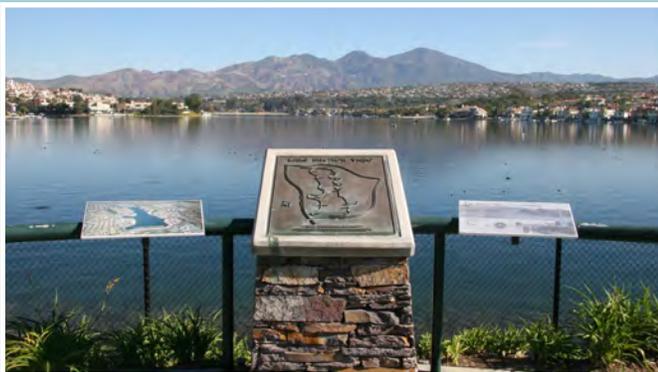




Comprehensive Annual Financial Report

Year Ended June 30, 2017

City of Mission Viejo



About the covers – The front and back cover photos feature City Council priorities and accomplishments during the 2015-2017 budget cycle.

Front cover photos – left to right, top to bottom – Lake Mission Viejo, California’s first fully sustainable man-made lake; Rendering of Marguerite Aquatics Center slated for completion in summer of 2018; City of Mission Viejo Library, celebrating 20th anniversary this year; El Dorado Park playground renovation completed in January 2017; and Pavilion Park restroom opened July 2016.

Back cover photos – left to right, top to bottom – Rendering of Marguerite Aquatics Center state of the art dive tower; Median rehabilitation featuring water friendly landscaping; Conceptual drawing of Core Area Vision Plan; Oso Creek Trailhead; and section of Oso Creek Trail.

**CITY OF MISSION VIEJO
CALIFORNIA**



**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2017**

CITY COUNCIL

Wendy Bucknum, Mayor
Ed Sachs, Mayor Pro Tem
Brian Goodell, Council Member
Trish Kelley, Council Member
Greg Raths, Council Member

CITY MANAGER

Dennis R. Wilberg

**PREPARED BY
DEPARTMENT OF ADMINISTRATIVE SERVICES**

Cheryl Dyas
Director of Administrative Services



MISSION VIEJO

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CITY OF MISSION VIEJO
Comprehensive Annual Financial Report
Year ended June 30, 2017

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MISSION VIEJO

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City of Mission Viejo

Administrative Services Department

Wendy Bucknum
Mayor

Edward Sachs
Mayor Pro Tem

Brian Goodell
Council Member

Trish Kelley
Council Member

Greg Rath
Council Member

December 22, 2017

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, 2017 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 Davis Farr LLP, certified public accountants. The auditors have issued an unmodified ("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 96,718 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 18 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 42 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.

The City is financially accountable for two legally separate entities: the Mission Viejo Housing Authority (MVHA) and the Mission Viejo Community Development Financing Authority (CDFA). The activities of these two entities are included in these financial statements. The former Community Development Agency of the City of Mission Viejo (CDA), was dissolved on February 1, 2012. Upon dissolution, the CDA assets and liabilities were transferred to the Successor Agency to the CDA. The City is obligated to report the resources and activities of the Successor Agency in a separate Private-Purpose Trust Fund, which are also included in these financial statements. Additional information on all three of these legally separate entities can be found in 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 CDFA and the MVHA utilize a one-year budget. These two budgets are controlled at the fund level. Expenses out of the Successor Agency Fund are restricted to Department of Finance (DOF) approved enforceable obligations. These enforceable obligations are approved by the DOF through the submission of a Recognized Obligation Payment Schedule.

State law mandates that Mission Viejo can only raise local tax rates with voter approval. User and regulatory fees must also follow procedures set forth in State law and must not exceed the estimated reasonable cost of providing services. Fees require approval by the City Council; or fees in excess of reasonable cost require voter approval.

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 Mission Hospital Regional Medical Center and Saddleback College. Both have been major employers in the community since incorporation. Mission Hospital Regional Medical Center is the largest hospital in South Orange County and one of only three trauma centers in all of Orange County with 2,600 employees. 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. In January 2018, the hospital will begin construction of a new cancer center that will be built on a portion of the Shops at Mission Viejo site adjacent to Medical Center Road and the hospital campus. Construction is expected to take 18 months. Saddleback College, the City's largest employer with 2,752 employees, is a two-year community college serving almost 40,000 students each school year. 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, engineering, fashion design, journalism and nursing.

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 and Apple. Six high-end auto dealers are located in Mission Viejo: Lexus, Infiniti, Audi, Jaguar/Land Rover, Maserati 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 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 well in good economic times, and it has also been able to weather the slower economic times. Since 2006, assessed valuation of property in the City has grown at an average annual rate of 3.3% despite the recession during this time period and the first-ever decline in assessed valuations in 2010. City property tax revenue accounts for about 42% of total governmental revenues. Sales tax revenue represents about 23% of governmental revenues. The remainder of the tax base (Franchise taxes, real property transfer taxes and transient occupancy taxes) contributes another 5.5% 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 3.4%, down from 4.1% a year ago.

Since the recession ended in 2009 the economy in Mission Viejo has slowly recovered. Job growth is occurring in Orange County and elsewhere and the unemployment rate has declined by 3.5% from the 2010 peak of 6.9%. Median housing values have risen from a low of \$425,000 in 2012 to \$655,000 in 2017, exceeding the pre-recession high of \$613,000 in 2007. As a result of the City's healthy property tax base and personal income levels, the Mission Viejo economy is expected to continue to perform as well as the economies of Orange County and the State.

Long-term financial planning

The City prepared a Master Financial Plan (MFP) as part of the 2017-2019 biennial budget process and is an integral part of the City's budget process. The MFP includes a seven-year General Fund revenue forecast and expenditure plan. The MFP also provides essential information on projected General Fund reserves, and allows for analysis of the amount of resources available to fund equipment replacement as well as asset rehabilitation and repair. The long-range nature of the MFP also allows management and staff to be more proactive in budget planning, using the seven years of projections to plan for anticipated swings in revenues

or expenditures. The 2018-24 revenue forecast indicated that general fund revenue would grow throughout the forecast period on an average of 2.19% per year. Property tax and sales tax revenue represents 80% of General Fund revenue and are important revenue sources for the City. The MFP projects that both these revenue sources will grow annually on an average of 3.21% for property taxes and 2.06% for sales taxes through 2024. The current MFP was prepared with a conservative approach to future expenditure planning. The 2017-19 adopted General Fund budget is balanced without the use of General Fund reserves. For each year beyond 2019, the MFP reflects that expenditures could exceed revenues in FY 2019-20 through FY 2022-23 by as much as \$235,000; however, with careful monitoring of the budget, the City can continue to maintain balanced budgets through 2024.

Financial policy requires the City adopt a balanced operating budget. This means that budgeted revenues are sufficient to support current operating expenditures while maintaining a positive operating position. Any one-time revenues that are received are to be used for one-time costs. The City's General Fund reserve policy requires that reserves will be established through a risk analysis performed biennially in coordination with the preparation of the two-year budget. The analysis for the 2017-19 budget was done in June 2017. The City Council set the target General Fund reserve at 49% of General Fund revenues, with a minimum General Fund reserve of 44%. The reserve balance at June 30, 2017 is 45%.

The City received the GFOA Distinguished Budget Presentation Award and CSMFO Excellence in Operational Budgeting Award for its 2015-2017 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 2017-19 biennial budget document was submitted to both GFOA and CSMFO for award consideration in September 2017.

Major initiatives

The City continued to implement the City Council priorities adopted as part of the 2015-17 budget. These six priorities listed in rank order are: economic development, reducing unfunded liabilities, rehabilitating one city park playground each year, constructing new restrooms in parks, Marguerite Aquatics Complex rehabilitation, and slope maintenance.

- 1) Economic Development – City consultant SWA Group completed the Core Area Vision Plan with three Vision Plan concepts: Rediscovering the Creek, Main Street and Next Gen Village. City Council approved a number of next steps that include repairing and clean-up of Oso Creek, preparation of a conceptual plan for Core Area Creek improvements, conducting property owner outreach to coordinate creek and other Core Area improvements. The City Council has allocated over \$500,000 to further economic development in fiscal year 2017-18.
- 2) Reducing Unfunded Liabilities – The City Council has made additional contributions to reduce pension and retiree healthcare unfunded liabilities of almost \$7.0 million during the past two years. As part of the adoption of the 2017-19 budget in June 2017, the City Council approved the initiation by staff to amend the pension plan contract to shift 1.5% of employer pension rate to employees. Employees voted in September to accept this 1.5% shift and the contract amendment will take effect in December 2017.
- 3) Rehabilitating one City park playground each year – The rehabilitation of El Dorado Park was completed in January 2017. The Cordova Park playground construction project was awarded in

October 2017 and is anticipated to be completed by April 2018. The 2017-19 adopted budget also includes funding for the rehabilitation of Christopher Park.

- 4) Constructing new restrooms in parks – the Pavion Park restroom was opened to the public in July 2016. The Felipe Recreation Center restroom construction contract was awarded in November 2017. The restroom is expected to be opened to the public in Spring, 2018.
- 5) Marguerite Aquatics Complex rehabilitation – Construction demo on this project began in November 2016 and the project is expected to be completed by Spring, 2018.
- 6) Slope maintenance – City completed slope rehabilitation on Muirlands Boulevard between Alicia Parkway and La Paz Road and began slope rehabilitation on Alicia Parkway beginning at Marguerite Parkway and working towards Trabuco Road. The 2017-18 adopted budget includes additional budget resources to continue slope rehabilitation along Alicia Parkway.

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 CDA, as required by the State, accumulated resources every year up to dissolution to assist and promote low to moderate income housing development. Upon dissolution of the CDA on February 1, 2012, the affordable housing responsibilities were transferred to the MVHA. During fiscal year 2016-17, the MVHA expended approximately \$70,700 for the final sale of twenty-two affordable units in a 144 townhomes/condominiums 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. Should a unit be re-sold to a non-qualified homebuyer, the original homebuyer is obligated to return an amount to the MVHA based on original subsidy and re-sale home price. In addition, the MVHA expended \$820,000 for the purchase of two condominium units in City limits for transitional housing. Also, in furtherance of the goals of the City's Housing Element and a State Housing and Community Development mandate, the City continues to seek proposals from developers to develop land commonly referred to as "Opportunity Site C".

Another 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. Construction is expected during FY 2017-18 for intersection improvements at Felipe Road and Oso Parkway and the City continues planning for freeway on-ramp improvements to the northbound I-5 at Oso Parkway.

Major resources are devoted to street resurfacing around the City each year. Approximately \$2.4 million was spent on residential streets and arterial resurfacing in FY 2016-17. Another \$4.8 million is budgeted for FY 2017-18.

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, 2016. 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

Honorable Mayor, Members of the City Council, City Manager and Citizens of the City of Mission Viejo
December 22, 2017

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 2016-17 CAFR continues to conform to the Certificate of Achievement program requirements, and it will be submitted to GFOA for award consideration.

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, Davis Farr 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: Accountant Kim Lashley, Accountant Andrea Pham, Budget and Purchasing Analyst Susan Knudson 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,



Cheryl Dyas, CPA
Director of Administrative Services



Government Finance Officers Association

**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

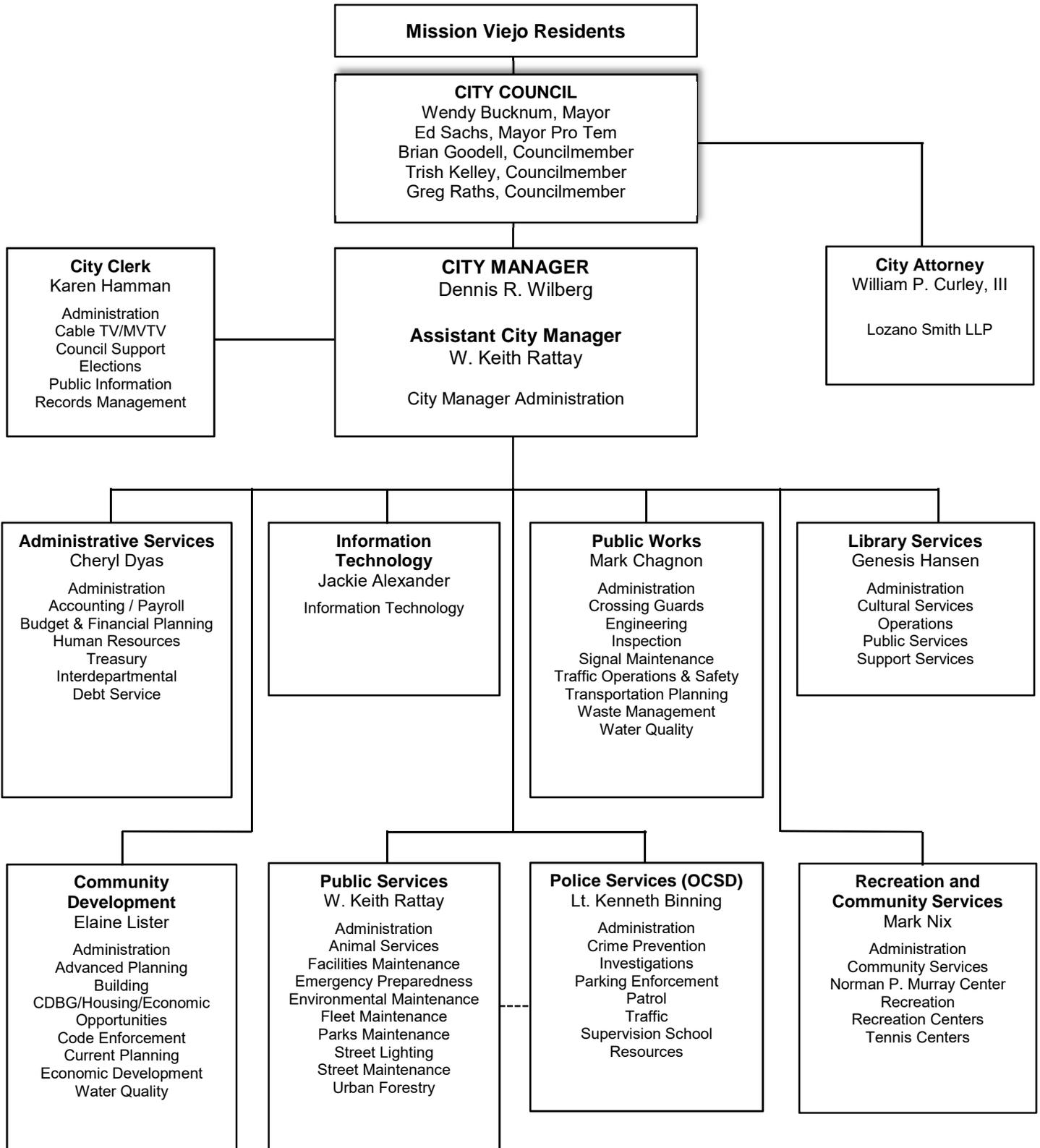
June 30, 2016

Executive Director/CEO

CITY OF MISSION VIEJO

Organizational Structure

June 30, 2017



CITY OF MISSION VIEJO

List of Principal Officials
as of June 30, 2017

City Manager	Dennis R. Wilberg
City Attorney	William P. Curley III
Director of Community Relations/City Clerk.....	Karen Hamman
Assistant City Manager/Director of Public Services.....	W. Keith Rattay
Director of Administrative Services.....	Cheryl Dyas
Director of Community Development.....	Elaine Lister
Director of Information Technology.....	A. Jackie Alexander
Director of Library and Cultural Services	Genesis Hansen
Director of Public Works	Mark Chagnon
Director of Recreation and Community Services	Mark Nix
Chief of Police Services (O.C. Sheriff Department).....	Lt. Kenneth Binning



MISSION VIEJO

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City Council
City of Mission Viejo
Mission Viejo, California

Independent Auditor's Report

Report on the Financial Statements

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 the City of Mission Viejo, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Report on Summarized Comparative Information

We have previously audited the City of Mission Viejo's 2016 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 16, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis, budgetary comparison information for the General Fund and each major special revenue fund, schedule of changes in net pension liability and related ratios during the measurement period, schedule of plan contributions, and schedule of funding progress - other post employment benefits plan* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report December 22, 2017 on our consideration of the City of Mission Viejo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Mission Viejo's internal control over financial reporting and compliance.



Irvine, California
December 22, 2017



MISSION VIEJO

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MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MISSION VIEJO
Management's Discussion and Analysis
Year ended June 30, 2017

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, 2017. 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, 2017 by \$690.5 million. This amount is referred to as the net position of the City. Of this amount, \$23.1 million is unrestricted net position and may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net position decreased by \$3.9 million during the past year. FY 2016-17 operations resulted in a decline in net position in the amount of \$6.9 million. This decline was offset by an increase to net position of \$3.0 million to add the Section 115 pension trust asset to General Fund assets due to changes in accounting standards (see footnote 22). Governmental activities expenses were \$7.2 million higher in FY 2016-17 over FY 2015-16. (See pages 12-14 for a more detailed discussion of expenses.)
- As of June 30, 2017, the City's governmental funds (the General Fund plus Special Revenue, Debt Service and Capital Projects funds) reported combined ending fund balances of \$53.4 million. Governmental revenues and other financing sources exceeded expenditures and other financing uses by \$1.8 million in FY 2016-17. Of the \$53.4 million combined ending fund balances at June 30, 2017, \$26.5 million is categorized as unassigned, \$4.5 million is categorized as assigned, \$21.8 million is categorized as restricted, and \$0.6 is categorized as non-spendable.
- Of the \$4.5 million General Fund assigned fund balance, \$3.5 million is assigned to capital asset replacement, with \$1.0 million assigned to pension and Other Post-Employment Benefits (OPEB) liabilities.
- The unassigned General Fund fund balance of \$26.5 million includes a \$15.5 million reserve for economic and budgetary uncertainty. Another \$4.5 million is for carryover appropriations to FY 2017-18, including encumbrances. The balance of \$6.5 million is available for any purpose at the Council's discretion.
- The City's total long-term liabilities, as reported on the Statement of Net Position, increased by \$2.0 million, or 3.4% from the prior fiscal year due to an increase in the City's net pension liability.

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 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

CITY OF MISSION VIEJO
Management's Discussion and Analysis
Year ended June 30, 2017

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

The Statement of Activities and Changes in Net Position presents information on how the City's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of 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 leave).

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 two other legally separate entities: the Mission Viejo Housing Authority (the "Housing Authority"); and the Mission Viejo Community Development Financing Authority (the "Financing Authority"), a joint powers authority formed by both the City and the dissolved Community Development Agency of the City of Mission Viejo (the former redevelopment agency of the City), to issue bonds for the construction of major capital facilities. The City is financially accountable for both of these legally separate entities, which are referred to as component units. The Housing Authority and Financing 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.

The government-wide financial statements can be found on pages 27-29 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.

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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 reports on 14 individual governmental funds for financial statement reporting purposes. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Developer Fees Fund, Grants Fund, and Housing Authority Fund, which are considered to be the City's four major funds for the current fiscal year. Data from the other ten 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 schedules elsewhere in the report.

The City (the primary government) adopts a biennial budget for all its governmental and proprietary funds. Annual appropriations are approved prior to the beginning of each year of the biennial budget period. The Financing Authority and Housing Authority adopt an annual budget. A budgetary comparison schedule has been provided for each of the governmental funds to demonstrate compliance with these budgets. The definition of the General Fund for purposes of these audited financial statements is different than for budgetary purposes. For budgeting purposes, the City maintained two asset replacement funds separate from the General Fund, but for these financial statements, these two funds are combined into the General Fund.

The basic governmental fund financial statements can be found on pages 32-38 of this report.

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 operations and government-access cable television station.

The basic proprietary fund financial statements can be found on pages 39-42 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

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accounting used for fiduciary funds is much like that used for proprietary funds. The City utilizes one private-purpose trust fund to account for the assets, liabilities and activities of the Successor Agency to the dissolved Community Development Agency. The Successor Agency was created on February 1, 2012. The second fiduciary fund is an agency fund, which is used to account for the assets of Community Facilities District No. 92-1 (Mission Viejo Freeway Center). The third fiduciary fund is a pension trust fund that was created on May 1, 2016. The pension trust fund is used to report resources that are required to be held in trust for the members and beneficiaries of the City's defined benefit pension plan. Due to a change in accounting standards, beginning with fiscal year 2016-17, the pension trust fund is required to be reported in the General Fund.

The basic fiduciary fund financial statements can be found on page 43-44 of this report.

Notes to 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 basic financial statements can be found on pages 45-96 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, budgetary policies and supplemental information on the City's defined benefit plans. Required supplementary information can be found on pages 98-107 of this report.

The supplemental schedules 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 109-136 of this report.

Government-wide Financial Analysis

Net position. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$690.5 million as of June 30, 2017, the close of the most recent fiscal year. In comparison to 2016 and 2015, net position was \$694.4 and \$693.5, respectively.

By far the largest portion of the City's net position at June 30, 2017 (\$642.3 million, or 93% of total net position) 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 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.

An additional \$25.1 million of the City's net position is restricted net position, representing resources that are subject to external restrictions on how they may be used. Restricted net position decreased \$1.0 million, or 3.8% from June 30, 2016. There are three significant transactions that contribute to

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the \$1.0 million net decline. The first is the receipt of developer fee revenue during the year in the amount of \$3.0 million to reimburse the City for prior year capital project outlays. The assets for unavailable receivables are reflected as restricted assets until the amounts are available to the City. Secondly is the elimination of the 2009 bond debt service reserve upon the refunding of those bonds in August 2017. This debt service reserve was \$1.3 million at June 30, 2016. These two transactions are offset with the increase in restricted net assets of \$3.0 million to reflect the reporting of the Section 115 pension trust asset in the Government-wide statements. This asset, which is held in a separate trust account, can only be used for pension liabilities.

City of Mission Viejo Net Position at Year-End (in millions)							
	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2017	2016	2017	2016	2017	2016	2016-2017
Current assets	\$ 73.0	\$ 80.4	\$ 4.7	\$ 4.6	\$ 77.7	\$ 85.0	-8.6%
Capital assets	<u>675.5</u>	<u>676.9</u>	<u>2.8</u>	<u>2.0</u>	<u>678.3</u>	<u>678.9</u>	-0.1%
Total assets	<u>748.5</u>	<u>757.3</u>	<u>7.5</u>	<u>6.6</u>	<u>756.0</u>	<u>763.9</u>	-1.0%
Deferred outflows of resources	<u>5.7</u>	<u>3.9</u>	<u>0.6</u>	<u>0.5</u>	<u>6.3</u>	<u>4.4</u>	43.2%
Long-term liabilities outstanding	58.3	56.7	2.2	1.7	60.5	58.4	3.6%
Other liabilities	<u>10.2</u>	<u>13.9</u>	<u>0.3</u>	<u>0.2</u>	<u>10.5</u>	<u>14.1</u>	-25.5%
Total liabilities	<u>68.5</u>	<u>70.6</u>	<u>2.5</u>	<u>1.9</u>	<u>71.0</u>	<u>72.5</u>	-2.1%
Deferred inflows of resources	<u>0.7</u>	<u>1.3</u>	<u>0.1</u>	<u>0.1</u>	<u>1.4</u>	<u>1.4</u>	0.0%
Net position:							
Net investment							
in capital assets	639.5	639.1	2.8	2.0	642.3	641.1	0.2%
Restricted	25.1	26.1	-	-	25.1	26.1	-3.8%
Unrestricted	<u>20.4</u>	<u>24.1</u>	<u>2.7</u>	<u>3.1</u>	<u>23.1</u>	<u>27.2</u>	-15.1%
Total net position	<u>\$ 685.0</u>	<u>\$ 689.3</u>	<u>\$ 5.5</u>	<u>\$ 5.1</u>	<u>\$ 690.5</u>	<u>\$ 694.4</u>	-0.6%

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

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net position decrease by \$3.9 million from the prior fiscal year is discussed in the following sections for governmental activities and business-type activities. This decrease is also reflected as part of unrestricted net position from \$27.2 million in the prior year to \$23.1 million at June 20, 2017.

