This is the net change in accrued interest for the current period. (372,481)

Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (15,097)

Governmental funds report all contributions in relation to the annual required contribution (ARC) for OPEB as expenditures, however in the Statement of Activities only the ARC is an expense. (23,980)

Revenues reported as deferred revenue in the governmental funds and recognized in the Statement of Activities. These are included in the intergovernmental revenues in the governmental fund activity. 2,255,514

Claims payable expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This amount represents the net increase/decrease in claims liabilities/refunds for the current year. (368,642)

Change in net assets of governmental activities \$ 203,529

CITY OF MISSION VIEJO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 JUNE 30, 2011

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Animal Services</u>	<u>Mission Viejo Television</u>	<u>Totals</u>
<u>Assets</u>			
Current assets:			
Cash and investments (note 2)	\$ 1,950,821	\$ 360,292	\$ 2,311,113
Taxes receivable	-	36,160	36,160
Prepaid costs	68,914	-	68,914
Total current assets	<u>2,019,735</u>	<u>396,452</u>	<u>2,416,187</u>
Noncurrent assets:			
Capital assets, not depreciated (note 6)	1,000,764	-	1,000,764
Capital assets, depreciated, net (note 6)	1,180,216	51,006	1,231,222
Total noncurrent assets	<u>2,180,980</u>	<u>51,006</u>	<u>2,231,986</u>
Total assets	<u>\$ 4,200,715</u>	<u>\$ 447,458</u>	<u>\$ 4,648,173</u>
<u>Liabilities:</u>			
Current:			
Accounts payable	\$ 31,958	\$ 21,576	\$ 53,534
Accrued payroll	71,530	442	71,972
Deposits	270	-	270
Intergovernmental payable	46,224	-	46,224
Accrued compensated absences	1,018	-	1,018
Total current liabilities	<u>151,000</u>	<u>22,018</u>	<u>173,018</u>
Noncurrent:			
Compensated absences payable	64,640	-	64,640
Total noncurrent liabilities	<u>64,640</u>	<u>-</u>	<u>64,640</u>
Total Liabilities	<u>215,640</u>	<u>22,018</u>	<u>237,658</u>
<u>Net Assets:</u>			
Invested in capital assets, net of related debt	2,180,980	51,006	2,231,986
Unrestricted	1,804,095	374,434	2,178,529
Total Net Assets	<u>\$ 3,985,075</u>	<u>\$ 425,440</u>	<u>\$ 4,410,515</u>

CITY OF MISSION VIEJO

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011

	Business-Type Activities - Enterprise Funds		
	Animal Services	Mission Viejo Television	Totals
Operating Revenues:			
Charges for services	\$ 681,900	\$ 100	\$ 682,000
Licenses and permits	486,407	-	486,407
Franchise taxes	-	145,366	145,366
Fines and forfeitures	73,200	-	73,200
Other	61,500	60	61,560
Total Operating Revenues	1,303,007	145,526	1,448,533
Operating Expenses:			
Personnel services	1,186,329	442	1,186,771
Supplies	142,555	5,358	147,913
Utilities	49,843	25,397	75,240
Contractual services	181,483	87,446	268,929
Rent	2,041	-	2,041
Depreciation (note 6)	113,889	12,495	126,384
Other	8,618	-	8,618
Total Operating Expenses	1,684,758	131,138	1,815,896
Operating Income (Loss)	(381,751)	14,388	(367,363)
Nonoperating Revenues (Expenses):			
Investment earnings	64,972	4,404	69,376
Total Nonoperating Revenues (Expenses)	64,972	4,404	69,376
Income (Loss) Before Transfers	(316,779)	18,792	(297,987)
Transfers in	476,611	-	476,611
Changes in Net Assets	159,832	18,792	178,624
Net Assets:			
Beginning of Year	3,825,243	406,648	4,231,891
End of Fiscal Year	\$ 3,985,075	\$ 425,440	\$ 4,410,515

CITY OF MISSION VIEJO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2011

	Business-Type Activities - Enterprise Funds		
	Animal Services	Mission Viejo Television	Totals
Cash Flows from Operating Activities:			
Receipts from customers	\$ 1,301,982	\$ 146,619	\$ 1,448,601
Payments to suppliers for goods and services	(382,280)	(103,310)	(485,590)
Payments to employees for services	(1,189,811)	-	(1,189,811)
Net Cash Provided (Used) by Operating Activities	(270,109)	43,309	(226,800)
Cash Flows from Non-Capital Financing Activities:			
Cash transfers in	476,611	-	476,611
Net Cash Provided (Used) by Non-Capital Financing Activities	476,611	-	476,611
Cash Flows from Investing Activities:			
Interest received	64,972	4,404	69,376
Net Cash Provided (Used) by Investing Activities	64,972	4,404	69,376
Net Increase (Decrease) in Cash and Cash Equivalents	271,474	47,713	319,187
Cash and Cash Equivalents at Beginning of Year	1,679,347	312,579	1,991,926
Cash and Cash Equivalents at End of Year	\$ 1,950,821	\$ 360,292	\$ 2,311,113
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ (381,751)	\$ 14,388	\$ (367,363)
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:			
Depreciation	113,889	12,495	126,384
(Increase) decrease in taxes receivable	-	1,093	1,093
(Increase) decrease in prepaid items	1,608	-	1,608
Increase (decrease) in accounts payable	(4,783)	14,891	10,108
Increase (decrease) in accrued liabilities	(760)	442	(318)
Increase (decrease) in intergovernmental payable	7,043	-	7,043
Increase (decrease) in deposits	(1,025)	-	(1,025)
Increase (decrease) in compensated absences	(4,330)	-	(4,330)
Total Adjustments	111,642	28,921	140,563
Net Cash Provided (Used) by Operating Activities	\$ (270,109)	\$ 43,309	\$ (226,800)

Non-Cash Investing, Capital, and Financing Activities:

There were no significant noncash financing and investing transactions.

CITY OF MISSION VIEJO

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2011

	Community Facilities District 92-1
Assets:	
Cash and investments (note 2)	\$ 232,624
Restricted assets:	
Cash and investments with fiscal agents (note 2)	<u>623,751</u>
Total Assets	<u><u>\$ 856,375</u></u>
Liabilities:	
Accounts payable	\$ 232,624
Due to bondholders	<u>623,751</u>
Total Liabilities	<u><u>\$ 856,375</u></u>

CITY OF MISSION VIEJO

Notes to Basic Financial Statements

Year ended June 30, 2011

(1) Summary of Significant Accounting Policies

The financial statements of the City of Mission Viejo, California have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant policies:

(a) Reporting Entity

The City of Mission Viejo was incorporated on March 31, 1988 under the laws of the State of California and enjoys all the rights and privileges pertaining to "General Law" cities. The City operates under a council-manager form of government and currently provides public safety, animal control, planning, building, code enforcement, engineering, street maintenance, street lighting, parks, recreation, library and general administrative services.

This report includes all fund types of the City of Mission Viejo (the "primary government"), as well as its component units, entities for which the City is considered to be financially accountable. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization's governing body and the City is able to impose its will on that organization or there is a potential for that organization to provide specific financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable if that organization is fiscally dependent (i.e., it is unable to adopt its budget, levy taxes, set rates or charges, or issue bond debt without approval from the City).

Blended Component Units

All of the City's component units are considered to be blended component units. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are reported with the interfund data of the City. The governing boards of the component units are comprised of the same membership as the City Council. The City may impose its will on the component units, including the ability to appoint, hire, reassign or dismiss management. There are also financial benefit/burden relationships between the City and these entities.

The following organizations are considered to be component units of the City:

Mission Viejo Public Improvement Corporation (Corporation) was formed on July 9, 1990 and was dissolved on November 15, 2010. The corporation operated as a tax-exempt corporation under Section 501(a) of the Internal Revenue Code. The corporation was formed with the purpose of facilitating the acquisition of necessary capital facilities for the City. There was no activity for the Corporation for fiscal year ended June 30, 2011.

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

(a) Reporting Entity (Continued)

Blended Component Units (Continued)

Community Development Agency of the City of Mission Viejo (Agency) was activated on February 27, 1991 pursuant to the State of California Health and Safety Code Section 33000, entitled "Community Redevelopment Law." Its purpose is to prepare and carry out plans for improvement, rehabilitation and redevelopment of blighted areas within the territorial limits of the project area. The activities of the Agency are recorded in the Low and Moderate Income Housing special revenue fund, the CDA Debt Service and the CDA Projects capital projects fund.

Mission Viejo Community Development Financing Authority (Authority) was formed as a joint powers authority on June 2, 1997 by the City and Agency. Its purpose is to serve as the issuer of bonds for the construction of capital facilities for the City. The activities of the Authority are recorded in the 1999 Mall Bonds, 1999 Revenue Bonds, and 2009 Lease Revenue Refunding Bonds debt service funds.

Mission Viejo Housing Authority (MVHA) was formed on February 21, 2011 pursuant to the California Housing Authorities Law, Health and Safety Code Section 34200, et seq. The primary mission of the Housing Authority is to facilitate development and rehabilitation of affordable housing and programs and services that support the city's housing goals. The activities of the Housing Authority are recorded in the MVHA special revenue fund.

Separate financial statements of the Agency are available at City Hall, 200 Civic Center, Mission Viejo, California 92691. Separate financial statements are not prepared for the Mission Viejo Public Improvement Corporation, the Mission Viejo Community Development Financing Authority or the Mission Viejo Housing Authority.

(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 basic financial statements

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

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

(b) Basis of Accounting and Measurement Focus (Continued)

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), as well as its discretely presented component units. The City of Mission Viejo 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.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments for personnel costs where the amounts are reasonably equivalent in value to the interfund services provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 an other 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 MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

(b) Basis of Accounting and Measurement Focus (Continued)

Government-wide Financial Statements (Continued)

In the government-wide statements, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

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 the major funds individually and other funds in the aggregate for governmental and enterprise funds. Fiduciary statements include financial information for fiduciary funds. Fiduciary funds of the City primarily represent assets held by the City in a custodial capacity for other individuals or organizations.

Governmental Funds

In the fund financial statements, governmental funds are presented using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City uses an availability period of 60 days for all revenues except sales tax and highway user tax. For sales tax only, the City uses an availability period of 90 days.

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

Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

(b) Basis of Accounting and Measurement Focus (Continued)

Governmental Funds (Continued)

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 nonexchange 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 nonexchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

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

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. However, special reporting treatments are used to indicate that they should not be considered "available spendable resources," since they do not represent net current assets.

Revenues, expenditures, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33 which requires that local governments defer grant revenue that is not received within 60 days after the fiscal year ends to meet the "available" criteria of revenue recognition. In the past, the industry practice for grants was to recognize revenue in the fiscal year in which the related expense was incurred. Therefore recognition of governmental fund type revenue represented by non-current receivables is deferred until the receivables meet the availability criteria. Non-current portions of other long-term receivables are offset by fund balance non-spendable accounts.

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

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

(b) Basis of Accounting and Measurement Focus (Continued)

Governmental Funds (Continued)

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

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, The City's policy is to apply restricted first. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

Proprietary Funds

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. In the Mission Viejo Television proprietary fund the City also recognizes as operating revenue a portion of franchise fees received from the City's cable television provider. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the 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 nonexchange transactions or ancillary activities. Amounts paid to acquire capital assets are capitalized as assets in the enterprise fund financial statements, rather than reported as an expense. Proceeds of long-term debt are recorded as a liability in the enterprise fund financial statements, rather than as an other financing

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

(b) Basis of Accounting and Measurement Focus (Continued)

Proprietary Funds (Continued)

source. Amounts paid to reduce long-term indebtedness of the enterprise fund are reported as a reduction of the related liability, rather than as an expense.

Fiduciary Funds

The City's fiduciary fund is an agency fund, which has no measurement focus. Agency funds are custodial in nature (assets equal liabilities) and do not involve the recording of City revenues and expenses.

(c) Fund Classifications

The City reports the following major governmental funds:

General Fund - This is the primary operating fund of the City. It accounts for all activities of the general government, except those required to be accounted for in another fund.

Grants Fund - This special revenue fund is used to account for grant awards received by the City from various sources based on an application process. Currently included in this fund are monies from Federal, State and County governments which are used to fund several specific transportation and park capital improvement projects.

Developer Fees Fund - This special revenue fund was established to account for receipts and expenditures of developer fees to fund various projects in the City.

Measure M Fund - This special revenue fund represents funds received by the City as a result of the voter-approved ballot measure in 1990 to increase sales tax by ½ percent in Orange County to fund transportation projects, and includes both Measure M apportionment and funds awarded through competitive allocation.

Low and Moderate Income Housing Fund – This special revenue fund is used to account for the monies set aside from tax increment revenues for low and moderate income housing projects.

CDA Debt Service Fund - This debt service fund is used to accumulate funds for payment of Community Development Agency debt. Debt service is financed by property tax increment.

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

(c) Fund Classifications (Continued)

The City reports the following major proprietary funds:

Animal Services - To account for the City's animal services program, which provides animal licensing, field patrol and shelter services to residents of Mission Viejo, the City of Laguna Niguel, and the City of Aliso Viejo and shares operating and capital costs of the program with those cities on a basis proportional to population.

Mission Viejo Television - To account for the operation of Mission Viejo Television (MVTV), a government access channel funded by user fees and charges as well as by a portion of the franchise fee paid by the City's cable television provider.

The City's fund structure also includes the following fund types:

Special Revenue Funds – The City maintains a total of ten special revenue funds, four major special revenue funds discussed above and six other special revenue funds. The other funds account for financial resources related to library operations, law enforcement grants, gas tax, air quality, developer fees and Mission Viejo Housing Authority operations. These funds account for specific revenues that are legally restricted and expended for these specific purposes.

Debt Service Funds – The City maintains a total of five debt service funds, one major debt service fund discussed above and four other debt service funds. These other funds account for the resources accumulated and payments made on long-term debt of the governmental funds.

Capital Projects Funds – The City maintains one capital projects fund. This fund accounts for projects related to the preparation and execution of plans for improvement, rehabilitation, and redevelopment of blighted areas within the Community Development Agency's project area.

Agency Fund - This fund is used to account for Mission Viejo Community Facilities District No. 92-1 for which the City acts as an agent for debt service activity.

(d) Cash and Investments

Investments are reported in the accompanying balance sheet at fair value except for certain certificates of deposit that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. Changes in fair value that occur during a fiscal year are recognized as investment earnings reported for the fiscal year. Interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments are the primary components of investment earnings.

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

(d) Cash and Investments (Continued)

The City pools cash and investments of all funds, except for assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average daily cash and investment balance.

For purposes of the statement of cash flows, cash equivalents are defined as investments with original maturities of 90 days or less, which are readily convertible to known amounts of cash and not subject to significant changes in value from interest rate fluctuations.

(e) Advances to Other Funds

Long-term interfund advances are recorded as a receivable and as reserved fund balance by the advancing governmental fund.

(f) Capital Assets

Capital assets (including infrastructure) are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. Generally, capital asset purchases in excess of \$5,000 are capitalized if they have an expected useful life of 5 years or more.

Capital assets include public domain (infrastructure) general capital assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. All infrastructure assets have been recorded as capital assets.

Capital assets used in operations are depreciated over their estimated useful lives, except for streets, which the City reports based on the modified approach. The City uses the straight-line method in the government-wide financial statements for depreciating buildings and improvements, equipment and furniture, vehicles, curbs and gutters, sidewalks, roadway bridges, traffic signals, medians and parkways, and storm drains. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net assets. The range of lives used for depreciation purposes for each capital asset class is as follows:

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

(f) Capital Assets (Continued)

<u>Item</u>	<u>Useful Life</u>
Buildings and improvements	31.5 years
Equipment, furniture and vehicles	5-7 years
Infrastructure – curbs and gutters	75 years
Infrastructure – sidewalks	75 years
Infrastructure – roadway bridges	75 years
Infrastructure – traffic signals	30 years
Infrastructure – trees	75 years
Infrastructure – storm drains	75 years

The City has elected to use the modified approach to report a certain subsystem of its street infrastructure network. Under the modified approach, infrastructure assets that are part of a network or subsystem of a network are not required to be depreciated as long as two requirements are met. First, the government manages the eligible infrastructure assets using an asset management system that has the following characteristics:

- Has an up-to-date inventory of eligible infrastructure assets
- Performs condition assessments of the eligible infrastructure assets and summarizes the results using a measurement scale
- Estimates each year the annual amount to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

Second, the government documents that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government. If eligible infrastructure assets meet all requirements and are not depreciated, all expenditures made for those assets (except for additions and improvements) are expensed in the period incurred. Additions and improvements to eligible infrastructure assets are capitalized. Additions or improvements increase the capacity or efficiency of infrastructure assets rather than preserve the useful life of the assets.

(g) Compensated Absences

The City provides to its employees a comprehensive annual leave program. Leave pay is payable at the time it is taken or upon termination. There is also an optional, voluntary buy back program, subject to certain limitations. An employee cannot accrue more than three times his/her annual entitlement. The City accounts for compensated absences in accordance with GASB Code Section C60. Expenditures related to compensated absence liabilities are only recognized in the fund financial statements when they become due and payable.

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

(h) Property Taxes

Property tax revenue is recognized in accordance with GASB Code Section P70; that is, in the fiscal year for which the taxes have been levied providing they become available. Available means due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities in the current period.

Under California law, property taxes are assessed and collected by the counties at up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the cities based on complex formulas. The County of Orange collects property taxes for the City. Tax liens attach annually as of 12:01 a.m. on the first day of January preceding the fiscal year for which the taxes are levied. Taxes are levied on July 1 and cover the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent, if unpaid, on December 10 and April 10, respectively. Unsecured personal property taxes become due on March 1 each year, and are delinquent, if unpaid, on August 31.

(i) Prepaid Items

Prepaid items are reported in the governmental funds under the consumption method and are offset by a reservation of fund balance to indicate that they are not spendable for appropriation and are not expendable financial resources.

(j) Use of Estimates

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

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(2) Cash and Investments

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$ 56,283,390
Fiduciary Fund Statement of Assets and Liabilities:	
Cash and investments	<u>856,375</u>
Total cash and investments	<u>\$ 57,139,765</u>

Cash and investments at June 30, 2011, consisted of the following:

Cash on hand	\$ 4,505
Deposits with financial institutions	6,339,659
Investments	<u>50,795,601</u>
Total cash and investments	<u>\$ 57,139,765</u>

Three separate investment portfolios are maintained by the City: the City portfolio (for the primary government), the Community Development Agency portfolio, and the Community Development Financing Authority portfolio. The Community Development Financing Authority portfolio contains only debt proceeds and resources to pay debt service, held by bond trustees.

Investments Authorized by the California Government Code and the City of Mission Viejo's Investment Policy

The tables below identify the investment types that are authorized for the City and Agency by the California Government Code (or the City of Mission Viejo's, and the Mission Viejo Community Development Agency's policies where more restrictive). The tables also identify certain provisions of the investment policies that address interest rate risk, credit risk and concentration of credit risk. These tables do not address investments of debt proceeds held by bond trustees, which 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 or Agency's investment policies:

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(2) Cash and Investments (Continued)

Investments Authorized by the California Government Code and the City of Mission Viejo's Investment Policy (Continued)

City of Mission Viejo:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
US Securities	5 years	100%	None
US Government Sponsored Entities Securities (FFC, FHLB, FNMA, FHLMC)	5 years	Greater of \$14M or 70%	Greater of \$7M or 35% of total portfolio
FDIC Insured US Corporate Notes	5 years	Greater of \$7M or 35%	Greater of \$4M or 20% of total portfolio
Banker's Acceptances	180 days	Greater of \$4M or 20%	Greater of \$1M or 5% of total portfolio
Non-Negotiable Certificates of Deposit using a placement service	180 days	Greater of \$2M or 10%	Greater of \$1M or 5% of total portfolio
Certificates of Deposit	180 days	Greater of \$4M or 20%	Greater of \$1M or 5% of total portfolio
Repurchase Agreements	30 days	Greater of \$2M or 10%	Greater of \$1M or 5% of total portfolio
Commercial Paper	180 days	15%	Greater of \$1M or 5% of total portfolio
Local Agency Investment Fund	N/A	Greater of \$5M or 25%	N/A
Local Agency Sponsored Investment Pools	5 years	Greater of \$3M or 15%	5% of market value of total assets in investment pool
Government Money Market Funds	1 year	20%	10% of total portfolio
Bonds or Notes of Community Development Agency of City of MV	3 years	\$2M	N/A
Bonds or Notes of MV Community Development Financing Authority	3 years	\$2M	N/A

* Excluding amounts held by bond trustees, which are not subject to investment policy restrictions.

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(2) Cash and Investments (Continued)

Investments Authorized by the California Government Code and the City of Mission Viejo's Investment Policy (Continued)

Mission Viejo Community Development Agency:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
US Securities	1 year	100%	None
US Government Sponsored Entities Securities (FFC, FHLB, FNMA, FHLMC)	180 days	100%	None
US Government Sponsored Entities Securities (FFC, FHLB, FNMA, FHLMC)	181 days to 1 year	100%	Greater of \$500K or 10% of total portfolio
FDIC Insured US Corporate Notes	1 years	30%	\$2M of total portfolio
Non-Negotiable Certificates of Deposit using a placement service	180 days	10%	None
Certificates of Deposit	180 days	20%	None
Repurchase Agreements	5 days	100%	None
Local Agency Investment Fund	N/A	35% (100% if portfolio < \$1M)	N/A
Local Agency Sponsored Investment Pools	1 year	15%	None
Government Money Market Funds	1 year	20%	10% of total portfolio

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of debt agreements rather than the general provisions of the California Government Code or the City's or Agency's investment policies. The tables below identify the investment types that are authorized for investments held by bond trustees. The tables identify certain provisions of these debt agreements that address interest rate risk, credit rate risk, and concentration of credit risk.

1999 Series A Variable Rate Demand Revenue Bonds, 1999 Series B Subordinate Lien Taxable Revenue Bonds, 1999 Series C Revenue Bonds:

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment In One Issuer
US Securities	None	100%	None
US Government Sponsored Entities and Federal Agency Securities	None	100%	None
Certificates of Deposit	180 days	100%	None
Commercial Paper	180 days	100%	None
Repurchase Agreements	30 days	100%	None
Local Agency Investment Fund	N/A	100%	N/A
Government Money Market Funds	None	100%	None

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

2) Cash and Investments (Continued)

Investments Authorized by Debt Agreements (Continued)

CDFA 2009 Lease Revenue Refunding Bonds:

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
US Securities	None	100%	None
US Government Sponsored Entities (FFC, FHLB, FNMA, FHLMC SLMA)	None	10% of bond proceeds	None
Federal Funds, Certificates of Deposit, Time Deposits, Banker's Acceptances	180 days	100%	None
Deposits (FDIC insured)	None	100%	None
Debt Obligations	None	100%	None
Commercial Paper	270 days	100%	None
Money Market Funds/Money Market Mutual Funds	None	100%	None
Demand Deposits/Money Market Accounts	None	100%	None
Collateralized Investment Agreements	None	100%	None
Local Agency Investment Fund	N/A	100%	N/A
Repurchase Agreements	None	100%	None
Investments Authorized in the City of Mission Viejo Investment Policy (See table)	None	100%	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City manages its exposure to interest rate risk 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 liquidity needed for operations.