City of Mission Viejo Changes in Net Position (in millions)							
	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2017	2016	2017	2016	2017	2016	2016-2017
Revenues							
Program revenues:							
Charges of services	\$ 6.3	\$ 6.0	\$ 3.3	\$ 1.5	\$ 9.6	\$ 7.5	28.0%
Operating grants and contributions	5.7	4.1	0.1	0.8	5.8	4.9	18.4%
Capital grants and contributions	1.8	3.2	-	-	1.8	3.2	-43.8%
General revenues:							
Taxes:							
Property taxes	33.1	32.3	-	-	33.1	32.3	2.5%
Sales and use taxes	17.2	15.2	-	-	17.2	15.2	13.2%
Property taxes in lieu of sales and use taxes	-	3.3	-	-	-	3.3	-100.0%
Other taxes	4.2	4.4	-	-	4.2	4.4	-4.5%
Investment earnings	0.1	0.4	-	-	0.1	0.4	-75.0%
Other	0.7	0.8	0.1	-	0.8	0.8	0.0%
Total revenues	69.1	69.7	3.5	2.3	72.6	72.0	0.8%
Expenses							
General government- legislative	2.0	1.2	-	-	2.0	1.2	66.7%
General government- management/support	9.6	8.0	-	-	9.6	8.0	20.0%
Public safety	20.1	18.8	-	-	20.1	18.8	6.9%
Community development	4.7	3.2	-	-	4.7	3.2	46.9%
Public works – engineering/transportation	6.9	5.5	-	-	6.9	5.5	25.5%
Infrastructure maintenance	20.4	20.7	-	-	20.4	20.7	-1.4%
Recreation, community and library services	11.1	10.3	-	-	11.1	10.3	7.8%
Animal services and other	-	-	3.1	2.1	3.1	2.1	47.6%
Mission Viejo television	-	-	0.5	0.3	0.5	0.3	66.7%
Interest on long-term debt	1.1	1.0	-	-	1.1	1.0	10.0%
Total expenses	75.9	68.7	3.6	2.4	79.5	71.1	11.8%
Excess/(deficiency) in net position							
before transfers and extraordinary item	(6.8)	1.0	(0.1)	(0.1)	(6.9)	0.9	-866.7%
Transfers	(0.5)	(0.9)	0.5	0.9	-	-	0.0%
Increase in net position	(7.3)	0.1	0.4	0.8	(6.9)	0.9	-866.7%
Net position, beginning of year, as previously	689.3	689.2	5.1	4.3	694.4	693.5	0.1%
Prior period adjustment	3.0	-	-	-	3.0	-	
Net position, beginning of year, as restated	692.3	689.2	5.1	4.3	697.4	693.5	0.6%
Net position, end of year	\$ 685.0	\$ 689.3	\$ 5.5	\$ 5.1	\$ 690.5	\$ 694.4	-0.6%

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Governmental activities. During the current year, net position for governmental activities decreased \$7.3 million from the prior fiscal year ending balance of \$689.3 million. As reflected above, total revenues of \$69.1 million were less than expenses and transfers out of \$76.4 million.

Revenue Analysis

Total revenues decreased by \$0.6 million, or 0.8% from prior year levels. Program revenues increased \$0.5 million, with \$0.3 million of that increase reflected in charges for services and \$0.2 million reflected in operating and capital grants and contributions. These increases were offset with a decrease in general tax revenue in the amount of \$0.7 million and a decrease in investment earnings in the amount of \$0.3 million. The most notable change is a decrease in sales tax revenue from the prior year in the amount of \$1.3 million. The primary reason for this decline is the sun-setting of the Triple Flip revenue, also referred to as property taxes in lieu of sales and use taxes. The Triple Flip was a revenue tactic put in place by the State of California to pay for deficit reduction bonds issued in 2004. While the City was made whole by replacing a quarter of its sales tax share with property taxes, Triple Flip distributions were made with a one quarter (3 month) delay. The final payment received last year included an extra 3 month Triple Flip payment to make the City whole from this program.

The decline in sales tax revenue was offset with an increase in property taxes in the amount of \$0.8 million. The growth rate for secured and unsecured property in the City grew 3.88% in FY 2016-17 over the prior year. The growth rates for FY 2015-16 and FY 2014-15 were 4.93% and 6.48% respectively.

Expenses Analysis

Expenses (expenses plus non-cash expenses) associated with governmental activities increased by \$7.2 million, or 10.5%. This increase is due primarily to pension and OPEB costs.

OPEB costs include the expensing of the City's OPEB asset, which was \$2.9 million at June 30, 2016. This amount represented the cumulative balance of payments made to the retiree healthcare plan in excess of required annual contributions in prior years, offset by the OPEB liability balance at June 30, 2017 of \$143,000. This liability balance is caused by the implicit subsidy. Based on the City's last OPEB valuation dated June 20, 2015, the annual required contribution was \$489,000 (\$234,000 for explicit subsidy and \$255,000 for implicit subsidy) for FY 2016-17; however, since the City is making payments only for the explicit subsidy, accounting standards require that we report the unpaid portion of the required contribution on the face of the financial statements. This resulted in the City going from having a prepaid OPEB asset to an OPEB liability. The net cost allocated across all functions in the current year is \$2.7 million.

The net pension liability increased \$3.7 million from the prior year to June 30, 2017. This differs from the prior year where the net pension liability declined approximately \$25,000 from FY 2014-15 to FY 2015-16. The net pension cost allocated across all functions in the current year is \$2.2 million.

The balance of the increase of approximately \$2.3 million is primarily due to increases in expenses in the Public Safety and Community Development program areas. Actual expenditures were \$1.3 million

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higher in the current year for police services under the Orange County Sheriff's Department contract. Under Community Development, the Housing Authority expended \$820,000 under an agreement with Families Forward for the purchase of two homes to provide transitional housing to low income families.

The cost of all governmental activities in FY 2016-17 was \$75.9 million. That cost was financed by: those who directly benefited from the programs and services (8.2%); other governments and organizations that subsidized certain programs and projects with grants and contributions (10.0%); and general tax revenues and other general revenues of the City (81.8%). This is an increase from 80.8% in the prior year.

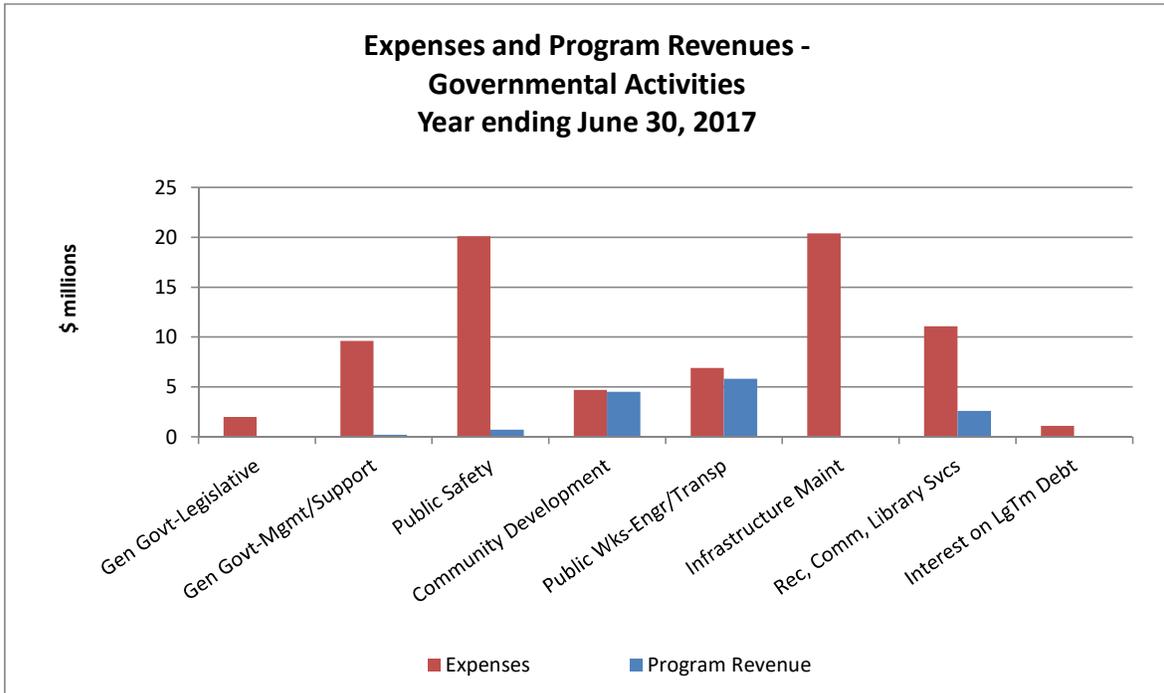
City of Mission Viejo Net Cost of Governmental Activities (in millions)						
	2017			2016		
	Total Cost of Services	Net Cost of Services	% of Total Cost Borne By General Revenues	Total Cost of Services	Net Cost of Services	% of Total Cost Borne By General Revenues
General government- legislative	\$ 2.0	\$ 2.0	100.0%	\$ 1.2	\$ 1.3	108.3%
General government- management/support	9.6	9.4	97.9%	8.0	7.9	98.8%
Public safety	20.1	19.4	96.5%	18.8	18.1	96.3%
Community development	4.7	0.3	6.4%	3.2	0.6	18.8%
Public works- engineering/ transportation	6.9	1.1	15.9%	5.5	(0.4)	-7.3%
Infrastructure maintenance	20.4	20.3	99.5%	20.7	20.2	97.6%
Recreation, community and library services	11.1	8.5	76.6%	10.3	6.8	66.0%
Interest on long-term debt	1.1	1.1	100.0%	1.0	1.0	100.0%
	<u>\$ 75.9</u>	<u>\$ 62.1</u>	81.8%	<u>\$ 68.7</u>	<u>\$ 55.5</u>	80.8%

The reasons for the increase in net cost of services paid for with general revenues in generally due to the same reasons noted above; increased pension and OPEB costs. There are some notable exceptions. For Community Development, the expense of \$820,000 for transitional housing was funded with a grants from the Department of Housing and Urban Development; therefore, there were no City general tax revenues used to fund this project. In fact, general revenues needed in the current year for Community Development declined \$0.3 million. This is due to a payment received from the Housing Authority on the sale of land for affordable housing.

There was also an additional increase in net cost of services in the Recreation, Community and Library Services program area in the amount of \$1.0 million. The City received \$1.0 million in Park Development Fees from the Skyridge residential development project in FY 2015-16 helping to offset costs in the previous year. There were no Park Development Fees received in FY 2016-17.

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The following graph demonstrates the total program revenues and expenses by program area (function). The difference between these represents the net cost of governmental activities paid with general revenues.



Business-type activities. The business-type activities of the City continue to be a relatively small component of overall City operations, representing about 4.5% of total City expenses. There are two business-type activities: Animal Services comprises 87% of the expenses and Mission Viejo Television comprises 13% of expenses. Net position for the Animal Services Fund increased \$0.3 million, while net position for the Mission Viejo Television Fund increased by \$0.1 million in FY 2016-17. Program revenue in the Animal Services Fund was up from the prior year by \$1.2 million. This increase is due to the expansion of animal services to two additional cities beginning January 1, 2017. The City now serves the communities of Aliso Viejo, Laguna Hills, Laguna Niguel and Rancho Santa Margarita. Operating expenditures in the Animal Services Fund increased \$1.0 million. This increase is also due to the expansion of the animal service operation, with the majority of this increase reflected in personnel costs. Revenues for Mission Viejo Television Fund were slightly down \$32,000 from the prior year. Operating expenditures for Mission Viejo Television Fund increased \$147,000 from the prior year due to an increase in television productions. These increases can be seen in personnel services and contractual service used to film City events and regular programming such as SportsZone.

Financial Analysis of the Governmental Funds

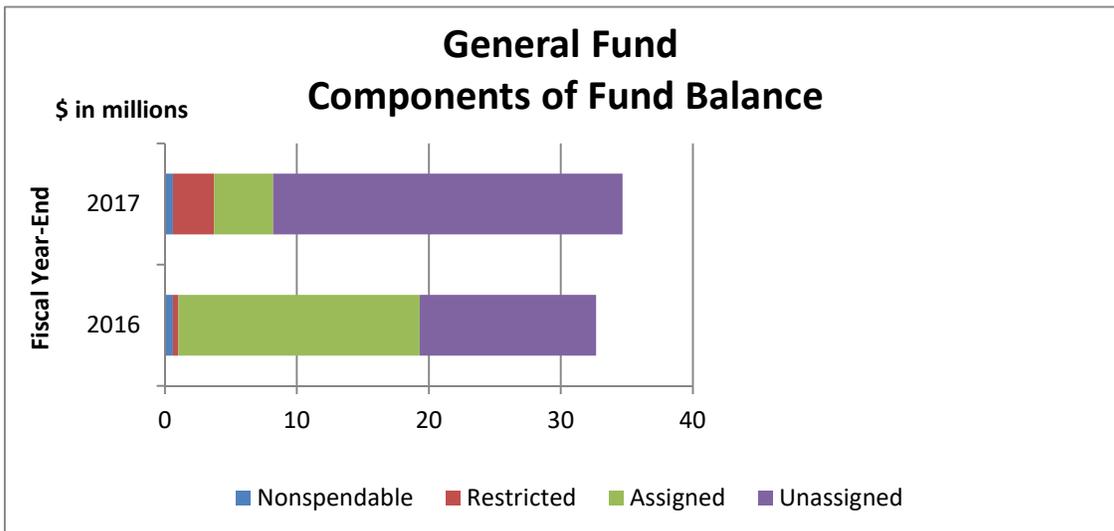
As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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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's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary spending as this category of fund balance represents the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City Council.

At June 30, 2017, the City's governmental funds (as presented in the balance sheet on pages 32-33) reported combined fund balances of \$53.4 million, an increase of \$1.8 million in comparison with the prior year restated balance of \$51.6 million. Approximately \$26.4 million of this total amount (50%) constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is either non-spendable, restricted or assigned to indicate that it is 1) not in spendable form (\$0.6 million) 2) legally required to be spent on specific uses or be maintained intact (\$21.8 million), or 3) assigned for a particular purpose (\$4.5 million).

General Fund. The General Fund is the chief operating fund of the City. As of June 30, 2017, the total fund balance of the General Fund was \$34.7 million, a decrease of \$1.0 million from the \$35.7 million restated prior year balance. Expenditures exceeded revenues by \$0.8 million. Some significant expenditures in the current year include \$4.8 million for facility related capital improvement projects, including the Marguerite Aquatics Center renovation and El Dorado Playground renovation. Increased costs in Public Safety is related to an increase in police services cost as previously reported above.

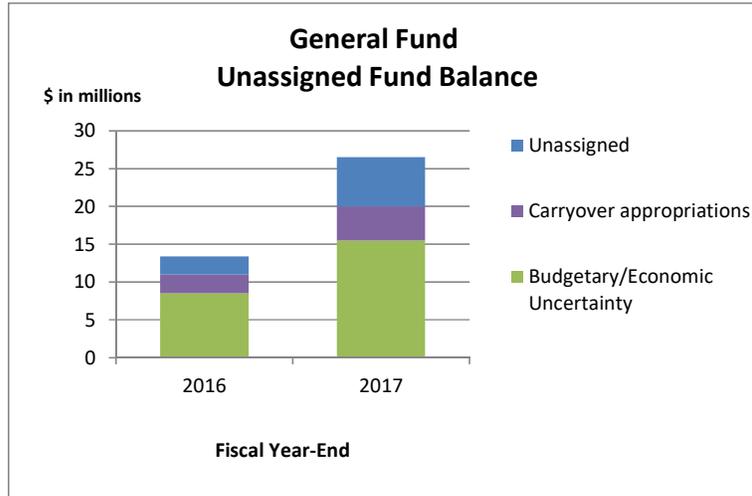


The largest component of fund balance in the General Fund at June 30, 2017 is unassigned fund balance at \$26.5 million. Assigned fund balance is comprised of \$3.5 million for capital asset replacement and \$1.0 million for pension and OPEB liabilities. Assigned fund balance decreased \$13.8 million from the prior year balance of \$18.3 million as the City Council re-distributed a portion of General

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Fund reserves from capital asset replacement purposes to budgetary and economic uncertainty purposes in accordance with the General Fund reserves policy adopted in June 2017.

Unassigned fund balance at June 30, 2017 was \$26.5 million, an increase of \$13.1 million from \$13.4 million in the prior year. The City Council revised the General Fund reserve policy in June 2017, shifting assigned fund balance for capital asset replacement to economic and budgetary uncertainty purposes. Reserves for economic and budgetary uncertainty is \$15.5 million. Another \$4.5 million is for carry over appropriations, including amounts for encumbrances, and \$6.5 million is available for any purpose at the Council's discretion.



As a measure of the General Fund's relative fiscal strength, it is useful to calculate the General Fund reserve balance as a percentage of total General Fund revenues. The City Council has defined reserves under their discretion for purposes of this calculation as the total balance of assigned reserves in the amount of \$4.5 million, the economic and budgetary uncertainty reserve in the amount of \$15.5 million and the unassigned reserve of \$6.5 million, to comprise the balance of the City Council's discretionary reserve balance of \$26.5 million at June 30, 2017. This amount represents 45% of FY 2016-17 General Fund revenues.

The fund balance of the General Fund at the beginning of the year was restated by \$3.0 million to account for resources held in a pension trust (see footnote 22 on page 96).

The City has three other major funds: Developer Fees Fund, Grants Fund and the Housing Authority Fund.

Developer Fees Fund. The Developer Fees Fund ended the year with a total positive fund balance of \$3.9 million, an increase of \$3.5 million from the prior year ending fund balance of \$0.4 million. The increase in fund balance is due to the receipt of developer fee revenue in the amount of \$4.0 million. This amount was received against an accumulated \$4.0 million receivable balance that was carried in the fund over prior years. This fund also reflected capital improvement program expenditures in the amount of \$489,000, with \$357,000 of these against the Marguerite Aquatics Center renovation and another \$102,000 expended toward the Felipe/Oso Intersection Improvement project.

Grants Fund. The Grants Fund ended the year with a total negative fund balance of \$0.1 million, a decrease of \$0.4 million from the prior year. While revenues exceeded expenditures in the fund by

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\$0.4 million, \$820,000 of accumulated Community Development Block Grant resources were transferred to the Housing Authority to fund the agreement with Families Forward. This agreement provided resources for the purchase of two homes for transitional housing for low income families.

Housing Authority Fund. The Housing Authority Fund had a fund balance of \$5.3 million at June 30, 2017 compared to \$5.2 million at the end of the prior year. This is an increase of \$0.1 million. During the fiscal year, the City expended \$820,000 to the Families Forward agreement as previously noted. Additional expenditures include \$70,738 which represented the final payment to Lennar Homes of California, Inc. ("Lennar") as part of an affordable housing subsidy entered into between Lennar and the former Community Development Agency (dissolved redevelopment agency). The Lennar development located near the intersection of Jeronimo Road and Los Alisos Boulevard.

The Fund also made a \$1,780,000 payment against the note payable agreement dated May 8, 2015 with the City for the purchase of land (Site C) for future affordable housing purposes. Additional information on this note can be found in footnote 7 to the basic financial statements.

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.

The City operated two business-type activities: Animal Services and Mission Viejo Television. For the Animal Services Fund, unrestricted net position at June 30, 2017 was \$1.5 million, a \$0.5 million decrease from the prior year net position. For Mission Viejo Television, unrestricted net position increased \$0.1 million from the prior year. The operating loss for Animal Services was \$0.2 million, a \$0.3 million improvement from the prior year. Mission Viejo Television reported operating income in the current year of \$0.1 million, a decline of \$0.2 million from the prior year. The operating loss for Animal Services was offset by an operating subsidy transferred from the City's General Fund in the amount of \$0.5 million. The operating subsidy in the prior year was \$0.9 million. There was no operating subsidy for Mission Viejo Television. The decrease in subsidy for Animal Services of \$0.3 million from the prior year is due to payments approved by the City Council for retiree healthcare and pension unfunded liabilities in the prior year. There were no additional retiree healthcare or pension payments in the current year beyond the annual required contributions.

General Fund Budgetary Highlights

Original budget compared to final budget. After each fiscal year is closed, the amount of encumbrances outstanding at year end and unencumbered appropriations are determined for carryover to the subsequent fiscal year. These amounts for FY 2016-17 were approved by the City Council in October 2016 and increased the original budget accordingly. Total carryover appropriations for FY 2016-17 were \$4.8 million, with \$3.8 million appropriated in the operating budget and \$1.0 million for the capital improvement program ("CIP") budget. The most significant carryover appropriation was \$1.4 million for Information Technology related projects including the purchase and implementation costs of a new recreation software application, replacement software for Sire, the City's document management system, and resources for technology improvements at the Marguerite Aquatics Center. There was also \$0.5 million carried over to fund the second installment of a grant to the Santa Margarita

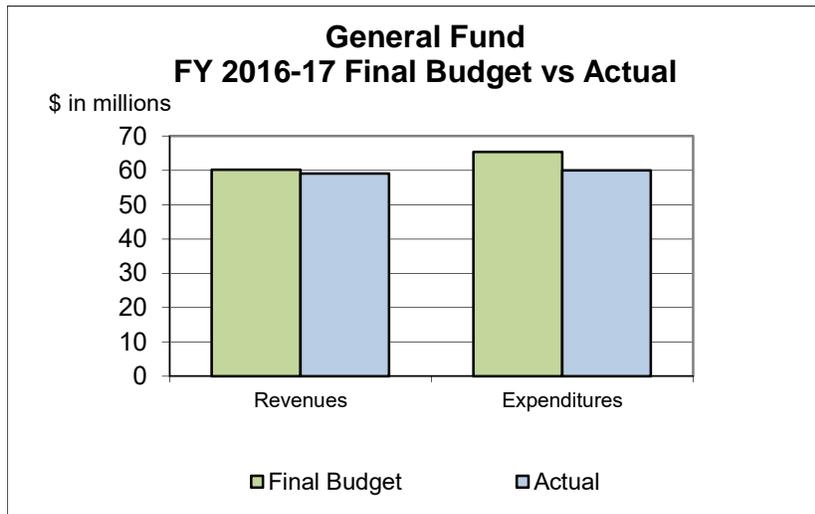
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Water District (SMWD) to provide financial assistance for the construction of the Lake Mission Viejo Advanced Purified Water Treatment Facility. Another \$0.6 was carried over in the public safety program area to complete the upgrade of radios as part of the Countywide 800 Mhz communication system upgrade and to provide additional resources toward the Orange County Sheriff's Department (OCSD) police services contract. A total of \$0.4 million was carried over to further efforts in the Civic Core Vision Plan and other economic development efforts. The balance of the operating budget carryover appropriation was primarily for park and facility maintenance needs. The largest carryover appropriation was for the El Dorado Playground renovation project in the amount of \$0.6 million.

During the year, there were a number of amendments approved to increase the original adopted budget for a total increase in appropriations in the amount of \$6.5 million. The most significant of these amendments include: several amendments approved throughout the year to fund the Marguerite Aquatics Center renovation for total appropriations of \$5.6 million; in October 2017, the City Council approved a \$400,000 appropriation for slope rehabilitation along Alicia Parkway; in March 2017, the City Council approved a \$0.1 million appropriation for emergency slope repair work along Oso Creek Trail due to damages sustained in the 2017 winter storms.

Final budget compared to actual results. Actual revenues for the year were \$1.1 million less than revised budget estimates. Actual tax revenue came in less than projections in the amount of \$0.9 million. Property taxes fell short of projections by \$0.1 million, sales taxes fell short by \$0.5 million, and franchise fees and other taxes fell short by \$0.2 million. The most significant difference between estimated and actual revenues was a negative variance for Other revenues in the amount of \$1.3 million. Final revenue projections in this category include \$1.7 million in donations from the Nadadores Foundation for the Marguerite Aquatics Center renovation. For FY 2016-17, the City only received \$274,000 of this amount. The balance of the \$1.7 million commitment will be received in future years based on funding agreements executed with the Nadadores Foundation.

Actual expenditures were \$5.4 million less than the final appropriations budget. Of this \$5.4 million total, operating expenditures were \$2.6 million less than budget and capital projects came in \$2.8 million under budget. The most significant difference between estimated and actual expenditures for the operating budget was a positive variance of \$1.1 million in the General



Government-Management and Support program area budget of which \$0.8 is reflected in the Information Technology program. Although these appropriations were not spent during FY 2016-17,

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\$0.6 million of the unspent balance in the Information Technology program has been carried over for continued use in FY 2017-18 for the implementation of a new recreation software program, new document imaging software and IT upgrades at the Marguerite Aquatics Center. The Community Development program area had savings of \$419,000. Of this amount, \$348,000 has been carried over for economic development purposes. There were also over \$449,000 of unspent resources in the Recreation, Community Services and Library Services program area. The City experienced savings of \$151,000 on the Saddleback Valley Unified School District Kid's Factory contract and \$165,000 in personnel savings due to department restructuring. In the CIP budget, the largest difference between estimated and actual expenditures was for the Marguerite Aquatics Center renovation in the amount of \$1.5 million, Cordova Playground Renovation project is under budget in the amount of \$642,000, and the Felipe Park Restroom project budget is under by \$488,000. All three of these projects are active and on-going and appropriations for all three projects have been carried over to FY 2017-18.

Of the \$5.4 million current year savings, \$4.5 million has been carried over to FY 2017-18 for continuing operations and the completion of capital projects.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2017, amounts to \$678.3 million, net of accumulated depreciation. This investment in assets includes land, buildings, machinery, equipment, vehicles and infrastructure.

City of Mission Viejo Capital Assets At Year-End (Net of Depreciation, in Millions)							
	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2017	2016	2017	2016	2017	2016	2016-2017
Land	\$ 48.8	\$ 48.8	\$ 0.6	\$ 0.6	\$ 49.4	\$ 49.4	0.0%
Rights of way	243.8	243.8	-	-	243.8	243.8	0.0%
Buildings and Improvements	69.9	72.9	2.0	1.3	71.9	74.2	-3.1%
Machinery, equipment and furniture	2.4	2.5	0.2	0.1	2.6	2.6	0.0%
Vehicles	0.2	0.3	-	-	0.2	0.3	-33.3%
Infrastructure	301.7	304.0	-	-	301.7	304.0	-0.8%
Water rights	1.0	-	-	-	1.0	-	#DIV/0!
Construction in progress	<u>7.7</u>	<u>4.6</u>	<u>-</u>	<u>-</u>	<u>7.7</u>	<u>4.6</u>	67.4%
Total	<u>\$ 675.5</u>	<u>\$ 676.9</u>	<u>\$ 2.8</u>	<u>\$ 2.0</u>	<u>\$ 678.3</u>	<u>\$ 678.9</u>	-0.1%

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The total decrease in capital assets for the current fiscal year was \$0.6 million, or 0.1%.

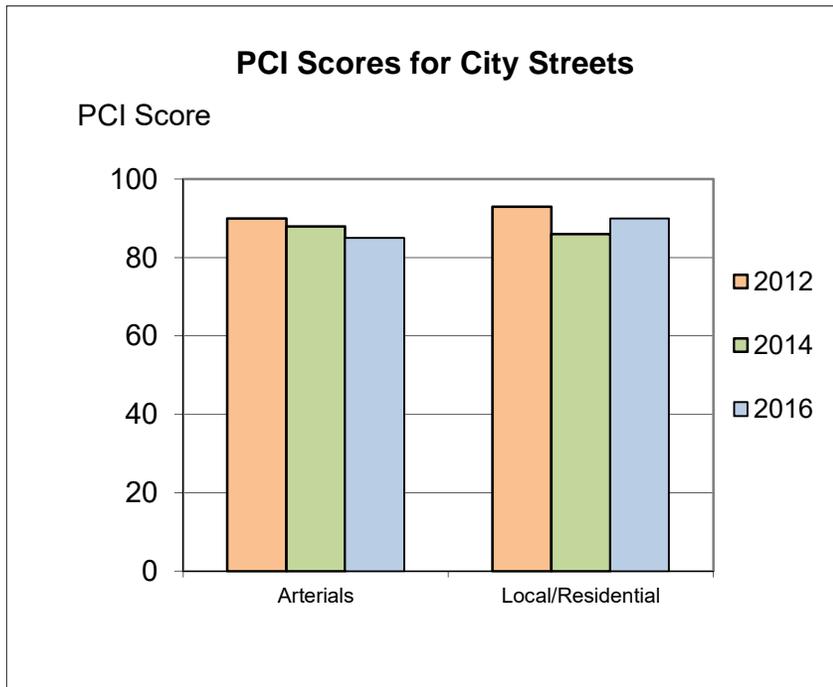
Major capital asset transactions during the current fiscal year included the following:

- Buildings and improvements decreased by \$2.3 million. There were additions to this capital asset category in the amount of \$1.6 million. Of this amount \$0.4 million was recorded for the Pavion Park Restroom project. Another \$0.4 million relates to the El Dorado Playground renovation. Finally, \$0.8 million was recorded for the Animal Shelter building expansion. This asset category increase was offset by annual depreciation in the amount of \$3.9 million.
- Infrastructure assets decreased by \$2.3 million. There were no additions to this capital asset during the year. The entire asset category decrease is due to annual depreciation.
- Construction in progress increased by \$3.1 million. Total additions of \$6.5 million were offset by deletions of \$3.4 million. Significant projects completed during the year were the construction of the Pavion Park Restroom and the El Dorado Playground renovation. The accumulated costs for each project were re-classified to the Building and Improvements and Equipment and Furniture asset categories. Additions to Construction in Progress for projects that were not completed during FY 2016-17 include \$4.5 million for the Marguerite Aquatic Center renovation, \$36,000 for the Cordova Playground renovation, \$12,000 for the Felipe Park Restroom project, and \$186,000 for various street improvements, including the Felipe/Oso Parkway Intersection Improvement project. Generally, as the Notice of Completion ("NOC") 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 capital asset category in the year the NOC is filed.
- A new capital asset category for Water Rights was added in the current year. The City funded a grant in the amount of \$1.0 million to SMWD to provide financial assistance for the construction of the Lake Mission Viejo Advanced Purified Water Treatment Facility. As part of that agreement, the City has the right to reduced water rates from the water district over a twenty year period. This asset will be amortized over twenty years beginning in FY 2017-18.

As allowed by GASB Statement No. 34, the City has adopted an alternative process for 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 228.2 miles of roads that the City is responsible for maintaining.

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 Management's Discussion and Analysis
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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 categories of roads to have a Pavement Condition Index (PCI) rating of 75 or above, using the PCI methodology. There are five PCI categories ranging from "Very Good" to "Very Poor". Street categories are classified as Arterials or Local/Residential streets. The most recent condition assessment, completed



for fiscal year 2015-16, indicated that arterials roadways were in "good" condition with a PCI score of 85 and local/residential streets were all in "very good" condition with a PCI score of 90. The current citywide weighted average Pavement Condition Index is 88, which shows improvement of one PCI point since the 2014 assessment. The City does not have any streets reported in the "Very Poor" category.

For the last five fiscal years, actual maintenance and preservation expenditures exceeded the original estimates for fiscal years 2012-13 and 2015-16. For fiscal years 2013-14, 2014-15 and 2016-17, actual expenditures were below those original estimates thought to be needed to maintain road conditions above the 75 PCI level. 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.

Additional information about the City's capital assets is presented in Note 6 of the Notes to Basic Financial Statements on pages 67-70 of this report and Note 2 of the Notes to Required Supplementary Information on pages 105-107.

Long-Term Debt. At the end of the current fiscal year, the City had total long-term liabilities outstanding of \$60.4 million.

CITY OF MISSION VIEJO
Management's Discussion and Analysis
Year ended June 30, 2017

City of Mission Viejo Long-Term Liabilities at Year-End (in millions)							Total Percentage Change 2016-2017
	Governmental Activities		Business-Type Activities		Total		
	2017	2016	2017	2016	2017	2016	
Revenue bonds	\$ 38.1	\$ 40.8	\$ -	\$ -	\$ 38.1	\$ 40.8	-6.6%
Bond Premium	<u>1.0</u>	<u>0.6</u>	<u>-</u>	<u>-</u>	<u>1.0</u>	<u>0.6</u>	66.7%
Subtotal – bonds payable	39.1	41.4	-	-	39.1	41.4	-5.6%
Net pension liability	17.4	13.6	2.1	1.6	19.5	15.2	28.3%
Net OPEB liability	0.1	-	-	-			
Compensated absences	<u>1.7</u>	<u>1.7</u>	<u>0.1</u>	<u>0.1</u>	<u>1.8</u>	<u>1.8</u>	0.0%
Total	<u>\$ 58.3</u>	<u>\$ 56.7</u>	<u>\$ 2.2</u>	<u>\$ 1.7</u>	<u>\$ 60.4</u>	<u>\$ 58.4</u>	3.4%

The City's total debt increased by \$2.0 million, or 3.4%, during the current fiscal year. Total principal on all debit issues decreased by \$2.7 million due to principal payments of \$2.1 million and a decrease in principal balance of \$0.7 million due to the refunding of the 2009 Series A Lease Revenue Bonds in July 2016. The net pension liability increased \$4.3 million from the prior year.

The City's issuer credit ratings from Standard and Poor's and Moody's remained the same during the year at AAA and Aa2, respectively.

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 \$594 million at June 30, 2017. The City has no general obligation bond debt outstanding.

Additional information on the City's long-term liabilities can be found in Note 8 of the Notes to Basic Financial Statements on pages 71-75 of this report. Additional information on the City's pension liability can be found in Note 19 on pages 84-91 of this report.

Next Year's Budget, Tax Rates and Fee Levels

The fiscal year 2017-18 City budget was prepared conservatively. Property tax and sales tax estimates were projected with conservative growth from the previous fiscal year and there were no tax rate or fee increases as part of the preparation and adoption of the 2017-18 budget. However, the City is in process of preparing a Citywide user fee study that is expected to be completed in early 2018. It is anticipated that the City Council will consider changes to user fees before the end of fiscal year 2017-18.

CITY OF MISSION VIEJO
Management's Discussion and Analysis
Year ended June 30, 2017

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 adminservices@cityofmissionviejo.org.



MISSION VIEJO

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BASIC FINANCIAL STATEMENTS

CITY OF MISSION VIEJO

BASIC FINANCIAL STATEMENTS - OVERVIEW YEAR ENDED JUNE 30, 2017

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, 2017 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 Position presents information on all of the City's assets, deferred outflow of resources, liabilities, and deferred inflows of resources, with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and 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 in to three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Fund Types

These funds (General, Special Revenue, Capital Projects and Debt Service) 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 Types

These funds (Private-purpose Trust and Agency) are used to account for assets held by the City as an agent for others. The measurement focus is on economic resources and the accrual basis of accounting.

CITY OF MISSION VIEJO

Statement of Net Position
June 30, 2017 (With Comparative Totals As Of June 30, 2016)

	Primary Government			
	Governmental	Business-type	Totals	
	Activities	Activities	2017	2016
ASSETS				
Current assets:				
Cash and investments (note 2)	\$ 41,618,371	\$ 4,214,272	\$ 45,832,643	\$ 41,802,149
Accounts receivable	250,619	-	250,619	228,404
Taxes receivable	4,282,567	133,720	4,416,287	7,130,802
Loans receivable	2,404,672	-	2,404,672	2,429,918
Notes receivable	2,858,188	-	2,858,188	-
Interest receivable	97,835	-	97,835	77,885
Prepaid items	27,226	-	27,226	2,894,162
Deposits	430	-	430	2,368
Intergovernmental receivable	544,753	393,609	938,362	7,258,590
Intergovernmental receivable-Successor Agency (note 4)	572,852	-	572,852	1,012,968
Due from developers (note 5)	7,454,448	-	7,454,448	7,285,038
Land held for sale	6,900,000	-	6,900,000	6,900,000
Cash and investments for pensions (note 2)	162,397	-	162,397	-
Cash and investments with fiscal agent (note 2)	5,859,394	-	5,859,394	8,068,785
Capital assets not being depreciated (note 6)	501,955,660	561,377	502,517,037	499,345,500
Capital assets, net of depreciation (note 6)	173,501,782	2,187,837	175,689,619	179,501,548
Total assets	748,491,194	7,490,815	755,982,009	763,938,117
DEFERRED OUTFLOWS OF RESOURCES				
Pension related (note 19)	4,748,906	599,283	5,348,189	4,366,656
Deferred refunding charge	914,226	-	914,226	-
Total deferred outflows of resources	5,663,132	599,283	6,262,415	4,366,656
Total assets and deferred outflows of resources	754,154,326	8,090,098	762,244,424	768,304,773
LIABILITIES				
Current liabilities:				
Accounts payable	4,667,381	177,826	4,845,207	5,908,108
Accrued payroll	719,542	90,845	810,387	759,842
Accrued interest payable	2,385,294	-	2,385,294	2,183,261
Unearned revenue	74,117	-	74,117	199,332
Deposits payable	1,800,716	4,094	1,804,810	4,286,507
Intergovernmental payable	149,336	-	149,336	767,974
Other liabilities	28,127	-	28,127	11,900
Retainage payable	403,299	-	403,299	15,830
Total current liabilities	10,227,812	272,765	10,500,577	14,132,754
Noncurrent liabilities:				
Due within one year (note 8)	3,281,277	86,778	3,368,055	3,162,190
Due in more than one year (note 8)	55,007,777	2,150,729	57,158,506	55,261,427
Total noncurrent liabilities	58,289,054	2,237,507	60,526,561	58,423,617
Total liabilities	68,516,866	2,510,272	71,027,138	72,556,371
DEFERRED INFLOWS OF RESOURCES				
Pension related (note 19)	679,608	77,805	757,413	1,365,479
Total deferred inflows of resources	679,608	77,805	757,413	1,365,479
Total liabilities and deferred inflows of resources	69,196,474	2,588,077	71,784,551	73,921,850
NET POSITION				
Net investment in capital assets	639,548,835	2,749,214	642,298,049	641,141,206
Restricted for:				
General Government-management & support	-	-	-	223,899
Community development projects	10,429,284	-	10,429,284	10,438,939
Parks and recreation	5,321,139	-	5,321,139	5,574,232
Public works	2,501,352	-	2,501,352	5,218,679
Capital projects	252,147	-	252,147	272,519
Pensions	3,020,585	-	3,020,585	-
Debt service	3,517,242	-	3,517,242	4,333,580
Unrestricted	20,367,268	2,752,807	23,120,075	27,179,869
Total net position	\$ 684,957,852	\$ 5,502,021	\$ 690,459,873	\$ 694,382,923

See accompanying notes to basic financial statements

CITY OF MISSION VIEJO

Statement of Activities

For the Year Ended June 30, 2017 (With Comparative Totals For The Year Ended June 30, 2016)

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental activities:			
General Government-Legislative	\$ 1,953,252	\$ 779	\$ -
General Govt-Mgmt and Support	9,617,474	32,450	156,409
Public Safety	20,111,045	412,881	259,398
Community Development	4,743,210	2,942,021	1,550,514
Engineering & Transportation	6,924,142	622,602	3,414,828
Infrastructure Maintenance	20,358,759	51,353	3,220
Rec/Community/Library Services	11,137,331	2,212,519	337,026
Interest and fiscal charges	1,085,677	-	-
Total governmental activities	75,930,890	6,274,605	5,721,395
Business-type activities:			
Animal Services	3,128,506	2,810,457	143,106
Mission Viejo Television	445,614	529,645	-
Total business-type activities	3,574,120	3,340,102	143,106
Total primary government	\$ 79,505,010	\$ 9,614,707	\$ 5,864,501

General revenues:

- Property taxes
- Sales and use taxes
- Property taxes in lieu of sales and use taxes
- Other taxes
- Unrestricted motor vehicle in lieu fees
- Investment earnings
- Other
- Gain/(loss) on disposal of capital assets

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning, as restated (note 22)

Net position - ending

See accompanying notes to basic financial statements

Net (Expense) Revenue and Changes in Net Position				
Primary Government				
Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals	
			2017	2016
\$ -	\$ (1,952,473)	\$ -	\$ (1,952,473)	\$ (1,252,652)
-	(9,428,615)	-	(9,428,615)	(7,923,203)
-	(19,438,766)	-	(19,438,766)	(18,095,294)
-	(250,675)	-	(250,675)	(588,470)
1,805,900	(1,080,812)	-	(1,080,812)	367,343
-	(20,304,186)	-	(20,304,186)	(20,208,610)
32,721	(8,555,065)	-	(8,555,065)	(6,803,851)
-	(1,085,677)	-	(1,085,677)	(968,120)
<u>1,838,621</u>	<u>(62,096,269)</u>	<u>-</u>	<u>(62,096,269)</u>	<u>(55,472,857)</u>
-	-	(174,943)	(174,943)	(451,213)
-	-	84,031	84,031	272,749
-	-	(90,912)	(90,912)	(178,464)
<u>\$ 1,838,621</u>	<u>(62,096,269)</u>	<u>(90,912)</u>	<u>(62,187,181)</u>	<u>(55,651,321)</u>
	33,102,624	-	33,102,624	32,317,084
	17,186,469	-	17,186,469	15,218,225
	-	-	-	3,324,689
	4,175,375	-	4,175,375	4,417,528
	43,321	-	43,321	38,997
	98,250	8,175	106,425	428,311
	664,063	9,219	673,282	521,251
	1,021	(24,386)	(23,365)	271,129
	(520,440)	520,440	-	-
	<u>54,750,683</u>	<u>513,448</u>	<u>55,264,131</u>	<u>56,537,214</u>
	(7,345,586)	422,536	(6,923,050)	885,893
	692,303,438	5,079,485	697,382,923	693,497,030
	<u>\$ 684,957,852</u>	<u>\$ 5,502,021</u>	<u>\$ 690,459,873</u>	<u>\$ 694,382,923</u>

CITY OF MISSION VIEJO

BASIC FINANCIAL STATEMENTS - OVERVIEW YEAR ENDED JUNE 30, 2017

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.

CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for revenues and the related expenditures major capital projects which are legally required to be accounted for in a separate fund.

The City of Mission Viejo has the following major Capital Projects Funds:

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

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.

MISSION VIEJO HOUSING AUTHORITY – This special revenue fund is used to account for receipts and expenditures required to carry out the community's affordable housing obligations.

NON-MAJOR 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 Capital Project Funds and other Debt Service Funds of the City.

CITY OF MISSION VIEJO

BASIC FINANCIAL STATEMENTS - OVERVIEW YEAR ENDED JUNE 30, 2017

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

These funds are used to account for assets held by the City in a trustee or agency capacity for individuals, private organizations, other governments and/or other funds. The City of Mission Viejo maintains the following fiduciary funds:

PENSION TRUST FUND

CITY OF MISSION VIEJO PREFUNDING PENSION OBLIGATION TRUST - This fund is used to account for assets held under an IRC Section 115 Irrevocable Retirement Funding Trust. Assets in this fund are held for the purpose of investment and disbursement of funds irrevocably designated by the City for the payment of pension liabilities.

PRIVATE-PURPOSE TRUST FUND

SUCCESSOR AGENCY TO THE COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF MISSION VIEJO – This fund is used to account for the assets transferred from the former Community Development Agency of the City of Mission Viejo as of February 1, 2012, as required by the State Controller’s Office, as well as the activities of the Successor Agency related to Required Obligation Payments and funds received for these payments.

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

Governmental Funds

Balance Sheet

June 30, 2017 (With Comparative Totals As of June 30, 2016)

	General Fund	Developer Fees Fund	Grants Fund
ASSETS			
Cash and investments	\$ 33,392,630	\$ 4,110,858	\$ 135,818
Accounts receivable	250,619	-	-
Taxes receivable	3,930,402	-	20,459
Loans receivable	6,377	-	2,095,284
Interfund note receivable (note 7)	2,248,000	-	-
Notes receivable	2,858,188	-	-
Interest receivable	92,381	-	-
Prepaid items	27,226	-	-
Deposits	430	-	-
Intergovernmental receivable	10,066	-	80
Interfund receivables (note 3)	626,649	31,527	-
Intergovernmental receivable-Successor Agency (note 4)	572,852	-	-
Due from developers	4,174,788	-	-
Land held for resale	-	-	-
Restricted assets:			
Cash and investments for pensions	162,397	-	-
Cash and investments with fiscal agents	-	-	-
Total assets	<u>\$ 48,353,005</u>	<u>\$ 4,142,385</u>	<u>\$ 2,251,641</u>
LIABILITIES			
Accounts payable	\$ 4,130,233	\$ 46,200	\$ 92,685
Accrued payroll	601,068	4,899	667
Unearned revenues	74,117	-	-
Deposits payable	1,799,616	-	-
Intergovernmental payable	149,336	-	-
Interfund payable (note 3)	31,527	168,185	126,504
Other liabilities	28,127	-	-
Retainage payable	390,232	-	-
Interfund note payable (note 7)	-	-	-
Total liabilities	<u>7,204,256</u>	<u>219,284</u>	<u>219,856</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	6,466,408	-	2,095,364
Total deferred inflow of resources	<u>6,466,408</u>	<u>-</u>	<u>2,095,364</u>
Total liabilities and deferred inflows of resources	<u>13,670,664</u>	<u>219,284</u>	<u>2,315,220</u>
FUND BALANCES (DEFICITS) (note 11)			
Nonspendable	606,885	-	-
Restricted	3,056,060	3,923,101	-
Assigned	4,500,000	-	-
Unassigned	26,519,396	-	(63,579)
Total fund balances (deficits)	<u>\$ 34,682,341</u>	<u>\$ 3,923,101</u>	<u>\$ (63,579)</u>
Total liabilities, deferred inflows of resources and fund balances (deficits)	<u>\$ 48,353,005</u>	<u>\$ 4,142,385</u>	<u>\$ 2,251,641</u>

See accompanying notes to basic financial statements

Mission Viejo Housing Authority Fund	Total Nonmajor Funds	Totals	
		2017	2016
\$ 95,902	\$ 3,883,163	\$ 41,618,371	\$ 37,570,649
-	-	250,619	228,027
-	331,706	4,282,567	6,990,837
303,011	-	2,404,672	2,429,918
-	-	2,248,000	4,028,000
-	-	2,858,188	-
5,454	-	97,835	77,885
-	-	27,226	30,267
-	-	430	2,368
28,554	506,053	544,753	7,258,590
-	376	658,552	7,819,018
-	-	572,852	1,012,968
3,279,660	-	7,454,448	7,285,039
6,900,000	-	6,900,000	6,900,000
-	-	162,397	-
-	5,859,394	5,859,394	8,068,785
<u>\$ 10,612,581</u>	<u>\$ 10,580,692</u>	<u>\$ 75,940,304</u>	<u>\$ 89,702,351</u>
\$ 18,001	\$ 380,262	\$ 4,667,381	\$ 5,837,523
-	112,908	719,542	694,265
-	-	74,117	199,332
-	1,100	1,800,716	4,282,758
-	-	149,336	650,155
12,660	319,676	658,552	7,819,018
-	-	28,127	11,900
-	13,067	403,299	15,830
<u>2,248,000</u>	<u>-</u>	<u>2,248,000</u>	<u>4,028,000</u>
<u>2,278,661</u>	<u>827,013</u>	<u>10,749,070</u>	<u>23,538,781</u>
<u>3,062,082</u>	<u>177,154</u>	<u>11,801,008</u>	<u>17,575,725</u>
<u>3,062,082</u>	<u>177,154</u>	<u>11,801,008</u>	<u>17,575,725</u>
<u>5,340,743</u>	<u>1,004,167</u>	<u>22,550,078</u>	<u>41,114,506</u>
-	-	606,885	597,668
5,271,838	9,576,525	21,827,524	17,111,519
-	-	4,500,000	18,275,290
-	-	26,455,817	12,603,368
<u>\$ 5,271,838</u>	<u>\$ 9,576,525</u>	<u>\$ 53,390,226</u>	<u>\$ 48,587,845</u>
<u>\$ 10,612,581</u>	<u>\$ 10,580,692</u>	<u>\$ 75,940,304</u>	<u>\$ 89,702,351</u>