The City's and Agency's investment policies require that investments only be in fixed-rate, fixed coupon securities and prohibit investments in securities with embedded options and securities that may return all or parts of their principal prior to their stated final maturity date. The investment policies set a Benchmark Index for each portfolio. The Benchmark Index has characteristics similar to those of the portfolio in terms of types of securities and maturities. The City manages its exposure to interest rate risk by keeping the average duration of the portfolio in line with the duration of the Benchmark Index. For the fiscal year ended June 30, 2011, the average duration of the Benchmark Index was .94 for the City portfolio and .24 for the Agency portfolio.

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(2) Cash and Investments (Continued)

Disclosures Relating to Interest Rate Risk (Continued)

City of Mission Viejo:

<u>Investment Type</u>	<u>Market Value</u>	<u>Modified Duration (in years)</u>
US Treasury Bills & Notes	\$5,035,195	.25
US Government Sponsored Entities Securities	18,611,430	1.63
FDIC Insured US Corporate Notes	4,037,810	.67
Government Money Market Funds	503,865	-
Local Agency Investment Fund	8,201,753	-
Local Agency Sponsored Investment Pool	1,530,577	-
Agency Tax Allocation Notes	21,217	.91
Held by Trustee:		
Money Market Funds	<u>623,751</u>	-
Total	<u>\$38,565,598</u>	.94

Community Development Agency:

<u>Investment Type</u>	<u>Market Value</u>	<u>Modified Duration (in years)</u>
US Treasury Bills, Notes	\$ 3,018,155	.24
Local Agency Investment Fund	1,014,654	-
Local Agency Sponsored Investment Pool	<u>80,567</u>	-
Total	<u>\$ 4,113,376</u>	.24

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(2) Cash and Investments (Continued)

Disclosures Relating to Interest Rate Risk (Continued)

Mission Viejo Community Development Financing Authority:

Information about the sensitivity of the fair values of the Authority's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

<u>Investment Type</u>	<u>Market Value</u>	<u>Remaining Maturity</u>	
		<u>12 Months or Less</u>	<u>More than 60 Months</u>
Held by Trustee:			
Government Money Market Funds	\$ 1,244,012	\$ 1,244,012	\$ -
Local Agency Investment Fund	4,430,522	4,430,522	-
1999 Special Tax Refunding Bonds	<u>2,442,093</u>	<u>-</u>	<u>2,442,093</u>
Total	<u>\$ 8,116,627</u>	<u>\$ 5,674,534</u>	<u>\$ 2,442,093</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The City's investments (including investments held by bond trustees) do not include investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

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 the 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 Moody's rating as of year end for each investment type.

On Aug. 5, 2011, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the United States of America to AA+ from AAA. As a result, on Aug. 8, 2011, Standard & Poor's Ratings Services lowered its issuer credit ratings and related issue ratings on various Federal Home Loan Bank, Federal Farm Credit Bank, Fannie Mae and Freddie Mac to AA+ from AAA. The City also invests in LAIF which invests in various underlying securities, including the federal agency securities listed above. While LAIF is not rated, the federal agency securities are, and these have been affected by this rating change as well.

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(2) Cash and Investments (Continued)

Disclosures Relating to Credit Risk (Continued)

<u>Investment Type</u>	<u>Market Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt from Disclosure</u>	<u>Rating as of Year End</u>		
				<u>Aaa*</u>	<u>A1/P1</u>	<u>Not Rated</u>
US Treasury bills and notes	\$8,053,350	N/A	\$8,053,350	\$ -	\$ -	\$ -
FDIC Insured US Corporate Notes	4,037,810	N/A	-	4,037,810	-	-
US Government Sponsored Entities securities	18,611,430	N/A	-	18,611,430	-	-
Government money market funds	503,865	AAA	-	503,865	-	-
Local Agency Investment Fund	13,646,929	N/A	-	-	-	13,646,929
Local Agency Sponsored Investment Pools	1,611,144	N/A	-	1,611,144	-	-
Agency Tax Allocation Notes	21,217	N/A	-	-	-	21,217
Held by Trustee:						
Government money market Funds	1,867,763	AAA	-	1,867,763	-	-
1999 Special Tax Refunding Bonds	<u>2,442,093</u>	N/A	-	-	-	<u>2,442,093</u>
Total	<u>\$50,795,601</u>		<u>\$8,053,350</u>	<u>\$26,632,012</u>	<u>\$ -</u>	<u>\$16,110,239</u>

*Moody's Rating Service

Concentration of Credit Risk

The investment policies of the City and Agency contain limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code (see preceding tables). Investments at June 30, 2011 in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total portfolio investments (excluding investments held by trustee) were as follows:

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(2) Cash and Investments (Continued)

Concentration of Credit Risk (Continued)

<u>Portfolio</u>	<u>Issuer</u>	<u>Investment Type</u>	<u>%</u>	<u>Reported Amount</u>
City	Federal Farm Credit	US Government Sponsored Entities Securities	12.0%	\$5,125,038
City	Federal Home Loan Bank	US Government Sponsored Entities Securities	26.8%	\$11,471,637

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 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 policies do not contain legal or policy requirements that would limit the exposure to custodial risk for deposits or investments, other than as follows. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market 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 secured public deposits. The investment policies for all three portfolios require delivery vs. payment procedures and that all securities be held in safekeeping by a third party bank trust department.

As of June 30, 2011 all of the City's deposits with financial institutions in excess of federal depository insurance limits were collateralized by an interest in an undivided collateral pool as required by State law.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by 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.

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(2) Cash and Investments (Continued)

Investment in California Asset Management Program Pool

The City is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the "Act") for the purpose of exercising the common power of its Participants to invest certain proceeds of debt issues and surplus funds. The Trust's activities are directed by a Board of Trustees, all of whom are employees of the California public agencies which are participants in the Trust. The Pool's investments are limited to investments permitted by subdivision (a) to (n), inclusive, of Section 53601 of the California Government Code. The City reports investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share. CAMP is not registered with the Securities and Exchange Commission.

(3) Interfund Balances

Interfund balances at June 30, 2011 consisted of the following:

<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Amount</u>
General Fund	Grants Fund	\$ 522,095
	Developer Fees Fund	1,399,984
	Measure M Fund	1,439,017
	Low and Moderate Income Housing Fund	16,155
	Other governmental funds	1,237,829
Other governmental funds	CDA Debt Service Fund	<u>369,469</u>
	Total	<u>\$ 4,984,549</u>

All interfund balances are short-term in nature and are expected to be repaid within one year. Generally, these balances result from interfund borrowings to cover short-term operating deficits.

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(4) Interfund Advances

Interfund advances at June 30, 2011 consisted of the following:

<u>Advances receivable</u>	<u>Advances payable</u>	<u>Amount</u>
General Fund	CDA Debt Service Fund	\$ 605,000
Low and Moderate Income Housing Fund	CDA Debt Service Fund	<u>1,420,643</u>
	Total	<u>\$ 2,025,643</u>

Interfund advances between the General Fund and the CDA Debt Service Fund consist of Tax Allocation Notes (TAN) issued by the CDA and purchased in their entirety by the City. The TANs provide for repayment to the City three years after the date of issuance from any and all funds legally available to the Agency for such repayment. Interest is computed at the rate of 4.0% per annum. Interest is recorded when it becomes payable from available spendable resources. The balance of these notes are due on June 1, 2012.

Interfund advances between the Low and Moderate Income Housing Fund and the CDA Debt Service Fund consists of balance due on monies loaned to the CDA Debt Service Fund to fund the Supplemental Educational Revenue Augmentation Fund payment in FY 2009-10. This advance will be reimbursed without interest in equal installments over the next four years from any and all funds legally available to the Agency for such payment.

(5) Due from Developers

In October 1994, the Mission Viejo Community Development Agency loaned \$401,000 to a developer in accordance with an affordable housing agreement executed by the Agency and the Developer on July 1, 1994. The note bears no interest during the first two years after the date of the note, and thereafter until the note is paid in full, bears simple interest at the rate of 3% per annum. No payments were required to be made on the note during the first five years. Thereafter, annual payments of principal and interest amortized over a thirty year period are due. At June 30, 2011, the outstanding balance is \$326,879 which includes unpaid accrued interest of \$32,121.

In August 1998, the Mission Viejo Community Development Agency loaned \$2,143,000 to a developer in accordance with an affordable housing agreement executed by the Agency and Developer on April 20, 1998. The first \$900,000 of the note bears simple interest of 4% per annum for the first six years of the note. The remaining \$1,243,000 bears no interest during the first six years after the date of the note. Commencing upon the sixth anniversary date of the note, the entire principal balance bears simple interest at the rate of 4% per annum until paid in full. No payments are required to be made on the note during the first six years. Thereafter, principal payments equal to 100% of the developer's annual net profits up to \$142,733 will be due. In addition, principal payments equal to 50% of the developer's annual

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(5) Due from Developers (Continued)

net profits in excess of \$142,733 per year will be due for the remaining balance of the note. A portion of each payment received must be spent on approved Community Development Block Grant items. Principal payments are due annually on April 1 beginning on April 1, 2006. On the 32nd anniversary of the note, any remaining outstanding balance of principal and interest will be due and payable. The outstanding balance at June 30, 2011 is \$2,370,035 which includes unpaid accrued interest of \$226,934.

On May 11, 1999, the Mission Viejo Community Development Financing Authority issued \$31,100,000 of 1999 Series A Variable Rate Demand Revenue Bonds to finance a portion of the costs of the acquisition, construction, installation and equipping of various public capital improvements to the Mission Viejo Mall (The Shops at Mission Viejo). As a result of the issuance of these bonds, the mall owner, Simon Properties Group, entered into an agreement with the City. Under terms of this agreement, Simon Properties Group is obligated to pay the annual letter of credit, remarketing and other variable debt-related costs related to the Series A Bonds. At June 30, 2011, the amount due from the developer for these costs was \$2,550,800.

In June 2010, the Mission Viejo Community Development Agency loaned \$2,000,000 to a developer in accordance with an affordable housing agreement executed by the Agency and the Developer on March 1, 2010. The loan is secured by both a loan repayment guarantee executed by the Developer and a first deed of trust on the property, and will mature upon Developer's sale of the last of 22 affordable units to be built by the Developer to an eligible low income or very low income homebuyer. The unpaid principal balance of the loan shall accrue interest at the rate of Wall Street Journal prime rate plus 1%, compounded annually. At the closing of each sale of an affordable unit, an amount equal to \$90,909 plus accrued and unpaid interest on said amount through the date of closing shall be deemed repaid. Upon the closing of the sale of the 22nd unit, any remaining outstanding principal balance and all accrued and unpaid interest shall be deemed repaid.

(6) Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

Governmental activities:	<u>Balance at June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2011</u>
Capital assets, not depreciated:				
Land	\$ 48,687,918	\$ -	\$ -	\$ 48,687,918
Rights of way	241,591,518	104,434	-	241,695,952
Construction in progress	6,938,424	6,160,639	1,811,268	11,287,795
Infrastructure – Street network:				
Streets	<u>200,983,918</u>	<u>71,709</u>	<u>-</u>	<u>201,055,627</u>
Total capital assets, not depreciated	<u>498,201,778</u>	<u>6,336,782</u>	<u>1,811,268</u>	<u>502,727,292</u>

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued) Year ended June 30, 2011

(6) Capital Assets (Continued)

	<u>Balance at June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2011</u>
Governmental activities:				
Capital assets, being depreciated:				
Buildings and improvements	111,616,158	25,297	-	111,641,455
Equipment and furniture	7,130,299	1,096,220	133,615	8,092,904
Vehicles	1,187,188	42,352	98,814	1,130,726
Infrastructure – Street network:				
Curbs and gutters	33,897,057	57,503	129,557	33,825,003
Sidewalks	31,094,212	26,070	108,352	31,011,930
Roadway bridges	6,289,000	-	-	6,289,000
Traffic signals	10,838,124	161,407	-	10,999,531
Infrastructure – Medians and Parkways network:				
Medians and Parkways	36,145,259	577,126	51,612	36,670,773
Infrastructure – Storm Drains network:				
Storm Drains	<u>40,068,545</u>	<u>38,167</u>	<u>-</u>	<u>40,106,712</u>
Total capital assets, being depreciated	<u>\$ 278,265,842</u>	<u>\$2,024,142</u>	<u>\$521,950</u>	<u>\$279,768,034</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ (29,548,805)	\$ (3,563,662)	-	\$ (33,112,467)
Equipment and furniture	(3,876,471)	(813,633)	(128,132)	(4,561,972)
Vehicles	(1,060,627)	(56,016)	(97,647)	(1,018,996)
Infrastructure – Street network:				
Curbs and gutters	(9,090,115)	(451,961)	(41,458)	(9,500,618)
Sidewalks	(8,608,524)	(414,618)	(34,673)	(8,988,469)
Roadway bridges	(1,830,583)	(83,853)	-	(1,914,436)
Traffic signals	(6,296,754)	(361,718)	-	(6,658,472)
Infrastructure – Medians and Parkways Network:				
Medians and Parkways	(8,450,663)	(481,937)	(16,516)	(8,916,084)
Infrastructure – Storm Drain Network:				
Storm Drains	<u>(11,000,008)</u>	<u>(563,423)</u>	<u>-</u>	<u>(11,563,431)</u>
Total accumulated depreciation	<u>(79,762,550)</u>	<u>(6,790,821)</u>	<u>(318,426)</u>	<u>(86,234,945)</u>

CITY OF MISSION VIEJO
Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(6) Capital Assets (Continued)

	<u>Balance at June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2011</u>
Governmental activities:				
Total capital assets being depreciated, net	<u>198,503,292</u>	<u>(4,766,679)</u>	<u>203,524</u>	<u>193,533,089</u>
Governmental activities Capital assets, net	<u>\$696,705,070</u>	<u>\$1,570,103</u>	<u>\$2,014,792</u>	<u>\$696,260,381</u>
Business-type activities:	<u>Balance at June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2011</u>
Capital assets, not depreciated:				
Land	<u>\$1,000,764</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,000,764</u>
Total capital assets, not depreciated	<u>1,000,764</u>	<u>-</u>	<u>-</u>	<u>1,000,764</u>
Capital assets, being depreciated:				
Buildings	1,641,647	-	-	1,641,647
Improvements other than buildings	371,419	-	-	371,419
Machinery and equipment	<u>904,200</u>	<u>-</u>	<u>-</u>	<u>904,200</u>
Total capital assets, being depreciated	<u>2,917,266</u>	<u>-</u>	<u>-</u>	<u>2,917,266</u>
Less accumulated depreciation for:				
Buildings	(748,099)	(53,344)	-	(801,443)
Improvements other than buildings	(131,767)	(12,453)	-	(144,220)
Machinery and equipment	<u>(679,794)</u>	<u>(60,587)</u>	<u>-</u>	<u>(740,381)</u>
Total accumulated depreciation	<u>(1,559,660)</u>	<u>(126,384)</u>	<u>-</u>	<u>(1,686,044)</u>
Total capital assets, being depreciated, net	<u>1,357,606</u>	<u>(126,384)</u>	<u>-</u>	<u>1,231,222</u>
Business-type activities capital assets, net	<u>\$2,358,370</u>	<u>\$(126,384)</u>	<u>\$ -</u>	<u>\$ 2,231,986</u>

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

6) Capital Assets (Continued)

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

General Government - Legislative	\$ 746
General Government – Management and Support	1,704,943
Public Safety	57,311
Public Works-Engineering and Transportation	498,934
Infrastructure Maintenance	2,659,359
Recreation, Community and Library Services	<u>1,869,528</u>
	<u>\$6,790,821</u>

Depreciation expense was charged to the following functions of business-type activities as follows:

Animal Services	\$ 113,889
Mission Viejo Television	<u>12,495</u>
	<u>\$ 126,384</u>

(7) Long-Term Liabilities

Changes in the long-term liabilities for the year ended June 30, 2011 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>	<u>Due Beyond One Year</u>
<u>Governmental Activities:</u>						
Bonds/notes payable:						
Revenue bonds	\$53,047,326	-	\$ (1,620,000)	\$51,427,326	\$1,750,000	\$49,677,326
Bond premium	<u>853,583</u>	-	<u>(59,552)</u>	<u>794,031</u>	<u>39,702</u>	<u>754,329</u>
Total bonds/notes payable	53,900,909	-	(1,679,552)	52,221,357	1,789,702	50,431,655
Other liabilities:						
Compensated absences	<u>1,558,162</u>	<u>1,015,350</u>	<u>(1,000,253)</u>	<u>1,573,259</u>	<u>96,190</u>	<u>1,477,069</u>
Governmental activities						
long-term liabilities	<u>\$ 55,459,071</u>	<u>\$ 1,015,188</u>	<u>\$(2,679,805)</u>	<u>\$53,794,616</u>	<u>\$ 1,885,892</u>	<u>\$51,908,724</u>
<u>Business-type Activities:</u>						
Other liabilities:						
Compensated absences	<u>\$ 69,988</u>	<u>\$ 94,637</u>	<u>\$(98,967)</u>	<u>\$ 65,658</u>	<u>\$ 1,018</u>	<u>\$ 64,640</u>

For governmental activities, compensated absences are generally liquidated by the General Fund and Library Operations Fund.

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(7) Long-Term Liabilities (Continued)

Revenue Bonds

1999 Series A Variable Rate Demand Revenue Bonds

On May 11, 1999, the Mission Viejo Community Development Financing Authority issued \$31,100,000 of 1999 Series A Variable Rate Demand Revenue Bonds to finance a portion of the costs of the acquisition, construction, installation and equipping of various public capital improvements to the Mission Viejo Mall (The Shops at Mission Viejo).

On May 1, 1999, the City of Mission Viejo Community Development Financing Authority and the City of Mission Viejo entered into a lease agreement obligating the City to provide annual lease payments of 50% of sales tax revenues generated by the mall provided that the City shall retain a minimum of \$1.5 million annually in sales tax revenues generated by the mall. The \$1.5 million increases each year for the first ten years by the growth rates in the sales tax consultant's study that was part of the bond issue and then by the consumer price index. Furthermore, the Mission Viejo Community Development Agency entered into a pledge agreement on May 1, 1999 with the Authority, requiring the Agency to pledge property tax revenues generated by the site. Pledged revenues not needed for debt service are either paid to Simon Properties Group as holders of the 1999 Series B Subordinate Lien Taxable Revenue Bonds (subject to certain sales tax, interest rate and bond cost thresholds) or returned to the City.

Interest on the bonds is calculated weekly at a rate determined to reflect the current market conditions. At any time, the Authority may elect to convert the bonds to a fixed interest rate. Principal amounts mature between September 1, 2002 and September 1, 2028 in amounts ranging from \$400,000 to \$1,900,000. The bond reserve requirement of \$2,373,252 was fully funded at June 30, 2011. The amount of principal outstanding at June 30, 2011 is \$24,900,000.

The bonds provide for an option exercisable by each bondholder for the bonds held by that bondholder to be purchased by the Authority at a price equal to one hundred percent of the principal amount of the bonds purchased plus accrued interest, if any. The purchase price and principal of, and interest on, the Series A Bonds purchased under this option are payable from amounts available to be drawn by the Trustee under an irrevocable direct pay letter of credit issued by Union Bank. This letter of credit terminates on May 18, 2013. The Trustee is permitted to draw on the letter of credit to pay the principal, redemption amounts, and interest on the Series A Bonds and the purchase price of any Series A Bonds tendered but not remarketed to the extent that other moneys are not available. During the year ended June 30, 2011, letter of credit commitment fees in the amount of \$168,836 were paid to Union Bank.

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(7) Long-Term Liabilities (Continued)

Revenue Bonds (Continued)

1999 Series A Variable Rate Demand Revenue Bonds (Continued)

If Union Bank fails to honor a draw request, an irrevocable confirming letter of credit issued by the California State Teachers' Retirement System has been established to honor the draw. During the year ended June 30, 2011, letter of credit commitment fees in the amount of \$67,534 were paid to the California State Teachers' Retirement System.

Debt service requirements to maturity of the 1999 Series A Variable Rate Demand Revenue Bonds are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest *</u>	<u>Totals</u>
2012	\$ 1,000,000	\$ 47,440	\$ 1,047,440
2013	1,000,000	45,410	1,045,410
2014	1,100,000	43,510	1,143,510
2015	1,100,000	41,420	1,141,420
2016	1,100,000	39,438	1,139,438
2017	1,200,000	37,240	1,237,240
2018	1,200,000	34,960	1,234,960
2019	1,300,000	32,680	1,332,680
2020	1,300,000	30,293	1,330,293
2021	1,400,000	27,740	1,427,740
2022	1,500,000	25,080	1,525,080
2023	1,500,000	22,230	1,522,230
2024	1,600,000	19,433	1,619,433
2025	1,600,000	16,340	1,616,340
2026	1,600,000	13,300	1,613,300
2027	1,700,000	10,260	1,710,260
2028	1,800,000	7,049	1,807,049
2029	<u>1,900,000</u>	<u>1,820</u>	<u>1,901,820</u>
	<u>\$ 24,900,000</u>	<u>\$ 495,643</u>	<u>\$ 25,395,643</u>

* The above debt service requirements to maturity were calculated using the interest rate as of June 30, 2011 of 0.19%.

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(7) Long-Term Liabilities (Continued)

1999 Series B Subordinate Lien Taxable Revenue Bonds

On May 19, 1999, the Mission Viejo Community Development Financing Authority authorized \$10,000,000 and issued \$115,000 of 1999 Series B Subordinate Lien Taxable Revenue Bonds to finance a portion of the costs of the acquisition, construction, installation and equipping of various public capital improvements to the Mission Viejo Mall. Through June 30, 2011 an additional \$7,232,326 of Series B Bonds was issued. As of June 30, 2011, a total of \$7,347,326 of 1999 Series B bonds has been issued.

The interest rate on the bonds is equal to the six-month London Interbank Offered Rate plus 1.5%, not to exceed 8% per annum. If the 1999 Series A Bonds are converted to a fixed interest rate, interest on the 1999 Series B Bonds will be equal to the fixed interest rate plus 1%. Interest is payable annually commencing September 1, 1999, subject to certain preconditions. If, in any year, revenues are insufficient to pay interest due on the Series B Bonds, such interest shall remain due and payable. Principal payments on the bonds will commence at the earlier of the conversion of the 1999 Series A Bonds to a fixed interest rate or after two consecutive years of two times debt service coverage for the 1999 Series A Bonds. Annual principal payments will be an amount that is proportional to the principal of the 1999 Series A Bonds. The bonds mature on September 1, 2028, at which time, if any outstanding principal or accrued interest remains, such amounts shall cease to be payable. At June 30, 2011, the outstanding principal is \$7,347,326 and the unpaid interest is \$1,329,663.

No debt service requirement to maturity schedule has been included since neither of the two conditions for the initiation of principal payments had been met as of June 30, 2011.

1999 Series C Revenue Bonds

On August 1, 1999, the Mission Viejo Community Development Financing Authority issued \$4,990,000 of Series C Revenue Bonds to provide funds to acquire the 1999 Special Tax Refunding Bonds (see note 8) and to provide for new money for the construction of certain public facilities.

Interest on the bonds ranges from 4.0% to 5.6% and is payable semi-annually on February 1 and August 1 of each year until maturity. The interest and principal of the bonds are payable from assessment revenues generated by the CFD 1999 Special Tax Refunding Bonds. Principal amounts mature between August 1, 2001 and August 1, 2017 in amounts ranging from \$185,000 to \$410,000. The amount of principal outstanding at June 30, 2011 was \$2,470,000.

Debt Service requirement to maturity of the 1999 Series C Revenue Bonds are as follows:

CITY OF MISSION VIEJO
Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

7) Long-Term Liabilities (Continued)

1999 Series C Revenue Bonds (Continued)

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$300,000	\$124,565	\$424,565
2013	315,000	108,418	423,418
2014	335,000	91,192	426,192
2015	350,000	72,952	422,952
2016	370,000	53,600	423,600
2017	390,000	33,080	423,080
2018	<u>410,000</u>	<u>11,275</u>	<u>421,275</u>
	<u>\$2,470,000</u>	<u>\$495,082</u>	<u>\$2,965,082</u>

CDFA 2009 Lease Revenue Refunding Bonds

On December 9, 2009, the Mission Viejo Community Development Financing Authority issued \$17,305,000 of Series A Lease Revenue Refunding Bonds to refund the 1996 Certificates of Participation and the 2001 Series A Lease Revenue Bonds. The reacquisition price was the same as the net carrying amount of the old debt. The new debt's life is the same as the refunded debt. The transaction resulted in an economic gain by the reduction of \$785,899 in future debt service payments.

Interest on the bonds ranges from 3.875% to 5.25% and is payable semi-annually on May 1 and November 1 of each year. Principal amounts mature between May 1, 2010 and May 1, 2031 in amounts ranging from \$165,000 to \$1,110,000. The bond reserve requirement of \$1,362,313 was fully funded at June 30, 2011. The amount of principal outstanding at June 30, 2011 was \$16,710,000.

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

7) Long-Term Liabilities (Continued)

CDFA 2009 Lease Revenue Refunding Bonds (Continued)

Debt service requirements to maturity of the 2009 Lease Revenue Refunding Bonds are as follows:

Year ending June 30,	Principal	Interest	Totals
2012	\$ 450,000	\$ 791,362	\$ 1,241,362
2013	530,000	773,363	1,303,363
2014	615,000	746,862	1,361,862
2015	640,000	716,113	1,356,113
2016	670,000	684,112	1,354,112
2017	705,000	657,313	1,362,313
2018	735,000	622,062	1,357,062
2019	770,000	585,313	1,355,313
2020	810,000	546,812	1,356,812
2021	845,000	506,313	1,351,313
2022	885,000	473,569	1,358,569
2023	910,000	438,169	1,348,169
2024	960,000	401,769	1,361,769
2025	1,005,000	353,769	1,358,769
2026	1,050,000	303,518	1,353,518
2027	1,110,000	251,019	1,361,019
2028	935,000	195,519	1,130,519
2029	980,000	154,613	1,134,613
2030	1,025,000	110,512	1,135,512
2031	1,080,000	56,700	1,136,700
	<u>\$ 16,710,000</u>	<u>\$ 9,368,782</u>	<u>\$ 26,078,782</u>

(8) Community Facilities District Bonds

On December 2, 1992, \$4,950,000 of special tax bonds dated December 1, 1992 were issued for the Mission Viejo Community Facilities District No. 92-1 pursuant to the Mello Roos Community Facilities Act of 1982. The bond proceeds were used to finance the acquisition and construction of public flood control facilities. On August 1, 1999, the City of Mission Viejo issued \$4,601,699 of 1999 Special Tax Refunding Bonds to provide for the advance refunding of the 1992 bonds. All of the 1999 bonds were purchased by the Mission Viejo Community Development Financing Authority.

The bonds are not general obligations of the City, and neither the faith nor the taxing power of the City is pledged to the payment of these bonds. Therefore, the bonds are not recorded as liabilities of the City. The City has no obligation beyond the balances in the agency fund for any delinquent District bond payments. The bonds are limited obligations of the District payable solely from the special tax or funds held pursuant to the bond indenture agreement. The principal amount of bonds outstanding at June 30, 2011 was \$2,664,129. An amount of \$856,375 is being held by the City and is reflected as due to bondholders at June 30, 2011 in the Statement of Fiduciary Assets and Liabilities.

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(9) Net Assets

As of June 30, 2011, all of the net assets in the proprietary funds, except those invested in capital assets were unrestricted. As provided under accounting principles generally accepted in the United States of America, restrictions are only established in proprietary funds for equity legally restricted by parties external to the governmental unit.

(10) Fund Balances

The City has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54 for the year ended June 30, 2011.

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be consistently applied and by clarifying the existing governmental fund type definitions. The Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints upon the use of the resources reported in governmental funds.

In the fund financial statements, governmental fund balance is made up of the following components:

Nonspendable fund balance typically includes inventories, prepaid items, and other items that must be maintained intact pursuant to legal or contractual requirements, such as endowments.

Restricted fund balance category includes amounts that can be spent only for specific purposes imposed by creditors, grantors, contributors, or law or regulations of other governments or through enabling legislations.

Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Council. The City Council has the authority to establish, modify, or rescind a fund balance commitment.

Assigned fund balance amounts are designated by the City Council for specific purposes and do not meet the criteria to be classified as restricted or committed.

Unassigned fund balance is the residual classification that includes all spendable amounts in the General Fund not contained in other classifications.

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(10) Fund Balances (Continued)

Unassigned fund balance in the General Fund of \$32.5 million includes the following City Council designations at June 30,2011:

General Fund contingency (equal to 15% of of General Fund revenues)	\$7.2M
Computers, Equipment, Furnishings & Vehciles Replacement Fund	\$2.7M
Facility Rehabilitation & Replacement Fund	\$13.5M
Software Replacement Reserve	\$0.4M

(11) Interfund Transfers

Interfund transfers for the year ended June 30, 2011 consisted of the following:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 1,068,308
Animal Services Enterprise Fund	General Fund	476,611
Other governmental funds	General Fund	1,897,763
	Low and Moderate Income Housing Fund	5,700,000
	Other governmental funds	1,126,628
	CDA Debt Service Fund	666,005
Low and Moderate Income Housing Fund	CDA Debt Service Fund	1,414,964
		<u>\$12,350,279</u>

Significant transfers included in the accompanying financial statements are described as follows:

Transfers to Major Funds

Of the \$1,068,308 transferred to the General Fund, \$978,483 was received from the CDFA 1999 Mall Bonds Debt Service Fund representing the 2010 release of the rolling reserve, other than for reimbursement of bond administrative costs on the 1999 Series A Variable Rate Demand Revenue Bonds and \$89,825 was received from the Mall Parking Lease Fund representing the return of excess interest not needed for debt service payments.

The \$1,414,964 transferred to the Low and Moderate Income Housing Special Revenue Fund was the transfer of 20% of property tax revenue from the CDA Debt Service Fund.

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(11) Interfund Transfers (Continued)

Transfers from Major Funds

Of the \$1,897,763 transferred from the General Fund to other governmental funds, \$1,230,345 was transferred to the CDFA 2009 Lease Revenue Refunding Bonds Debt Service Fund for payment of the debt service on those bonds and \$667,417 was transferred to the Library Operations fund to fund operations. In addition, the General Fund transferred \$476,611 to the Animal Services Enterprise Fund representing Mission Viejo's proportionate share of the net costs of the Animal Services operation for the year, as estimated in the budget.

The \$666,005 transferred from the CDA Debt Service Fund to other governmental funds was for the transfer of the mall portion of property tax increment to the CDFA 1999 Mall Bonds Debt Service Fund and \$5,700,000 was transferred from the Low and Moderate Income Housing Fund to the Mission Viejo Housing Authority.

Transfers To/From Other Governmental Fund

The \$1,126,628 transferred from other governmental funds to other governmental funds, represents mall sales tax pledged for the mall bond debt service transferred from the Mall Parking Lease Fund to the CDFA 1999 Mall Bonds Debt Service Fund.

(12) Fund Deficits and Expenditures in Excess of Appropriations

The following funds reported a deficit in fund balance as of June 30, 2011:

	<u>Deficit Balances</u>
Major Governmental Funds:	
Special Revenue Fund:	
Grants	\$ (119,748)
Developer Fees	\$(1,378,964)
Debt Service Fund:	
CDA Debt Service	\$(1,807,010)
Other Governmental Funds:	
Special Revenue Fund:	
Ladera Funding	\$(1,092,184)

The special revenue fund deficits will be remedied as the grants are billed and received and from developer fees expected to be received.

The debt service fund deficit is due to the provisions of GASB Statement No. 34, which requires interfund advances and loans to be recorded on the governmental fund balance sheet. The fund deficits will be remedied with the receipt of future property tax increment revenue.

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(12) Fund Deficits and Expenditures in Excess of Appropriations (Continued)

The following fund reported expenditures in excess of appropriations based on the level of budgetary control:

<u>Other Governmental Funds:</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance</u>
Debt Service Fund:			
Mall Parking Lease	\$ 1,135,914	1,216,453	(80,539)

(13) Liability, Workers' Compensation, and Purchased Insurance

The City is a member of the California Joint Powers Insurance Authority (Authority). The Authority is composed of 121 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other lines of coverage. The Authority began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

Self-Insurance Programs of the Authority

A revised cost allocation methodology was introduced in 2010-11, however it retains many elements of the previous cost allocation methodology. Each member pays an annual contribution (formerly called the primary deposit) to cover estimated losses for the coverage period. This initial funding is paid at the beginning of the coverage period. After the close of the coverage period, outstanding claims are valued. A retrospective deposit computation is then conducted annually thereafter until all claims incurred during the coverage period are closed on a pool-wide basis. This subsequent cost re-allocation among members based on actual claim development can result in adjustments of either refunds or additional deposits required.

The total funding requirement for self-insurance programs is estimated using actuarial models and pre-funded through the annual contribution. Costs are allocated to individual agencies based on exposure (payroll) and experience (claims) relative to other members of the risk-sharing pool. Additional information regarding the cost allocation methodology is provided below.

General Liability

In the liability program claims are pooled separately between police and non-police exposures. Since the City contracts for police services, all of the City's claims are categorized as non-police. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$30,000 for each

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(13) Liability, Workers' Compensation, and Purchased Insurance (Continued)

occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$30,000 to \$750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$750,000 up to the reinsurance attachment point of \$5 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$5 million to \$10 million are paid under a reinsurance contract subject to a \$2.5 million annual aggregate deductible. Costs of covered claims from \$10 million to \$15 million are paid under two reinsurance contracts subject to a combined \$3 million annual aggregate deductible. On a cumulative basis for all 2010-11 reinsurance contracts the annual aggregate deductible is \$5.5 million. (6) Costs of covered claims from \$15 million up to \$50 million are covered through excess insurance policies.

The overall coverage limit for each member including all layers of coverage is \$50 million per occurrence.

Costs of covered claims for subsidence losses are paid by reinsurance and excess insurance with a pooled sub-limit of \$35 million per occurrence. This \$35 million subsidence sub-limit is composed of (a) \$5 million retained within the pool's SIR, (b) \$10 million in reinsurance and (c) \$20 million in excess insurance. The excess insurance layer has a \$20 million annual aggregate.

Workers' Compensation

In the workers' compensation program, claims are pooled separately between public safety (police and fire) and non-public safety exposures. As with General Liability, all of the City's claims are categorized as non-public safety. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$50,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$50,000 to \$100,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$100,000 up to the reinsurance attachment point of \$2 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$2 million up to statutory limits are paid under a reinsurance policy. Protection is provided per statutory liability under California Workers' Compensation Law.

Employer's Liability losses are pooled among members to \$2 million. Coverage from \$2 million to \$4 million is purchased as part of a reinsurance policy, and Employer's Liability losses from \$4 million to \$10 million are pooled among members.

See independent auditors' report.

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(13) Liability, Workers' Compensation, and Purchased Insurance (Continued)

Purchased Insurance

Pollution Legal Liability Insurance

The City participates in the pollution legal liability insurance program (formerly called environmental insurance) which is available through the Authority. The policy covers sudden and gradual pollution of scheduled property, streets, and storm drains owned by the City. Coverage is on a claims-made basis. There is a \$50,000 deductible. The Authority has a limit of \$50 million for the 3-year period from July 1, 2008 through July 1, 2011. Each member of the Authority has a \$10 million sub-limit during the 3-year term of the policy.

Property Insurance

The City participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. City property is currently insured according to a schedule of covered property submitted by the City of Mission Viejo to the Authority. City property currently has all-risk property insurance protection in the amount of \$101,118,462. There is a \$5,000 deductible per occurrence except for non-emergency vehicle insurance which has a \$1,000 deductible. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

Earthquake and Flood Insurance

The City purchases earthquake and flood insurance on a portion of its property. The earthquake insurance is part of the property protection insurance program of the Authority. City property currently has earthquake protection in the amount of \$67,510,137. There is a deductible of 5% per unit of value with a minimum deductible of \$100,000. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

Crime Insurance

The City purchases crime insurance coverage in the amount of \$1,000,000 with a \$2,500 deductible. The fidelity coverage is provided through the Authority. Premiums are paid annually and are not subject to retrospective adjustments.

Special Event Tenant User Liability Insurance

The City further protects against liability damages by requiring tenant users of certain property to purchase low-cost tenant user liability insurance for certain activities on agency property. The insurance premium is paid by the tenant user and is paid to the City according to a schedule. The City then pays for the insurance. The insurance is arranged by the Authority.

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(13) Liability, Workers' Compensation, and Purchased Insurance (Continued)

Adequacy of Protection

During the past three fiscal years, none of the above programs of protection experienced settlements or judgments that exceeded pooled or insured coverage. There were also no significant reductions in pooled or insured liability coverage in 2010-11.

(14) Joint Venture - Orange County Fire Authority

In January 1995, the City entered into a joint powers agreement with the Cities of Buena Park, Cypress, Dana Point, Irvine, Laguna Hills, Laguna Niguel, Lake Forest, La Palma, Los Alamitos, Placentia, San Clemente, San Juan Capistrano, Seal Beach, Stanton, Tustin, Villa Park and Yorba Linda and the County of Orange to create the Orange County Fire Authority (Authority). Since the creation of the Authority, the Cities of Aliso Viejo, Laguna Woods, Rancho Santa Margarita and Westminster joined the Authority as members eligible for fire protection services. The purpose of the Authority is to provide for mutual fire protection, prevention and suppression services and related and incidental services including, but not limited to, emergency medical and transport services, as well as providing facilities and personnel for such services. The effective date of formation was March 1, 1995. The Authority's governing board consists of one representative from each city and two from the County. The operations of the Authority are funded with fire fees collected by the County through the property tax roll for the unincorporated area and on behalf of all member cities except for the Cities of Stanton, Tustin, San Clemente, Buena Park, Placentia and Seal Beach. The County pays all structural fire fees it collects to the Authority. The Cities of Stanton, Tustin, San Clemente, Buena Park, Placentia and Seal Beach are considered "cash contract cities" and accordingly make cash contributions based on the Authority's annual budget. The City of Mission Viejo does not have an equity interest in the assets of the Orange County Fire Authority. Complete financial statements may be obtained from the Orange County Fire Authority, One Fire Authority Road, Irvine, California 92602.

(15) Significant Commitments

The Agency and the City entered into a cooperation agreement on September 29, 1993 whereby the Agency is committed to pay for a portion of certain traffic infrastructure improvements, after such improvements have been incurred, up to a maximum cost to the Agency of \$1,008,500. In turn, any related development fees collected by the City will be paid by the City to the Agency. Costs incurred to date under this agreement are \$69,448.

Owner Participation Agreements

In 1996, the Agency entered into an owner participation agreement with Kaleidoscope Partners, L.P., the owners of certain real property located at the northeast corner of the San Diego Freeway (I-5) and Crown Valley Parkway. The developer constructed a commercial shopping, entertainment, and retail facility on the site. This agreement obligates the Agency to pay the owners 100% of property tax increment revenues generated by the site, less amounts retained for set aside and pass through obligations, subject

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(15) Significant Commitments (Continued)

to the project generating sales tax revenues above certain agreed-upon minimum thresholds. The payments are due semi-annually on May 1 and November 1 commencing upon the first date that the site generates property tax increment. The payments will continue until the earliest of May 2024, the date on which the developer has received \$1,400,000, or the date on which the annual net operating income to the developer exceeds 12% of total project costs. The amount to be paid under this agreement is contingent upon the receipt of future project revenues. Total cumulative payments made as of June 30, 2011 are \$96,916.

In April 2000, the Agency entered into an owner participation agreement with GSM Development, L.L.C. to assist in property acquisition and provide commercial rehabilitation assistance for the development of an Infiniti dealership within the City of Mission Viejo. The agreement obligates the Agency to pay up to \$2,003,331 to the developer over eleven years based on sales tax revenues generated by the site. Payments are due quarterly with the first payment due March 2002. Payments will cease with the forty-fourth payment or on the date which the maximum amount payable is incurred by the Agency, whichever is earlier. As of June 30, 2011, the Agency has paid \$1,610,383 under this agreement.

Construction and Other Significant Commitments

The City has active capital improvement projects as of June 30, 2011. The projects include improvements to storm drains, roads, bridges, transportation and intersections. At year-end the City's major commitments with contractors are as follows:

<u>Projects:</u>	<u>Spent to date</u>	<u>Remaining Commitment</u>
Oso/Marguerite Widening & Intersection Improvements	\$ 8,078,332	554,117
Crown Valley Parkway Widening I-5 to Cabot	932,780	1,795,259

In addition to the above construction related commitments, the Agency has entered an agreement with Lennar Homes to provide a housing subsidy for low and moderate income housing for The Ridge housing development. The remaining balance of this commitment was \$1,556,241 at June 30, 2011.

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(16) Lease Commitment

On December 1, 2000, the City entered into a lease agreement with the Santa Margarita Water District for office and storage space. The lease terminates on November 30, 2020. Minimum annual lease commitments as of June 30, 2011 are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2012	\$ 38,973
2013	38,973
2014	38,973
2015	38,973
2016	38,973
2017	38,973
2018	38,973
2019	38,973
2020	16,239
	<u>\$328,023</u>

(17) 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 employees, permits them to defer annually up to \$16,500 (\$17,000 beginning 2012), until future years. Employees over age 50 may elect to defer up to an additional \$5,500 annually. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The City has placed these assets in a trust held for the exclusive benefit of plan participants and their beneficiaries, as prescribed by Internal Revenue Code Section 457(g). Consequently, these assets are not included in the City's financial statements.

(18) Defined Benefit Pension Plan

Plan Description

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. Benefit provisions and all other requirements are established by state statute and City ordinance. For employees hired prior to July 9, 2011, the 2.7% at 55 retirement plan is applicable. Effective July 9, 2011, new employees will be enrolled in the 2% at 60 retirement plan. Benefits for the 2.7% at 55 plan are based on final compensation that is the monthly average of the member's highest 12 consecutive months' of full-time equivalent monthly pay. Benefits for the 2% at 60 plan are based on a three year average final

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(18) Defined Benefit Pension Plan (Continued)

compensation. Copies of PERS' annual financial report may be obtained from their executive office: 400 "P" Street, Sacramento, California 95814.

Funding Policy

Participants are required to contribute 8.0% of their annual covered salary. For the year ending June 30, 2011 the City made 5% of the contribution required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate calculated as a percentage of payroll. The employer contribution rate for the year ended June 30, 2011 was 14.240% for non-safety employees. The City has no safety employees. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost

The following table shows the components of the City's annual pension cost for the year, the amount actually contributed to the plan, and changes in the City's net pension asset:

Annual required contribution	\$1,405,956
Interest on net pension asset	(19,969)
Adjustment to annual required contribution	<u>35,655</u>
Annual pension cost	1,421,642
Contributions made	<u>(1,405,956)</u>
Decrease in net pension asset	15,686
Net pension asset – beginning of year	<u>(257,659)</u>
Net pension asset – end of year	<u>\$ (241,973)</u>

The net pension asset is reported in the government-wide and proprietary fund statements as part of prepaid expenses.

The required contribution was determined as part of the June 30, 2008 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by age, service and type of employment, ranging from 3.25% to 14.45%, and (c) 2% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period at June 30, 2008 was 20 years.

CITY OF MISSION VIEJO
Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(18) Defined Benefit Pension Plan (Continued)

Annual Pension Cost (Continued)

Five-Year Trend Information

Fiscal Year	Annual Pension Cost (APC) (Employer Contribution)	Actual Contribution	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/07	\$1,276,054	\$1,264,417	99%	\$(298,267)
6/30/08	1,443,350	1,430,811	99%	(285,728)
6/30/09	1,606,484	1,592,973	99%	(272,217)
6/30/10	1,464,115	1,449,557	99%	(257,659)
6/30/11	1,421,642	1,405,956	99%	(241,973)

As of June 30, 2010, the most recent actuarial valuation date, the plan was 79.5% funded. The actuarial accrued liability for benefits was \$46 million, and the actuarial value of assets was \$36.8 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$9.5 million. The covered payroll (annual payroll of active employees covered by the plan) was \$9.9 million, and the ratio of the UAAL to the covered payroll was 96.1%.

The schedule of funding progress presented below presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Five-Year Schedule of Funding Progress

Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets (AVA)	Unfunded Actuarial Accrued Liability (UAAL)/ (Excess Assets)	Funded Status Based on AVA	Market Value of Assets (MVA)	Funded Status Based on MVA	Annual Covered Payroll	UAAL As a % of Payroll
6/30/06	24,346,044	20,312,606	4,033,438	83.4%	21,361,601	87.7%	7,681,993	52.5%
6/30/07	29,475,073	24,506,369	4,968,704	83.1%	27,789,959	94.3%	8,835,113	56.2%
6/30/08	34,504,320	28,755,811	5,748,509	83.3%	28,666,932	83.1%	9,866,479	58.3%
6/30/09	42,076,529	32,897,337	9,179,192	78.2%	24,225,380	57.6%	10,322,231	88.9%
6/30/10	46,287,502	36,787,929	9,499,573	79.5%	29,489,295	63.7%	9,879,953	96.1%

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(19) Other Post Employment Benefits (OPEB)

Plan Description

The City Retiree Insurances Program (RIP) is a sole employer defined benefit post-employment benefits plan that provides eligible retired City employees and their spouses a monthly contribution towards medical, dental and vision insurance premium costs up to a fixed dollar cap that varies based on coverage election and full or part-time employment status. Benefit provisions are established and may be amended by the City Council. The RIP was originally adopted by the City Council in July, 2000. The City of Mission Viejo is participating in the California Employer's Retiree Benefit Trust Program (CERBT) Prefunding Plan for the purposes of holding in trust irrevocable contributions restricted for the provision of these benefits. CERBT is administered by the California Public Employees Retirement System (CalPERS). Copies of CalPERS annual financial report may be obtained from their executive office: 400 "P" Street, Sacramento, California 95814.

Eligibility

Employees of the City are eligible for retiree health benefits if they (1) have been employed by the City for a minimum of twelve continuous years of service, (2) were eligible to participate in the City's Fixed Monthly City Contribution to Benefits program prior to January 1, 2007, (3) are at least fifty years of age as of the last day of work prior to retirement, (4) are a vested member of CalPERS, (5) simultaneously retire from both the City and CalPERS on the same day, (6) receive a monthly retirement allowance check from CalPERS, and (7) have been enrolled in the insurance plan(s) at the desired benefit plan enrollment level for at least one year prior to retirement. The current maximum monthly contribution amounts for full-time employees are \$825 for employee only coverage and \$912 for employee plus one coverage. Membership in the plan consisted of the following at June 30, 2010, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	22
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>113</u>
Total	<u>135</u>

Funding Policy

The obligation of the City to contribute to the plan is established and may be amended by the City Council. Employees are not required to contribute to the plan. The City has established a policy of contributing to the irrevocable CERBT trust administered by CalPERS 100% of the annual required contribution of the employer (ARC), an amount actuarially determined every two years in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The ARC for fiscal year 2010-11 was \$519,000, 5.2% of estimated covered payroll.