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**City of Mission Viejo
Reconciliation of Balance Sheet
To the Statement of Net Position
June 30, 2017**

Fund balances of governmental funds	\$53,390,226
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.	675,457,442
Long Term Debt and Compensated absences that have not been included in the governmental fund activity:	
Net pension liability	(17,392,791)
Net OPEB liability	(129,887)
Other long-term liabilities	(39,071,278)
Deferred refunding charge	914,226
Compensated absences	(1,695,098)
Deferred infows and outflows of resources related to pensions that have not been included in the governmental fund activity:	
Deferred outflows of resources-pension related	4,748,906
Deferred inflows of resources-pension related	(679,608)
Accrued interest payable for the current portion of interest due on bonds has not been reported in the governmental funds.	(2,385,294)
Receivables that are measurable but not available are recorded as a deferred inflow of resources under the modified accrual basis of accounting.	<u>11,801,008</u>
Net position of governmental activities	<u><u>\$684,957,852</u></u>

See accompanying notes to basic financial statements

CITY OF MISSION VIEJO

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2017 (With Comparative Totals For the Year Ended June 30, 2016)

	General Fund	Developer Fees Fund	Grants Funds
REVENUES			
Taxes	\$ 49,191,697	\$ -	\$ -
Licenses and permits	2,132,053	-	-
Intergovernmental	3,058,564	-	1,177,703
Charges for services	3,341,967	-	-
Investment earnings	104,373	32,776	422
Fines and forfeitures	462,446	-	-
Developer fees	38,000	3,991,104	-
Other	791,250	-	-
Total revenues	<u>59,120,350</u>	<u>4,023,880</u>	<u>1,178,125</u>
EXPENDITURES			
Current:			
General Government-Legislative	1,725,169	-	-
General Govt-Mgmt and Support	7,547,790	-	2,537
Public Safety	19,753,333	-	-
Community Development	3,025,126	-	305,646
Engineering & Transportation	2,207,214	-	-
Infrastructure Maintenance	16,128,520	-	-
Rec/Community/Library Services	4,807,520	-	92,572
Capital Outlay	4,787,566	489,289	332,120
Debt service:			
Principal retirement	-	-	-
Interest	-	-	-
Administrative charges	-	-	-
Payment to bond escrow agent	-	-	-
Total expenditures	<u>59,982,238</u>	<u>489,289</u>	<u>732,875</u>
Excess (deficiency) of revenues over expenditures	<u>(861,888)</u>	<u>3,534,591</u>	<u>445,250</u>
OTHER FINANCING SOURCES (USES)			
Proceeds of debt issuance	-	-	-
Payment to bond escrow agent	-	-	-
Issuance of premium	-	-	-
Transfers in (note 12)	1,956,599	-	-
Transfers out (note 12)	(2,129,849)	-	(820,000)
Sale of City property	1,021	-	-
Total other financing sources (uses)	<u>(172,229)</u>	<u>-</u>	<u>(820,000)</u>
Net change in fund balances	(1,034,117)	3,534,591	(374,750)
Fund balances (deficits) - beginning (as restated) (note 22)	35,716,458	388,510	311,171
Fund balances (deficits)- ending	<u>\$ 34,682,341</u>	<u>\$ 3,923,101</u>	<u>\$ (63,579)</u>

See accompanying notes to basic financial statements

Mission Viejo Housing Authority Fund	Total Nonmajor Funds	Totals	
		2017	2016
\$ -	\$ 3,887,755	\$ 53,079,452	\$ 53,480,709
-	-	2,132,053	1,899,432
-	5,714,169	9,950,436	9,703,408
-	221,945	3,563,912	3,278,467
10,425	13,560	161,556	470,299
-	45,092	507,538	813,287
-	40,000	4,069,104	1,000,000
223,873	400,267	1,415,390	1,794,735
234,298	10,322,788	74,879,441	72,440,337
-	-	1,725,169	1,370,524
-	122,272	7,672,599	7,819,648
-	196,265	19,949,598	19,184,846
976,256	41,895	4,348,923	3,409,459
-	481,693	2,688,907	2,913,831
-	335,220	16,463,740	16,110,507
-	2,770,992	7,671,084	8,811,348
-	2,364,196	7,973,171	6,427,322
-	2,060,000	2,060,000	1,770,000
-	378,893	378,893	689,158
-	503,316	503,316	141,250
-	1,363,981	1,363,981	-
976,256	10,618,723	72,799,381	68,647,893
(741,958)	(295,935)	2,080,060	3,792,444
-	13,150,000	13,150,000	-
-	(14,016,069)	(14,016,069)	-
-	1,107,810	1,107,810	-
820,000	3,053,213	5,829,812	5,371,184
-	(3,400,404)	(6,350,253)	(6,264,528)
-	-	1,021	1,365
820,000	(105,450)	(277,679)	(891,979)
78,042	(401,385)	1,802,381	2,900,465
5,193,796	9,977,910	51,587,845	45,687,380
\$ 5,271,838	\$ 9,576,525	\$ 53,390,226	\$ 48,587,845

City of Mission Viejo
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances to the Statement of Activities
For the Year Ended June 30, 2017

Net change in fund balances - total governmental funds	\$1,802,381
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets net of depreciation have not been included as financial resources in governmental fund activity.

Capital asset expenditures	5,760,510
Disposition of capital assets	(12,528)
Depreciation expense	(7,175,964)

The issuance of long-term debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal are expenditures in the governmental funds, but the payments reduce long-term liabilities in the Statement of Net Position.

Issuance of bonds	(13,150,000)
Issuance of bond premium	(1,107,810)
Payment to refunding bond escrow agent	15,380,050
Principal payment	2,060,000
Amortization of bond premium	8,552

Accrued interest payable for the current portion of interest due on bonds has not been reported in the governmental funds	(212,020)
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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.

Compensated absences	12,735
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Governmental funds report all OPEB contributions as expenditures, however, in the Statement of Net Position, excesses or deficiencies in contributions in relation to the Annual Required Contribution (ARC) are recorded as an asset or liability.

Pension related net adjustments	(2,205,621)
Changes in OPEB liability for the current year	(2,731,154)

Certain revenues in the governmental funds that are measurable but not available are recorded as a deferred inflow of resources under the modified accrual basis of accounting. However, the revenues are included on the accrual basis of accounting used in the government-wide statements. The amount represents the change during the year.

	(5,774,717)
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Change in net position of governmental activities	(\$7,345,586)
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See accompanying notes to basic financial statements

CITY OF MISSION VIEJO

Proprietary Funds

Statement of Net Position

June 30, 2017 (With Comparative Totals as of June 30, 2016)

	Business-type Activities			
	Animal Services	Non-Major	Totals	
		Mission Viejo Television	2017	2016
ASSETS				
Current assets:				
Cash and investments	\$ 2,904,992	\$ 1,309,280	\$ 4,214,272	\$ 4,231,500
Accounts receivable	393,609	-	393,609	377
Taxes receivable	-	133,720	133,720	139,965
Prepaid items	-	-	-	262,628
Total current assets	3,298,601	1,443,000	4,741,601	4,634,470
Noncurrent assets:				
Capital assets, not depreciated	561,377	-	561,377	561,377
Capital assets, depreciated, net	2,146,569	41,268	2,187,837	1,400,247
Total noncurrent assets	2,707,946	41,268	2,749,214	1,961,624
Total assets	6,006,547	1,484,268	7,490,815	6,596,094
DEFERRED OUTFLOWS OF RESOURCES				
Pension related	563,554	35,729	599,283	518,831
Total deferred outflows of resources	563,554	35,729	599,283	518,831
Total assets and deferred outflows of resources	6,570,101	1,519,997	8,090,098	7,114,925
LIABILITIES				
Current liabilities:				
Accounts payable	43,445	134,381	177,826	70,577
Accrued payroll	86,907	3,938	90,845	65,577
Deposits payable	4,094	-	4,094	3,749
Intergovernmental	-	-	-	117,819
Total current liabilities	134,446	138,319	272,765	257,722
Noncurrent liabilities:				
Compensated absences payable	129,032	12,542	141,574	91,425
Net pension liability	1,958,240	124,580	2,082,820	1,634,587
Net OPEB liability	12,312	801	13,113	-
Total noncurrent liabilities	2,099,584	137,923	2,237,507	1,726,012
Total liabilities	2,234,030	276,242	2,510,272	1,983,734
DEFERRED INFLOWS OF RESOURCES				
Pension related	73,151	4,654	77,805	51,706
Total deferred inflows of resources	73,151	4,654	77,805	51,706
Total liabilities and deferred inflows of resources	2,307,181	280,896	2,588,077	2,035,440
NET POSITION				
Investment in capital assets	2,707,946	41,268	2,749,214	1,961,624
Unrestricted	1,554,974	1,197,833	2,752,807	3,117,861
Total net position	\$ 4,262,920	\$ 1,239,101	\$ 5,502,021	\$ 5,079,485

See accompanying notes to basic financial statements

CITY OF MISSION VIEJO

Proprietary Funds

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended June 30, 2017 (With Comparative Totals for the Year Ended June 30, 2016)

	Business-type Activities			
	Animal Services	Non-Major	Totals	
		Mission Viejo Television	2017	2016
OPERATING REVENUES				
Licenses and permits	\$ 704,798	\$ -	\$ 704,798	\$ 567,198
Charges for services	1,919,328	220	1,919,548	722,387
Franchise taxes	-	529,425	529,425	561,905
Fines and forfeitures	186,331	-	186,331	163,447
Other	143,106	9,219	152,325	270,574
Total operating revenues	2,953,563	538,864	3,492,427	2,285,511
OPERATING EXPENSES				
Personnel services	2,426,183	140,425	2,566,608	1,706,578
Supplies	196,297	3,712	200,009	129,207
Utilities	54,599	26,162	80,761	82,247
Contractual services	321,105	256,380	577,485	413,333
Rent	3,056	-	3,056	3,112
Depreciation	121,860	16,803	138,663	121,779
Other expenses	5,406	2,132	7,538	7,719
Total operating expenses	3,128,506	445,614	3,574,120	2,463,975
Operating income (loss)	(174,943)	93,250	(81,693)	(178,464)
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	4,392	3,783	8,175	38,129
Loss on sale of capital assets	-	(24,386)	(24,386)	-
Total nonoperating revenues (expenses)	4,392	(20,603)	(16,211)	38,129
Income (loss) before contributions and transfers	(170,551)	72,647	(97,904)	(140,335)
Transfers in (note 12)	520,440	-	520,440	893,344
Change in net position	349,889	72,647	422,536	753,009
Total net position - beginning	3,913,031	1,166,454	5,079,485	4,326,476
Total net position - ending	\$ 4,262,920	\$ 1,239,101	\$ 5,502,021	\$ 5,079,485

See accompanying notes to basic financial statements

CITY OF MISSION VIEJO

Proprietary Funds

Statement of Cash Flows

For the Year Ended June 30, 2017 (with Comparative Totals for the Year Ended June 30, 2016)

	Business-type Activities - Enterprise Funds			
	Animal	Mission Viejo	Totals	
	Services	Television	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	\$ 2,560,331	\$ 545,109	\$ 3,105,440	\$ 2,314,704
Payments to suppliers	(455,937)	(160,509)	(616,446)	(768,072)
Payments to employees	(1,980,401)	(103,797)	(2,084,198)	(1,749,928)
Net cash provided (used) by operating activities	<u>123,993</u>	<u>280,803</u>	<u>404,796</u>	<u>(203,296)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash transfers in	<u>520,440</u>	<u>-</u>	<u>520,440</u>	<u>893,344</u>
Net cash provided (used) by noncapital financing activities	<u>520,440</u>	<u>-</u>	<u>520,440</u>	<u>893,344</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	<u>(950,639)</u>	<u>-</u>	<u>(950,639)</u>	<u>(53,795)</u>
Net cash provided (used) by capital and related financing activities	<u>(950,639)</u>	<u>-</u>	<u>(950,639)</u>	<u>(53,795)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	<u>4,392</u>	<u>3,783</u>	<u>8,175</u>	<u>38,129</u>
Net cash provided (used) by investing activities	<u>4,392</u>	<u>3,783</u>	<u>8,175</u>	<u>38,129</u>
Net increase (decrease) in cash and cash equivalents	(301,814)	284,586	(17,228)	674,382
Cash and cash equivalents, beginning of year	<u>3,206,806</u>	<u>1,024,694</u>	<u>4,231,500</u>	<u>3,557,118</u>
Cash and cash equivalents, end of year	<u>\$ 2,904,992</u>	<u>\$ 1,309,280</u>	<u>\$ 4,214,272</u>	<u>\$ 4,231,500</u>

(Continued)

See accompanying notes to basic financial statements

CITY OF MISSION VIEJO

Proprietary Funds

Statement of Cash Flows

For the Year Ended June 30, 2017 (with Comparative Totals for the Year Ended June 30, 2016)

	Business-type Activities - Enterprise Funds			
	Animal Services	Mission Viejo Television	Totals	
			2017	2016
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating Income	\$ (174,943)	\$ 93,250	\$ (81,693)	\$ (178,464)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	121,860	16,803	138,663	121,779
Changes in assets and liabilities:				
Deferred outflows	(75,536)	(4,916)	(80,452)	(239,063)
Deferred inflows	24,874	1,225	26,099	(237,651)
Net Pension Liability	421,423	26,810	448,233	413,769
Accounts receivables	(393,232)	-	(393,232)	50,784
Taxes receivable	-	6,245	6,245	(22,065)
Prepaid items	246,589	16,039	262,628	(211,939)
Accounts payable	(4,589)	111,838	107,249	(38,337)
Accrued payroll	25,102	166	25,268	14,676
Deposits payable	345	-	345	474
Accrued compensated absences	37,607	12,542	50,149	4,922
Intergovernmental payable	(117,819)	-	(117,819)	117,819
Net OPEB liability	12,312	801	13,113	-
Total Adjustments	<u>\$ 298,936</u>	<u>\$ 187,553</u>	<u>\$ 486,489</u>	<u>\$ (24,832)</u>
Net cash provided (used) by operating activities	<u>\$ 123,993</u>	<u>\$ 280,803</u>	<u>\$ 404,796</u>	<u>\$ (203,296)</u>

There are no significant noncash investing, capital or financing activities for the years ended June 30, 2017 and 2016

See accompanying notes to basic financial statements

CITY OF MISSION VIEJO

**Statement of Fiduciary Net Position
June 30, 2017 (With Comparative Totals as of June 30, 2016)**

	City of Mission Viejo 115 Pension Trust		Successor Agency to the Community Development Agency of the City of Mission Mission Viejo Private-purpose Trust Fund		Community Facilities District 92-1 Agency funds	
	2017	2016	2017	2016	2017	2016
	ASSETS					
Cash and investments (note 2)	\$ -	\$ 3,000,000	\$ 1,951,965	\$ 1,516,887	\$ -	\$ -
Prepaid items	-	-	22,606	30,000	-	-
Restricted assets:						
Cash and investments with fiscal agents (note 2)	-	-	-	-	236,706	242,921
Total assets	<u>-</u>	<u>3,000,000</u>	<u>1,974,571</u>	<u>1,546,887</u>	<u>\$ 236,706</u>	<u>\$ 242,921</u>
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ 14,303	\$ 22,492	\$ -	\$ -
Intergovernmental payable-City (note 4)	-	-	572,852	1,012,968	-	-
Intergovernmental payable	-	-	29,318	6,032	-	-
Due to bondholders	-	-	-	-	236,706	242,921
Total liabilities	<u>-</u>	<u>-</u>	<u>616,473</u>	<u>1,041,492</u>	<u>\$ 236,706</u>	<u>\$ 242,921</u>
NET POSITION						
Held in trust for pension benefits and other purposes	<u>\$ -</u>	<u>\$ 3,000,000</u>	<u>\$ 1,358,098</u>	<u>\$ 505,395</u>		

See accompanying notes to basic financial statements.

CITY OF MISSION VIEJO

**Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2017**

(With Comparative Totals for the Year Ended June 30, 2016)

	City of Mission Viejo 115 Pension Trust		Successor Agency to the Community Development Agency of the City of Mission Mission Viejo Private-purpose Trust Fund	
	2017	2016	2017	2016
ADDITIONS				
Taxes	\$ -	\$ -	\$ 2,403,050	\$ 2,130,770
Employer contributions	-	3,000,000	-	-
Other	-	-	-	560
Total contributions	<u>-</u>	<u>3,000,000</u>	<u>2,403,050</u>	<u>2,131,330</u>
Total additions	<u>-</u>	<u>-</u>	<u>2,403,050</u>	<u>2,131,330</u>
DEDUCTIONS				
Administrative expenses	-	-	300,183	122,253
Contributions to other governments	-	-	1,235,364	1,587,829
Other expenses	-	-	14,801	64,171
Total deductions	<u>-</u>	<u>-</u>	<u>1,550,348</u>	<u>1,774,253</u>
Change in net position			852,702	357,077
Net Position -- beginning of the year (as restated) (note 22)	-	-	505,396	148,318
Net Position -- end of the year	<u>\$ -</u>	<u>\$ 3,000,000</u>	<u>\$ 1,358,098</u>	<u>\$ 505,395</u>

See accompanying notes to basic financial statements.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(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 Community Development Financing Authority (Authority) was formed as a joint powers authority on June 2, 1997 by the City and the former Community Development 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, 2009 Lease Revenue Refunding Bonds and 2016 Lease Revenue Refunding Bonds debt service funds. Separate financial statements are not prepared for the Mission Viejo Community Development Financing Authority.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(1) Summary of Significant Accounting Policies (continued)

(a) Reporting Entity (continued)

Blended Component Units- (continued)

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. MVHA meets the criteria of a blended component unit because it is governed by the same governing body of the City.

(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 Governmental Accounting Standards Board pronouncements.

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units). Eliminations have been made in the Statement of Activities and Changes in Net Position 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.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

- (1) Summary of Significant Accounting Policies, (continued)
- (b) Basis of Accounting and Measurement Focus, (continued)

Government-wide Financial Statements, (continued)

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 and Changes in Net Position 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 expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

In the government-wide statements, when an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position 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 non-major funds in the aggregate for governmental and enterprise funds. Fiduciary statements include financial information for fiduciary funds. Fiduciary funds of the City primarily represent assets held by the City in a custodial capacity for other individuals or organizations.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(1) Summary of Significant Accounting Policies, (continued)

(b) Basis of Accounting and Measurement Focus, (continued)

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. 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 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.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(1) Summary of Significant Accounting Policies, (continued)

(b) Basis of Accounting and Measurement Focus, (continued)

Governmental Funds, (continued)

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. 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.

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 position.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(1) Summary of Significant Accounting Policies, (continued)

(b) Basis of Accounting and Measurement Focus, (continued)

Proprietary Funds, (continued)

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

Fiduciary Funds

The City maintains two fiduciary fund types for the year ended June 30, 2017. The first is a private-purpose trust fund which uses the economic resources measurement focus and the accrual basis of accounting. Private-purpose trust funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The second 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.

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

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(1) Summary of Significant Accounting Policies, (continued)

(c) Fund Classifications, (continued)

Grants Fund – This special revenue fund represents monies received from 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.

Mission Viejo Housing Authority Fund - This special revenue fund represents the remaining resources available to carry out the community's affordable housing obligations after the dissolution of the former Redevelopment Agency effective February 1, 2012. Additional resources are provided by the repayment of loans made for affordable housing construction and improvements.

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, the City of Aliso Viejo, the City of Laguna Hills, and City of Rancho Santa Margarita and share operating and capital costs of the program with those cities on a basis proportional to population.

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

Special Revenue Funds - The City maintains a total of seven special revenue funds: two major special revenue funds discussed above and five non-major special revenue funds. The other funds account for financial resources related to gas tax, library operations, law enforcement grants, air quality, and Measure M. These funds account for specific revenues that are legally restricted and expended for these specific purposes.

Capital Projects Funds - The City maintains a total of two capital projects funds. These funds account for the resources accumulated to fund various capital construction projects in the City.

Debt Service Funds - The City maintains a total of four debt service funds. These funds account for the resources accumulated and payments made on long-term debt of the governmental funds.

Private-purpose Trust Fund - The City maintains one private-purpose trust fund. This fund is used to account for the activity of the Successor Agency to the Community Development Agency of the City of Mission Viejo.

Agency Fund - The City maintains one agency fund. This fund accounts for financial resources related to the Mission Viejo Community Facilities District No. 92-1 for which the City acts as an agent for debt service activity.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(1) Summary of Significant Accounting Policies, (continued)

(d) Cash and Investments

Investments are reported in the accompanying financial statements 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, which may result in negative investment earnings in the accompanying financial statements. 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.

The City pools cash and investments of all funds, except for assets held by fiscal agents and the Housing Authority and Successor Agency funds. 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) Interfund Note

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

(f) Deferred Outflow/Inflows of Resources

In addition to assets, the statement of net position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until that time. The government has two items that qualify for reporting in this category, deferred outflows – pension related and deferred refunding charge. This first item relates to the recording of the pension liability. The deferred refunding charge results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify for reporting in this category. One of these items arises only under a modified accrual basis of accounting. Accordingly, the item, available revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue related to items received outside the City's availability period. These amounts are deferred and recognized as an inflow of resources

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(1) Summary of Significant Accounting Policies, (continued)

in the period that the amounts become available. The second item, deferred inflows – pension related, is associated with the recording of the pension liability.

(g) 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 position. The range of lives used for depreciation purposes for each capital asset class is as follows:

<u>Item</u>	<u>Useful Life</u>
Buildings and Improvements	32 years
Equipment, furniture and vehicles	5-7 years
Computer Software	10 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
Water Rights	20 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,

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(1) Summary of Significant Accounting Policies, (continued)

(g) Capital Assets, (continued)

- 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.

(h) 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 buyback 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 Codification Section C60. Expenditures related to compensated absence liabilities are only recognized in the fund financial statements when they become due and payable.

(i) Property Taxes

Property tax revenue is recognized in accordance with GASB Codification 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.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(1) Summary of Significant Accounting Policies, (continued)

(j) 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.

(k) 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.

(l) Pension Plan

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

Valuation Date (VD)	June 30, 2015
Measurement Date (MD)	June 30, 2016
Measurement Period (MP)	July 1, 2015 to June 30, 2016

(m) Fair Value Measurements

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(1) Summary of Significant Accounting Policies, (continued)

(m) Fair Value Measurements (continued)

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable input reflect the City's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the City's own data.

(n) Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived. In addition, certain minor reclassifications of the prior year data have been made to enhance their comparability to the current year.

(2) Cash and Investments

Cash and investments as of June 30, 2017 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and investments	\$ 45,832,643
Restricted assets:	
Cash and cash investments for pensions	162,397
Cash and cash investments with fiscal agent	5,859,394
Fiduciary Fund Statement of Assets and Liabilities:	
Cash and investments	1,951,965
Restricted assets:	
Cash and investments with fiscal agent	236,706
Total cash and investments	<u>\$ 54,043,105</u>

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(2) Cash and Investments, (continued)

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

Cash on hand	\$ 4,655
Deposits with financial institutions	1,835,831
Investments	<u>52,202,619</u>
Total cash and investments	<u>\$ 54,043,105</u>

Five separate investment portfolios are maintained by the City: the City portfolio (for the primary government), the Successor Agency of the Community Development Agency portfolio, the Housing Authority portfolio, the Pension Plan 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 by the California Government Code (or the City of Mission Viejo's policies where more restrictive). The table also identifies certain provisions of the investment policies that address interest rate risk, credit risk and concentration of credit risk. The investments of the Successor Agency of the Community Development Agency are governed by the California Government Code. The investment authorized by the Housing Authority is limited to the Local Agency Investment Fund. This table does 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 investment policies:

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(2) Cash and Investments, (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
Municipal Securities	5 years	Greater of \$5M or 20%	Greater of \$2M or 5% of total portfolio
Supranationals	5 years	Greater of \$4M or 20%	Greater of \$2M or 5% 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 \$8M or 40%	N/A
California Asset Management Pool	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 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 YEAR ENDED JUNE 30, 2017

(2) Cash and Investments, (continued)

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 investment policy. 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:

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

CDFA 2009 Lease Revenue Refunding Bonds and CDFA 2016 Lease Revenue Refunding Bonds:

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
U S 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

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(2) Cash and Investments, (continued)

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 investment policy requires that investments only be in fixed-rate, fixed coupon securities and prohibits 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, 2017, the average duration of the Benchmark Index was 1.12 for the City portfolio.