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(19) Other Post Employment Benefits (OPEB), (Continued)

Annual OPEB Cost

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB asset:

Annual required contribution	\$519,000
Interest on net OPEB asset	(70,159)
Adjustment to annual required contribution	<u>80,062</u>
Annual OPEB cost	528,903
Contributions made	<u>(519,000)</u>
Decrease in net OPEB asset	9,903
Net OPEB asset – beginning of year	<u>(905,281)</u>
Net OPEB asset – end of year	<u><u>\$(895,378)</u></u>

The net OPEB asset is reported in the government-wide and proprietary fund statements as part of prepaid expenses.

The required contribution was determined as part of the June 30, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) aggregate payroll increases of 3.25% per year; (c) 3% per year increases, pre-retirement, to the City's Fixed Monthly City Contribution to Benefits, and 0% per year, post-retirement; and (d) an annual inflation component of 3.0%. The actuarial value of the plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a fixed 30-year period. The average remaining amortization period at June 30, 2011 was 28 years.

Three Year Trend Information:

<u>Fiscal Year</u>	<u>Annual OPEB Cost (AOC) (Employer Contribution)</u>	<u>Actual Contribution</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/09	\$501,529	\$ 493,000	98%	\$(914,471)
6/30/10	\$498,190	\$ 489,000	98%	\$(905,281)
6/30/11	\$528,903	\$ 519,000	98%	\$(895,378)

CITY OF MISSION VIEJO
Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(19) Other Post Employment Benefits (OPEB), (Continued)

Annual OPEB Cost (Continued)

Schedule of Funding Progress:

Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets (AVA)	Unfunded Actuarial	Funded Status Based on AVA	Annual Covered Payroll	UAAL
			Accrued Liability (UAAL)/ (Excess Assets)			As a % of Payroll
6/30/06	\$ 3,964,000	\$ -0-	\$3,964,000	0%	\$ 7,681,993	51.6%
6/30/08	4,751,000	1,462,000	3,289,000	30.8%	9,866,479	33.3%
6/30/10	6,524,000	2,247,000	4,277,000	34.4%	9,879,953	43.2%

The City administered Supplemental Health Account for Retired Employees (SHARE) plan is a defined contribution post-employment benefits plan established by the City Council. This plan is intended to assist employees first eligible for City health benefits on or after January 1, 2007, in saving for post-employment health insurance costs. Employer and employee contributions to the plan begin one year after the employee's hire date. The City's monthly contribution is \$100 for full-time employees and is prorated based on full-time equivalency. Employees are required to contribute 1.5% of their salary to this plan. The contributions made by employees are not forfeitable. To receive the City's contributions, employees must separate or retire from the City, have 15 years of service, and attain age 55. As of June 30, 2011, 33 employees were eligible to participate in this plan. Required employer contributions were made during the year in the amount of \$32,529 and required employee contributions totaled \$20,002. At June 30, 2011, there were no retirees eligible to receive the City's contributions under this plan.

(20) California Redevelopment Agency Dissolution

On July 18, 2011, the California Redevelopment Association ("CRA") and the League of California Cities ("League") filed a petition for writ of mandate with the California Supreme Court, requesting the Court to declare unconstitutional two bills that were passed as part of the 2011-12 State Budget, AB1X 26 and 27 (*California Redevelopment Association v. Matosantos*). AB1X 26 dissolves redevelopment agencies effective October 1, 2011. AB1X 27 gave redevelopment agencies an option to avoid dissolution if it commits to making defined payments for the benefit of the State, school districts and certain special districts. In 2011-12, these payments amounted to a state-wide total of \$1.7 billion. In 2012-13 and subsequent years, the payments totaled \$400 million, annually. Each city or county's share of these payments was determined based on its proportionate share of state-wide tax increment.

CITY OF MISSION VIEJO

Notes to Basic Financial Statements (Continued)
Year ended June 30, 2011

(20) California Redevelopment Agency Dissolution (Continued)

On August 17, 2011 the Supreme Court issued a stay of the implementation of AB1X 26 and 27 which allowed a redevelopment agency to continue if it adopted an AB1X 27 ordinance. However, because of the effect of the stay order, the authority for the Redevelopment Agency to engage in most activities was suspended.

The Supreme Court heard oral arguments on November 10, 2011 and on December 29, 2011 announced its decision in (*California Redevelopment Association v. Matosantos*). The court upheld AB1X 26 which eliminates redevelopment agencies, but invalidated in its entirety AB1X 27 which allowed redevelopment agencies to continue as long as they made the required payments. AB1X26 established deadlines for the process of Redevelopment Agency dissolution and the handling of existing obligations. The Court extended certain deadlines of AB1X 26 in its ruling by four months. The full text of AB1X 26 may be obtained from the California legislative information website maintained by the Legislative Counsel of the State of California at: <http://www.leginfo.ca.gov/bilinfo.html>.

(21) Subsequent Event

On November 8, 2011, the City issued \$2,060,000 of 2011 Special Tax Refunding Bonds to provide for the advance refunding of the 1999 Special Tax Refunding Bonds for the purpose of providing tax savings to business owners in Community Facilities District No. 92-1. The holder of the 1999 Special Tax Refunding Bonds is the Mission Viejo Community Development Financing Authority (Authority). As a result of this refunding, the bonds held by the Authority have been called.

(22) Restatement

Fund Balance at July 1, 2010 has been restated to reflect the following changes:

Funds	Balance at July 1, 2010 As Previously Reported	Fund Restatements	Balance July 1, 2010 As Adjusted
Gas Tax	\$ 1,873,068	\$ 151,743	\$ 2,024,811

During the closing of fiscal year ended June 30,2011 it was determined that the Gas Tax revenue received in July 2010 should have been recorded as revenue in the prior fiscal year. This required a restatement of the fund balance in the Gas Tax Fund previously reported for the fiscal year ended June 30, 2010.



MISSION VIEJO

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REQUIRED SUPPLEMENTARY INFORMATION



MISSION VIEJO

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CITY OF MISSION VIEJO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 GENERAL FUND
 YEAR ENDED JUNE 30, 2011

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Taxes	\$40,045,710	\$39,921,710	\$ 41,260,864	\$ -	\$ 41,260,864	\$ 1,339,154
Licenses and permits	1,212,950	1,212,950	1,241,009	-	1,241,009	28,059
Intergovernmental	619,431	1,088,181	879,306	-	879,306	(208,875)
Charges for services	2,137,495	2,207,495	2,047,301	-	2,047,301	(160,194)
Investment earnings	1,247,390	1,247,390	1,105,504	-	1,105,504	(141,886)
Fines and forfeitures	668,500	668,500	837,469	-	837,469	168,969
Developer fees	15,000	15,000	-	-	-	(15,000)
Other	522,528	701,195	792,301	-	792,301	91,106
Total revenues	46,469,004	47,062,421	48,163,754	-	48,163,754	1,101,333
Expenditures:						
General government - legislative	1,609,193	1,439,586	1,294,261	5,462	1,299,723	139,863
General government - management and support	8,940,558	9,942,385	8,617,181	426,370	9,043,551	898,834
Public safety	16,254,319	16,283,094	16,220,882	21,954	16,242,836	40,258
Community development	1,551,269	1,844,725	1,584,511	237,301	1,821,812	22,913
Public works - engineering and transportation	1,937,014	2,129,879	1,840,138	90,286	1,930,424	199,455
Infrastructure maintenance	11,569,726	12,334,371	11,216,126	495,259	11,711,385	622,986
Recreation/community/library services	4,747,343	4,837,988	4,640,285	2,870	4,643,155	194,833
Capital Projects:						
Marguerite - La Paz/Jeronimo	27,313	-	-	-	-	-
Marguerite Resurfacing - Jeronimo/Trabuco	17,355	-	-	-	-	-
2007 Playground Renovation	-	63,616	2,135	2,574	4,709	58,907
Dog Park	-	214,408	103,866	24,135	128,001	86,407
Marguerite Aquatics Decking	-	74,460	46,038	14,550	60,588	13,872
Oso Creek Trail Signage	-	10,491	-	-	-	10,491
MV Library Flooring - North Wing	-	91,104	60,111	-	60,111	30,993
Solar PV System - City Hall	-	195,379	(27,010)	5,265	(21,745)	217,124
Bleacher Shade Covers	-	76,219	41,396	-	41,396	34,823
Nadadores Pool Repair 2011	-	110,000	104,026	-	104,026	5,974
Maguerite Tennis Renovation and Lighting	-	3,257,282	112,222	16,750	128,972	3,128,310
Olympiad Road Finish Line	-	30,000	28,641	-	28,641	1,359
Arterial Highway Slurry Seal	154,900	158,403	121,960	-	121,960	36,443
Residential Resurfacing	-	284,087	214,282	-	214,282	69,805
Oso/Marguerite Intersection Improvements	-	784,650	758,729	20,145	778,874	5,776
Debt service:						
Interest and fiscal charges	8,600	8,600	7,607	-	7,607	993
Total expenditures	46,817,590	54,170,727	46,987,387	1,362,921	48,350,308	5,820,419
Excess of revenues over (under) expenditures	(348,586)	(7,108,306)	1,176,367	(1,362,921)	(186,554)	6,921,752
Other financing sources (uses):						
Transfers in	1,063,585	1,555,582	1,068,308	-	1,068,308	(487,274)
Transfers out	(2,382,168)	(2,382,165)	(2,374,374)	-	(2,374,374)	7,791
Notes and loans issued	15,000	-	-	-	-	-
Proceeds from sale of capital asset	-	-	3,151	-	3,151	3,151
Total other financing sources (uses)	(1,303,583)	(826,583)	(1,302,915)	-	(1,302,915)	(476,332)
Net change in fund balances	(1,652,169)	(7,934,889)	(126,548)	(1,362,921)	(1,489,469)	6,445,420
Fund Balances, Beginning of Year	33,407,977	33,407,977	33,407,977	-	33,407,977	-
Fund Balances, End of Year	\$31,755,808	\$25,473,088	\$ 33,281,429	\$(1,362,921)	\$ 31,918,508	\$ 6,445,420

CITY OF MISSION VIEJO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 GRANTS
 YEAR ENDED JUNE 30, 2011

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Intergovernmental	\$ 683,973	\$ 8,932,665	\$3,176,456	\$ -	\$ 3,176,456	\$ (5,756,209)
Investment earnings	-	-	13,231	-	13,231	13,231
Other	-	-	64,095	-	64,095	64,095
Total revenues	683,973	8,932,665	3,253,782	-	3,253,782	(5,678,883)
Expenditures:						
General government - management and support	10,549	13,140	10,698	-	10,698	2,442
Community development	415,018	582,996	547,403	122	547,525	35,471
Public works - engineering and transportation	-	145,000	110,103	27,191	137,294	7,706
Capital projects:						
Oso Creek Restoration	-	764,439	433,550	59,420	492,970	271,469
Oso Creek Trail Signage	-	90,527	-	-	-	90,527
Solar PV System - City Hall	-	876,000	643,931	168,400	812,331	63,669
Crown Valley Widening	-	1,000	1,000	-	1,000	-
La Paz Railroad Bridge Widening	-	2,982,104	16,326	-	16,326	2,965,778
Cabot/Camino Capistrano Bridge	-	1,075,000	22,375	70,600	92,975	982,025
Residential Resurfacing	256,345	1,751,820	1,606,936	-	1,606,936	144,884
Oso/Marguerite Intersection Improvements	-	225,477	225,477	-	225,477	-
Total expenditures	681,912	8,507,503	3,617,799	325,733	3,943,532	4,563,971
Net change in fund balances	2,061	425,162	(364,017)	(325,733)	(689,750)	(1,114,912)
Fund Balances, Beginning of Year	244,269	244,269	244,269	-	244,269	-
Fund Balances, End of Year	\$ 246,330	\$ 669,431	\$ (119,748)	\$ (325,733)	\$ (445,481)	\$ (1,114,912)

CITY OF MISSION VIEJO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 DEVELOPER FEES
 YEAR ENDED JUNE 30, 2011

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Intergovernmental	\$ 3,150,000	\$ 3,150,000	\$ -	\$ -	\$ -	\$ (3,150,000)
Charges for services	-	1,935,000	-	-	-	(1,935,000)
Investment earnings	-	-	(513)	-	(513)	(513)
Developer fees	-	2,000,000	2,000,000	-	2,000,000	-
Total revenues	3,150,000	7,085,000	1,999,487	-	1,999,487	(5,085,513)
Expenditures:						
Capital projects:						
Oso Creek Restoration	-	219,690	-	-	-	219,690
Crown Valley Widening	-	283,078	283,078	-	283,078	-
Oso Parkway Widening	3,150,000	2,134,214	23,632	10,619	34,251	2,099,963
Crown Valley Widening - I-5 to Cabot	-	28,333	28,333	-	28,333	-
Oso/Marguerite Intersection Improvements	-	2,159,386	819,100	482,734	1,301,834	857,552
Total expenditures	3,150,000	4,824,701	1,154,143	493,353	1,647,496	3,177,205
Excess of revenues over (under) expenditures	-	2,260,299	845,344	(493,353)	351,991	(1,908,308)
Net change in fund balances	-	2,260,299	845,344	(493,353)	351,991	(1,908,308)
Fund Balances, Beginning of Year	(2,224,308)	(2,224,308)	(2,224,308)	-	(2,224,308)	-
Fund Balances, End of Year	\$ (2,224,308)	\$ 35,991	\$ (1,378,964)	\$ (493,353)	\$ (1,872,317)	\$ (1,908,308)

CITY OF MISSION VIEJO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 MEASURE M
 YEAR ENDED JUNE 30, 2011

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Intergovernmental	\$ 995,289	\$6,079,420	\$3,380,242	\$ -	\$3,380,242	\$(2,699,178)
Investment earnings	10,000	145,000	15,091	-	15,091	(129,909)
Other	-	35,400	46,493	-	46,493	11,093
Total revenues	1,005,289	6,259,820	3,441,826	-	3,441,826	(2,817,994)
Expenditures:						
Public works - engineering and transportation	7,000	7,000	4,508	2,492	7,000	-
Capital projects:						
Marguerite - La Paz/Jeronimo	550,255	300,255	300,255	-	300,255	-
Olympic Resurfacing - Jeronimo/Marguerite	-	7,574	7,574	-	7,574	-
Oso Resurfacing - Country Club	-	71,274	-	71,274	71,274	-
Marguerite Resurfacing - Jeronimo/Trabuco	349,645	252,403	252,403	-	252,403	-
Crown Valley Widening	-	565,880	565,880	-	565,880	-
La Paz Railroad Bridge Widening	-	694,861	60,717	42,598	103,315	591,546
La Paz Widening Christian - I-5 Freeway	-	1,035,447	152	52,732	52,884	982,563
Traffic Safety Program	-	152,793	150,882	1,911	152,793	-
Cabot/Camino Capistrano Bridge	-	18,178	-	-	-	18,178
Maguerite Resurfacing - Crown Valley to Avery	-	802,963	802,963	-	802,963	-
Oso Parkway Widening	-	124,201	23,632	40,619	64,251	59,950
Traffic Safety/Signal Coordination	-	789,473	453,447	47,841	501,288	288,185
Marguerite Resurfacing - Oso Parkway to La Paz	-	60,321	-	-	-	60,321
Sidewalk Repair	-	10,079	-	-	-	10,079
Arterial Highway Slurry Seal	160,100	200,791	99,781	-	99,781	101,010
Residential Resurfacing	260,000	1,646,721	1,373,662	-	1,373,662	273,059
Oso/Marguerite Intersection Improvements	-	2,331,678	1,921,698	-	1,921,698	409,980
Total expenditures	1,327,000	9,071,892	6,017,554	259,467	6,277,021	2,794,871
Net change in fund balances	(321,711)	(2,812,072)	(2,575,728)	(259,467)	(2,835,195)	(23,123)
Fund Balances, Beginning of Year	2,813,009	2,813,009	2,813,009	-	2,813,009	-
Fund Balances, End of Year	\$ 2,491,298	\$ 937	\$ 237,281	\$ (259,467)	\$ (22,186)	\$ (23,123)

CITY OF MISSION VIEJO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 LOW AND MODERATE INCOME HOUSING
 YEAR ENDED JUNE 30, 2011

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Investment earnings	\$ 108,028	\$ 108,028	\$ 148,197	\$ (70,000)	\$ 78,197	\$ (29,831)
Total revenues	108,028	108,028	148,197	(70,000)	78,197	(29,831)
Expenditures:						
Community development	2,490,000	4,046,241	315,878	1,556,241	1,872,119	2,174,122
Total expenditures	2,490,000	4,046,241	315,878	1,556,241	1,872,119	2,174,122
Excess of revenues over (under) expenditures	(2,381,972)	(3,938,213)	(167,681)	(1,626,241)	(1,793,922)	2,144,291
Other financing sources (uses):						
Transfers in	1,795,561	1,795,561	1,414,964	355,161	1,770,125	(25,436)
Transfers out	-	(5,700,000)	(5,700,000)	-	(5,700,000)	-
Total other financing sources (uses)	1,795,561	(3,904,439)	(4,285,036)	355,161	(3,929,875)	(25,436)
Net change in fund balances	(586,411)	(7,842,652)	(4,452,717)	(1,271,080)	(5,723,797)	2,118,855
Fund Balances, Beginning of Year	10,599,404	10,599,404	10,599,404	-	10,599,404	-
Fund Balances, End of Year	\$ 10,012,993	\$ 2,756,752	\$ 6,146,687	\$ (1,271,080)	\$ 4,875,607	\$ 2,118,855



MISSION VIEJO

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CITY OF MISSION VIEJO

Notes to Required Supplementary Information
Year ended June 30, 2011

(1) Capital Assets – Modified Approach for Infrastructure

The City has elected to use the modified approach to report a certain subsystem of its street infrastructure network.

Under the modified approach, infrastructure assets that are part of a network or subsystem of a network are not required to be depreciated as long as two requirements are met. First, the government manages the eligible infrastructure assets using an asset management system that has the following characteristics:

- Has an up-to-date inventory of eligible infrastructure assets
- Performs condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale
- Estimates each year the annual amount to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

Second, the government documents that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government. If eligible infrastructure assets meet all requirements and are not depreciated, all expenditures made for those assets (except for additions and improvements) are expensed in the period incurred. Additions and improvements to eligible infrastructure assets are capitalized. Additions or improvements increase the capacity or efficiency of infrastructure assets rather than preserve the useful life of the assets.

Streets

The condition of road pavement is measured using the Nichols Consulting Engineers Pavement Management System. The streets are classified by their associated functional classification: Arterial, Collector or Residential/Local streets. For each street, the pavement management program catalogs roadway information such as pavement condition, recommended treatments to each pavement section, a recommended year to perform the treatment, and the associated costs for the treatment. Pavement management work generally includes two types of treatments: preventive maintenance (such as street slurring) and rehabilitation (which includes repair treatment such as pavement overlay).

A Pavement Condition Index (PCI) is calculated for each segment, to reflect the roadway segment's overall pavement condition. The PCI is a rating mechanism used to describe the condition of the City's pavement. Ranging between "0" and "100," a PCI of "0" would correspond to a badly deteriorated pavement with virtually no remaining life, while a PCI of "100" would correspond to the pavement representative of a new street.

CITY OF MISSION VIEJO

Notes to Required Supplementary Information (Continued)
Year ended June 30, 2011

(1) Capital Assets – Modified Approach for Infrastructure (Continued)

Streets (Continued)

The table below identifies the PCI ranges established for the City of Mission Viejo, and the corresponding descriptive condition summary for each range:

<u>City of Mission Viejo PCI Index</u>	
<u>PCI Range</u>	<u>Condition</u>
85-100	Very Good
75-84	Good
60-74	Fair
40-59	Poor
0-39	Very Poor

According to the PCI system, a “Very Good” or “Good” road condition is defined as having “no distress to low severity weathering, requiring no treatment or low severity weathering with linear cracking requiring a treatment such as slurry seal” whereas a “Fair” condition is exemplified by “low to moderate severity weathering with moderate cracking, requiring a thin overlay or patch & surface seal.”

It is the City Council’s policy to maintain each of the three categories of City streets at an average PCI condition level of 71 or above. Following are the results of the last three condition assessments:

<u>Condition Levels:</u>	<u>2006 Study</u>	<u>2008 Study</u>	<u>2010 Study</u>
Arterials	Very Good	Good	Very Good
Collectors	Good	Good	Good
Local/Residential	Good	Good	Very Good

The June 2010 study indicated that the average pavement condition of the City’s streets is “Very Good” for Arterials, “Good” for Collectors and “Very Good” for Local/Residential streets. The average PCI for Arterials was assessed at 85 PCI, for Collectors at 84 PCI, and for Local/Residential streets at 85 PCI. In comparison, the 2008 study assessed Arterials at 84 PCI, Collectors at 77 PCI and Local/Residential streets at 79 PCI and the 2006 study assessed Arterials at 88 PCI, Collectors at 80 PCI and Local Residential streets at 79 PCI.

CITY OF MISSION VIEJO

Notes to Required Supplementary Information (Continued)
Year ended June 30, 2011

(1) Capital Assets – Modified Approach for Infrastructure (Continued)

Streets (Continued)

To continue to maintain the pavement integrity of this subsystem, the Pavement Management System recommends preventive and repair treatments on applicable roadway segments for a seven-year period. Following are the annual maintenance costs, estimated by the Pavement Management System, required to maintain and preserve the City's streets at a PCI of 71 or above, along with the actual maintenance amounts expended for the past five fiscal years.

Comparison of Needed to Actual Maintenance/Preservation

<u>Overall System:</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Needed	\$2,842,680	\$ 2,581,404	\$ 3,006,379	\$ 4,604,490	\$5,786,000
Actual	<u>4,028,024</u>	<u>3,405,547</u>	<u>3,594,516</u>	<u>8,613,102</u>	<u>6,729,300</u>
Difference	<u>\$1,185,344</u>	<u>\$ 824,143</u>	<u>\$ 588,137</u>	<u>\$ 4,008,612</u>	<u>\$ 943,300</u>

(2) Budgetary Policy and Control

General Budget Policies

The City Council adopts a biennial budget for all funds of the primary government and the Community Development Agency, prior to the beginning of each biennium, which begins on July 1 of each odd-numbered year. Annual budgets are adopted for the Community Development Financing Authority. Public discussions are conducted prior to the budget's adoption by the Council. Annual appropriations are approved by the Council prior to the beginning of each year of the biennial budget period. All appropriations lapse at year-end. The City Council has the legal authority to amend the budget at any time during the fiscal year. For the operating budget, the City Manager has the authority to move appropriations between accounts (without dollar limitation) within the same fund as long as the transfers are within the same program area. For the capital improvement program, the City Manager has the authority to transfer up to \$30,000 in appropriations between capital projects within the same fund as long as the transfers are within the responsibility of the same department. All other appropriation changes require City Council approval. The total additional appropriations for all funds for fiscal year ended June 30, 2011 were \$28,562,399. Of this amount, \$6,825,519 represent additional appropriations in the General Fund.

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the City Council. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) for the primary government's operating budget is the program area within each fund and for the capital improvement budget each

CITY OF MISSION VIEJO
Notes to Required Supplementary Information (Continued)
Year ended June 30, 2011

(2) Budgetary Policy and Control (Continued)

General Budget Policies (Continued)

individual capital improvement project within each fund. For the Community Development Agency and Community Development Financing Authority budgets, the level of budgetary control is the fund. The Mission Viejo Housing Authority did not adopt a budget, therefore budgetary information is not provided.

Continuing Appropriations

Unexpended and unencumbered appropriations that are available and recommended for continuation to the following fiscal year are approved by the City Council for carryover. These commitments are reported as restricted in funds other than the General Fund and as unassigned fund balance in the General Fund.

Budgetary Basis of Accounting

Budgets for the governmental funds (which include encumbrances and interfund borrowings and repayments) are administered on a basis which differs from generally accepted accounting principles (GAAP). The Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual present comparisons of the legally adopted budget with actual data on the budgetary basis. Encumbrances at year end are considered expenditures on the budgetary basis. Furthermore, on a budgetary basis, interfund borrowings are considered to be other financing uses and repayments are considered to be expenditures. The differences between the budgetary basis and GAAP are presented on the same financial statements. Budgeted amounts are as originally adopted and as further amended by the City Council.

OTHER GOVERNMENTAL FUNDS

OTHER SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues (other than major capital projects) and the related expenditures which are legally required to be accounted for in a separate fund.

The City of Mission Viejo has the following Other Special Revenue Funds:

LIBRARY OPERATIONS - This fund is used to account for the receipts and expenditures resulting from Library activities. Library operations are funded primarily by property taxes restricted for Library purposes, originally levied by the County of Orange and transferred to the City effective July 1, 1996.

LAW ENFORCEMENT GRANTS - To account for the receipts and expenditures of funds resulting from the Citizen's Option for Public Safety (COPS) program, a state funded program.

GAS TAX - To account for receipts and expenditures of money apportioned under Streets and Highways Code Sections 2105, 2106, 2107 and 2107.5 of the State of California, as well as funds exchanged with Orange County Transportation Authority as part of the gas tax exchange program. These funds are earmarked for maintenance, rehabilitation or improvement of public streets.

AIR QUALITY - This fund was established to account for the City's portion of motor vehicle registration fees collected pursuant to AB2766 passed during the 1990 State legislative session. This fee was levied to fund programs to reduce air pollution from mobile sources such as cars, trucks and buses. It also includes funds allocated through a competitive process as a result of this legislation.

LADERA FUNDING -To account for receipts and expenditures of developer fees from the Rancho Mission Viejo Company to fund road improvements in the City made necessary as a result of the development of the Ladera community to the east of the City.

MISSION VIEJO HOUSING AUTHORITY – The Mission Viejo Housing Authority (MVHA) is a blended component unit of the City. This fund is used to account for receipts and expenditures to facilitate development and rehabilitation of affordable housing and programs and services that support the city's housing goals.

OTHER GOVERNMENTAL FUNDS (CONTINUED)

CAPITAL PROJECTS FUNDS

The Capital Projects Funds are used to account for the financial resources to be used for the acquisition and construction of major capital facilities.

The City of Mission Viejo has the following Capital Projects Fund:

CDA PROJECTS - The purpose of the CDA Projects Fund is to account for the revenues and expenditures associated with the preparation and execution of plans for improvement, rehabilitation and redevelopment of blighted areas within the territorial limits of the project area.

OTHER DEBT SERVICE FUNDS

The City of Mission Viejo has the following other Debt Service Funds:

MALL PARKING LEASE - To accumulate funds in accordance with a lease agreement between the City and the Community Development Financing Authority (CDFA), pursuant to which the City makes annual lease payments to the CDFA limited generally to 50% of annual sales tax revenues generated at the Shops at Mission Viejo for the use of public parking facilities owned by the CDFA at the mall.

CDF 1999 MALL BONDS - To accumulate funds for payment of the CDF 1999 Series A and B Revenue Bonds. Debt service is financed by property tax increment from the CDA generated by the Shops at Mission Viejo and City lease revenue for the use of public parking facilities at the Shops at Mission Viejo.

CDF 1999 REVENUE BONDS - To accumulate funds for payment of the CDF 1999 Series C Revenue Bonds. Debt service is financed by revenues received by the Authority from CDF 1999 Special Tax Refunding Bonds, which it owns.

CDF 2009 LEASE REVENUE REFUNDING BONDS - To accumulate funds for payment of the CDF 2009 Lease Revenue Bonds.



MISSION VIEJO

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CITY OF MISSION VIEJO

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>Special Revenue Funds</u>			
	<u>Library Operations</u>	<u>Law Enforcement Grants</u>	<u>Gas Tax</u>	<u>Air Quality</u>
Assets:				
Cash and investments	\$ 1,258,462	\$ -	\$ 1,284,687	\$ 246,719
Taxes receivable	19,393	-	-	28,800
Interest receivable	-	-	-	-
Prepaid items	70	-	-	-
Intergovernmental receivable	-	11,316	426,374	-
Interfund receivable	53,464	-	-	-
Restricted assets:				
Cash and investments with fiscal agents	-	-	-	-
Total Assets	<u>\$ 1,331,389</u>	<u>\$ 11,316</u>	<u>\$ 1,711,061</u>	<u>\$ 275,519</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 70,861	\$ 8,333	\$ 260,093	\$ 172,417
Accrued payroll	145,507	-	-	-
Deferred revenues	733	-	-	-
Interfund payable	-	2,966	54,883	-
Retainage payable	-	-	3,206	9,568
Total Liabilities	<u>217,101</u>	<u>11,299</u>	<u>318,182</u>	<u>181,985</u>
Fund Balances:				
Nonspendable:				
Prepaid items	70	-	-	-
Restricted for:				
Community development projects	-	-	-	-
Public safety	-	17	-	-
Parks and recreation	1,114,218	-	-	-
Public works	-	-	1,392,879	-
Capital Projects	-	-	-	93,534
Debt service	-	-	-	-
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>1,114,288</u>	<u>17</u>	<u>1,392,879</u>	<u>93,534</u>
Total Liabilities and Fund Balances	<u>\$ 1,331,389</u>	<u>\$ 11,316</u>	<u>\$ 1,711,061</u>	<u>\$ 275,519</u>

CITY OF MISSION VIEJO

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011

(Continued)

	Special Revenue Funds		Total	Capital Project Fund
	Ladera Funding	MV Housing Authority	Special Revenue Funds	CDA Projects
Assets:				
Cash and investments	\$ -	\$ 5,700,000	\$ 8,489,868	\$ 205,220
Taxes receivable	-	-	48,193	-
Interest receivable	-	-	-	-
Prepaid items	-	-	70	-
Intergovernmental receivable	1,092,184	-	1,529,874	-
Interfund receivable	-	-	53,464	-
Restricted assets:				
Cash and investments with fiscal agents	-	-	-	-
Total Assets	\$ 1,092,184	\$ 5,700,000	\$ 10,121,469	\$ 205,220
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 511,704	\$ 114,400
Accrued payroll	-	-	145,507	-
Deferred revenues	1,092,184	-	1,092,917	-
Interfund payable	1,092,184	-	1,150,033	1,140
Retainage payable	-	-	12,774	-
Total Liabilities	2,184,368	-	2,912,935	115,540
Fund Balances:				
Nonspendable:				
Prepaid items	-	-	70	-
Restricted for:				
Community development projects	-	5,700,000	5,700,000	-
Public safety	-	-	17	-
Parks and recreation	-	-	1,114,218	-
Public works	-	-	1,392,879	-
Capital Projects	-	-	93,534	89,680
Debt service	-	-	-	-
Unassigned	(1,092,184)	-	(1,092,184)	-
Total Fund Balances	(1,092,184)	5,700,000	7,208,534	89,680
Total Liabilities and Fund Balances	\$ 1,092,184	\$ 5,700,000	\$ 10,121,469	\$ 205,220

CITY OF MISSION VIEJO

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011

Debt Service Funds

	Mall Parking Lease	CDFA 1999 Mall Bonds	CDFA 1999 Revenue Bonds
Assets:			
Cash and investments	\$ 3,700	\$ -	\$ -
Taxes receivable	-	-	-
Interest receivable	-	3,633	-
Prepaid items	-	-	-
Intergovernmental receivable	-	-	-
Interfund receivable	-	316,005	-
Restricted assets:			
Cash and investments with fiscal agents	-	4,299,443	2,451,328
Total Assets	\$ 3,700	\$ 4,619,081	\$ 2,451,328
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ -	\$ 7,760	\$ -
Accrued payroll	-	-	-
Deferred revenues	-	-	-
Interfund payable	-	86,656	-
Retainage payable	-	-	-
Total Liabilities	-	94,416	-
Fund Balances:			
Nonspendable:			
Prepaid items	-	-	-
Restricted for:			
Community development projects	-	-	-
Public safety	-	-	-
Parks and recreation	-	-	-
Public works	-	-	-
Capital Projects	-	-	-
Debt service	3,700	4,524,665	2,451,328
Unassigned	-	-	-
Total Fund Balances	3,700	4,524,665	2,451,328
Total Liabilities and Fund Balances	\$ 3,700	\$ 4,619,081	\$ 2,451,328

CITY OF MISSION VIEJO

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011

	Debt Service Fund	Total	
	CFDA 2009 Lease Revenue Refunding Bonds	Debt Service Fund	Total Governmental Funds
Assets:			
Cash and investments	\$ -	\$ 3,700	\$ 8,698,788
Taxes receivable	-	-	48,193
Interest receivable	1,618	5,251	5,251
Prepaid items	-	-	70
Intergovernmental receivable	-	-	1,529,874
Interfund receivable	-	316,005	369,469
Restricted assets:			
Cash and investments with fiscal agents	1,365,856	8,116,627	8,116,627
Total Assets	\$ 1,367,474	\$ 8,441,583	\$ 18,768,272
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ -	\$ 7,760	\$ 633,864
Accrued payroll	-	-	145,507
Deferred revenues	-	-	1,092,917
Interfund payable	-	86,656	1,237,829
Retainage payable	-	-	12,774
Total Liabilities	-	94,416	3,122,891
Fund Balances:			
Nonspendable:			
Prepaid items	-	-	70
Restricted for:			
Community development projects	-	-	5,700,000
Public safety	-	-	17
Parks and recreation	-	-	1,114,218
Public works	-	-	1,392,879
Capital Projects	-	-	183,214
Debt service	1,367,474	8,347,167	8,347,167
Unassigned	-	-	(1,092,184)
Total Fund Balances	1,367,474	8,347,167	15,645,381
Total Liabilities and Fund Balances	\$ 1,367,474	\$ 8,441,583	\$ 18,768,272

CITY OF MISSION VIEJO

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	Special Revenue Funds			
	Library Operations	Law Enforcement Grants	Gas Tax	Air Quality
Revenues:				
Taxes	\$ 2,017,942	\$ -	\$ -	\$ -
Intergovernmental	241,367	100,017	4,173,013	118,711
Charges for services	253,818	-	-	-
Investment earnings	24,563	-	(2,261)	5,717
Fines and forfeitures	131,793	-	-	-
Developer fees	-	-	-	-
Other	21,831	-	39,223	-
Total Revenues	2,691,314	100,017	4,209,975	124,428
Expenditures:				
Current:				
General government - management and support	82,411	-	1,500	1,955
Public safety	-	100,000	402,149	-
Community development	-	-	-	42,850
Public works - engineering and transportation	-	-	540,296	-
Infrastructure maintenance	302,758	-	2,393,605	-
Recreation/community/library services	2,638,723	-	-	-
Capital Projects	90,626	-	1,504,357	379,845
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	3,114,518	100,000	4,841,907	424,650
Excess (Deficiency) of Revenues Over (Under) Expenditures	(423,204)	17	(631,932)	(300,222)
Other Financing Sources (Uses):				
Transfers in	667,417	-	-	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	667,417	-	-	-
Net Change in Fund Balances	244,213	17	(631,932)	(300,222)
Fund Balances, Beginning of Year	870,075	-	1,873,068	393,756
Restatements	-	-	151,743	-
Fund Balances, Beginning of Year, as Restated	870,075	-	2,024,811	393,756
Fund Balances, End of Year	\$ 1,114,288	\$ 17	\$ 1,392,879	\$ 93,534

CITY OF MISSION VIEJO

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

(Continued)

	Special Revenue Funds		Total	Capital Projects Fund
	Ladera Funding	MV Housing Authority	Special Revenue Funds	CDA Projects
Revenues:				
Taxes	\$ -	\$ -	\$ 2,017,942	\$ -
Intergovernmental	-	-	4,633,108	-
Charges for services	-	-	253,818	-
Investment earnings	-	-	28,019	1,130
Fines and forfeitures	-	-	131,793	-
Developer fees	394,099	-	394,099	-
Other	-	-	61,054	-
Total Revenues	394,099	-	7,519,833	1,130
Expenditures:				
Current:				
General government - management and support	-	-	85,866	156,802
Public safety	-	-	502,149	-
Community development	-	-	42,850	79,838
Public works - engineering and transportation	-	-	540,296	-
Infrastructure maintenance	-	-	2,696,363	-
Recreation/community/library services	-	-	2,638,723	-
Capital Projects	1,072,141	-	3,046,969	253,994
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	1,072,141	-	9,553,216	490,634
Excess (Deficiency) of Revenues Over (Under) Expenditures	(678,042)	-	(2,033,383)	(489,504)
Other Financing Sources (Uses):				
Transfers in	-	5,700,000	6,367,417	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	5,700,000	6,367,417	-
Net Change in Fund Balances	(678,042)	5,700,000	4,334,034	(489,504)
Fund Balances, Beginning of Year	(414,142)	-	2,722,757	579,184
Restatements	-	-	151,743	-
Fund Balances, Beginning of Year, as Restated	(414,142)	-	2,874,500	579,184
Fund Balances, End of Year	\$ (1,092,184)	\$ 5,700,000	\$ 7,208,534	\$ 89,680

CITY OF MISSION VIEJO

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	Debt Service Funds		
	Mall Parking Lease	CDFA 1999 Mall Bonds	CDFA 1999 Revenue Bonds
Revenues:			
Taxes	\$ 1,126,628	\$ -	\$ -
Intergovernmental	-	-	-
Charges for services	-	-	-
Investment earnings	1,956	15,821	153,479
Fines and forfeitures	-	-	-
Developer fees	-	-	-
Other	-	-	-
Total Revenues	1,128,584	15,821	153,479
Expenditures:			
Current:			
General government - management and support	-	-	-
Public safety	-	-	-
Community development	-	-	-
Public works - engineering and transportation	-	-	-
Infrastructure maintenance	-	-	-
Recreation/community/library services	-	-	-
Capital Projects	-	-	-
Debt service:			
Principal retirement	-	900,000	290,000
Interest and fiscal charges	-	353,911	139,833
Total Expenditures	-	1,253,911	429,833
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,128,584	(1,238,090)	(276,354)
Other Financing Sources (Uses):			
Transfers in	-	1,792,633	-
Transfers out	(1,216,453)	(978,483)	-
Total Other Financing Sources (Uses)	(1,216,453)	814,150	-
Net Change in Fund Balances	(87,869)	(423,940)	(276,354)
Fund Balances, Beginning of Year	91,569	4,948,605	2,727,682
Restatements	-	-	-
Fund Balances, Beginning of Year, as Restated	91,569	4,948,605	2,727,682
Fund Balances, End of Year	\$ 3,700	\$ 4,524,665	\$ 2,451,328

CITY OF MISSION VIEJO

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	Debt Service Funds	Totals	
	CFDA 2009 Lease Revenue Refunding Bonds	Debt Service Funds	Total Governmental Funds
Revenues:			
Taxes	\$ -	\$ 1,126,628	\$ 3,144,570
Intergovernmental	-	-	4,633,108
Charges for services	-	-	253,818
Investment earnings	6,565	177,821	206,970
Fines and forfeitures	-	-	131,793
Developer fees	-	-	394,099
Other	-	-	61,054
Total Revenues	6,565	1,304,449	8,825,412
Expenditures:			
Current:			
General government - management and support	-	-	242,668
Public safety	-	-	502,149
Community development	-	-	122,688
Public works - engineering and transportation	-	-	540,296
Infrastructure maintenance	-	-	2,696,363
Recreation/community/library services	-	-	2,638,723
Capital Projects	-	-	3,300,963
Debt service:			
Principal retirement	430,000	1,620,000	1,620,000
Interest and fiscal charges	810,624	1,304,368	1,304,368
Total Expenditures	1,240,624	2,924,368	12,968,218
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,234,059)	(1,619,919)	(4,142,806)
Other Financing Sources (Uses):			
Transfers in	1,230,346	3,022,979	9,390,396
Transfers out	-	(2,194,936)	(2,194,936)
Total Other Financing Sources (Uses)	1,230,346	828,043	7,195,460
Net Change in Fund Balances	(3,713)	(791,876)	3,052,654
Fund Balances, Beginning of Year	1,371,187	9,139,043	12,440,984
Restatements	-	-	151,743
Fund Balances, Beginning of Year, as Restated	1,371,187	9,139,043	12,592,727
Fund Balances, End of Year	\$ 1,367,474	\$ 8,347,167	\$ 15,645,381

CITY OF MISSION VIEJO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 LIBRARY OPERATIONS
 YEAR ENDED JUNE 30, 2011

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Taxes	\$ 1,971,200	\$ 1,971,200	\$ 2,017,942	\$ -	\$ 2,017,942	\$ 46,742
Intergovernmental	245,266	245,266	241,367	-	241,367	(3,899)
Charges for services	147,500	147,500	253,818	-	253,818	106,318
Investment earnings	20,000	20,000	24,563	-	24,563	4,563
Fines and forfeitures	130,200	130,200	131,793	-	131,793	1,593
Other	11,000	11,000	21,831	-	21,831	10,831
Total revenues	2,525,166	2,525,166	2,691,314	-	2,691,314	166,148
Expenditures:						
General government - management and support	180,075	234,424	82,411	-	82,411	152,013
Infrastructure maintenance	369,076	379,329	302,758	15,522	318,280	61,049
Recreation/community/library services	2,643,432	2,671,007	2,638,723	603	2,639,326	31,681
Capital projects:						
MV Library Flooring - North Wing	-	80,000	65,376	-	65,376	14,624
MV Library Common Room Remodel	238,400	300,000	25,250	36,350	61,600	238,400
Total expenditures	3,430,983	3,664,760	3,114,518	52,475	3,166,993	497,767
Excess of revenues over (under) expenditures	(905,817)	(1,139,594)	(423,204)	(52,475)	(475,679)	663,915
Other financing sources (uses)						
Transfers in	667,417	667,417	667,417	-	667,417	-
Total other financing sources (uses)	667,417	667,417	667,417	-	667,417	-
Net change in fund balances	(238,400)	(472,177)	244,213	(52,475)	191,738	663,915
Fund Balances, Beginning of Year	870,075	870,075	870,075	-	870,075	-
Fund Balances, End of Year	\$ 631,675	\$ 397,898	\$ 1,114,288	\$ (52,475)	\$ 1,061,813	\$ 663,915

CITY OF MISSION VIEJO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 LAW ENFORCEMENT GRANTS
 YEAR ENDED JUNE 30, 2011

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Intergovernmental	\$ 100,000	\$ 100,000	\$ 100,017	\$ -	\$ 100,017	\$ 17
Total revenues	100,000	100,000	100,017	-	100,017	17
Expenditures:						
Public safety	100,000	100,000	100,000	-	100,000	-
Total expenditures	100,000	100,000	100,000	-	100,000	-
Net change in fund balances	-	-	17	-	17	17
Fund Balances, Beginning of Year	-	-	-	-	-	-
Fund Balances, End of Year	\$ -	\$ -	\$ 17	\$ -	\$ 17	\$ 17

CITY OF MISSION VIEJO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 GAS TAX
 YEAR ENDED JUNE 30, 2011

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Intergovernmental	\$4,225,456	\$ 4,365,806	\$4,173,013	\$ -	\$ 4,173,013	\$ (192,793)
Investment earnings	45,000	45,000	(2,261)	-	(2,261)	(47,261)
Other	-	31,800	39,223	-	39,223	7,423
Total revenues	4,270,456	4,442,606	4,209,975	-	4,209,975	(232,631)
Expenditures:						
General government - management and support	1,500	2,600	1,500	-	1,500	1,100
Public safety	402,149	402,149	402,149	-	402,149	-
Public works - engineering and transportation	673,090	704,399	540,296	52,180	592,476	111,923
Infrastructure maintenance	2,306,212	2,415,981	2,393,605	80	2,393,685	22,296
Capital projects:						
Traffic Safety Program	-	59,492	32,054	27,438	59,492	-
Maguerite Resurfacing - Crown Valley to Avery	-	29,795	29,795	-	29,795	-
Marguerite Resurfacing - Oso Parkway to La Paz	-	664,602	558,873	73,928	632,801	31,801
Sidewalk Repair	54,000	95,261	25,818	-	25,818	69,443
Arterial Highway Slurry Seal	-	3,762	-	-	-	3,762
Residential Resurfacing	927,083	1,933,042	857,817	-	857,817	1,075,225
Total expenditures	4,364,034	6,311,083	4,841,907	153,626	4,995,533	1,315,550
Net change in fund balances	(93,578)	(1,868,477)	(631,932)	(153,626)	(785,558)	1,082,919
Fund Balances, Beginning of Year, as restated	2,024,811	2,024,811	2,024,811	-	2,024,811	-
Fund Balances, End of Year	\$ 1,931,233	\$ 156,334	\$ 1,392,879	\$(153,626)	\$ 1,239,253	\$ 1,082,919

CITY OF MISSION VIEJO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 AIR QUALITY
 YEAR ENDED JUNE 30, 2011

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Intergovernmental	\$ 110,000	\$ 110,000	\$ 118,711	\$ -	\$ 118,711	\$ 8,711
Investment earnings	7,500	7,500	5,717	-	5,717	(1,783)
Total revenues	117,500	117,500	124,428	-	124,428	6,928
Expenditures:						
General government - management and support	2,016	2,025	1,955	69	2,024	1
Community development	45,000	45,025	42,850	2,150	45,000	25
Public works - engineering and transportation	30,000	60,000	-	-	-	60,000
Capital projects:						
Traffic Safety/Signal Coordination	46,000	395,170	379,845	4,322	384,167	11,003
Total expenditures	123,016	502,220	424,650	6,541	431,191	71,029
Net change in fund balances	(5,516)	(384,720)	(300,222)	(6,541)	(306,763)	77,957
Fund Balances, Beginning of Year	393,756	393,756	393,756	-	393,756	-
Fund Balances, End of Year	\$ 388,240	\$ 9,036	\$ 93,534	\$ (6,541)	\$ 86,993	\$ 77,957

CITY OF MISSION VIEJO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 LADERA FUNDING
 YEAR ENDED JUNE 30, 2011

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Developer fees	\$ -	\$ 754,892	\$ 394,099	\$ -	\$ 394,099	\$ (360,793)
Other	-	847,052	-	-	-	(847,052)
Total revenues	-	1,601,944	394,099	-	394,099	(1,207,845)
Expenditures:						
Capital projects:						
Crown Valley Widening	-	1,072,141	1,072,141	-	1,072,141	-
Oso/Marguerite Intersection Improvements	-	98,741	-	-	-	98,741
Total expenditures	-	1,170,882	1,072,141	-	1,072,141	98,741
Net change in fund balances	-	431,062	(678,042)	-	(678,042)	(1,109,104)
Fund Balances, Beginning of Year	(414,142)	(414,142)	(414,142)	-	(414,142)	-
Fund Balances, End of Year	\$ (414,142)	\$ 16,920	\$ (1,092,184)	\$ -	\$ (1,092,184)	\$ (1,109,104)