City of Mission Viejo:

<u>Investment Type</u>	<u>Market Value</u>	<u>Modified Duration (in years)</u>
US Treasury Notes	\$ 5,002,468	1.63
US Government Sponsored Entities Securities	15,015,194	2.65
Supranational Securities	1,980,040	1.80
Government Money Market Funds	1,009,048	-
Local Agency Investment Fund	17,400,903	-
California Asset Management Pool	5,437,354	-
Money Market Funds	162,397	-
Held by Trustee:		
Money Market Funds	29,362	-
Local Agency Investment Fund	207,124	-
Total	\$ 46,243,890	1.12

CITY OF MISSION VIEJO

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

(2) Cash and Investments, (continued)

Interest Rate Risk, (continued)

Mission Viejo Housing Authority:

Investment Type	Market Value	Modified Duration (in years)
Local Agency Investment Fund	\$ 99,336	-
Total	<u>\$ 99,336</u>	-

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:

Investment Type	Market Value	Modified Duration (in years)
Government Money Market Funds	\$ 5,859,393	-
Total	<u>\$ 5,859,393</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).

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(2) Cash and Investments, (continued)

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.

<u>Investment Type</u>	<u>Market Value</u>	<u>Minimum Legal Rating</u>	<u>Aaa*</u>	<u>Not Rated</u>
US Treasury Notes	\$ 5,002,468	N/A	\$ 5,002,468	\$ -
US Government Sponsored Entities securities	15,015,194	N/A	15,015,194	-
Supranational Securities	1,980,040	AA	1,980,040	-
Government money market funds	1,009,048	AAA	1,009,048	-
Local Agency Investment Fund	17,500,239	N/A	-	17,500,239
California Asset Management Pool	5,437,354	N/A	5,437,354	-
Money Market Funds	162,397	N/A	162,397	-
Held by Trustee:				
Government money market funds	5,888,755	AAA	5,888,755	-
Local Agency Investment Fund	207,124	N/A	-	207,124
Total	\$ 52,202,619		\$ 34,495,256	\$ 17,707,363

*Moody's Rating Service

Concentration of Credit Risk

The investment policy of the City contains 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, 2017 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:

<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	13.0%	\$5,986,794
City	Federal Home Loan Bank	US Government Sponsored Entities Securities	8.7%	\$4,015,223
City	Federal National Mortgage Association	US Government Sponsored Entities Securities	8.8%	\$4,018,678

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(2) Cash and Investments, (continued)

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 four 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, 2017, 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), which is part of the Pooled Money Investment Account that is regulated by the California Government Code under the oversight of the State Treasurer, Director of Finance and State Controller. The City may invest up to \$50 million in LAIF funds. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. All investments with LAIF are secured by the full faith and credit of the State of California. Separate LAIF financial statements are available from the California State Treasurer's Office on the Internet at <http://www.treasurer.ca.gov>.

The City's investment in this pool is reported in the accompanying City's financial statements at fair value 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). Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of asset-backed securities totaling \$1.419 million, which represent 1.80% of the total LAIF portfolio of \$77.6 billion as of June 30, 2017. LAIF's (and the City's) exposure to risk (credit, market or legal) is not currently available. This fund does not calculate duration for their portfolio. The average days to maturity for this fund is 194 days.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(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. This fund does not calculate a duration for their portfolio. The average days to maturity is 49 days.

Fair Value Measurement

The City categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The City has the following recurring fair value measurements as of June 30, 2017:

Fair Value Hierarchy

	Investments not Measured at Fair Value	Level 1	Level 2	Level 3	Total
US Treasury Notes	\$ -	\$ -	\$ 5,002,468	\$ -	\$ 5,002,468
US Government Sponsored Entities					
Securities	-	-	15,015,194	-	15,015,194
Supranational Securities	-	-	1,980,040	-	1,980,040
Government Money					
Market Funds	7,060,065	-	-	-	7,060,065
California Asset Management Pool	5,437,354	-	-	-	5,437,354
Local Agency Invest Fund	17,707,498	-	-	-	17,707,498
	<u>\$ 30,204,917</u>	<u>\$ -</u>	<u>\$ 21,997,702</u>	<u>\$ -</u>	<u>\$ 52,202,619</u>

CITY OF MISSION VIEJO

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

(3) Interfund Balances

Interfund balances at June 30, 2017 consisted of the following:

Payable Fund	Receivable Fund			Total
	General Fund	Developer Fee Fund	Other Governmental Funds	
General Fund	\$ -	\$ 31,527	\$ -	\$ 31,527
Developer Fees fund	168,185	-	-	168,185
Grants Fund	126,504	-	-	126,504
Housing Authority	12,660	-	-	12,660
Other Governmental Funds	319,300	-	376	319,676
Total	\$ 626,649	\$ 31,527	\$ 376	\$658,552

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.

(4) Intergovernmental Receivable/Payable - Successor Agency/City

Intergovernmental receivable/payable - Successor Agency/City at June 30, 2017 consisted of the following:

Intergovernmental Receivable	Intergovernmental Payable	Amount
General Fund	Successor Agency	\$ 572,852
	Total	\$ 572,852

The intergovernmental receivable/payable between the General Fund and the Successor Agency Fund represents the balance of monies loaned to the Successor Agency to reestablish a loan paid off in March 2011 by the former redevelopment agency to the City. The loan repayment that occurred in March 2011 was subsequently disallowed by the Department of Finance (DOF) as part of their oversight of redevelopment dissolution and the DOF demanded that the loan repayment be remitted to the Successor Agency by the City in the amount of \$493,880 and that the Successor Agency then remit the balance to the County of Orange. Under dissolution law, the Successor Agency will be able to begin repaying this loan only after the SERAF loan is paid off. As of June 30, 2017, the City/Agency loan balance is \$572,852. Repayment is subject to DOF approval and within maximum repayment limits established under Section 34176(e)(6)(B) of dissolution law.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(5) Due from Developers

In October 1994, the Mission Viejo Community Development Agency (now the Successor 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, 2017, the outstanding balance is \$237,753 which includes unpaid accrued interest of \$25,119, and is reported in the Housing Authority, a major special revenue fund.

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, 2017, the amount due from the developer for these costs was \$4,174,788 and is reported in the General Fund.

Upon the sale of each of the 22 affordable units, each homebuyer is required to enter into an Affordable Homebuyer Loan Agreement with the Housing Authority. These loans are secured by a second deed of trust on each property, and restrict ownership of each property to qualified Very Low or Low Income Households. The affordability period for each home is 45 years starting on the closing escrow date for each housing unit. As of June 30, 2017, the total balance of these loans is \$3,041,907 which is reported in the Housing Authority, a major special revenue fund.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(6) Capital Assets

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

Governmental activities:	<u>Balance at June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2017</u>
Capital assets, not depreciated:				
Land	\$ 48,737,312	\$ -	\$ -	\$ 48,737,312
Rights of way	243,853,387	-	-	243,853,387
Construction in progress	4,578,642	5,760,510	(2,588,973)	7,750,179
Infrastructure – Street network:				
Streets	<u>201,614,782</u>	<u>-</u>	<u>-</u>	<u>201,614,782</u>
Total capital assets, not depreciated	<u>498,784,123</u>	<u>5,760,510</u>	<u>(2,588,973)</u>	<u>501,955,660</u>
Capital assets, being depreciated:				
Buildings and improvements	122,867,247	826,123	(39,869)	123,653,501
Equipment and furniture	10,487,934	708,832	(120,496)	11,076,270
Vehicles	1,176,910	54,018	(19,734)	1,211,194
Infrastructure – Street network:				
Curbs and gutters	34,034,819	-	-	34,034,819
Sidewalks	31,154,180	-	-	31,154,180
Roadway bridges	6,289,000	-	-	6,289,000
Traffic signals	11,274,983	-	-	11,274,983
Infrastructure – Medians and Parkways network:				
Medians and Parkways	38,357,723	-	-	38,357,723
Infrastructure – Storm Drains network:				
Storm Drains	40,729,530	-	-	40,729,530
Water Rights	<u>-</u>	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Total capital assets, being depreciated	<u>296,372,326</u>	<u>2,588,973</u>	<u>(180,099)</u>	<u>298,781,200</u>

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(6) Capital Assets (Continued)

Governmental activities:	<u>Balance at June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2017</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ (49,976,500)	\$(3,854,707)	\$ 30,867	\$ (53,800,340)
Equipment and furniture	(7,991,594)	(752,911)	116,970	(8,627,535)
Vehicles	(880,165)	(104,493)	19,734	(964,924)
Infrastructure – Street network:				
Curbs and gutters	(11,702,849)	(454,646)	-	(12,157,495)
Sidewalks	(11,025,803)	(415,863)	-	(11,441,666)
Roadway bridges	(2,333,701)	(83,853)	-	(2,417,554)
Traffic signals	(8,526,817)	(375,833)	-	(8,902,650)
Infrastructure – Medians and Parkways Network:				
Medians and Parkways	(11,440,742)	(511,439)	-	(11,952,181)
Infrastructure – Storm Drains Network:				
Storm Drains	(14,392,854)	(572,219)	-	(14,965,073)
Water Rights	<u>-</u>	<u>(50,000)</u>	<u>-</u>	<u>(50,000)</u>
Total accumulated depreciation	<u>(118,271,025)</u>	<u>(7,175,964)</u>	<u>167,571</u>	<u>(125,279,418)</u>
Total capital assets being depreciated, net	<u>178,101,301</u>	<u>(4,586,991)</u>	<u>(12,528)</u>	<u>173,501,782</u>
Governmental activities Capital assets, net	<u>\$676,885,424</u>	<u>\$1,212,745</u>	<u>\$(2,640,727)</u>	<u>\$675,457,442</u>

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(6) Capital Assets (Continued)

Business-type activities:	<u>Balance at June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2017</u>
Capital assets, not depreciated:				
Land	\$ 561,377	\$ -	\$ -	\$ 561,377
Construction in progress	<u>-</u>	<u>792,557</u>	<u>(792,557)</u>	<u>-</u>
Total capital assets, not depreciated	<u>561,377</u>	<u>792,557</u>	<u>(792,557)</u>	<u>561,377</u>
Capital assets, being depreciated:				
Buildings	\$1,641,647	\$ 792,557	\$ -	\$2,434,204
Improvements other than buildings	912,847	-	-	912,847
Machinery and equipment	<u>1,112,466</u>	<u>158,082</u>	<u>(161,976)</u>	<u>1,108,572</u>
Total capital assets, being depreciated	<u>3,666,960</u>	<u>950,639</u>	<u>(161,976)</u>	<u>4,455,623</u>
Less accumulated depreciation for:				
Buildings	(1,050,982)	(54,216)	-	(1,105,198)
Improvements other than buildings	(233,674)	(28,342)	-	(262,016)
Machinery and equipment	<u>(982,057)</u>	<u>(56,104)</u>	<u>137,589</u>	<u>(900,572)</u>
Total accumulated depreciation	<u>(2,266,713)</u>	<u>(138,662)</u>	<u>137,589</u>	<u>(2,267,786)</u>
Total capital assets, being depreciated, net	<u>1,400,247</u>	<u>811,977</u>	<u>(24,387)</u>	<u>2,187,837</u>
Business-type activities				
Capital assets, net	<u>\$1,961,624</u>	<u>\$1,604,534</u>	<u>\$(816,944)</u>	<u>\$2,749,214</u>

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(6) Capital Assets (Continued)

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

General Government – Legislative	\$	138
General Government – Management and Support		1,649,876
Public Safety		84,880
Community Development		5,402
Public Works – Engineering and Transportation		508,599
Infrastructure Maintenance		2,959,798
Water Rights		50,000
Recreation, Community and Library Services		<u>1,917,271</u>
Total	\$	<u>7,175,964</u>

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

Animal Services	\$	121,860
Mission Viejo Television		<u>16,803</u>
Total	\$	<u>138,663</u>

(7) Interfund Note Payable and Receivable

On May 18, 2015, the Mission Viejo Housing Authority entered into an agreement with the City of Mission Viejo for the purchase of land for the future affordable housing under the certified housing element of the City's General Plan. Under the agreement the Housing Authority executed a Promissory Note payable to the City for \$4,300,000. The Note has a thirty year term which can be extended up to five additional one year periods. The Note accrues no interest and is payable July 15 each year until the principal is paid in full. Note principal is paid from unencumbered and available funds in the Housing Authority Fund pursuant to the HAL and Dissolution Law that are not required for administration or other Authority projects, enforceable obligations, or any other mandated payments due from the Authority to a third party. As of June 30, 2017, the loan balance is \$2,248,000.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(8) Long-Term Liabilities

Changes in the long-term liabilities for the year ended June 30, 2017 were as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year	Due Beyond One Year
<u>Governmental Activities:</u>						
Bonds:						
1999 Series A bonds	\$19,600,000	\$ -	\$(1,200,000)	\$18,400,000	\$1,200,000	\$17,200,000
1999 Series B bonds	7,347,326	-	-	7,347,326	-	7,347,326
2009 Series A bonds	13,805,000	-	(13,805,000)	-	-	-
Bond premium	595,522	-	(595,522)	-	-	-
2016 Refunding bonds	-	13,150,000	(860,000)	12,290,000	770,000	11,520,000
Bond premium	-	1,107,810	(73,854)	1,033,956	73,854	960,102
Total bonds payable	<u>41,347,848</u>	<u>14,257,810</u>	<u>(16,534,376)</u>	<u>39,071,282</u>	<u>2,043,854</u>	<u>37,027,428</u>
Other liabilities:						
Net pension liability	13,651,924	4,327,337	(586,470)	17,392,791	-	17,392,791
Net OPEB liability	-	129,887	-	129,887	-	129,887
Compensated absences	1,707,833	1,105,433	(1,118,172)	1,695,094	1,237,423	457,671
Total other liabilities	<u>15,359,757</u>	<u>5,562,657</u>	<u>(1,704,642)</u>	<u>19,217,772</u>	<u>1,237,423</u>	<u>17,980,349</u>
Governmental activities						
Total Long-term liabilities	<u>\$56,697,605</u>	<u>\$19,820,467</u>	<u>\$(18,239,018)</u>	<u>\$58,279,054</u>	<u>\$3,281,277</u>	<u>\$55,007,777</u>
<u>Business-type Activities:</u>						
Other liabilities:						
Net pension liability	\$1,634,587	\$518,504	\$(70,271)	\$2,082,820	\$ -	\$2,082,820
Net OPEB liability	-	13,113	-	13,113	-	13,113
Compensated absences	91,425	142,229	(92,080)	141,574	86,778	54,796
Business-type Activities						
Total Long-term liabilities	<u>\$1,726,012</u>	<u>\$673,846</u>	<u>\$(162,351)</u>	<u>\$2,237,507</u>	<u>\$86,778</u>	<u>\$2,150,729</u>

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(8) Long-Term Liabilities (continued)

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

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 \$2,212,000 was fully funded at June 30, 2017. The amount of principal outstanding at June 30, 2017 is \$18,400,000.

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 November 18, 2018. 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, 2017, letter of credit commitment fees in the amount of \$249,537 were paid to Union Bank.

CITY OF MISSION VIEJO

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

(8) Long-Term Liabilities, (continued)

1999 Series A Variable Rate Demand Revenue Bonds, (continued)

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>
2018	\$ 1,200,000	\$ 96,784	\$ 1,296,784
2019	1,300,000	90,472	1,390,472
2020	1,300,000	83,634	1,383,634
2021	1,400,000	76,796	1,476,796
2022	1,500,000	69,432	1,569,432
2023 – 2027	8,000,000	61,542	8,061,542
2028 – 2029	<u>3,700,000</u>	<u>19,462</u>	<u>3,719,462</u>
	<u>\$ 18,400,000</u>	<u>\$ 498,122</u>	<u>\$ 18,898,122</u>

* The above debt service requirements to maturity were calculated using the interest rate as of June 30, 2017 of 0.526%.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(8) 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, 2016 an additional \$7,232,326 of Series B Bonds were issued. As of June 30, 2017, a total of \$7,347,326 of 1999 Series B bonds have 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, 2017, the outstanding principal is \$7,347,326 and the unpaid interest is \$2,319,050.

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, 2017.

CITY OF MISSION VIEJO

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

(8) Long-Term Liabilities, (continued)

CDFA 2016 Lease Revenue Refunding Bonds

In July 2016, the Mission Viejo Community Development Financing Authority issued a total of \$13,150,000 in Lease Revenue Refunding Bonds, Series 2016. The interest rate on the 2016 Bonds range from 2.0% to 4.0% and will mature on May 1, 2031. These bonds were issued to advance refund the outstanding 2009 Lease Revenue Refunding Bonds issued by the Authority and pay costs of issuance of the Series 2016 Bonds. Proceeds from the 2016 Bonds plus resources from the 2009 Bonds debt service reserve fund in the amount of \$15,379,470 were placed in escrow with a trustee pending the 2009 Bonds maturity and call date on May 1, 2019. The 2009 Bonds were legally defeased on August 10, 2016. As a result, the 2009 Bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net position.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$979,528. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations through the year 2031 using the effective-interest method. The City completed the advance refunding to reduce its total debt service payments over the next 15 years by \$3.1 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1.4 million, representing 10.25% savings of refunded bonds.

Debt service requirements to maturity of the 2016 Lease Revenue Refunding Bonds are as follows:

Year ending June 30,	Principal	Interest	Totals
2018	\$ 770,000	\$ 369,863	\$ 1,139,863
2019	780,000	354,463	1,134,463
2020	805,000	331,063	1,136,063
2021	825,000	306,913	1,131,913
2022	855,000	282,163	1,137,163
2023 - 2027	4,700,000	990,363	5,690,363
2028 - 2031	<u>3,555,000</u>	<u>244,963</u>	<u>3,799,963</u>
	<u>\$ 12,290,000</u>	<u>\$ 2,879,791</u>	<u>\$ 15,169,791</u>

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(9) 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. Then 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 bonds for the purpose of providing tax savings to business owners in Community Facilities District (CFD) No. 92-1 while maintaining the same period to maturity.

Total proceeds under the 2011 Refunding bonds of \$2,060,000, were borrowed at an interest rate that varies between 1.0% and 3.5%, compared to 5.3% to 5.5%, under the 1999 Bonds. Amounts borrowed under the 2011 Bonds are payable in six annual installments through August 1, 2017 with the first payment due August 1, 2012. As a result of the current refunding, the City reduced the debt service cash flow of business owners in CFD 92-1 by \$349,553 through August 1, 2017, resulting in an economic gain for those business owners of \$90,706 (calculated as the difference between the debt service payments under the old and new debt discounted to present value using the effective interest rate).

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, 2017 was \$350,000. An amount of \$236,706 is being held by the City and is reflected as due to bondholders at June 30, 2017 in the Statement of Fiduciary Assets and Liabilities.

(10) Net Position

Net position is the excess of all the City's assets over all its liabilities, regardless of fund. Net position is classified into three categories as follows:

Net investment in capital assets describes the portion of net position which is represented by the current net book value of the City's capital assets, including infrastructure, net of any debt related to securing these assets.

Restricted net position describes the portion of net position which is restricted as to use by the terms and conditions of agreements with creditors, grantors, contributors or laws or regulations of other governments, and restrictions imposed by law through constitutional provision or enabling legislation.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(10) Net Position, (continued)

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

When expenditures are incurred for purposes for which both restricted and unrestricted balances are available, the City's policy is to apply restricted first.

As of June 30, 2017, there was no restricted net position in the proprietary funds. 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.

(11) Fund Balances

The City follows the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and 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, under GASB 54, 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 includes amounts that can be spent only for specific purposes imposed by creditors, grantors, contributors, laws or regulations of other governments, or through enabling legislation.

Committed fund balance includes amounts that can be used only for the specific purposes determined by the highest formal action of the City Council (adoption of ordinance). The City Council has the authority to establish, modify, or rescind a fund balance commitment. The City has no committed fund balance at June 30, 2017.

Assigned fund balance amounts are designated by City Council, in accordance with the City Council Management and Budget policies, for specific purposes and do not meet the criteria to be classified as restricted or committed. The City Council establishes (modifies or rescinds) assigned fund balance with the passage of a resolution. Assigned fund balances at June 30, 2017 were reported solely in the General Fund.

Unassigned fund balance is the residual classification that includes all spendable amounts in the General Fund not contained in other classifications. Unassigned fund balance includes the City Council approved General Fund assignment for Economic/Budgetary Uncertainty in the amount of \$15.5 million.

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

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(11) Fund Balances (continued)

Fund Balance Classifications:

Fund balances in the governmental funds at June 30, 2017 have been classified as follows:

	General Fund	Developer Fees	Grants Fund	MV Housing	Non-Major Funds	Total Governmental Funds
Non Spendable						
Prepaid Items	\$ 27,226	\$ -	\$ -	\$ -	\$ -	\$ 27,226
Long Term Receivables	6,377	-	-	-	-	6,377
Intergovernmental Receivable:						
Succesor Agency	572,852	-	-	-	-	572,852
Deposits	430	-	-	-	-	430
Subtotal	606,885	-	-	-	-	606,885
Restricted for:						
General government- management and support	35,475	-	-	-	-	35,475
Community development	-	-	-	5,271,838	-	5,271,838
Parks and recreation	-	-	-	-	1,210,281	1,210,281
Public safety	-	-	-	-	23,479	23,479
Public works	-	-	-	-	2,577,078	2,577,078
Capital projects	-	3,923,101	-	-	-	3,923,101
Debt service	-	-	-	-	5,765,687	5,765,687
Pensions	3,020,585	-	-	-	-	3,020,585
Subtotal	3,056,060	3,923,101	-	5,271,838	9,576,525	21,827,524
Assigned to:						
Pension and OPEB Liability	1,000,000	-	-	-	-	1,000,000
Capital Asset Replacement	3,500,000	-	-	-	-	3,500,000
Subtotal	4,500,000	-	-	-	-	4,500,000
Unassigned:						
Totals	26,519,396	-	(63,579)	-	-	26,455,817
	<u>\$34,682,341</u>	<u>\$ 3,923,101</u>	<u>\$ (63,579)</u>	<u>\$ 5,271,838</u>	<u>\$ 9,576,525</u>	<u>\$53,390,226</u>

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(12) Interfund Transfers

Interfund transfers for the year ended June 30, 2017 consisted of the following:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$1,956,599
Animal Services Enterprise Fund	General Fund	520,440
Housing Authority Fund	Grants Funds	820,000
Other Governmental Funds	General Fund	1,609,408
Other Governmental Funds	Other Governmental Funds	1,443,805
Total		<u>\$6,350,252</u>

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

Transfers to Major Funds

The \$1,956,599 transferred to the General Fund was received from the CDFA 1999 Mall Bonds Debt Service Fund representing the 2015 release of the rolling reserve.

A transfer of \$520,440 was made from General Fund to the Animal Services Enterprise fund representing Mission Viejo's proportionate share of the net costs of the Animal Services operations for the year, as estimated in the budget.

The \$820,000 transferred made from the Grants Fund to the Housing Authority Fund was to execute the agreement authorized by the City Council with Families Forward for the purchase of transitional housing in the community.

Transfers To Other Governmental Funds

Of the \$1,609,408 transferred from the General Fund to other governmental funds, \$1,125,264 was transferred to the CDFA 2009 Lease Revenue Refunding Bonds Debt Service Fund for payment of the debt service on those bonds and \$484,145 was transferred to the Library Operations fund to fund operations.

Of the \$1,443,805 transferred from other governmental funds to other governmental funds, \$1,442,102 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.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(13) Fund Deficits and Expenditures in Excess of Appropriations

The following funds reported deficits in fund balance as of June 30, 2017:

	<u>Deficit Balances</u>
Major Governmental Funds:	
Special Revenue Fund:	
Grants Fund	\$(63,579)

The special revenue Grants Fund deficit will be remedied by apportionments received in future years and as grants are billed and received.