CITY OF MISSION VIEJO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 CDA PROJECTS
 YEAR ENDED JUNE 30, 2011

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Investment earnings	\$ 2,300	\$ 2,300	\$ 1,130	\$ -	\$ 1,130	\$ (1,170)
Total revenues	2,300	2,300	1,130	-	1,130	(1,170)
Expenditures:						
General government - management and support	156,842	157,223	156,802	180	156,982	241
Community development	85,000	85,000	79,838	-	79,838	5,162
Capital projects:						
Crown Valley Widening	122,000	122,000	122,000	-	122,000	-
Cabot/Camino Capistrano Bridge	243,000	255,016	4,727	7,290	12,017	242,999
Oso Parkway Widening	-	1,950,000	50,185	-	50,185	1,899,815
Crown Valley Widening - I-5 to Cabot	128,000	2,368,000	77,082	1,795,259	1,872,341	495,659
Total expenditures	734,842	4,937,239	490,634	1,802,729	2,293,363	2,643,876
Excess of revenues over (under) expenditures	(732,542)	(4,934,939)	(489,504)	(1,802,729)	(2,292,233)	2,642,706
Other financing sources (uses)						
Notes and loans issued	235,000	4,425,000	-	-	-	(4,425,000)
Total other financing sources (uses)	235,000	4,425,000	-	-	-	(4,425,000)
Net change in fund balances	(497,542)	(509,939)	(489,504)	(1,802,729)	(2,292,233)	(1,782,294)
Fund Balances, Beginning of Year	579,184	579,184	579,184	-	579,184	-
Fund Balances, End of Year	\$ 81,642	\$ 69,245	\$ 89,680	\$ (1,802,729)	\$ (1,713,049)	\$ (1,782,294)

CITY OF MISSION VIEJO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 MALL PARKING LEASE
 YEAR ENDED JUNE 30, 2011

	Budget Amounts		Actual	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Taxes	\$ 1,046,089	\$ 1,046,089	\$ 1,126,628	\$ -	\$ 1,126,628	\$ 80,539
Investment earnings	-	-	1,956	-	1,956	1,956
Total revenues	1,046,089	1,046,089	1,128,584	-	1,128,584	82,495
Excess of revenues over (under) expenditures	1,046,089	1,046,089	1,128,584	-	1,128,584	82,495
Other financing sources (uses):						
Transfers out	(1,135,914)	(1,135,914)	(1,216,453)	-	(1,216,453)	(80,539)
Total other financing sources (uses)	(1,135,914)	(1,135,914)	(1,216,453)	-	(1,216,453)	(80,539)
Net change in fund balances	(89,825)	(89,825)	(87,869)	-	(87,869)	1,956
Fund Balances, Beginning of Year	91,569	91,569	91,569	-	91,569	-
Fund Balances, End of Year	\$ 1,744	\$ 1,744	\$ 3,700	\$ -	\$ 3,700	\$ 1,956

CITY OF MISSION VIEJO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 CDFA 1999 MALL BONDS
 YEAR ENDED JUNE 30, 2011

	Budget Amounts		Actual	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Investment earnings	\$ 15,000	\$ 15,000	\$ 15,821	\$ -	\$ 15,821	\$ 821
Total revenues	15,000	15,000	15,821	-	15,821	821
Expenditures:						
Debt service:						
Principal retirement	900,000	900,000	900,000	-	900,000	-
Interest and fiscal charges	382,845	382,845	353,911	-	353,911	28,934
Total expenditures	1,282,845	1,282,845	1,253,911	-	1,253,911	28,934
Excess of revenues over (under) expenditures	(1,267,845)	(1,267,845)	(1,238,090)	-	(1,238,090)	29,755
Other financing sources (uses):						
Transfers in	1,746,089	1,746,089	1,792,633	-	1,792,633	46,544
Transfers out	(978,483)	(978,483)	(978,483)	-	(978,483)	-
Total other financing sources (uses)	767,606	767,606	814,150	-	814,150	46,544
Net change in fund balances	(500,239)	(500,239)	(423,940)	-	(423,940)	76,299
Fund Balances, Beginning of Year	4,948,605	4,948,605	4,948,605	-	4,948,605	-
Fund Balances, End of Year	\$ 4,448,366	\$ 4,448,366	\$ 4,524,665	\$ -	\$ 4,524,665	\$ 76,299

CITY OF MISSION VIEJO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 CDFA 1999 REVENUE BONDS
 YEAR ENDED JUNE 30, 2011

	Budget Amounts		Actual	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Investment earnings	\$ 170,000	\$ 170,000	\$ 153,479	\$ -	\$ 153,479	\$ (16,521)
Total revenues	170,000	170,000	153,479	-	153,479	(16,521)
Expenditures:						
Debt service:						
Principal retirement	290,000	290,000	290,000	-	290,000	-
Interest and fiscal charges	142,483	142,483	139,833	-	139,833	2,650
Total expenditures	432,483	432,483	429,833	-	429,833	2,650
Excess of revenues over (under) expenditures	(262,483)	(262,483)	(276,354)	-	(276,354)	(13,871)
Net change in fund balances	(262,483)	(262,483)	(276,354)	-	(276,354)	(13,871)
Fund Balances, Beginning of Year	2,727,682	2,727,682	2,727,682	-	2,727,682	-
Fund Balances, End of Year	\$ 2,465,199	\$ 2,465,199	\$ 2,451,328	\$ -	\$ 2,451,328	\$ (13,871)

CITY OF MISSION VIEJO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 CDFR 2009 LEASE REVENUE REFUNDING BONDS
 YEAR ENDED JUNE 30, 2011

	Budget Amounts		Actual	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Investment earnings	\$ 5,000	\$ 5,000	\$ 6,565	\$ 430,000	\$ 436,565	\$ 431,565
Total revenues	5,000	5,000	6,565	430,000	436,565	431,565
Expenditures:						
Debt service:						
Principal retirement	430,000	430,000	430,000	-	430,000	-
Interest and fiscal charges	817,863	817,863	810,624	-	810,624	7,239
Total expenditures	1,247,863	1,247,863	1,240,624	-	1,240,624	7,239
Excess of revenues over (under) expenditures	(1,242,863)	(1,242,863)	(1,234,059)	430,000	(804,059)	438,804
Other financing sources (uses):						
Transfers in	1,242,863	1,242,863	1,230,346	(430,000)	800,346	(442,517)
Total other financing sources (uses)	1,242,863	1,242,863	1,230,346	(430,000)	800,346	(442,517)
Net change in fund balances	-	-	(3,713)	-	(3,713)	(3,713)
Fund Balances, Beginning of Year	1,371,187	1,371,187	1,371,187	-	1,371,187	-
Fund Balances, End of Year	\$ 1,371,187	\$ 1,371,187	\$ 1,367,474	\$ -	\$ 1,367,474	\$ (3,713)

CITY OF MISSION VIEJO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 CDA DEBT SERVICE
 YEAR ENDED JUNE 30, 2011

	Budget Amounts		Actual	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Taxes	\$ 7,200,000	\$ 7,200,000	\$ 7,074,818	\$ -	\$ 7,074,818	\$ (125,182)
Investment earnings	7,600	7,600	12,439	-	12,439	4,839
Total revenues	7,207,600	7,207,600	7,087,257	-	7,087,257	(120,343)
Expenditures:						
General government - management and support	3,939,000	3,939,000	3,835,041	-	3,835,041	103,959
Debt service:						
Principal retirement	250,000	2,497,000	-	1,412,000	1,412,000	1,085,000
Interest and fiscal charges	61,000	61,000	56,882	-	56,882	4,118
Total expenditures	4,250,000	6,497,000	3,891,923	1,412,000	5,303,923	1,193,077
Excess of revenues over (under) expenditures	2,957,600	710,600	3,195,334	(1,412,000)	1,783,334	1,072,734
Other financing sources (uses):						
Transfers out	(2,495,561)	(2,495,561)	(2,080,969)	(355,161)	(2,436,130)	59,431
Total other financing sources (uses)	(2,495,561)	(2,495,561)	(2,080,969)	(355,161)	(2,436,130)	59,431
Net change in fund balances	462,039	(1,784,961)	1,114,365	(1,767,161)	(652,796)	1,132,165
Fund Balances, Beginning of Year	(2,921,375)	(2,921,375)	(2,921,375)	-	(2,921,375)	-
Fund Balances, End of Year	\$ (2,459,336)	\$ (4,706,336)	\$ (1,807,010)	\$ (1,767,161)	\$ (3,574,171)	\$ 1,132,165

AGENCY FUND

The Agency Fund is used to account for assets held by the City as an agent for individuals, private organizations, other governments and/or other funds. The City of Mission Viejo maintains the following agency fund:

COMMUNITY FACILITIES DISTRICT No. 92-1 - This fund is used to account for assets and liabilities of the Community Facilities District No. 92-1, a district formed to finance the acquisition and construction of public flood control facilities in the area of the Mission Viejo Freeway Center.



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CITY OF MISSION VIEJO

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 YEAR ENDED JUNE 30, 2011

	<u>Balance 7/1/2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/2011</u>
<u>Community Facilities District 92-1</u>				
Assets:				
Pooled cash and investments	\$ 229,055	\$ 443,485	\$ 439,916	\$ 232,624
Restricted assets:				
Cash and investments with fiscal agents	627,537	883,676	887,462	623,751
Total Assets	<u>\$ 856,592</u>	<u>\$ 1,327,161</u>	<u>\$ 1,327,378</u>	<u>\$ 856,375</u>
Liabilities:				
Accounts payable	\$ -	\$ 905,164	\$ 672,540	\$ 232,624
Due to bondholders	856,592	1,507,210	1,740,051	623,751
Total Liabilities	<u>\$ 856,592</u>	<u>\$ 2,412,374</u>	<u>\$ 2,412,591</u>	<u>\$ 856,375</u>



MISSION VIEJO

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CITY OF MISSION VIEJO
Statistical Tables and Other Schedules
Year ended June 30, 2011

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

Contents	Page
Financial Trends	127
These schedules contain trend information to help the reader understand how the City’s financial performance and well-being have changed over time.	
Revenue Capacity	136
These schedules contain information to help the reader assess the City’s most significant local revenue source, property tax revenues.	
Debt Capacity	140
These schedules present information to help the reader assess the affordability of the City’s current levels of outstanding debt and the City’s ability to issue additional debt in the future.	
Demographic and Economic Information	144
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City’s financial activities take place.	
Operating Information	146
These schedules contain service and infrastructure data to help the reader understand how the information in the City’s financial report relates to the services the City provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the City’s Comprehensive Annual Financial Report for the relevant year.



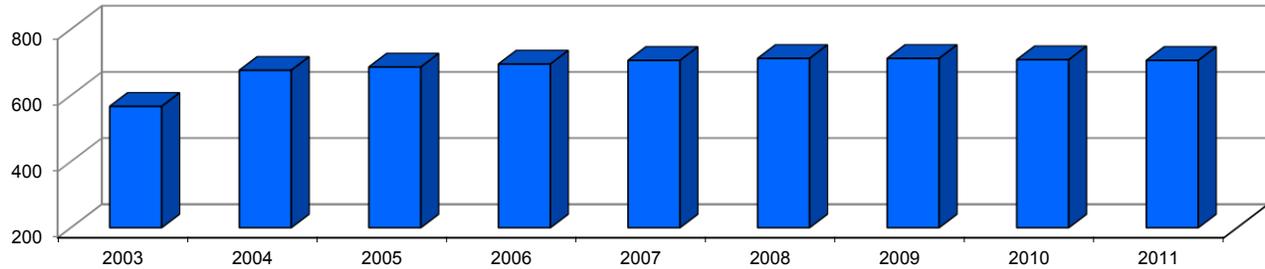
MISSION VIEJO

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CITY OF MISSION VIEJO

Net Assets by Component Last Nine Fiscal Years ¹ (accrual basis of accounting)

\$ in millions



	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental activities:									
Invested in capital assets, net of related debt	\$ 517,743,671	\$ 627,925,097	\$ 625,779,491	\$ 632,460,889	\$ 640,300,604	\$ 655,353,074	\$ 658,433,369	\$ 651,851,636	\$ 644,039,024
Restricted	10,897,807	10,851,075	13,153,006	14,737,582	13,544,769	18,087,908	17,607,666	22,790,399	23,261,890
Unrestricted	34,287,556	33,805,512	43,435,759	44,037,190	47,882,955	34,212,481	33,780,397	29,168,881	36,865,274
Total governmental activities net assets	562,929,034	672,581,684 ²	682,368,256	691,235,661	701,728,328	707,653,463	709,821,432	703,810,916 ³	704,166,188
Business-type activities:									
Invested in capital assets, net of related debt	2,796,914	2,658,310	2,530,813	2,415,502	2,459,920	2,417,016	2,473,414	2,358,370	2,231,986
Unrestricted	929,828	1,035,120	1,203,564	1,397,343	1,503,644	2,129,106	2,157,546	1,873,521	2,178,529
Total business-type activities net assets	3,726,742	3,693,430	3,734,377	3,812,845	3,963,564	4,546,122	4,630,960	4,231,891 ⁴	4,410,515
Primary government:									
Invested in capital assets, net of related debt	520,540,585	630,583,407	628,310,304	634,876,391	642,760,524	657,770,090	660,906,783	654,210,006	646,271,010
Restricted	10,897,807	10,851,075	13,153,006	14,737,582	13,544,769	18,087,908	17,607,666	22,790,399	23,261,890
Unrestricted	35,217,384	34,840,632	44,639,323	45,434,533	49,386,599	36,341,587	35,937,943	31,042,402	39,043,803
Total primary government net assets	566,655,776	676,275,114	686,102,633	695,048,506	705,691,892	712,199,585	714,452,392	708,042,807 ^{3,4}	708,576,703

¹ The City of Mission Viejo implemented GASB 34 for the fiscal year ended June 30, 2003.

² Increase was due primarily to the addition of two infrastructure networks, Medians & Parkways and Storm Drains.

³ Decrease was due to a reduction in capital assets from depreciation and disposals.

⁴ Decrease was due to the return of prior year subsidies in excess of amounts needed to fund operations

CITY OF MISSION VIEJO
Changes in Net Assets
Last Nine Fiscal Years ¹
(accrual basis of accounting)

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenses:									
Governmental activities:									
General government-legislative	\$1,211,733	\$ 1,417,807	\$ 1,643,865	\$ 1,278,397	\$ 1,458,585	\$ 1,539,469	\$ 2,186,488	\$ 2,346,309	\$ 1,295,007 ²⁰
General government-management and support	6,988,036	8,872,595	10,545,172	13,767,465 ⁶	13,359,098	15,012,892 ¹⁴	14,766,918	16,209,817 ²⁰	14,807,567 ²⁰
Public safety	10,577,967	12,099,669	12,367,812	13,237,344	13,846,244	15,682,611 ¹⁵	16,223,078	16,503,571	16,781,149
Community development	1,964,511	1,895,841	2,093,381	2,180,574	2,114,820	2,619,254	1,910,720	2,392,911	2,571,601
Public works-engineering and transportation	4,274,363	3,344,704	3,616,133	4,050,960	3,278,156	3,396,587	3,367,924	3,166,898	2,998,197
Infrastructure maintenance	13,715,602	9,989,256	15,084,522 ²	17,208,589 ⁷	20,828,414 ¹⁰	21,399,169	21,870,932	24,723,127 ²¹	25,209,859
Recreation, community and library services	5,814,132	5,933,112	6,498,561	6,965,590	7,696,128 ¹¹	8,811,784 ¹⁶	9,393,228	9,517,636	9,153,074 ²²
Interest on long-term debt	2,403,823	2,292,056	2,495,852	2,716,028	3,415,025 ¹²	2,529,391	1,591,463	2,191,612 ²²	1,681,786
Total governmental activities expenses	46,960,167	45,845,040	54,345,298	61,404,947	65,996,470	70,991,157	71,310,751	77,051,881	74,498,240
Business-type activities:									
Animal services	918,653	957,177	990,544	1,093,211	1,157,320	1,321,913 ¹⁷	1,788,096	1,701,974	1,684,758
Mission Viejo television	148,710	162,784	162,000	159,592	171,321	171,440	175,541	123,973	131,138
Total business-type activities expenses	1,067,363	1,119,961	1,152,544	1,252,803	1,328,641	1,493,353	1,963,637	1,825,947	1,815,896
Total primary government expenses	48,027,530	46,965,001	55,497,842	62,657,750	67,325,111	72,484,510	73,274,388	78,877,828	76,314,136
Program revenues:									
Governmental activities:									
Charges for services:									
Public safety	772,991	962,083	966,906	848,928	800,345	796,364	661,643	1,444,667	712,997
Community development	1,322,044	1,460,268	1,656,023	2,165,061	2,033,209	1,768,485	1,714,191	1,323,456	1,279,153
Public works-engineering and transportation	451,103	613,377	450,693	518,244	855,540	557,467	482,480	161,943	467,949
Recreation, community and library services	1,352,406	1,370,860	1,801,927	2,082,022	2,225,515	2,439,763	2,560,945	2,331,648	3,951,337
Other activities	141,672	650,272	560,480	794,574	497,762	163,670	235,905	172,401	553,623
Operating grants and contributions	4,040,396	8,245,441	4,638,084 ³	4,500,264	4,938,351	4,750,898	4,255,816	7,275,388 ²³	7,573,309
Capital grants and contributions	1,955,568	518,267	3,815,060 ³	6,188,556 ⁸	7,907,221	8,847,033	9,472,730	5,508,196 ²⁴	6,697,833
Total governmental activities program revenues	10,036,180	13,820,568	13,889,173	17,097,649	19,257,943	19,323,680	19,383,710	18,217,699	21,236,201
Business-type activities:									
Charges for services:									
Animal services	266,430	323,380	394,365	475,944	502,477	863,528	634,515	685,173	1,241,507 ²⁷
Mission Viejo television	660	2,221	2,156	1,054	539	543	404	60	100
Operating grants and contributions	360,711	382,985	339,577	390,156	459,977	534,414	801,456	590,780	200,985
Capital grants and contributions	416,999	5,806	-	-	-	-	-	-	-
Total business-type activities program revenues	1,044,800	714,392	736,098	867,154	962,993	1,398,485	1,436,375	1,276,013	1,442,592
Total primary government program revenues	11,080,980	14,534,960	14,625,271	17,964,803	20,220,936	20,722,165	20,820,085	19,493,712	22,678,793

(continued)

CITY OF MISSION VIEJO

Changes in Net Assets Last Nine Fiscal Years ¹ (accrual basis of accounting) (Continued)

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net (expense)/revenue:									
Governmental activities	(36,923,987)	(32,024,472)	(40,456,125)	(44,307,298)	(46,738,527)	(51,667,477)	(51,927,041)	(58,834,182)	(53,262,039)
Business-type activities	(22,563)	(405,569)	(416,446)	(385,649)	(365,648)	(94,868)	(527,262)	(549,934)	(373,304)
Total net expense/revenue	<u>(36,946,550)</u>	<u>(32,430,041)</u>	<u>(40,872,571)</u>	<u>(44,692,947)</u>	<u>(47,104,175)</u>	<u>(51,762,345)</u>	<u>(52,454,303)</u>	<u>(59,384,116)</u>	<u>(53,635,343)</u>
General revenues and other changes in net assets:									
Governmental activities:									
Taxes:									
Property taxes	16,528,480	16,822,016	20,439,513 ⁴	28,315,994 ⁹	31,183,198	33,527,411	34,221,795	34,352,871	32,983,492
Sales taxes	14,818,509	15,463,156	13,558,656	13,590,547	13,099,593	12,231,539	10,557,007 ¹⁸	10,547,009	11,059,525
Property taxes in lieu of sales and use taxes	-	-	4,344,402 ⁵	4,567,285	4,381,834	4,088,418	3,863,059	2,718,259 ²⁵	3,731,802
Other	4,430,803	3,429,715	3,713,661	3,720,600	4,082,376	3,620,011	3,429,101	3,392,049	3,705,433
Unrestricted motor vehicle in lieu fees	5,585,512	4,533,335	6,906,017	608,665	611,463	438,534	337,213	341,391	497,722
Investment income	1,870,344	1,101,787	1,454,287	1,920,079	3,715,080 ¹³	3,698,871	2,014,231 ¹⁹	1,001,415 ¹⁹	1,305,766
Other	234,605	461,817	235,941	879,905	590,355	322,797	305,386	603,503	655,288
Transfers	(385,046)	(360,727)	(432,018)	(428,372)	(432,705)	(552,488)	(521,260)	(132,831)	(476,611)
Gain (loss) on sale/disposal of capital assets	(2,329)	-	22,238	-	-	-	(111,522)	-	3,151
Total governmental activities	<u>43,080,878</u>	<u>41,451,099</u>	<u>50,242,697</u>	<u>53,174,703</u>	<u>57,231,194</u>	<u>57,375,093</u>	<u>54,095,010</u>	<u>52,823,666</u>	<u>53,465,568</u>
Business-type activities:									
Investment earnings	43,294	11,530	25,375	35,745	83,662	124,938	90,070	18,034	69,376
Transfers	385,046	360,727	432,018	428,372	432,705	552,488	521,260	132,831	476,611
Other	(756)	-	-	-	-	-	-	-	5,941
Gain (loss) on sale/disposal of capital assets	-	-	-	-	-	-	770	-	-
Total business-type activities	<u>427,584</u>	<u>372,257</u>	<u>457,393</u>	<u>464,117</u>	<u>516,367</u>	<u>677,426</u>	<u>612,100</u>	<u>150,865</u>	<u>551,928</u>
Total primary government	<u>43,508,462</u>	<u>41,823,356</u>	<u>50,700,090</u>	<u>53,638,820</u>	<u>57,747,561</u>	<u>58,052,519</u>	<u>54,707,110</u>	<u>52,974,531</u>	<u>54,017,496</u>
Changes in net assets:									
Governmental activities	6,156,891	9,426,627	9,786,572	8,867,405	10,492,667	5,707,616	2,167,969	(6,010,516)	203,529
Business-type activities	405,021	(33,312)	40,947	78,488	150,719	582,558	84,838	(399,069)	178,624
Total primary government	<u>6,561,912</u>	<u>9,393,315</u>	<u>9,827,519</u>	<u>8,945,873</u>	<u>10,643,386</u>	<u>6,290,174</u>	<u>2,252,807</u>	<u>(6,409,585)</u>	<u>382,153</u>

¹ The City of Mission Viejo implemented GASB 34 for the fiscal year ended June 30, 2003. Information prior to this implementation is not available.

² Infrastructure maintenance expenditures increased in FY2005 due to an increase in capital project activity.

³ Operating grants and contributions were down and capital grants and contributions were up due to a reclassification of certain grants deemed operating grants for FY 2004.

⁴ Property tax revenue increased significantly in FY2005 due to the continued strong housing market which resulted in an increase in assessed valuation of the properties.

(continued)

CITY OF MISSION VIEJO
Changes in Net Assets
Last Nine Fiscal Years ¹
(accrual basis of accounting)
(Continued)

- ⁵ In 2005 the City began receiving property taxes in lieu of a portion of sales tax from the State, commonly referred to as "Triple Flip" revenue.
- ⁶ General government costs increases primarily due to higher insurance costs.
- ⁷ Infrastructure maintenance increased due primarily to the transfer of certain environmental maintenance and community center utility costs to this area from Public Works.
- ⁸ Capital grants and contributions increased as a result of federal disaster assistance for emergency slope failure repair work, reimbursements from the Ladera development, and reinstatement of Proposition 42 traffic congestion relief funds.
- ⁹ The substantial increase was due to the swap by the state of motor vehicle in lieu fees for additional property tax revenue.
- ¹⁰ Infrastructure maintenance increased due to an increase in road resurfacing and slurry seal costs, and increases in street, park and median maintenance.
- ¹¹ Recreation, community and library services costs increased due to an increase in personnel costs and an increase in the number of sites where recreation programs are offered.
- ¹² The increase in interest on long-term debt was the result of higher interest payments made on variable rate bonds during the year.
- ¹³ Investment earning increased due to higher yields on investments and higher invested balances.
- ¹⁴ General government - management and support increased primarily due to the jumpstart in prefunding other post-employment retiree health benefit costs.
- ¹⁵ Public Safety increase due to the addition of two School Resource Officer positions.
- ¹⁶ Recreation, community and library services increased due to increases in the number of programs offered and the number of patrons using City facilities.
- ¹⁷ Animal services increased due to increased personnel costs associated with operating the shelter.
- ¹⁸ Sales Tax decrease was due to the national recession.
- ¹⁹ Investment Income decreased due to a decline in yields earned on City investments and a decline in the size of the City portfolio.
- ²⁰ General government-management and support increase in 2010 is due to a payment to the Supplemental Educational Revenue Augmentation Fund as required to transfer local revenues back to the State to assist in balancing the State's budget. This payment was approximately \$1.4 million less in 2011.
- ²¹ Infrastructure maintenance increase is due to increased spending on maintenance of streets in conjunction with the Crown Valley Widening project.
- ²² Interest on long-term debt increased in 2010 due to costs associated with the issuing of 2009 Lease Revenue Refunding bonds and the redemption premium paid to refund the 2001 Lease Revenue Bond. Because of the refunding, interest on long-term debt decreased in 2011.
- ²³ Operating grants and contributions increased due to a reclassification of Measure M revenue from capital grants and contributions for FY 09/10. In addition several small grant payments were received and CDBD reimbursements were also higher.
- ²⁴ Capital grants and contributions decreased due to a reclassification of Measure M revenue to operating grants and contributions for FY 09/10.
- ²⁵ Property taxes in lieu of sales and use taxes decreased due to a correction of a prior year overpayment and a reduction of estimated advances received for current year.
- ²⁶ Legislative costs were significantly less in 2011 since there were no special recall election costs incurred (costs exceeded \$400,000 in 2010) and legal costs were significantly less in 2011.
- ²⁷ Operating costs I increased due to providing the City of Aliso Viejo with animal services.

Source: Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances

CITY OF MISSION VIEJO
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General fund:										
Reserved	\$ 5,922,239	\$ 8,851,699	\$ 6,847,283	\$ 9,198,817	\$ 7,065,344	\$ 12,747,110 ⁴	\$ 6,387,326	\$ 4,572,557	\$ 4,313,636	-
Unreserved	23,077,548	24,968,403	29,131,890	32,553,064	37,792,440	35,815,005	30,435,799 ⁵	30,141,564	28,919,290 ⁶	-
Nonspendable	-	-	-	-	-	-	-	-	-	654,403 ⁸
Restricted	-	-	-	-	-	-	-	-	-	140,427 ⁸
Unassigned	-	-	-	-	-	-	-	-	-	32,486,599 ⁸
Total general fund	28,999,787	33,820,102	35,979,173	41,751,881	44,857,784	48,562,115	36,823,125	34,714,121	33,232,926	33,281,429
All other governmental funds:										
Reserved	18,493,678	18,357,694	19,142,865	20,007,732	34,221,856 ²	31,200,022	28,437,107	23,720,546	28,120,395	-
Unreserved, reported in:										
Special revenues funds	873,809	2,487,513	1,758,008	1,566,645	(8,892,769) ³	(8,264,397) ³	(5,338,036) ³	(609,794)	(4,638,772) ⁷	-
Debt service funds	-	(3,791,930) ¹	(3,810,925)	(4,175,531)	(4,183,223)	(3,524,440)	(3,830,123)	(2,331,936)	(2,921,375)	-
Capital projects funds	965,900	466,833	121,742	215,481	230,623	(25,018)	463,170	263,118	566,786	-
Nonspendable	-	-	-	-	-	-	-	-	-	4,456,564 ⁸
Restricted	-	-	-	-	-	-	-	-	-	18,664,969 ⁸
Unassigned	-	-	-	-	-	-	-	-	-	(4,397,906) ⁸
Total all other governmental funds	20,333,387	17,520,110	17,211,690	17,614,327	21,376,487	19,386,167	19,732,118	21,041,934	21,127,034	18,723,627

¹ Represents Community Development Agency of the City of Mission Viejo's recording of loans and notes due to the City of Mission Viejo's General Fund. The Agency will repay these loans from future financial resources.

² The large increase in FY 2006 is due to large encumbered balances at year-end for capital improvement projects.

³ Large encumbered balances for capital improvement projects funded by reimbursement-based grants and developer fees resulted in unreserved fund deficits in several special revenue funds.

⁴ The large increase in 2007 is due to large encumbered balances at year-end for ongoing capital projects.

⁵ The large decrease in 2008 is due to increases in expenditures and decreases in revenues compared to the prior year, as well as a reduction in the encumbered balances.

⁶ Decrease is due to capital and other one-time expenditures.

⁷ Due to increased expenditures in Measure M, Gas Tax and Grants funds.

⁸ New GASB 54 classifications for FY 10/11

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues										
Taxes	\$ 33,032,949	\$ 35,832,043	\$ 37,791,653	\$ 41,454,221	\$ 49,990,351	\$ 52,897,806	\$ 53,701,448	\$ 51,911,454	\$ 50,849,597	\$ 51,480,252
Licenses and permits	773,484	890,258	1,022,612	1,050,504	1,631,189	1,673,856	1,388,460	1,265,539	1,244,695	1,241,009
Intergovernmental	18,596,268	13,044,562	13,506,239	14,299,965	11,100,513	10,274,757	10,131,158	10,774,264	12,668,991	12,069,112
Charges for services	1,503,063	1,583,802	1,752,372	2,066,709	2,208,203	2,650,875	2,357,708	2,248,499	2,167,175	2,301,119
Fines and forfeitures	891,262	803,964	1,025,448	964,061	971,164	929,781	921,669	799,652	865,963	969,262
Developer fees	59,148	1,571,440	44,218	387,691	1,829,832	2,219,907	3,165,749	3,885,108	1,164,858	2,394,099
Investment earnings	2,756,251	2,641,143	1,104,595	1,902,109	2,509,971	4,296,276	4,378,762	3,180,455	1,851,646	1,500,919
Sale of capital assets	-	-	-	-	-	-	-	-	-	-
Other	864,447	708,523	959,571	891,006	1,777,565	1,850,303	1,065,056	1,321,170	763,812	963,943
Total revenues	58,476,872	57,075,735	57,209,708	63,016,266	72,018,768	76,793,561	77,110,010	75,386,141	71,576,737	72,919,715
Expenditures										
General government-legislative	1,262,188	1,176,379	1,408,127	1,640,829	1,272,859	1,454,655	1,536,513	2,057,338	2,057,561	1,294,261
General government-management and support	8,291,565	8,587,327	9,481,875	9,472,632	11,619,765	11,500,722	14,958,723	13,374,990	14,811,597	12,705,588
Public safety	9,107,944	10,520,150	11,977,994	12,342,183	13,202,638	13,821,556	15,610,489	16,086,919	16,551,580	16,723,031
Public works- engineering and transportation	3,333,862	3,793,426	3,199,844	3,641,733	3,821,094	3,046,499	3,197,302	3,135,609	2,621,355	2,495,045
Infrastructure maintenance	10,505,822	10,408,333	10,522,399	11,036,227	13,369,920	14,361,764	17,808,967	16,392,734	14,335,933	13,912,489
Community development	1,548,084	1,933,804	1,862,875	2,035,609	2,512,625	2,318,741	2,922,531	2,423,507	4,390,143	2,570,480
Recreation/community/library services	4,285,666	4,862,031	4,965,716	5,624,495	5,935,518	6,692,548	7,538,916	7,910,635	7,609,303	7,279,008
Capital projects	25,658,169	5,424,868	9,020,728	6,981,864	8,624,841	16,446,670	19,872,424	10,931,773	7,642,900	14,984,143
Debt service	-	-	-	-	-	-	-	-	-	-
Principal	520,000	1,333,231	1,463,231	1,588,231	1,240,000	1,370,000	1,505,000	1,535,000	1,415,000	1,620,000
Interest and fiscal charges	2,703,661	2,280,939	2,063,261	2,072,358	3,124,373	3,643,027	3,022,592	1,838,663	1,940,016	1,368,857
Payment to bond escrow agent	-	-	-	-	-	-	-	-	-	-
Total expenditures	67,216,861	50,320,488	55,966,050	56,436,161	64,723,633	74,656,162	87,973,457	75,687,168	74,757,823	74,952,902
Excess of revenues over (under) expenditures	(8,739,989)	6,755,247	1,243,658	6,580,105	7,295,155	2,137,379	(10,863,447)	(301,027)	(3,181,086)	(2,033,187)
Other financing sources (uses)										
Transfers in	3,230,519	5,291,720	5,962,430	5,924,515	5,987,436	5,184,096	6,312,178	5,370,292	25,437,485	11,873,668
Transfers out	(3,577,369)	(5,669,165)	(6,323,157)	(6,356,533)	(6,415,808)	(5,616,801)	(6,864,666)	(5,891,552)	(25,570,316)	(12,350,279)
Proceeds of bonds	-	-	-	-	-	-	-	-	17,305,000	-
Premium on bonds	-	-	-	-	-	-	-	-	853,583	-
Payment to bond escrow agent	-	-	-	-	-	-	-	-	(16,244,503)	-
Capital asset disposal	-	10,833	23,370	25,388	1,260	9,338	22,896	23,099	3,742	3,151
Issuance of debt	1,923,955	29,137	15,779	1,870	-	-	-	-	-	-
Proceeds of advances	249,606	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	1,826,711	(337,475)	(321,578)	(404,760)	(427,092)	(423,367)	(529,592)	(498,161)	1,784,991	(473,460)
Net change in fund balances	(6,913,278)	6,417,772	922,080	6,175,345	6,868,063	1,714,012	(11,393,039)	(799,188)	(1,396,095)	(2,506,647)
Debt service as a percentage of noncapital expenditures	7.605%	7.646%	8.123%	8.494%	8.499%	8.564%	6.630%	4.991%	4.556%	4.369%

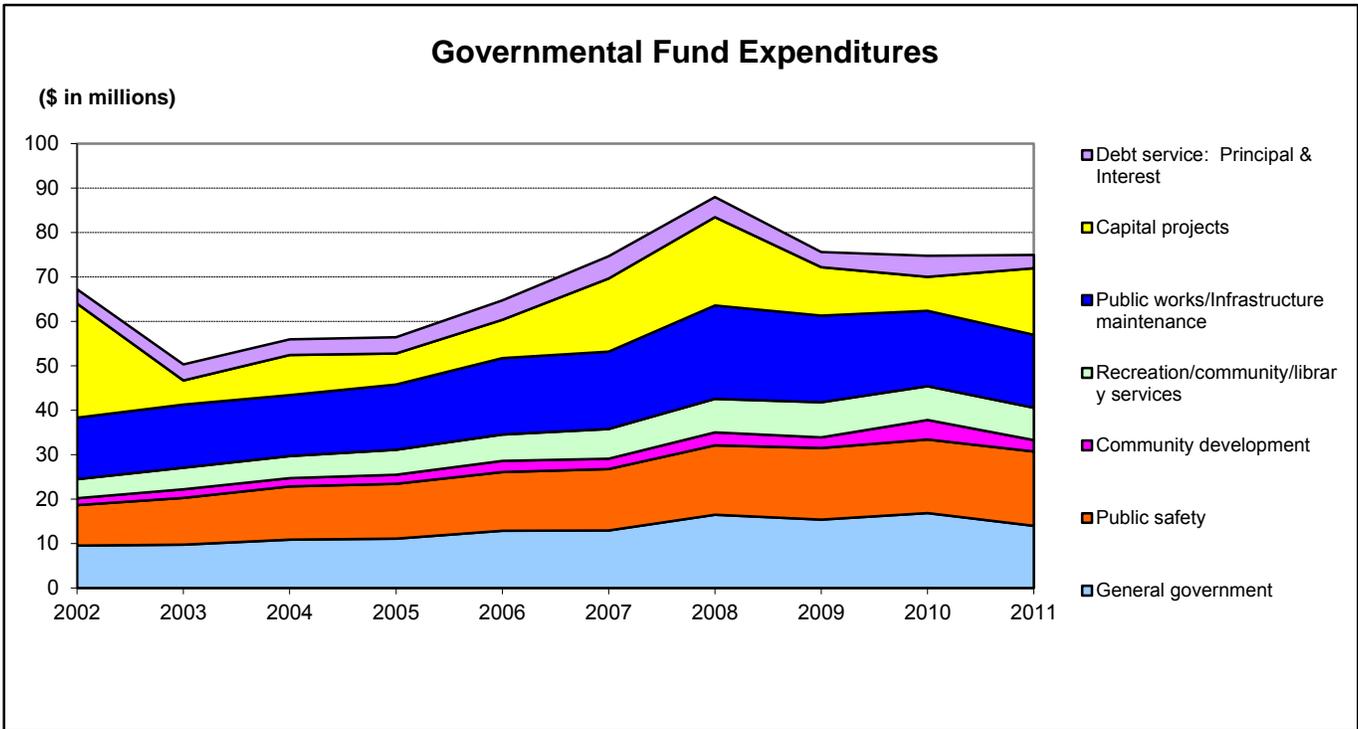
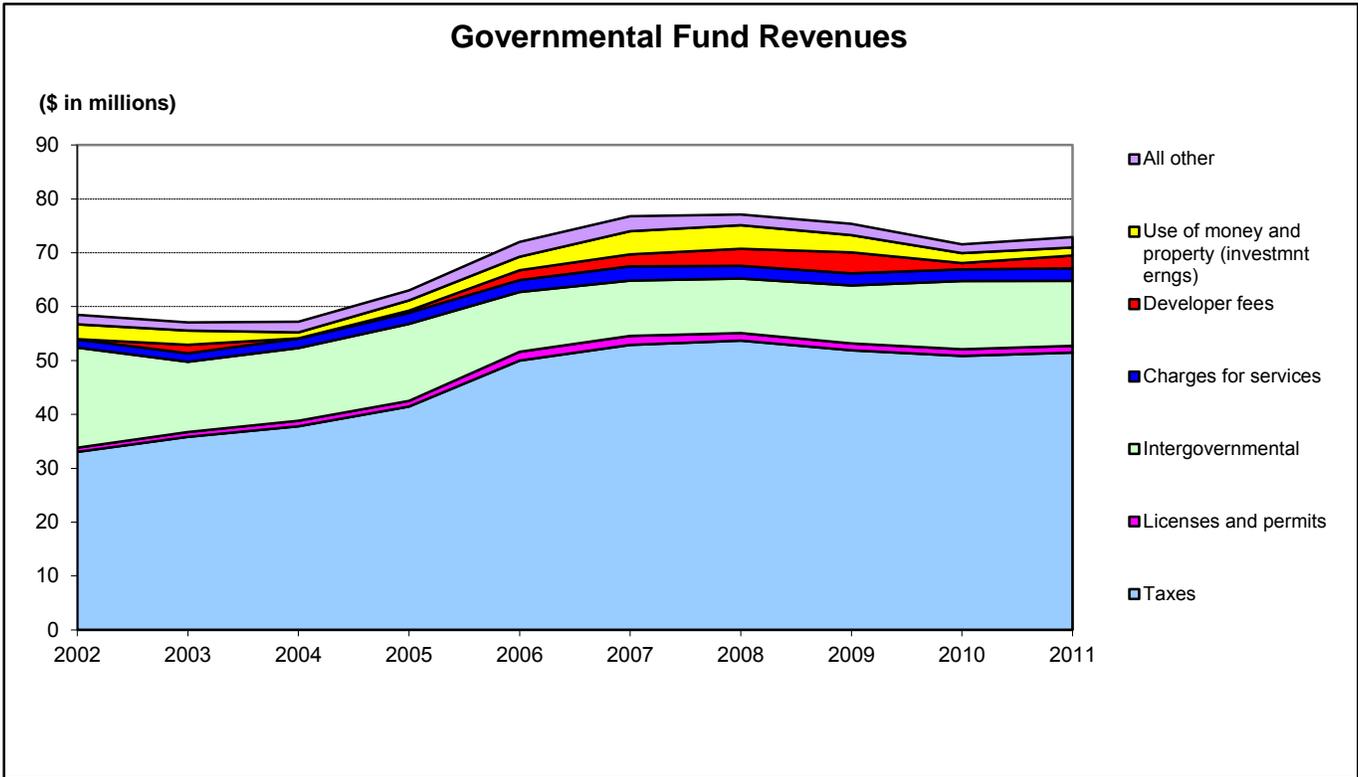
- The growth in tax revenue is due to the strong economy and real estate market in the City, and the swap by the State of Motor Vehicle in lieu fees for additional property tax revenue.
- The increase is attributable to increased insurance costs and an advance payment made to pay down the unfunded liability in the City's defined benefit pension plan.
- Increase due to certain reclassification of costs from public works-engineering and transportation and recreation/community/library services, as well as increased maintenance expenditures for streets, sidewalks, parks, medians and recreation centers.
- Increase due to higher yields on investment and higher invested balances.
- Increase due to the commencement of work on two major projects during the year, the Norman P. Murray Center Expansion and Crown Valley Widening projects.
- Increase due to the jumpstart in prefunding other post-employment retiree health benefit costs and increased spending on information technology.

(continued)

CITY OF MISSION VIEJO
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Continued)

- 7 Increase primarily due to the addition of two School Resource Officer positions.
- 8 Increase due to higher spending on maintenance of City parks, streets, sidewalks, medians and slopes.
- 9 Decrease due to the completion of Crown Valley which resulted in a significantly lower amount of developer fees paid from Ladera Ranch.
- 10 Decreased due to a decline in yields earned on City investments and a decline in the size of the City portfolio.
- 11 Increase in 2010 is due to a payment to the Supplemental Educational Revenue Augmentation Fund as required by the State. This payment was \$1.4 million less in 2011.
- 12 Decrease is due to a reduction of expenditures as a result of reduced revenues.
- 13 Increase due to funding for a new low and moderate income housing project in the City.
- 14 Related to the issuance of 2009 Lease Revenue Refunding Bonds.
- 15 Increase is due in part to the commencement of work on the Oso Creek Restoration project and the Oso/Marguerite parkway Intersectin Improvement project, and the completion of the Crown Valley Parkway Widening project.

CITY OF MISSION VIEJO
 Governmental Fund Revenues and Expenditures
 (Last Ten Fiscal Years)



CITY OF MISSION VIEJO

Tax Revenues by Source
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Property Tax		Sales & Use Tax	Franchise Tax	Real Property Transfer Tax	Transient Occupancy Tax	Total
	City	Redevelopment Agency					
2002	\$ 13,014,217	\$ 3,571,142	\$ 13,289,667	\$ 2,227,160	\$ 527,899	\$ 402,865	\$ 33,032,950
2003	13,704,799	4,056,110	14,818,509	2,206,246	649,645	396,734	35,832,043
2004	14,551,779	4,347,003	15,463,156	2,232,287	777,481	419,947	37,791,653
2005	15,909,756	4,529,758	17,301,046	2,411,905	897,540	404,216	41,454,221
2006	22,830,026	5,485,967	17,616,495	2,752,067	769,143	536,653	49,990,351
2007	25,194,371	5,988,826	17,632,233	2,927,803	573,226	581,347	52,897,806
2008	26,654,054	6,519,989	16,722,281	2,880,671	335,254	589,199	53,701,448
2009	26,582,596	7,167,827	14,420,066	2,953,525	311,863	475,577	51,911,454
2010	25,952,524	7,811,875	13,265,268	2,851,736	448,100	520,095	50,849,598
2011	25,908,673	7,074,818	14,791,327	2,753,821	357,313	594,299	51,480,251

Sources: General Ledger

CITY OF MISSION VIEJO
 Assessed Value and Estimated Actual Value of Taxable Property
 Last Ten Fiscal Years
 (in thousands of dollars)

Fiscal Year Ended June 30	City				Community Development Agency				Total Direct Tax Rate ³
	Secured	Public Utility	Unsecured	Taxable Assessed Value ¹	Secured	Public Utility	Unsecured	Incremental Valuation	
2002	\$ 8,535,210	\$ 1,274	\$ 300,509	\$ 8,836,993	\$ -	-	-	\$ 337,232	0.16470%
2003	9,034,496	1,157	294,978	9,330,631	316,981	136	76,866	393,983	0.16470%
2004	9,580,126	3,283	299,230	9,882,639	351,633	2,329	76,308	430,270	0.16470%
2005	10,214,708	2,222	297,265	10,514,195	363,471	1,303	68,168	432,942	0.16470%
2006	11,190,844	2,171	280,342	11,473,357	444,269	1,306	62,187	507,762	0.16470%
2007	12,127,246	2,110	320,408	12,449,764	486,643	1,297	77,063	565,003	0.16470%
2008	12,903,096	1,209	341,820	13,246,125	556,199	1,209	86,171	643,579	0.16470%
2009	13,007,415	2,418	347,733	13,357,566	630,632	2,418	96,259	729,309	0.16470%
2010	12,736,555	2,418	365,726	13,104,699	644,506	2,418	102,443	749,367	0.16470%
2011	12,820,786	2,418	334,775	13,157,979	637,830	2,418	81,684	721,932	0.16470%

Note:

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

¹ City amounts include Community Development Agency incremental valuation.

² The details of the taxable assessed values are not available for this year.

³ City general fund direct rate only.