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

The City is a member of the California Joint Powers Insurance Authority (Authority). The Authority is composed of 117 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 California JPIA 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

Each member pays an annual contribution at the beginning of the coverage period. A retrospective adjustment is then conducted annually thereafter, for coverage years 2012-13 and prior. Retrospective adjustments are scheduled to continue indefinitely on coverage years 2012-13 and prior, until all claims incurred during those coverage years 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. Coverage years 2013-14 and forward are not subject to routine annual retrospective adjustment.

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.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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

Liability

In the liability program claims are pooled separately between police and general government exposures. (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 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 from \$750,000 to \$50 million, are distributed based on the outcome of cost allocation within the first and second loss layers.

For 2016-17 the Authority's pooled retention is \$2 million per occurrence, with reinsurance to \$20 million, and excess insurance to \$50 million. The Authority's reinsurance contracts are subject to the following additional pooled retentions: (a) \$2.5 million annual aggregate deductible in the \$3 million x/s \$2 million layer, and (b) \$3 million annual aggregate deductible in the \$5 million x/s \$10 million layer. There is a third annual aggregate deductible in the amount of \$2.5 million in the \$5 million x/s \$5 million layer, however it is fully covered under a separate policy and therefore not retained by the Authority.

The overall coverage limit for each member, including all layers of coverage, is \$50 million per occurrence. Costs of covered claims for subsidence losses have a sub-limit of \$30 million per occurrence.

Workers' Compensation

In the workers' compensation program claims are pooled separately between public safety (police and fire) and general government exposures. (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 from \$100,000 to statutory limits are distributed based on the outcome of cost allocation within the first and second loss layers.

For 2016-17 the Authority's pooled retention is \$2 million per occurrence, with reinsurance to statutory limits under California Workers' Compensation Law.

Employer's Liability losses are pooled among members to \$2 million. Coverage from \$2 million to \$5 million is purchased as part of a reinsurance policy, and Employer's Liability losses from \$5 million to \$10 million are pooled among members.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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

Purchased Insurance:

Pollution Legal Liability Insurance

The City of Mission Viejo participates in the pollution legal liability insurance program which is available through the Authority. The policy covers sudden and gradual pollution of scheduled property, streets, and storm drains owned by the City of Mission Viejo. 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, 2014 through July 1, 2017. Each member of the Authority has a \$10 million sub-limit during the 3-year term of the policy.

Property Insurance

The City of Mission Viejo participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. City of Mission Viejo property is currently insured according to a schedule of covered property submitted by the City of Mission Viejo to the Authority. City of Mission Viejo property currently has all-risk property insurance protection in the amount of \$120,977,614. There is a \$5,000 deductible per occurrence except for non-emergency vehicle insurance which has a \$2,500 deductible. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

Earthquake and Flood Insurance

The City of Mission Viejo 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 of Mission Viejo property currently has earthquake protection in the amount of \$73,770,706. 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 of Mission Viejo 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 of Mission Viejo 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 of Mission Viejo according to a schedule. The City of Mission Viejo then pays for the insurance. The insurance is arranged by the Authority.

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 2016-17.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(15) 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, 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, Santa Ana 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 February 3, 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, Seal Beach and Westminster. The County pays all structural fire fees it collects to the Authority. The Cities of Stanton, Tustin, San Clemente, Buena Park, Placentia, Seal Beach and Westminster are considered "cash contract cities" and accordingly make cash contributions based on the Authority's annual budget. 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 or at www.ocfa.org.

(16) Significant Commitments

Significant construction contracts as of June 30, 2017 consisted of the following:

Projects	Commitment
Marguerite Aquatics Center Rehab	\$5,513,042
Marguerite Parkway Median Improvement	\$605,265
Marguerite Corridor Traffic Signal Synchronization	\$207,240
Oso/I-5 On Ramp Improvement	\$223,815

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(17) 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, 2017 are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2018	\$ 38,973
2019	38,973
2020	<u>16,239</u>
Total	<u>\$ 94,185</u>

(18) 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 \$18,000, until future years. Employees over age 50 may elect to defer up to an additional \$6,000 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.

(19) Defined Benefit Pension Plan

A. General Information about the Pension Plan

Plan Description

The Plan is an agent, multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions (for funding, but not account purposes), and membership information are listed in the Plan's June 30, 2015 Annual Actuarial Valuation Report (funding valuation). Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(19) Defined Benefit Pension Plan (continued)

A. General Information about the Pension Plan (continued)

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan operates under the provisions of the California Public Employees' Retirement Law (PERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by the CalPERS Board of Administration. The Plan's authority to establish and amend the benefit terms are set by the PERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the CalPERS Board.

The Plan's provisions and benefits in effect at June 30, 2016 (measurement date) are summarized as follows:

Hire Date	Prior to July 8, 2011	Between July 9, 2011 – December 31, 2012	On or after January 1, 2013
Benefit formula	2.7% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50 – 55	50 – 55	50 – 55
Monthly benefits, as % of eligible compensations	2.0% to 2.7%	1.092% to 2.272%	1.0% to 2.0%
Required employee contribution rates	8%	7%	6.25%
Required employer contribution rates	18.577%	18.577%	18.577%

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(19) Defined Benefit Pension Plan (continued)

A. General Information about the Pension Plan (continued)

Employees Covered

At June 30, 2015 (valuation date), the following employees were covered by the benefit terms:

	<u>Miscellaneous</u>
Inactive employee or beneficiaries currently receiving benefits	74
Inactive employees entitled to but not yet receiving benefits	104
Active employees	150
	<u>328</u>

Contribution Description

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

B. Net Pension Liability

The City of Mission Viejo's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(19) Defined Benefit Pension Plan (continued)

B. Net Pension Liability, (continued)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The June 30, 2015 valuation was rolled forward to determine the June 30, 2016 total pension liability, based on the following actuarial methods and assumptions:

	Miscellaneous
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on the table, please refer to the 2014 experience study report.

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

Change of Assumptions

There were no changes of assumptions.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

CITY OF MISSION VIEJO

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

(19) Defined Benefit Pension Plan, (continued)

B. Net Pension Liability, (continued)

Discount Rate, (continued)

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund (public Employees' Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

<u>Asset Class</u>	<u>Current Target Allocation</u>	<u>Real Return Years 1 - 10¹</u>	<u>Real Return Year 11+²</u>
Global Equity	51.0%	5.25%	5.71%
Global Fixed income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	(0.55%)	(1.05%)
Total	<u>100.0%</u>		

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

CITY OF MISSION VIEJO

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

(19) Defined Benefit Pension Plan, (continued)

B. Net Pension Liability, (continued)

Change in Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period.

Miscellaneous Plan			
	Increase (Decreases)		
	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability (c) = (a) – (b)
Balance at: 06/30/2015	\$ 71,178,162	\$ 55,901,651	\$ 15,276,511
Changes Recognized for the Measurement Period:			
• Service Cost	1,906,461	-	1,906,461
• Interest on the Total Pension Liability	5,419,496	-	5,419,496
• Changes of Benefit Terms	-	-	-
• Changes of Assumptions	-	-	-
• Differences between Expected and Actual Experience	(96,499)	-	(96,499)
• Plan to Plan Resource Movement	-	-	-
• Contributions – Employer	-	1,903,477	(1,903,477)
• Contributions – Employees	-	849,550	(849,550)
• Net Investment Income	-	321,400	(321,400)
• Benefit Payments, including Refunds of Employee Contributions	(2,383,616)	(2,383,616)	-
• Administrative Expense	-	(34,069)	34,069
• Other Miscellaneous Income	-	-	-
Net changes during 2015-16	\$4,845,842	\$656,742	\$4,189,100
Balance at: 06/30/2016	\$76,024,004	\$56,558,393	\$19,465,611

CITY OF MISSION VIEJO

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

(19) Defined Benefit Pension Plan, (continued)

B. Net Pension Liability, (continued)

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

The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.65 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Discount Rate – 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Miscellaneous Plan's Net Pension Liability	\$29,845,399	\$19,465,611	\$10,855,826

Subsequent Events

In December 2016, the CalPERS Board of Administration voted to lower the discount rate from 7.5% to 7.0% over the next three years. For public agencies, the discount rate changes approved by the Board for the next three fiscal years ending June 30, 2019, 2020, and 2021 are 7.375%, 7.25% and 7.0%, respectively.

Amortization of Deferred Outflows and Deferred Inflows of Resources

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5 year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining services lives (EARSL) of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period

The EARSL for the Plan for the measurement period ending June 30, 2016 is 3.9 years, which was obtained by dividing the total service years of 1,295 (the sum of remaining service lifetimes of the active employees) by 328 (the total number of participants: active, inactive, and retired). Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

CITY OF MISSION VIEJO

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

(19) Defined Benefit Pension Plan, (continued)

C. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

The following table presents the deferred outflows and deferred inflows of resources related to pensions as of June 30, 2016. Note that no adjustments have been made for contributions subsequent to the measurement date. Appropriate treatment of any contributions made after the measurement date is the responsibility of the employer.

Miscellaneous Plan		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ -	\$ (655,391)
Difference between expected and actual experience	49,957	(71,756)
Contributions made after the measurement date	2,154,899	-
Additional deferral	30,266	(30,266)
Net difference between projected and actual earnings on pension plan investments	3,113,067	-
Total	\$ 5,348,189	\$ (757,413)

Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Miscellaneous Plan	
Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources, Net
2017	\$ 168,277
2018	168,278
2019	1,312,401
2020	786,921
2021	-
Thereafter	-

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(20) Notes Receivable

On April 22, 2016, the City of Mission Viejo entered into an agreement to loan Santa Margarita Water District \$3,000,000 for the design and construction of an Advanced Purified Water Treatment Facility for the benefit of The Lake Mission Viejo Association, which is comprised solely of residents of the City of Mission Viejo. The loan will be repaid by Santa Margarita Water District at an interest rate of 2.5% over a period of 20 years commencing October 1, 2016.

The loan was made with the assets held in the Section 115 pension trust fund. Repayment by SMWD on this loan will be repaid directly to the pension trust fund. All assets in the pension trust fund are restricted for the benefit of members and beneficiaries of the City's pension plan.

(21) 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, 2015, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	55
Terminated plan members entitled to but not yet receiving benefits	---
Active plan members	81
Total	<u>136</u>

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(21) Other Post Employment Benefits (OPEB), (continued)

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 had previously established a policy of contributing to the irrevocable CERBT trust administered by CalPERS 100% of the RIP "Explicit Subsidy" annual required contribution (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 seven years.

Due to an amendment to Actuarial Standards of Practice (ASOP) No. 6 Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Costs or Contributions, the biennial valuation performed on OPEB benefits for June 30, 2015 included the calculation of an actuarial liability, actuarial unfunded liability and ARC specifically for an "Implied Subsidy" in addition to the Explicit Subsidy that has been include in prior valuations. All ARC payments made each fiscal year through, and including, FY 2016-17 have been 100% toward the Explicit Subsidy component of OPEB. Therefore, all assets accumulated at June 30, 2017 for OPEB relate 100% toward the Explicit Subsidy component of OPEB as these resources are owed directly to retired employees. The June 30, 2015 valuation set the FY 2016-17 ARC for both the Explicit Subsidy and the Implied Subsidy as \$234,000 and \$255,000 respectively. The actual Explicit Subsidy ARC payment for FY 2016-17 was \$235,000. There were no ARC payments by the City against the Implied Subsidy resulting in a net OPEB liability for the year ended June 30, 2017.

Annual OPEB Cost and Net OPEB Liability/Asset

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 liability/asset:

Annual required contribution	\$ 489,000
Interest on net OPEB asset	(208,000)
Adjustment to annual required contribution	3,071,116
Annual pension cost	3,352,116
Contributions made	(345,000)
Decrease in net OPEB asset	3,007,116
Net OPEB asset – beginning of year	(2,864,116)
Net OPEB liability – end of year	<u>\$ 143,000</u>

CITY OF MISSION VIEJO

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

(21) Other Post Employment Benefits (OPEB), (continued)

Annual OPEB Cost and Net OPEB Liability/Asset, (continued)

The net OPEB asset for fiscal years 2015 and 2016 was attributable 100% to the Explicit Subsidy component. The net OPEB liability for fiscal year 2017 also contains an Implied Subsidy component and is reported in the government-wide and proprietary fund statements.

Three Year Trend Information:

Fiscal	Annual OPEB Cost (AOC) (Employer Contribution)	Actual Contribution	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
6/30/15	\$ 829,561	\$ 2,845,000	343%	\$ (2,871,896)
6/30/16	1,103,780	1,096,000	99%	(2,864,116)
6/30/17	3,352,116	345,000	10%	143,000

Funded Status and Funding Progress

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presented immediately following the financial statements as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial calculations of the OPEB plan reflect a long-term perspective.

As of June 30, 2015, the most recent actuarial valuation date, the Explicit Subsidy component of the plan was 91% funded. The Explicit Subsidy actuarial accrued liability for benefits was \$8.9 million, and Explicit Subsidy for actuarial value of assets was \$8.1 million resulting in an Explicit Subsidy unfunded actuarial accrued liability (UAAL) of \$0.8 million. The covered payroll (annual payroll of active employees covered by the plan) was \$10.4 million, and the ratio of the Explicit Subsidy UAAL to the covered payroll was 7.6%.

Due to an amendment to ASOP No. 6, the biennial valuation performed on OPEB benefits for June 30, 2015 included calculations for an Implied Subsidy. The Implied Subsidy is the implied benefit retirees derive from paying the same premiums as active employees. Because younger people are generally healthier than older people, retirees on average have higher health expenses than employees. This results in an “implied” active premium payment which subsidizes the cost for older retirees (subsidy).

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

(21) Other Post Employment Benefits (OPEB), (continued)

Funded Status and Funding Progress, (continued)

While the Explicit Subsidy directly correlates to the actual benefits that will be paid directly to retirees or to CalPERS on behalf of retirees, the Implied Subsidy, if funded by the City, will be recovered directly by the City in future years to reimburse the City for the “implied” active premium payment that subsidizes the cost for older retirees (subsidy). Basically, the accumulation of resources under the Explicit Subsidy is for the benefit of retirees. Any accumulation of resources under the Implied Subsidy is owed back to the City in future years. According to the OPEB valuation dated June 30, 2015, the Implied Subsidy actuarial accrued liability and UAAL was \$1.9 million. There are no accumulated assets for the Implied Subsidy.

Actuarial Methods and Assumptions

The required contribution was determined as part of the June 30, 2015, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses); (b) aggregate payroll increases of 3.25% per year; (c) 0% per year increases to the City’s Fixed Monthly City Contribution to Benefits; (d) an annual inflation component of 3.0%; and (e) healthcare cost trend rates ranging from 5.0% to 7.0% for medical, and 4.0% and 3.0% for dental and vision, respectively. 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 7 year period. The average remaining amortization period at June 30, 2017 was 5 years.

Supplemental Health Account for Retired Employees

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 employee’s first eligible for City health benefits on or after January 1, 2007, in saving for postemployment 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, 2017, 83 employees were eligible to participate in this plan. Required employer contributions were made during the year in the amount of \$58,259 and required employee contributions totaled \$51,026. At June 30, 2017, there were no retirees eligible to receive the City’s contributions under this plan.

CITY OF MISSION VIEJO

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

(22) Prior Year Restatements

Clarification of Accounting Standard

Fund/net position at July 1, 2016 had been restated to reflect the following changes:

	Fund Financial Statements		Government-wide
	115 Pension Trust	General Fund	Governmental Activities
Beginning fund balance/net position, as previously reported	\$3,000,000	\$32,716,458	\$689,303,438
Restatement due to change in accounting standards	(3,000,000)	3,000,000	3,000,000
Beginning fund balance/net position at July 1, 2016, as restated	\$ -	\$35,716,458	\$692,303,438

In the prior year, the City established a Section 115 Trust Fund to account for resources held in trust for members and beneficiaries of the pension plan. During the year under audit, the accounting standards addressed the issue of reporting Section 115 Trusts that are for the benefit of members and beneficiaries of the pension plans, such as CalPERS. The assets associated with these Section 115 Trusts for pension plans like CalPERS are no longer to be accounted for in separate Pension Trust Fund. As a result, equity restatements were made to properly present the Section 115 assets in accordance with the accounting standards.



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MISSION VIEJO

Required Supplementary Information

*Schedule of Changes in Net Pension Liability and Related Ratios Last 10 Years**

Measurement Period	2015-16	2014-15	2013-14
TOTAL PENSION LIABILITY			
Service Cost	\$ 1,906,461	\$ 1,891,776	\$ 2,063,288
Interest	5,419,496	5,062,617	4,692,063
Changes of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	(96,499)	97,537	-
Changes of Assumptions	-	(1,279,571)	-
Contributions	(2,383,616)	(2,016,686)	(1,724,113)
Net Change in Total Pension Liability	4,845,842	3,755,673	5,031,238
Total Pension Liability - Beginning	71,178,162	67,422,489	62,391,251
Total Pension Liability - Ending (a)	\$ 76,024,004	\$ 71,178,162	\$ 67,422,489
PLAN FIDUCIARY NET POSITION			
Contributions - Employer	\$ 1,903,477	\$ 3,419,577	\$ 1,817,494
Contributions - Employee Paid Member Contributions	-	-	231,856
Contributions - Employee	849,550	844,477	603,514
Net Investment Income	321,400	1,182,775	7,701,208
Benefit Payments, Including Refunds of Employee Contributions	(2,383,616)	(2,016,686)	(1,724,113)
Administrative Expense	(34,069)	(62,955)	-
Net Change in Fiduciary Net Position	656,742	3,367,188	8,629,959
Plan Fiduciary Net Position - Beginning	55,901,651	52,534,463	43,904,504
Plan Fiduciary Net Position - Ending (b)	\$ 56,558,393	\$ 55,901,651	\$ 52,534,463
Plan Net Position Liability/(Asset) - Ending (a) - (b)	\$ 19,465,611	\$ 15,276,511	\$ 14,888,026
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.40%	78.54%	77.92%
Covered Payroll	10,308,528	10,338,178	10,114,661
Plan Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll	188.83%	147.77%	147.19%

Notes to Schedule of Changes in Net Pension Liability and Related Ratios:

Benefits changes: The figures do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2015 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes)

Changes in Assumptions: In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

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

CITY OF MISSION VIEJO

Required Supplementary Information Schedule of Plan Contributions Last 10 Years*

	Fiscal Year 2016-17	Fiscal Year 2015-16	Fiscal Year 2014-15
Actuarially Determined Contribution	\$ 1,903,477	\$ 1,909,220	\$ 1,817,494
Contributions in Relation to the Actuarially Determined Contribution	(1,903,477)	(4,909,220)	(3,317,494)
Contribution Deficiency (Excess)	\$ -	\$ (3,000,000)	\$ (1,500,000)
Covered Payroll	10,797,202	\$ 10,308,528	\$ 10,338,178
Contributions as a Percentage of Covered-Employee Payroll	17.63%	47.62%	32.09%

* Measurement period 2015-16 (fiscal year 2017) was the 3rd year of implementation, therefore, only three years are shown.

Notes to Schedule of Plan Contributions:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2016-17 were derived from the June 30, 2014 funding valuation report.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2014 Funding Valuation Report.
Asset Valuation Method	Market Value of Assets. For details, see June 30, 2014 Funding Valuation Report.
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

Other Information:

For changes to previous year's information, refer to past GASB 68 reports.

CITY OF MISSION VIEJO
Required Supplementary Information
Other Post Employment Benefit Plan
For the Year Ended June 30, 2017

OTHER POST EMPLOYMENT BENEFIT PLAN (OPEB)
RETIREE INSURANCES PROGRAM (RIP)

SCHEDULE OF FUNDING PROGRESS – CASH SUBSIDY (Funding for RIP Benefit)

Actuarial Valuation Date	Entry Age Normal Actuarial Accrued Liability (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Actuarial Accrued Liability (UAAL)/ (Excess Assets) (a)-(b)	Funded Ratio Based on AVA (b)/(a)	Annual Covered Payroll (c)	UAAL As of % of Payroll [(a)-(b)]/(c)
6/30/2011	\$ 7,362,000	\$ 2,805,000	\$ 4,557,000	38.10%	\$ 9,771,000	46.60%
6/30/2013	7,518,000	4,269,000	3,249,000	56.80%	9,874,000	32.90%
6/30/2015	8,934,000	8,141,000	793,000	91.00%	10,359,000	7.60%

SCHEDULE OF FUNDING PROGRESS – IMPLIED SUBSIDY

(Funding for reimbursement to City for the “Implied” active premium payment that subsidizes the cost for older retirees (subsidy))

Actuarial Valuation Date	Entry Age Normal Actuarial Accrued Liability (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Actuarial Accrued Liability (UAAL)/ (Excess Assets) (a)-(b)	Funded Ratio Based on AVA (b)/(a)	Annual Covered Payroll (c)	UAAL As of % of Payroll [(a)-(b)]/(c)
6/30/2011	n/a	n/a	n/a	n/a	n/a	n/a
6/30/2013	n/a	n/a	n/a	n/a	n/a	n/a
6/30/2015	\$ 1,901,000	\$ -	\$ 1,901,000	0%	\$ 10,359,000	18.30%

Employer Contributions

Year Ended June 30,	Annual Required Contribution	Employer Contribution	Percentage Contributed
2015	\$ 745,000	\$ 2,485,000	36973%
2016	749,000	1,096,000	146%
2017	489,000	345,000	71%

CITY OF MISSION VIEJO

General Fund Schedule of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 49,700,904	\$ 50,087,398	\$ 49,191,697	\$ (895,701)
Licenses and permits	1,844,250	2,025,945	2,132,053	106,108
Intergovernmental	201,500	2,256,500	3,058,564	802,064
Charges for services	2,914,667	2,983,667	3,341,967	358,300
Investment earnings	150,000	200,000	82,681	(117,319)
Fines and forfeitures	641,000	491,000	462,446	(28,554)
Developer fees	38,000	38,000	38,000	-
Other	592,330	2,161,698	791,250	(1,370,448)
Total revenues	56,082,651	60,244,208	59,098,658	(1,145,550)
EXPENDITURES				
General Government-Legislative	1,388,679	1,746,977	1,725,169	21,808
General Govt-Mgmt and Support	6,751,613	8,641,497	7,546,683	1,094,814
Public Safety	19,254,717	19,846,035	19,753,333	92,702
Community Development	2,708,662	3,443,825	3,025,126	418,699
Engineering & Transportation	2,242,295	2,527,532	2,207,214	320,318
Infrastructure Maintenance	15,387,232	16,374,538	16,128,520	246,018
Rec/Community/Library Services	5,258,585	5,257,075	4,807,520	449,555
Capital Outlay				
El Dorado Playground Renovations	-	574,833	574,833	-
Marguerite Aquatic Rehab	-	5,647,842	4,164,591	1,483,251
Cordova Playground Renovations	650,000	678,766	36,260	642,506
Felipe Park Restroom	500,000	500,000	11,882	488,118
ArterialHgwYResurf&Slurry	-	145,000	-	145,000
Safety Lighting LED Conversion	50,000	50,000	-	50,000
Total expenditures	54,191,783	65,433,920	59,981,131	5,452,789
Excess (deficiency) of revenues over expenditures	1,890,868	(5,189,712)	(882,473)	4,307,239
OTHER FINANCING SOURCES (USES)				
Transfers in	1,335,800	1,956,614	1,956,599	(15)
Transfers out	(2,235,335)	(2,145,205)	(2,129,849)	15,356
Sale of City property	-	-	1,021	1,021
Total other financing sources (uses)	(899,535)	(188,591)	(172,229)	16,362
Net change in fund balances	991,333	(5,378,303)	(1,054,702)	4,323,601
Fund balances - beginning	32,716,458	32,716,458	32,716,458	-
Fund balances - ending	\$ 33,707,791	\$ 27,338,155	\$ 31,661,756	\$ 4,323,601

See notes to required supplementary information

CITY OF MISSION VIEJO

Grants Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 554,712	\$ 807,237	\$ 1,177,703	\$ 370,466
Investment earnings	-	-	422	422
Total revenues	<u>554,712</u>	<u>807,237</u>	<u>1,178,125</u>	<u>370,888</u>
EXPENDITURES				
General Govt-Mgmt and Support	17,477	17,477	2,537	14,940
Community Development	1,154,606	381,119	305,646	75,473
Rec/Community/Library Services	114,000	114,000	92,572	21,428
Capital Outlay				
Residential Resurfacing	192,040	332,126	332,040	86
Oso Creek Trail Signage	-	61,932	-	61,932
MargueriteAlarcon to SM Pkwy	40,000	40,000	80	39,920
Total expenditures	<u>1,518,123</u>	<u>946,654</u>	<u>732,875</u>	<u>213,779</u>
Excess (deficiency) of revenues over expenditures	<u>(963,411)</u>	<u>(139,417)</u>	<u>445,250</u>	<u>584,667</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	-	(820,000)	(820,000)	-
Total other financing sources (uses)	<u>-</u>	<u>(820,000)</u>	<u>(820,000)</u>	<u>-</u>
Net change in fund balances	(963,411)	(959,417)	(374,750)	584,667
Fund balances - beginning	311,171	311,171	311,171	-
Fund balances - ending	<u>\$ (652,240)</u>	<u>\$ (648,246)</u>	<u>\$ (63,579)</u>	<u>\$ 584,667</u>

See notes to required supplementary information

CITY OF MISSION VIEJO

**Mission Viejo Housing Authority Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual
 For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Investment earnings	\$ 11,575	\$ 11,575	\$ 10,425	\$ (1,150)
Other	-	-	223,873	223,873
Total revenues	<u>11,575</u>	<u>11,575</u>	<u>234,298</u>	<u>222,723</u>
EXPENDITURES				
Community Development	173,000	1,065,509	976,256	89,253
Total expenditures	<u>173,000</u>	<u>1,065,509</u>	<u>976,256</u>	<u>89,253</u>
Excess (deficiency) of revenues over expenditures	<u>(161,425)</u>	<u>(1,053,934)</u>	<u>(741,958)</u>	<u>311,976</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	820,000	820,000	-
Proceeds from housing payoff loan	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>820,000</u>	<u>820,000</u>	<u>-</u>
Net change in fund balances	(161,425)	(233,934)	78,042	311,976
Fund balances - beginning	5,193,796	5,193,796	5,193,796	-
Fund balances - ending	<u>\$ 5,032,371</u>	<u>\$ 4,959,862</u>	<u>\$ 5,271,838</u>	<u>\$ 311,976</u>

See notes to required supplementary information

CITY OF MISSION VIEJO

REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2017

(1) Budgetary Policy and Control

General Budget Policies

The City Council adopts a biennial budget for all funds of the primary government 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 and the Mission Viejo Housing 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 transfer 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, 2017 were \$11,171,781. Of this amount, \$6,528,506 represents 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 individual capital improvement project within each fund.