Source: CDA: Orange County Auditor-Controller
 City: 2002-2006 HdL Coren & Cone
 2007-2011 Orange County Auditor Controller

CITY OF MISSION VIEJO
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
City Direct Rate:										
Mission Viejo City Reorg #98	0.09200	0.09200	0.09200	0.09200	0.09200	0.09200	0.09200	0.09200	0.09200	0.09200
Mission Viejo City Lighting Fund	0.03270	0.03270	0.03270	0.03270	0.03270	0.03270	0.03270	0.03270	0.03270	0.03270
Mission Viejo General Fund	0.02290	0.02290	0.02290	0.02290	0.02290	0.02290	0.02290	0.02290	0.02290	0.02290
Mission Viejo Library Fund	0.01711	0.01711	0.01711	0.01711	0.01711	0.01711	0.01711	0.01711	0.01711	0.01711
	<u>0.16471</u>									
Overlapping Rates:										
Capistrano Unified School District General Fund	0.36940	0.36940	0.36940	0.36940	0.36940	0.36940	0.36940	0.36940	0.36940	0.36940
Educational Revenue Augmentation Fund	0.13360	0.13360	0.13360	0.13360	0.13360	0.13360	0.13360	0.13360	0.13360	0.13360
Orange County Cemetery Fund	0.00051	0.00051	0.00051	0.00051	0.00051	0.00051	0.00051	0.00051	0.00051	0.00051
Orange County Department of Education	0.01674	0.01674	0.01674	0.01674	0.01674	0.01674	0.01674	0.01674	0.01674	0.01674
Orange County Fire Department	0.11535	0.11535	0.11535	0.11535	0.11535	0.11535	0.11535	0.11535	0.11535	0.11535
Orange County Flood Control District General	0.02030	0.02030	0.02030	0.02030	0.02030	0.02030	0.02030	0.02030	0.02030	0.02030
Orange County General Fund	0.05303	0.05303	0.05303	0.05303	0.05303	0.05303	0.05303	0.05303	0.05303	0.05303
Orange County Harbors Beaches & Parks CSA	0.01569	0.01569	0.01569	0.01569	0.01569	0.01569	0.01569	0.01569	0.01569	0.01569
Orange County Transportation Authority	0.00288	0.00288	0.00288	0.00288	0.00288	0.00288	0.00288	0.00288	0.00288	0.00288
Orange County Vector Control	0.00115	0.00115	0.00115	0.00115	0.00115	0.00115	0.00115	0.00115	0.00115	0.00115
Santa Margarita Water District	0.01558	0.01558	0.01558	0.01558	0.01558	0.01558	0.01558	0.01558	0.01558	0.01558
Santa Margarita Water Improvement District 1W	0.00021	0.00021	0.00021	0.00021	0.00021	0.00021	0.00021	0.00021	0.00021	0.00021
South Orange County Community College District	0.09085	0.09085	0.09085	0.09085	0.09085	0.09085	0.09085	0.09085	0.09085	0.09085
	<u>0.83529</u>									
Total Proposition 13 Direct & Overlapping Tax Rates ²	<u>1.00000</u>									
Metropolitan Water District										
Capistrano Unified School District 1999 Bond 2000 A	0.00770	0.00670	0.00610	0.00580	0.00520	0.00470	0.00450	0.00430	0.00430	0.00370
Capistrano Unified School District 1999 Bond 2001 B	0.00307	0.00332	0.00392	0.00340	0.00312	0.00273	0.00293	0.00279	0.00308	0.00317
Capistrano Unified School District 1999 Bond 2002 C	0.00527	0.00505	0.00597	0.00544	0.00494	0.00430	0.00468	0.00445	0.00494	0.00507
Santa Margarita Water District Improvement District #1 Bond	0.00000	0.00217	0.00303	0.00307	0.00272	0.00244	0.00258	0.00247	0.00275	0.00281
	0.14100	0.13200	0.06400	0.02400	0.02400	0.00000	0.00000	0.00000	0.00000	0.00000
Total School & Water District Overlapping Tax Rates	<u>0.15704</u>	<u>0.14924</u>	<u>0.08302</u>	<u>0.04171</u>	<u>0.03998</u>	<u>0.01417</u>	<u>0.01469</u>	<u>0.01401</u>	<u>0.01507</u>	<u>0.01475</u>
Total Direct and Overlapping Rates	<u>1.31408</u>	<u>1.29848</u>	<u>1.16604</u>	<u>1.08342</u>	<u>1.07996</u>	<u>1.02834</u>	<u>1.02338</u>	<u>1.02802</u>	<u>1.03014</u>	<u>1.01475</u>

¹ This schedule shows information for tax rate area 27-006, the largest general fund tax rate area by assessed value.

² In 1978, California voters passed Proposition 13, which set the property tax rate at a 1.00% fixed rate of market value (assessed value). This 1.00% is shared by all taxing agencies on which the subject property resides within. In addition, to the 1.00% fixed rate, property owners are charged taxes as a percentage of assessed property values for the payment of voter approved school and water district bonds.

CITY OF MISSION VIEJO

Principal Property Tax Payers Current Year and Nine Years Ago

Taxpayer	2011			2002		
	Assessed Value	Rank	Percent of Total City Taxable Assessed Value	Assessed Value	Rank	Percent of Total City Taxable Assessed Value
Mission Viejo Associates	\$ 136,568,196	1	1.04%	\$ 144,891,837	1	1.64%
Mission Viejo Medical LLC	91,991,682	2	0.70%	-		-
NHP of PMB Mission Viejo LLC	67,787,247	3	0.51%	-		-
Mission Hospital Regional Medical Center	67,135,437	4	0.51%	-		-
Laguna Cabot Road Business Park	62,152,349	5	0.47%	-		-
EQR-Del Lago Vistas Inc	59,954,165	6	0.46%	51,143,174	2	0.58%
Oasis-California Inc	50,612,460	7	0.38%	-		-
MV Unisys LLC	46,277,675	8	0.35%	-		-
Target Corporation	44,874,858	9	0.34%	-		-
Mission Ridge Associates LLC	43,006,987	10	0.33%	-		-
Cox Communications	-		-	34,504,625	3	0.39%
Samsung PDP Kaleidoscope	-		-	31,621,786	4	0.36%
Hillpointe Associates LP	-		-	27,570,600	5	0.31%
Oasis-California Inc	-		-	26,853,099	6	0.30%
Saddleback II Associates	-		-	25,691,545	7	0.29%
May Department Stores	-		-	25,131,871	8	0.28%
Madrid LLC	-		-	24,260,522	9	0.27%
W9 TRR Real Estate Limited	-		-	23,928,345	10	0.27%
	\$ 670,361,056		5.09%	\$ 415,597,404		4.69%

Presented in order of highest to lowest estimated property tax revenue paid to City and Community Development Agency.

Source: HdL Coren & Cone.

CITY OF MISSION VIEJO

Property Tax Levies & Collections Last Ten Fiscal Years

Fiscal Year Ending June 30	Tax Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections for Prior Years ¹	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2002	\$16,754,971	\$ 16,405,763	97.92%	\$ 179,596	\$ 16,585,359	98.99%
2003	17,977,467	17,550,504	97.63%	210,406	17,760,910	98.80%
2004	19,222,439	18,652,129	97.03%	246,653	18,898,782	98.32%
2005	20,667,323	20,233,207	97.90%	206,307	20,439,514	98.90%
2006	23,210,863	22,464,597	96.78%	235,770	22,700,367	97.80%
2007	24,702,934	23,882,142	96.68%	306,257	24,188,399	97.92%
2008	26,674,212	25,268,197	94.73%	519,443	25,787,640	96.68%
2009	26,965,638	25,587,957	94.89%	844,471	26,432,428	98.02%
2010	26,506,153	25,815,252	97.39%	837,760	26,653,011	100.55%
2011	26,156,545	25,287,058	96.68%	558,668	25,845,726	98.81%

Note:
The amounts presented include City property taxes and Community Development Agency tax increment. This schedule also includes amounts collected by the City and Community Redevelopment Agency that were passed-through to other agencies.

¹ The table above shows the total amount of delinquent taxes collected in each fiscal year. The Orange County Auditor-Controller does not provide information regarding the levy year to which delinquent tax collections pertain.

Source: Orange County Auditor-Controller

CITY OF MISSION VIEJO

Ratios of Outstanding Debt by Type Last Ten Fiscal Years

Fiscal Year	General Bonded Debt		Percentage of Personal Income ¹	Per Capita ¹
	Lease Revenue Bonds	Certificates of Participation		
	2002	\$ 17,450,000		
2003	17,130,000	2,960,000	0.51%	206.53
2004	16,795,000	2,900,000	0.48%	201.29
2005	16,450,000	2,835,000	0.43%	197.09
2006	16,095,000	2,770,000	0.34%	192.18
2007	15,730,000	2,700,000	0.34%	188.00
2008	15,350,000	2,625,000	0.34%	180.14
2009	14,955,000	2,545,000	0.34%	174.79
2010	17,140,000	-	0.35%	183.71
2011	16,710,000	-	0.33%	178.75

Fiscal Year	Other Governmental Activities Debt			Total Primary Government ²	Percentage of Personal Income ¹	Per Capita ¹
	Revenue Bonds	Note Payable	Capitalized Leases			
	2002	\$ 43,057,326	\$ 1,042,907			
2003	42,462,326	708,813	-	63,261,139	1.62%	650.33
2004	41,757,326	361,361	-	61,813,687	1.51%	631.75
2005	40,942,326	-	-	60,227,326	1.35%	615.52
2006	40,122,326	-	-	58,987,326	1.07%	600.90
2007	39,187,326	-	-	57,617,326	1.07%	587.75
2008	38,137,326	-	-	56,112,326	1.05%	562.35
2009	37,077,326	-	-	54,577,326	1.06%	545.11
2010	35,907,326	-	-	53,047,326	1.09%	568.59
2011	34,717,326	-	-	51,427,326	1.02%	550.12

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

¹ See the Demographic and Economic Statistics schedule for personal income and population information.

² Includes general bonded debt and other governmental activities debt.

CITY OF MISSION VIEJO

Direct and Overlapping Debt As of June 30, 2011

	Debt Outstanding	Estimate Percentage Applicable ¹	Estimated Share of Overlapping Debt
Overlapping tax and assessment debt:			
Metropolitan Water District	\$ 227,670,000	0.697 %	\$ 1,586,860
Capistrano Unified School District School Facilities Improvement District No. 1	48,449,930	10.979	5,319,318
Saddleback Valley Unified School District	134,935,000	18.778	25,338,094
Santa Margarita Water District Improvement District No. 1	25,000	99.996	24,999
Santa Margarita Water District Improvement District No. 4	109,610,000	0.010	10,961
Santa Margarita Water District Improvement District No. 4B	12,190,000	0.114	13,897
Capistrano Unified School District Community Facilities District No. 87-1	50,575,000	26.017	13,158,098
Orange County Community Facilities District No. 87-3	21,030,519	100.000	21,030,519
Total overlapping tax and assessment debt	604,485,449		66,482,746
Overlapping general fund obligation debt:			
Orange County General Fund Obligations	316,898,000	3.329 %	10,549,534
Orange County Pension Obligations	54,682,497	3.329	1,820,380
Orange County Board of Education Certificates of Participation	19,000,000	3.329	632,510
Municipal Water District of Orange County Water Facilities Corporation	14,120,000	3.936	555,763
South Orange Community College District Certificates of Participation	17,375,000	7.748	1,346,215
Capistrano Unified School District Certificates of Participation	22,980,000	10.932	2,512,174
Moulton-Niguel Water District Certificates of Participation	86,805,000	15.335	13,311,547
Total overlapping general fund obligation debt	531,860,497		30,728,123
Total overlapping debt	\$ 1,136,345,946		97,210,869
City direct debt			51,427,326
Total direct and overlapping debt			\$ 148,638,195
Notes:			
<p>Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.</p> <p>Overlapping debt excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.</p> <p>¹ For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another government unit's taxable assessed value that is within the City's boundaries and dividing it by each unit's total taxable assessed value.</p>			

Source for overlapping debt: California Municipal Statistics, Inc.
Source for City direct debt: City of Mission Viejo Administrative Services Department

CITY OF MISSION VIEJO
 Legal Debt Margin Information
 Last Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Assessed valuation	\$ 8,836,992,884	\$ 9,330,631,428	\$ 9,882,638,615	\$ 10,514,195,052	\$ 11,473,356,454	\$ 12,449,763,507	\$ 13,246,125,427	\$ 13,357,565,673	\$ 13,104,698,129	\$ 13,157,979,198
Conversion percentage	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Adjusted assessed valuation	2,209,248,221	2,332,657,857	2,470,659,654	2,628,548,763	2,868,339,114	3,112,440,877	3,311,531,357	3,339,391,418	3,276,174,532	3,289,494,800
Debt limit percentage	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Debt limit	331,387,233	349,898,679	370,598,948	394,282,314	430,250,867	466,866,132	496,729,704	500,908,713	491,426,180	493,424,220
Total net debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	\$ 331,387,233	\$ 349,898,679	\$ 370,598,948	\$ 394,282,314	\$ 430,250,867	\$ 466,866,132	\$ 496,729,704	\$ 500,908,713	\$ 491,426,180	\$ 493,424,220

Total net debt applicable to the limit as percentage of debt limit

	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
--	----	----	----	----	----	----	----	----	----	----

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

Source:
 City of Mission Viejo Administrative Services Department
 Orange County Auditor-Controller

CITY OF MISSION VIEJO

Pledged-Revenue Coverage Last Ten Fiscal Years

1999 Series A Variable Rate Demand Revenue Bonds ¹						
Fiscal Year	Property Tax	Sales Tax ²	Total Available	Debt Service		Coverage
	Increment ²		Revenue	Principal	Interest	
2002	\$ 625,795	\$ 1,452,380	\$ 2,078,175	\$ -	\$ 629,413	3.30
2003	622,202	1,602,811	2,225,013	400,000	386,698	2.83
2004	621,351	1,752,672	2,374,023	500,000	299,663	2.97
2005	661,618	2,125,209	2,786,827	600,000	403,261	2.78
2006	658,243	2,048,916	2,707,159	600,000	771,553	1.97
2007	736,610	1,810,528	2,547,138	700,000	993,795	1.50
2008	670,539	1,632,789	2,303,328	800,000	939,475	1.32
2009	685,774	1,436,723	2,122,497	800,000	430,566	1.72
2010	767,199	1,097,181	1,864,380	900,000	48,950	1.96
2011	666,005	1,126,628	1,792,633	900,000	60,372	1.87
1999 Series C Revenue Bonds ³						
Fiscal Year	Special		Total	Debt Service		Coverage
	Assessment	Revenues ⁴	Available	Principal	Interest	
2002		\$ 447,631	\$ 447,631	\$ 185,000	\$ 239,991	1.05
2003		434,697	434,697	195,000	232,006	1.02
2004		418,321	418,321	205,000	223,201	0.98 ⁵
2005		448,161	448,161	215,000	213,617	1.05
2006		460,555	460,555	220,000	203,365	1.09
2007		439,552	439,552	235,000	192,328	1.03
2008		465,764	465,764	250,000	180,320	1.08
2009		471,759	471,759	260,000	167,570	1.10
2010		441,065	441,065	270,000	154,185	1.04
2011		443,485	443,485	290,000	139,833	1.03

¹ The bonds were issued May 11, 1999.

² Revenues are derived from all property tax increment revenue and sales tax revenue remaining after minimum thresholds are met, generated by the Shops at Mission Viejo.

³ The bonds were issued August 1, 1999.

⁴ Principal and interest payments on the 1999 Series C Revenue bonds are secured by special assessment revenues generated by the Community Facilities District No. 92-1 Special Tax Refinancing Bonds.

⁵ The remaining funds required for debt service came from investment earnings.

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

CITY OF MISSION VIEJO
Demographic and Economic Statistics
Last Ten Fiscal Years

Year	Population ¹	Median Age ²	Median Housing Value ³	Personal Income (thousands of dollars) ⁴	Per Capita Personal Income ⁴	Unemployment Rate ⁵
2002	98,006	37.5	\$ 361,000	\$ 111,750,294	\$ 38,169	2.3%
2003	97,276	37.5	455,000	116,997,802	39,536	2.5%
2004	97,845	39.7	592,500	130,200,000	52,871	2.1%
2005	97,848	38.0	677,000	139,300,000	54,127	2.7%
2006	98,165	38.1	669,750	150,500,000	56,114	2.6%
2007	98,030	38.4	613,000	153,300,000	55,172	2.8%
2008	99,781	39.6	520,500	155,000,000	53,552	3.8%
2009	100,122	38.8	440,000	148,300,000	51,374	6.8%
2010	93,297	39.0	460,000	153,300,000	52,124	6.9%
2011	93,483	39.0	430,000	163,300,000	53,733	6.7%

Sources: ¹ California Department of Finance

² Focus: Orange County Report (2002),
Money.cnn.com (2003-2009)
Coldwell Banker.com (2010-2011)

³ California Assoc of Realtors (2002 & 2003) , Orange County Register (2004-2008)
HdL Coren & Cone (2009-2011)

⁴ Data shown is for the County of Orange; data for City of Mission Viejo is not available.
U. S. Bureau of Economic Analysis (2002-2003)
UCLA: Economic Forecast November 2011 (2004-2011)

⁵ Venturi Staffing(2004)
California Employment Development Department (2002-2003, 2005-2011)

CITY OF MISSION VIEJO
Principal Employers
Current Year and Nineteen Years Ago

Employer	2011			1992 ¹		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment ²
Saddleback College	2,196	1	4.40%	1,700	2	-
Mission Hospital Regional Medical Center	1,349	2	2.70%	1,200	3	-
Quest Diagnostics Inc	500	3	1.00%	-	-	-
Coldwell Banker	410	4	0.82%	425	5	-
Rmw Paleo Associates Inc	400	5	0.80%	425	-	-
Saddleback Valley Unified School District	400	6	0.80%	1,894	1	-
Target Corp	377	7	0.76%	-	-	-
Capistrano Unified School District	320	8	0.64%	-	-	-
Nordstrom	300	9	0.60%	-	-	-
Macy's Department Store	275	10	0.55%	-	-	-
Unisys Corporation	-	-	-	1,000	4	-
Bullocks Department Store	-	-	-	300	6	-
May Company Department Store	-	-	-	250	7	-
Mission Viejo Company	-	-	-	190	8	-
Nolte & Associates	-	-	-	165	9	-
Santa Margarita Water District	-	-	-	155	10	-
Total	<u>6,527</u>		13.07%	<u>7,704</u>		

Percentage of "Total City Employment" based on total number of City residents employed in June 2011 of 49,900

¹ Information for 2002 is not available. Information is from City's 1992 Comprehensive Annual Financial Report

² Information not available

Source: Hoovers.com 2011
California Employment Development Department
Orange County Golden 500- 1991-92 Edition
Focus: Orange County - 1991-92 Edition
Telephone Survey

CITY OF MISSION VIEJO
 Full-time Equivalent City Government Employees by Function
 Last Ten Fiscal Years

Function	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government - legislative	11.630	11.880	11.230	11.030	10.930	10.880	10.880	10.880	10.880	10.730
General government - management & support	28.295	28.870	27.795	26.345	27.470	28.720	28.720	29.795	28.220	27.070
Public safety	10.550	10.400	10.500	10.650	11.000	11.000	11.950	15.650 ⁵	15.650	14.750
Community development	9.700	9.650	9.650	9.650	9.500	9.650	9.650	9.650	8.650	7.700
Public works - engineering and transportation	12.275	11.730	11.730	12.225	12.225	12.225	14.175 ²	14.175	13.175	12.175
Infrastructure maintenance	14.350	15.895	14.895	16.600	16.000	16.150	18.250 ³	18.350	17.350	18.250
Recreation/community/library services	35.325	36.700	41.150 ¹	47.975 ¹	51.725 ¹	51.950	55.175 ^{1,4}	57.675 ⁶	56.425	53.425
Total	122.125	125.125	126.950	134.475	138.850	140.575	148.800	156.175	150.350	144.100

¹ Includes conversion of temporary positions to regular positions
² Increased staffing in the transportation area
³ Increased staffing for facilities and landscape maintenance
⁴ Increased staffing to accommodate the expansion of programs offered at the Norman P. Murray Community and Senior Center
⁵ Increased staffing to accommodate the addition of the City of Aliso Viejo to the Animal Services program
⁶ Includes conversion of part-time regular positions to full-time status to meet increasing service demands in the Library's youth services and circulation/passport services divisions

Source: City budget document

CITY OF MISSION VIEJO
 Operating Indicators by Function
 Last Ten Fiscal Years

Function	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government - legislative										
Public Records Act requests	142	165	140	109	133	137	335 ⁶	408	431	529
General government - management and support										
Service requests/complaint cases	2,332	2,746	2,649	2,319	3,155	2,834	2,940	2,780	3,036	3,292
Number of computer network nodes supported	316	350	399	425	415	460	748 ⁷	742	806	819
Number of vendor checks issued	6,668	6,805	6,338	6,289	7,011	6,985	7,223	7,282	6,646	6,506
Public safety										
Calls for police services	36,125	38,468	42,062	48,297 ²	52,534	50,964	49,272	46,664	40,387 ¹⁰	38,161 ¹⁰
Average response time-Priority 1 call in minutes	5:15	6:00	6:11	5:34	5:14	5:03	5:11	5:07	5:32	5:21
Community development										
Building inspections	7,948	8,092	7,000	7,200	8,719	11,753	11,026	9,673	8,394	6,685
Zoning plan checks	1,692	1,939	1,300	1,325	1,501	1,350	1,325	1,316	1,576 ⁹	1,863 ⁹
Public works - engineering and transportation										
Street resurfacing (lane miles)	34.60	24.00	32.30	35.50	21.70	23.20	31.00	28.80	28.00	36.30
Intersections on the city's interconnect system	105	106	109	109	110	110	110	110	111	111
Daily traffic count- La Paz Rd, Marguerite Pkwy to Spadra	28,400	31,200	27,800	29,600	27,100	26,800	25,000	24,739	26,808	27,419
Infrastructure maintenance										
Acres of medians and parkways renovated	-	1	4	7	9	9	10	6	4	3
Recreation/community/library services										
Attendance at recreation and tennis centers	172,252	144,943 ³	129,000 ³	180,742	211,265	242,000 ⁵	266,303	281,011	279,480	270,443
Library circulation	545,000	673,305 ⁴	720,000	727,599	727,253	738,456	833,488	945,298 ⁸	968,468 ⁸	939,734
Youth participating in organized sports on City fields	8,843	8,444	7,872	7,655	7,620	7,750	7,750	7,750	7,700	7,700

¹ Information not available
² Deputy observations/self-initiated activity included in calls for services as of April 15, 2004 per new Sheriff's Department policy
³ Montanoso recreation center closed for renovation
⁴ Library expansion completed
⁵ Increase is due to increased usage by existing members and an increase in the number of members
⁶ Increase is due to tracking procedure improvements
⁷ Increase is due to growth in number of staff supported and implementation of VoIP
⁸ Due to the economic downturn citizens are taking advantage of free services at the Public Library
⁹ Increase is due to a rise in the number of business and residential remodeling
¹⁰ Decrease is due to a reduction in patrol hours resulting from staffing vacancies

Sources: Various city departments

CITY OF MISSION VIEJO
 Capital Asset Statistics by Function
 Last Ten Fiscal Years

Function/Program	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Public safety										
Police (provided by Orange County Sheriffs Department)	19	19	19	20	20	22	21	24	24	24
Patrol units										
Animal shelter buildings:										
Main shelter	1	1	1	1	1	1	1	1	1	1
Cattery	1	1	1	1	1	1	1	1	1	1
Rabbit shelter	0	0	0	0	1	1	1	1	1	1
Cat isolation	0	0	0	0	1	1	1	1	1	1
Public works										
Streets (center miles)	226	226	228	228	228	228	228	228	228	228
Traffic signals	108	110	111	111	111	111	111	114	114	114
Infrastructure maintenance										
Number of park sites	40	40	40	40	40	41	41	41	41	41
Acreage: parks, open space, medians and slopes	1122	1122	1122	1122	1122	1122	1122	1122	1122	1122
Recreation/community/library services										
Facilities (buildings)	8	9	9	9	9	9	9	9	9	9
Athletic fields:										
Baseball/softball diamonds	19	19	19	19	19	19	19	19	19	19
Soccer/football fields	33	33	33	33	33	33	35	35	35	35

Note: No capital asset indicators are available for general government or community development functions.

Source: Various City departments