For the Community Development Financing Authority and the Mission Viejo Housing Authority budgets, the level of budgetary control is the fund.

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.

CITY OF MISSION VIEJO

REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2017

(2) 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

In 2011, the Orange County Transportation Authority (OCTA) established a new countywide Pavement Condition Index (PCI) that all Orange County jurisdictions must utilize in assessing the pavement conditions of its streets. Under the old guidelines, streets were classified into three functional classifications: Arterial, Collector or Residential/Local streets. However, OCTA has now combined the “local/residential” and “collectors” into one category now called “local/residential” 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 estimated costs for the treatment. Pavement management work generally includes two types of treatments: preventive maintenance (such as street slurry) and rehabilitation (which includes overlays and reconstruction).

CITY OF MISSION VIEJO

REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2017

(2) Capital Assets – Modified Approach for Infrastructure, (continued)

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.

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

City of Mission Viejo PCI Index	
PCI Range	Condition
86-100	Very Good
75-85	Good
60-74	Fair
41-59	Poor
0-40	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 and surface seal.”

It is the City Council’s policy to maintain City streets at a "Good" to "Very Good" level for each of the street categories as specified in the City's Pavement Management Program.

Condition Levels:	2012 Study	2014 Study	2016 Study
Arterials (MPAH)	Very Good	Very Good	Good
Local/Residential	Very Good	Very Good	Very Good

The June 2016 study indicated that the current citywide weighted average Pavement Condition Index (PCI) is 88, which shows an improvement of one PCI point since the last update in 2014. Overall, 89.4% (by area) of the City’s road network is in the “Very Good” and “Good” condition categories, approximately 9.3% of the streets are in the “Fair” category and 1.3% in the “Poor” category. The City does not have any road in the “Very Poor” category.

CITY OF MISSION VIEJO

REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2017

(2) 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 75 or above, along with the actual maintenance amounts expensed for the past five fiscal years.

Comparison of Needed to Actual Maintenance/Preservation

<u>Overall System:</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Needed	\$ 3,790,000	\$ 5,720,000	\$ 7,060,000	\$3,820,000	\$5,100,000
Actual	<u>4,120,884</u>	<u>5,334,875</u>	<u>6,210,904</u>	<u>4,795,423</u>	<u>2,843,718</u>
Difference	<u>\$ 330,884</u>	<u>\$ (385,125)</u>	<u>\$ (849,096)</u>	<u>\$ 975,423</u>	<u>\$(2,256,282)</u>



MISSION VIEJO

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CITY OF MISSION VIEJO

**General Funds
Combining Balance Sheet
June 30, 2017**

	General Funds	Section 115 Trust	Total General Funds
ASSETS			
Cash and investments	\$ 33,392,630	\$ -	\$ 33,392,630
Accounts receivable	250,619	-	250,619
Taxes receivable	3,930,402	-	3,930,402
Loans receivable	6,377	-	6,377
Interfund note receivable	2,248,000	-	2,248,000
Notes receivable	-	2,858,188	2,858,188
Interest receivable	92,381	-	92,381
Prepaid items	27,226	-	27,226
Deposits	430	-	430
Intergovernmental receivable	10,066	-	10,066
Interfund receivables	626,649	-	626,649
Intergovernmental receivable-Successor Agency	572,852	-	572,852
Due from developers	4,174,788	-	4,174,788
Restricted assets:			
Cash and investments for pensions	-	162,397	162,397
Total assets	<u>\$ 45,332,420</u>	<u>\$ 3,020,585</u>	<u>\$ 48,353,005</u>
LIABILITIES			
Accounts payable	\$ 4,130,233	\$ -	\$ 4,130,233
Accrued payroll	601,068	-	601,068
Unearned revenues	74,117	-	74,117
Deposits payable	1,799,616	-	1,799,616
Intergovernmental payable	149,336	-	149,336
Interfund payables	31,527	-	31,527
Other liabilities	28,127	-	28,127
Retainage payable	390,232	-	390,232
Total liabilities	<u>7,204,256</u>	<u>-</u>	<u>7,204,256</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	6,466,408	-	6,466,408
Total deferred inflow of resources	<u>6,466,408</u>	<u>-</u>	<u>6,466,408</u>
Total liabilities and deferred inflows of resources	<u>13,670,664</u>	<u>-</u>	<u>13,670,664</u>
FUND BALANCES (DEFICITS)			
Nonspendable	606,885	-	606,885
Restricted	35,475	3,020,585	3,056,060
Assigned	4,500,000	-	4,500,000
Unassigned	26,519,396	-	26,519,396
Total fund balances (deficits)	<u>\$ 31,661,756</u>	<u>\$ 3,020,585</u>	<u>\$ 34,682,341</u>
Total liabilities and fund balances (deficits)	<u>\$ 45,332,420</u>	<u>\$ 3,020,585</u>	<u>\$ 48,353,005</u>

CITY OF MISSION VIEJO

General Fund

Combining Statement of Revenues, Expenditures and Changes in Fund Balances For the Year Ended June 30, 2017

	General Fund	Section 115 Trust	Total General Funds
REVENUES			
Taxes	\$ 49,191,697	\$ -	\$ 49,191,697
Licenses and permits	2,132,053	-	2,132,053
Intergovernmental	3,058,564	-	3,058,564
Charges for services	3,341,967	-	3,341,967
Investment earnings	82,681	21,692	104,373
Fines and forfeitures	462,446	-	462,446
Developer fees	38,000	-	38,000
Other	791,250	-	791,250
Total revenues	<u>59,098,658</u>	<u>21,692</u>	<u>59,120,350</u>
EXPENDITURES			
Current:			
General Government-Legislative	1,725,169		1,725,169
General Govt-Mgmt and Support	7,546,683	1,107	7,547,790
Public Safety	19,753,333	-	19,753,333
Community Development	3,025,126	-	3,025,126
Engineering & Transportation	2,207,214	-	2,207,214
Infrastructure Maintenance	16,128,520	-	16,128,520
Rec/Community/Library Services	4,807,520	-	4,807,520
Capital Outlay	4,787,566	-	4,787,566
Total expenditures	<u>59,981,131</u>	<u>1,107</u>	<u>59,982,238</u>
Excess (deficiency) of revenues over expenditures	<u>(882,473)</u>	<u>20,585</u>	<u>(861,888)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	1,956,599	-	1,956,599
Transfers out	(2,129,849)	-	(2,129,849)
Sale of City property	1,021	-	1,021
Total other financing sources (uses)	<u>(172,229)</u>	<u>-</u>	<u>(172,229)</u>
Net change in fund balances	(1,054,702)	20,585	(1,034,117)
Fund balances (deficits) - beginning (as restated)	32,716,458	3,000,000	35,716,458
Fund balances (deficits)- ending	<u>\$ 31,661,756</u>	<u>\$ 3,020,585</u>	<u>\$ 34,682,341</u>

CITY OF MISSION VIEJO

**Nonmajor Governmental Funds
Combining Governmental Balance Sheet
Summary by Fund Type
June 30, 2017**

	Special revenue funds	Debt service funds	Capital projects funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and investments	\$ 2,762,413	\$ 7,494	\$ 1,113,256	\$ 3,883,163
Taxes receivable	58,042	-	273,664	331,706
Interfund receivable	376	-	-	376
Intergovernmental receivable	382,905	-	123,148	506,053
Cash and investments with fiscal agents	-	5,859,394	-	5,859,394
Total assets	<u>\$ 3,203,736</u>	<u>\$ 5,866,888</u>	<u>\$ 1,510,068</u>	<u>\$ 10,580,692</u>
LIABILITIES				
Accounts payable	\$ 374,465	\$ 4,587	\$ 1,210	\$ 380,262
Accrued payroll	112,076	-	832	112,908
Deposits payable	1,100	-	-	1,100
Retainage payable	8,381	-	4,686	13,067
Interfund payable	99,538	96,614	123,524	319,676
Total liabilities	<u>595,560</u>	<u>101,201</u>	<u>130,252</u>	<u>827,013</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	54,006	-	123,148	177,154
Total deferred inflow of resources	<u>54,006</u>	<u>-</u>	<u>123,148</u>	<u>177,154</u>
Total liabilities and deferred inflows of resources	<u>649,566</u>	<u>101,201</u>	<u>253,400</u>	<u>1,004,167</u>
FUND BALANCES				
Restricted for:				
Parks and recreation	1,210,281	-	-	1,210,281
Public safety	23,479	-	-	23,479
Public works	1,320,410	-	1,256,668	2,577,078
Debt Service	-	5,765,687	-	5,765,687
Total fund balances	<u>\$ 2,554,170</u>	<u>\$ 5,765,687</u>	<u>\$ 1,256,668</u>	<u>\$ 9,576,525</u>
Total liabilities and fund balances	<u>\$ 3,203,736</u>	<u>\$ 5,866,888</u>	<u>\$ 1,510,068</u>	<u>\$ 10,580,692</u>

CITY OF MISSION VIEJO

Nonmajor Governmental Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Summary by Fund Type

For the Year Ended June 30, 2017

	Special revenue funds	Debt service funds	Capital projects funds	Total Nonmajor Governmental Funds
REVENUES				
Taxes	\$ 2,445,653	\$ 1,442,102	\$ -	\$ 3,887,755
Intergovernmental	2,532,679	1,235,364	1,946,126	5,714,169
Charges for services	221,945	-	-	221,945
Investment earnings	1,209	8,420	3,931	13,560
Fines and forfeitures	45,092	-	-	45,092
Developer fees	40,000	-	-	40,000
Other	12,040	-	388,227	400,267
Total revenues	5,298,618	2,685,886	2,338,284	10,322,788
EXPENDITURES				
General Govt-Mgmt and Support	122,272	-	-	122,272
Public Safety	196,265	-	-	196,265
Community Development	41,895	-	-	41,895
Engineering & Transportation	481,693	-	-	481,693
Infrastructure Maintenance	335,220	-	-	335,220
Rec/Community/Library Services	2,770,992	-	-	2,770,992
Capital Outlay	2,156,519	-	207,677	2,364,196
Debt service:				
Principal retirement	-	2,060,000	-	2,060,000
Interest	-	378,893	-	378,893
Administrative charges	-	503,316	-	503,316
Payment to bond escrow agent	-	1,363,981	-	1,363,981
Total expenditures	6,104,856	4,306,190	207,677	10,618,723
Excess (deficiency) of revenues over expenditures	(806,238)	(1,620,304)	2,130,607	(295,935)
OTHER FINANCING SOURCES (USES)				
Proceeds of debt issuance	-	13,150,000	-	13,150,000
Payment to bond escrow agent	-	(14,016,069)	-	(14,016,069)
Issuance of premium	-	1,107,810	-	1,107,810
Transfers in	484,145	2,569,068	-	3,053,213
Transfers out	-	(3,400,404)	-	(3,400,404)
Total other financing sources (uses)	484,145	(589,595)	-	(105,450)
Net change in fund balances	(322,093)	(2,209,899)	2,130,607	(401,385)
Fund balances - beginning	2,876,263	7,975,586	(873,939)	9,977,910
Fund balances - ending	<u>\$ 2,554,170</u>	<u>\$ 5,765,687</u>	<u>\$ 1,256,668</u>	<u>\$ 9,576,525</u>

CITY OF MISSION VIEJO

OTHER SPECIAL REVENUE FUNDS YEAR ENDED JUNE 30, 2017

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:

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. These funds are earmarked for maintenance, rehabilitation or improvement of public streets.

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.

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.

MEASURE M – Includes funds received by the City from OCTA awarded through competitive allocation, and their related expenditure. Funds are restricted for transportation purposes.

CITY OF MISSION VIEJO

**Nonmajor Special Revenue
Combining Balance Sheet
June 30, 2017**

	<u>Gas Tax Fund</u>	<u>Library Operations Fund</u>
ASSETS		
Cash and investments	\$ 950,924	\$ 1,347,152
Taxes receivable	-	28,042
Interfund receivable	376	-
Intergovernmental receivable	168,501	-
Total assets	<u>\$ 1,119,801</u>	<u>\$ 1,375,194</u>
LIABILITIES		
Accounts payable	\$ 151,229	\$ 52,746
Accrued payroll	1,742	110,334
Deposits payable	-	1,100
Retainage payable	8,381	-
Interfund payable	-	-
Total liabilities	<u>161,352</u>	<u>164,180</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue	-	733
Total deferred inflow of resources	<u>-</u>	<u>733</u>
Total liabilities and deferred inflows of resources	<u>161,352</u>	<u>164,913</u>
FUND BALANCES		
Restricted for:		
Parks and Recreation	-	1,210,281
Public Safety	-	-
Public Works	958,449	-
Total fund balances	<u>958,449</u>	<u>1,210,281</u>
Total liabilities and fund balances	<u>\$ 1,119,801</u>	<u>\$ 1,375,194</u>

Law Enforcement Grants Fund			
Law Enforcement Grants Fund	Air Quality Fund	Measure M	Totals
\$ 76,543	\$ 380,137	\$ 7,657	\$ 2,762,413
-	30,000		58,042
-	-	-	376
5,701	-	208,703	382,905
<u>\$ 82,244</u>	<u>\$ 410,137</u>	<u>\$ 216,360</u>	<u>\$ 3,203,736</u>
\$ 12,500	\$ 157,990		374,465
-	-	-	112,076
-	-	-	1,100
-	-	-	8,381
46,265	-	53,273	99,538
<u>58,765</u>	<u>157,990</u>	<u>53,273</u>	<u>595,560</u>
-	-	53,273	54,006
-	-	53,273	54,006
<u>58,765</u>	<u>157,990</u>	<u>106,546</u>	<u>649,566</u>
-	-	-	1,210,281
23,479	-	-	23,479
-	252,147	109,814	1,320,410
<u>23,479</u>	<u>252,147</u>	<u>109,814</u>	<u>2,554,170</u>
<u>\$ 82,244</u>	<u>\$ 410,137</u>	<u>\$ 216,360</u>	<u>\$ 3,203,736</u>

CITY OF MISSION VIEJO

Nonmajor Special Revenue Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Year Ended June 30, 2017

	<u>Gas Tax Fund</u>	<u>Library Operations Fund</u>
REVENUES		
Taxes	\$ -	\$ 2,445,653
Intergovernmental	1,870,282	185,536
Charges for services	-	221,945
Investment earnings	(3,992)	2,301
Fines and forfeitures	-	45,092
Developer fees	-	40,000
Other	-	12,040
Total revenues	<u>1,866,290</u>	<u>2,952,567</u>
EXPENDITURES		
General Govt-Mgmt and Support	1,849	118,843
Public Safety	-	-
Community Development	-	-
Engineering & Transportation	379,661	-
Infrastructure Maintenance	-	335,220
Rec/Community/Library Services	-	2,770,992
Capital Outlay	2,106,515	-
Total expenditures	<u>2,488,025</u>	<u>3,225,055</u>
Excess (deficiency) of revenues over expenditures	<u>(621,735)</u>	<u>(272,488)</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	484,145
Total other financing sources (uses)	<u>-</u>	<u>484,145</u>
Net change in fund balances	(621,735)	211,657
Fund balances (deficits) - beginning	1,580,184	998,624
Fund balances (deficits) - ending	<u>\$ 958,449</u>	<u>\$ 1,210,281</u>

Law Enforcement Grants Fund	Air Quality Fund	Measure M	Total Nonmajor Special revenue funds
\$ -	\$ -	\$ -	\$ 2,445,653
194,266	127,165	155,430	2,532,679
-	-	-	221,945
542	2,358	-	1,209
-	-	-	45,092
-	-	-	40,000
-	-	-	12,040
<u>194,808</u>	<u>129,523</u>	<u>155,430</u>	<u>5,298,618</u>
-	1,580	-	122,272
196,265	-	-	196,265
-	41,895	-	41,895
-	102,032	-	481,693
-	-	-	335,220
-	-	-	2,770,992
-	4,388	45,616	2,156,519
<u>196,265</u>	<u>149,895</u>	<u>45,616</u>	<u>6,104,856</u>
<u>(1,457)</u>	<u>(20,372)</u>	<u>109,814</u>	<u>(806,238)</u>
-	-	-	484,145
-	-	-	484,145
(1,457)	(20,372)	109,814	(322,093)
24,936	272,519	-	2,876,263
<u>\$ 23,479</u>	<u>\$ 252,147</u>	<u>\$ 109,814</u>	<u>\$ 2,554,170</u>

CITY OF MISSION VIEJO

Gas Tax Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 2,491,994	\$ 1,895,191	\$ 1,870,282	\$ (24,909)
Investment earnings	1,000	1,000	(3,992)	(4,992)
Other	260,000	260,000	-	(260,000)
Total revenues	<u>2,752,994</u>	<u>2,156,191</u>	<u>1,866,290</u>	<u>(289,901)</u>
EXPENDITURES				
General Govt-Mgmt and Support	2,071	2,071	1,849	222
Engineering & Transportation	391,573	567,803	379,661	188,142
Capital Outlay				
LaPaz Rd Wdning/Chrisanta - I5	-	1,450	1,047	403
MargueriteTrafSignalSynch	-	3,636	1,550	2,086
LosAlisosCorridorSgnlSyncProjP	-	18,925	639	18,286
SantaMargPkwySgnlSyncProjP	-	5,820	380	5,440
OsoPkwyCorridorSgnlSyncProjP	-	8,396	202	8,194
JeronimoSgnlSyncProjP	-	4,006	510	3,496
Marguerite Parkway Alicia - Alarcon	-	7,949	-	7,949
Alicia Parkway Traffic Sig Syn	-	4,545	4,545	-
MargueriteAlarcon to SM Pkwy	300,000	300,000	23,020	276,980
Marguerite Corridor TSSP	60,076	165,365	55,950	109,415
El Toro Corridor TSSP	3,080	3,080	-	3,080
Alicia/Marguerite Intersection	60,435	60,435	33,309	27,126
SMPkwy/Marguerite Intersection	39,764	39,764	37,192	2,572
Project V	-	5,937	5,937	-
Proj V Transit/Circulators	-	5,000	2,685	2,315
Sidewalk Repair Progrm-Ongoing	25,000	25,000	16,916	8,084
ArterialHgwYResurf&Slurry	512,214	-	-	-
Residential Resurfacing	2,136,174	1,959,082	1,922,633	36,449
Total expenditures	<u>3,530,387</u>	<u>3,188,264</u>	<u>2,488,025</u>	<u>700,239</u>
Excess (deficiency) of revenues over expenditures	<u>(777,393)</u>	<u>(1,032,073)</u>	<u>(621,735)</u>	<u>410,338</u>
Net change in fund balances	(777,393)	(1,032,073)	(621,735)	410,338
Fund balances - beginning	1,580,184	1,580,184	1,580,184	-
Fund balances - ending	<u>\$ 802,791</u>	<u>\$ 548,111</u>	<u>\$ 958,449</u>	<u>\$ 410,338</u>

CITY OF MISSION VIEJO

**Library Operations Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual
 For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 2,445,700	\$ 2,445,700	\$ 2,445,653	\$ (47)
Intergovernmental	141,700	174,922	185,536	10,614
Charges for services	242,000	242,000	221,945	(20,055)
Investment earnings	1,000	1,000	2,301	1,301
Fines and forfeitures	47,500	47,500	45,092	(2,408)
Developer fees	40,000	40,000	40,000	-
Other	17,000	17,000	12,040	(4,960)
Total revenues	<u>2,934,900</u>	<u>2,968,122</u>	<u>2,952,567</u>	<u>(15,555)</u>
EXPENDITURES				
General Govt-Mgmt and Support	95,900	134,864	118,843	16,021
Infrastructure Maintenance	367,810	379,378	335,220	44,158
Rec/Community/Library Services	2,915,173	3,037,829	2,770,992	266,837
Total expenditures	<u>3,378,883</u>	<u>3,552,071</u>	<u>3,225,055</u>	<u>327,016</u>
Excess (deficiency) of revenues over expenditures	<u>(443,983)</u>	<u>(583,949)</u>	<u>(272,488)</u>	<u>311,461</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	484,145	484,145	484,145	-
Total other financing sources (uses)	<u>484,145</u>	<u>484,145</u>	<u>484,145</u>	<u>-</u>
Net change in fund balances	40,162	(99,804)	211,657	311,461
Fund balances - beginning	998,624	998,624	998,624	-
Fund balances - ending	<u>\$ 1,038,786</u>	<u>\$ 898,820</u>	<u>\$ 1,210,281</u>	<u>\$ 311,461</u>

CITY OF MISSION VIEJO

**Law Enforcement Grants Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual
 For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 150,000	\$ 150,000	\$ 194,266	\$ 44,266
Investment earnings	-	-	542	542
Total revenues	<u>150,000</u>	<u>150,000</u>	<u>194,808</u>	<u>44,808</u>
EXPENDITURES				
Public Safety	150,000	196,265	196,265	-
Total expenditures	<u>150,000</u>	<u>196,265</u>	<u>196,265</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	-	(46,265)	(1,457)	44,808
Net change in fund balances	-	(46,265)	(1,457)	44,808
Fund balances - beginning	24,936	24,936	24,936	-
Fund balances - ending	<u>\$ 24,936</u>	<u>\$ (21,329)</u>	<u>\$ 23,479</u>	<u>\$ 44,808</u>

CITY OF MISSION VIEJO

Air Quality Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 118,400	\$ 118,400	\$ 127,165	\$ 8,765
Investment earnings	1,000	1,000	2,358	1,358
Total revenues	<u>119,400</u>	<u>119,400</u>	<u>129,523</u>	<u>10,123</u>
EXPENDITURES				
General Govt-Mgmt and Support	2,075	2,075	1,580	495
Community Development	45,000	45,000	41,895	3,105
Engineering & Transportation	-	102,032	102,032	-
Capital Outlay				
MuirlandsSgnlSyncProjP	-	31,522	780	30,742
TrabucoRdSgnlSyncProjP	-	75	-	75
Alicia Parkway Traffic Signal Sync	-	170,000	350	169,650
Marguerite Corridor TSSP	129,732	24,443	-	24,443
El Toro Corridor TSSP	43,310	43,310	-	43,310
Project V	-	3,258	3,258	-
Total expenditures	<u>220,117</u>	<u>421,715</u>	<u>149,895</u>	<u>271,820</u>
Excess (deficiency) of revenues over expenditures	<u>(100,717)</u>	<u>(302,315)</u>	<u>(20,372)</u>	<u>281,943</u>
Net change in fund balances	(100,717)	(302,315)	(20,372)	281,943
Fund balances - beginning	272,519	272,519	272,519	-
Fund balances - ending	<u>\$ 171,802</u>	<u>\$ (29,796)</u>	<u>\$ 252,147</u>	<u>\$ 281,943</u>

CITY OF MISSION VIEJO

**Measure M Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual
 For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ -	\$ 898,532	\$ 155,430	\$ (743,102)
Other	-	45,000	-	(45,000)
Total revenues	<u>-</u>	<u>943,532</u>	<u>155,430</u>	<u>(788,102)</u>
EXPENDITURES				
Capital Outlay				
Marguerite Corridor TSSP	-	759,232	-	759,232
Project V	-	139,300	21,454	117,846
Project V Transit/Circulators	-	45,000	24,162	20,838
Total expenditures	<u>-</u>	<u>943,532</u>	<u>45,616</u>	<u>897,916</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>109,814</u>	<u>109,814</u>
Net change in fund balances	-	-	109,814	109,814
Fund balances - beginning	-	-	-	-
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 109,814</u>	<u>\$ 109,814</u>

CITY OF MISSION VIEJO

OTHER DEBT SERVICE FUNDS YEAR ENDED JUNE 30, 2017

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

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.

CDFA 1999 MALL BONDS - To accumulate funds for payment of the CDFA 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.

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

CDFA 2016 LEASE REVENUE REFUNDING BONDS - To accumulate funds for payment of the CDFA 2016 Lease Revenue Bonds.

CITY OF MISSION VIEJO

**Nonmajor Debt Service Funds
Combining Balance Sheet
June 30, 2017**

	Mall Parking Lease	C DFA 1999 Mall Bonds	C DFA 2009 Lease Revenue Refunding Bonds	C DFA 2016 Lease Revenue Refunding Bonds	Total Nonmajor Debt service funds
ASSETS					
Cash and investments	\$ 7,494	\$ -	\$ -	\$ -	\$ 7,494
Restricted assets:					
Cash and investments with fiscal agents	-	5,859,340	-	54	5,859,394
Total assets	<u>\$ 7,494</u>	<u>\$ 5,859,340</u>	<u>\$ -</u>	<u>\$ 54</u>	<u>\$ 5,866,888</u>
LIABILITIES					
Accounts payable	\$ -	\$ 4,587	\$ -	\$ -	\$ 4,587
Interfund payable	-	96,614	-	-	96,614
Total liabilities	<u>-</u>	<u>101,201</u>	<u>-</u>	<u>-</u>	<u>101,201</u>
FUND BALANCES					
Restricted for Debt Service	7,494	5,758,139	-	54	5,765,687
Total fund balances	<u>\$ 7,494</u>	<u>\$ 5,758,139</u>	<u>\$ -</u>	<u>\$ 54</u>	<u>\$ 5,765,687</u>
Total liabilities and fund balances	<u>\$ 7,494</u>	<u>\$ 5,859,340</u>	<u>\$ -</u>	<u>\$ 54</u>	<u>\$ 5,866,888</u>

CITY OF MISSION VIEJO

Nonmajor Debt Service Funds

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2017**

	Mall Parking Lease	CDFA 1999 Mall Bonds	CDFA 2009 Lease Revenue Refunding Bonds	CDFA 2016 Lease Revenue Refunding Bonds	Total Nonmajor Debt service funds
REVENUES					
Taxes	\$ 1,442,102	\$ -	\$ -	\$ -	\$ 1,442,102
Intergovernmental	-	1,235,364	-	-	1,235,364
Investment earnings	(42)	7,380	1,014	68	8,420
Total revenues	<u>1,442,060</u>	<u>1,242,744</u>	<u>1,014</u>	<u>68</u>	<u>2,685,886</u>
EXPENDITURES					
Debt service:					
Principal retirement	-	1,200,000	-	860,000	2,060,000
Interest	-	98,273	-	280,620	378,893
Administrative charges	-	275,214	-	228,102	503,316
Payment to bond escrow agent	-	-	1,363,981	-	1,363,981
Total expenditures	<u>-</u>	<u>1,573,487</u>	<u>1,363,981</u>	<u>1,368,722</u>	<u>4,306,190</u>
Excess (deficiency) of revenues over expenditures	<u>1,442,060</u>	<u>(330,743)</u>	<u>(1,362,967)</u>	<u>(1,368,654)</u>	<u>(1,620,304)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds of debt issuance	-	-	-	13,150,000	13,150,000
Payment to bond escrow agent	-	-	-	(14,016,069)	(14,016,069)
Issuance of premium	-	-	-	1,107,810	1,107,810
Transfers in	-	1,442,101	-	1,126,967	2,569,068
Transfers out	(1,442,102)	(1,956,599)	(1,703)	-	(3,400,404)
Total other financing sources (uses)	<u>(1,442,102)</u>	<u>(514,498)</u>	<u>(1,703)</u>	<u>1,368,708</u>	<u>(589,595)</u>
Net change in fund balances	(42)	(845,241)	(1,364,670)	54	(2,209,899)
Fund balances - beginning	7,536	6,603,380	1,364,670	-	7,975,586
Fund balances - ending	<u>\$ 7,494</u>	<u>\$ 5,758,139</u>	<u>\$ -</u>	<u>\$ 54</u>	<u>\$ 5,765,687</u>

CITY OF MISSION VIEJO

**Mall Parking Lease
 Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual
 For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,548,596	\$ 1,442,102	\$ 1,442,102	\$ -
Investment earnings	-	-	(42)	(42)
Total revenues	<u>1,548,596</u>	<u>1,442,102</u>	<u>1,442,060</u>	<u>(42)</u>
EXPENDITURES				
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over expenditures	<u>1,548,596</u>	<u>1,442,102</u>	<u>1,442,060</u>	<u>(42)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(1,680,500)</u>	<u>(1,574,006)</u>	<u>(1,442,102)</u>	<u>131,904</u>
Total other financing sources (uses)	<u>(1,680,500)</u>	<u>(1,574,006)</u>	<u>(1,442,102)</u>	<u>131,904</u>
Net change in fund balances	(131,904)	(131,904)	(42)	131,862
Fund balances - beginning	7,536	7,536	7,536	-
Fund balances - ending	<u>\$ (124,368)</u>	<u>\$ (124,368)</u>	<u>\$ 7,494</u>	<u>\$ 131,862</u>

CITY OF MISSION VIEJO

CDFA 1999 Mall Bonds

Schedule of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,275,000	\$ 1,275,000	\$ 1,235,364	\$ (39,636)
Investment earnings	500	500	7,380	6,880
Total revenues	<u>1,275,500</u>	<u>1,275,500</u>	<u>1,242,744</u>	<u>(32,756)</u>
EXPENDITURES				
Debt service:				
Principal retirement	1,200,000	1,200,000	1,200,000	-
Interest	300,000	300,000	98,273	201,727
Administrative charges	300,000	300,000	275,214	24,786
Total debt service	<u>1,800,000</u>	<u>1,800,000</u>	<u>1,573,487</u>	<u>226,513</u>
Total expenditures	<u>1,800,000</u>	<u>1,800,000</u>	<u>1,573,487</u>	<u>226,513</u>
Excess (deficiency) of revenues over expenditures	<u>(524,500)</u>	<u>(524,500)</u>	<u>(330,743)</u>	<u>193,757</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,548,596	1,548,596	1,442,101	(106,495)
Transfers out	<u>(1,956,614)</u>	<u>(1,956,614)</u>	<u>(1,956,599)</u>	<u>15</u>
Total other financing sources (uses)	<u>(408,018)</u>	<u>(408,018)</u>	<u>(514,498)</u>	<u>(106,480)</u>
Net change in fund balances	(932,518)	(932,518)	(845,241)	87,277
Fund balances - beginning	6,603,380	6,603,380	6,603,380	-
Fund balances - ending	<u>\$ 5,670,862</u>	<u>\$ 5,670,862</u>	<u>\$ 5,758,139</u>	<u>\$ 87,277</u>

CITY OF MISSION VIEJO

**CDFA 2009 Lease Revenue Refunding Bonds
 Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual
 For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Investment earnings	\$ 3,500	\$ 3,500	\$ 1,014	\$ (2,486)
Total revenues	<u>3,500</u>	<u>3,500</u>	<u>1,014</u>	<u>(2,486)</u>
EXPENDITURES				
Debt service:				
Principal retirement	855,000	-	-	-
Interest	375,800	-	-	-
Administrative charges	3,500	3,500	-	3,500
Payment to bond escrow agent	-	1,363,981	1,363,981	-
Total debt service	<u>1,234,300</u>	<u>1,367,481</u>	<u>1,363,981</u>	<u>3,500</u>
Total expenditures	<u>1,234,300</u>	<u>1,367,481</u>	<u>1,363,981</u>	<u>3,500</u>
Excess (deficiency) of revenues over expenditures	<u>(1,230,800)</u>	<u>(1,363,981)</u>	<u>(1,362,967)</u>	<u>1,014</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,230,800	-	-	-
Transfers out	-	-	(1,703)	(1,703)
Total other financing sources (uses)	<u>1,230,800</u>	<u>-</u>	<u>(1,703)</u>	<u>(1,703)</u>
Net change in fund balances	-	(1,363,981)	(1,364,670)	(689)
Fund balances - beginning	1,364,670	1,364,670	1,364,670	-
Fund balances - ending	<u>\$ 1,364,670</u>	<u>\$ 689</u>	<u>\$ -</u>	<u>\$ (689)</u>

CITY OF MISSION VIEJO

**CDFA 2016 Lease Revenue Refunding Bonds
 Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual
 For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Investment earnings	\$ -	\$ -	\$ 68	\$ 68
Total revenues	<u>-</u>	<u>-</u>	<u>68</u>	<u>68</u>
EXPENDITURES				
Debt service:				
Principal retirement	-	860,000	860,000	-
Interest	-	280,620	280,620	-
Administrative charges	-	241,741	228,102	13,639
Total debt service	<u>-</u>	<u>1,382,361</u>	<u>1,368,722</u>	<u>13,639</u>
Total expenditures	<u>-</u>	<u>1,382,361</u>	<u>1,368,722</u>	<u>13,639</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(1,382,361)</u>	<u>(1,368,654)</u>	<u>13,707</u>
OTHER FINANCING SOURCES (USES)				
Proceeds of debt issuance	-	13,150,000	13,150,000	-
Payment to bond escrow	-	(14,016,069)	(14,016,069)	-
Issuance of premium	-	1,107,810	1,107,810	-
Transfers in	-	1,140,620	1,126,967	(13,653)
Total other financing sources (uses)	<u>-</u>	<u>1,382,361</u>	<u>1,368,708</u>	<u>(13,653)</u>
Net change in fund balances	-	-	54	54
Fund balances - beginning	-	-	-	-
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54</u>	<u>\$ 54</u>



MISSION VIEJO

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CITY OF MISSION VIEJO

CAPITAL PROJECTS FUNDS YEAR ENDED JUNE 30, 2017

Capital projects funds are used to account for the resources accumulated to funds various capital construction projects in the City.

The City has the following major capital projects fund:

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

The City has the following non-major capital projects fund:

Capital Projects Fund - This capital projects fund is used to account for funds received by the City as a result of the voter-approved ballot measure in 1990 and extended by voter approval in 2006 to increase sales tax by ½ percent in Orange County to fund transportation projects, and includes both Measure M apportionment and funds award through competitive allocation. This fund also includes funds received and expended for miscellaneous grants restricted for specific capital improvement projects including future transportation funds for road and bridge projects.

CITY OF MISSION VIEJO

**Developer Fees Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual
 For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Investment earnings	\$ -	\$ -	\$ 32,776	\$ 32,776
Developer fees	3,650,000	7,160,310	3,991,104	(3,169,206)
Total revenues	3,650,000	7,160,310	4,023,880	(3,136,430)
EXPENDITURES				
Capital Outlay:				
Marguerite Aquatic Rehab	-	4,437,810	357,087	4,080,723
Pavion Park Restroom	-	16,186	16,184	2
Oso Parkway Widening	-	59,740	2,067	57,673
Felipe/Oso Intersection Improvement	3,000,000	3,465,750	102,725	3,363,025
Oso/I-5 NB On Ramps Improvement	650,000	723,931	11,226	712,705
Total expenditures	3,650,000	8,703,417	489,289	8,214,128
Excess (deficiency) of revenues over expenditures	-	(1,543,107)	3,534,591	5,077,698
Net change in fund balances	-	(1,543,107)	3,534,591	5,077,698
Fund balances - beginning	388,510	388,510	388,510	-
Fund balances - ending	\$ 388,510	\$ (1,154,597)	\$ 3,923,101	\$ 5,077,698

CITY OF MISSION VIEJO

**Capital Projects Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual
 For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 2,340,616	\$ 10,585,183	\$ 1,946,126	\$ (8,639,057)
Investment earnings	-	-	3,931	3,931
Other	-	-	388,227	388,227
Total revenues	<u>2,340,616</u>	<u>10,585,183</u>	<u>2,338,284</u>	<u>(8,246,899)</u>
EXPENDITURES				
Engineering & Transportation	49,575	-	-	-
Capital Outlay:				
Sidewalk Repair Progrm-Ongoing	-	20,000	-	20,000
ArterialHwyResurf&Slurry	1,438,213	1,438,213	2,000	1,436,213
Residential Resurfacing	622,213	634,678	138,726	495,952
La Paz Rd Traffic Signal Synchroniz	-	112	112	-
La Paz RR Bridge Widening	-	7,908,487	30,271	7,878,216
Muirlands Signal Sych	-	3,279	3,279	-
Trabuco Road Signal Sych	-	3,532	3,112	420
MargueriteAlarcon to SM Pkwy	200,000	353,020	376	352,644
Alicia/Marguerite Intersection	19,565	19,565	19,565	-
SMPkwy/Marguerite Intersection	10,236	10,236	10,236	-
Total expenditures	<u>2,339,802</u>	<u>10,391,122</u>	<u>207,677</u>	<u>10,183,445</u>
Excess (deficiency) of revenues over expenditures	<u>814</u>	<u>194,061</u>	<u>2,130,607</u>	<u>1,936,546</u>
Net change in fund balances	814	194,061	2,130,607	1,936,546
Fund balances - beginning	(873,939)	(873,939)	(873,939)	-
Fund balances - ending	<u>\$ (873,125)</u>	<u>\$ (679,878)</u>	<u>\$ 1,256,668</u>	<u>\$ 1,936,546</u>



MISSION VIEJO

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CITY OF MISSION VIEJO

AGENCY FUND YEAR ENDED JUNE 30, 2017

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

**Agency Fund
Statement of Changes in Assets and Liabilities
For the Year Ended June 30, 2017**

Community Facilities District 92-1	Balance at 6/30/2016	Additions	Deletions	Balance at 6/30/2017
ASSETS				
Restricted assets:				
Cash and investments with fiscal agents	\$ 242,921	\$ 722,038	\$ 728,253	\$ 236,706
Total assets	<u>\$ 242,921</u>	<u>\$ 722,038</u>	<u>\$ 728,253</u>	<u>\$ 236,706</u>
LIABILITIES				
Due to bondholders	\$ 242,921	\$ 507,661	\$ 513,876	\$ 236,706
Total liabilities	<u>\$ 242,921</u>	<u>\$ 507,661</u>	<u>\$ 513,876</u>	<u>\$ 236,706</u>

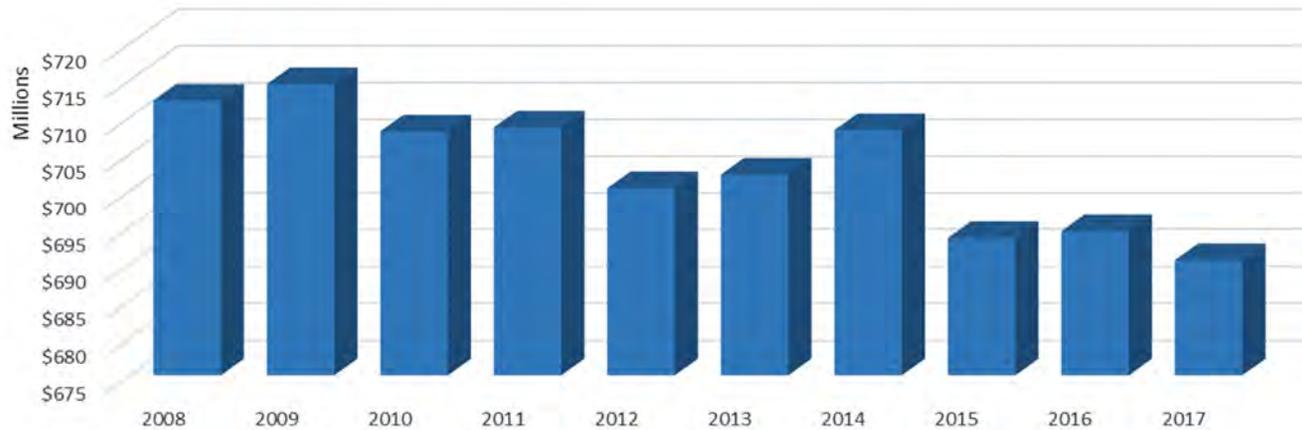
CITY OF MISSION VIEJO

STATISTICAL TABLES AND OTHER SCHEDULES YEAR ENDED JUNE 30, 2017

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 information says about the City’s overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends	138
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.....	147
These schedules contain information to help the reader assess the City’s most significant local revenue source, property tax revenues.	
Debt Capacity	151
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	155
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	157
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.	

CITY OF MISSION VIEJO
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(ACCURAL BASIS OF ACCOUNTING)



	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities										
Net investment in capital assets	\$ 655,353,074	\$ 658,433,369	\$ 651,851,636	\$ 644,039,024	\$ 649,203,896	\$ 646,771,844	\$ 643,465,280	\$ 638,065,270	\$ 639,179,582	\$ 639,548,835
Restricted	18,087,908	17,607,666	22,790,399	23,261,890	18,405,963	20,610,691	25,646,475	31,261,374	26,061,848	25,041,749
Unrestricted	34,212,481	33,780,397	29,168,881	36,865,274	28,219,048	29,947,637	33,909,082	19,843,910	24,062,008	20,367,268
Total governmental net position	<u>707,653,463</u>	<u>709,821,432</u>	<u>703,810,916</u> ¹	<u>704,166,188</u>	<u>695,828,907</u> ²	<u>697,330,172</u>	<u>703,020,837</u>	<u>689,170,554</u> ³	<u>689,303,438</u>	<u>684,957,852</u>
Business-type activities										
Net investment in capital assets	2,417,016	2,473,414	2,358,370	2,231,986	2,185,815	2,161,796	1,854,037	1,997,334	1,961,624	2,749,214
Unrestricted	2,129,106	2,157,546	1,873,521	2,178,529	2,324,417	2,686,422	3,330,497	2,296,870	3,117,861	2,752,807
Total business-type net position	<u>4,546,122</u>	<u>4,630,960</u>	<u>4,231,891</u>	<u>4,410,515</u>	<u>4,510,232</u>	<u>4,848,218</u>	<u>5,184,534</u>	<u>4,294,204</u>	<u>5,079,485</u>	<u>5,502,021</u>
Primary governmental										
Net investment in capital assets	657,770,090	660,906,783	654,210,006	646,271,010	651,389,711	648,933,640	645,319,317	640,062,604	641,141,206	642,298,049
Restricted	18,087,908	17,607,666	22,790,399	23,261,890	18,405,963	20,610,691	25,646,475	31,261,374	26,061,848	25,041,749
Unrestricted	36,341,587	35,937,943	31,042,402	39,043,803	30,543,465	32,634,059	37,239,579	22,140,780	27,179,869	23,120,075
Total primary government net position	<u>712,199,585</u>	<u>714,452,392</u>	<u>708,042,807</u> ¹	<u>708,576,703</u>	<u>700,339,139</u> ²	<u>702,178,390</u>	<u>708,205,371</u>	<u>693,464,758</u> ³	<u>694,382,923</u>	<u>690,459,873</u>

¹ Decrease due to a reduction in capital assets from depreciation and disposals.

² Decreased due to the transfer out of redevelopment assets in the amount of \$1.8 M; the disbursement of \$4.8 M for the development of an affordable housing project; and the use of cash resources to pay off one of the City's revenue bonds in the amount of \$2.4 M.

³ Decrease due to the restatement of net position related to the implementation of GASB 68.

The notes to financial statements are an integral part of this statement.

**CITY OF MISSION VIEJO
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(ACCURAL BASIS OF ACCOUNTING)**

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses										
Governmental activities:										
General Government-Legislative	\$ 1,539,469	\$ 2,186,488	\$ 2,346,309	\$ 1,295,007	\$ 1,222,641	\$ 1,243,358	\$ 1,175,830	\$ 1,391,939	\$ 1,254,587	\$ 1,953,252
General Govt-Mgmt and Support	15,012,892	14,766,918	16,209,817 ¹	14,807,567	10,795,031	10,317,445	8,184,578 ¹¹	8,023,803	7,984,424	9,617,474
Public Safety	15,682,611	16,223,078	16,503,571	16,781,149	16,664,706	16,939,740	16,963,811	18,091,816	18,853,188	20,111,045
Community Development	2,619,254	1,910,720	2,392,911	2,571,601	10,102,297 ³	3,079,388	3,270,422	3,266,884	3,171,164	4,743,210
Engineering & Transportation	3,396,587	3,367,924	3,166,898	2,998,197	1,808,209	2,806,889	2,409,419	2,837,220	5,478,851	6,924,142
Infrastructure Maintenance	21,399,169	21,870,932	24,723,127	25,209,859	24,041,299	20,777,340	21,835,813	32,520,271 ¹²	20,725,795	20,358,759
Rec/Community/Library Services	8,811,784	9,393,228	9,517,636	9,153,074	9,419,034	9,805,902	9,788,128	9,495,628	10,352,676	11,137,331
Interest and fiscal charges	2,529,391	1,591,463	2,191,612 ²	1,681,786 ²	1,031,685	1,212,454	1,139,294	1,171,629	968,120	1,085,677
Total governmental activities expenses	70,991,157	71,310,751	77,051,881	74,498,240	75,084,902	66,182,516	64,767,295	76,799,190	68,788,805	75,930,890
Business-type activities:										
Animal Services	1,321,913	1,788,096	1,701,974	1,684,758	1,757,543	1,745,176	2,120,143	1,928,620	2,165,119	3,128,506 ¹³
Mission Viejo Television	171,440	175,541	123,973	131,138	224,840	230,128	356,374	317,566	298,856	445,614
Total business-type activities expenses	1,493,353	1,963,637	1,825,947	1,815,896	1,982,383	1,975,304	2,476,517	2,246,186	2,463,975	3,574,120
Total primary government expenses	72,484,510	73,274,388	78,877,828	76,314,136	77,067,285	68,157,820	67,243,812	79,045,376	71,252,780	79,505,010
Program revenues										
Governmental activities:										
Charges for services										
General Government-Legislative	-	-	-	-	-	-	-	1,320	1,935	779
General Govt-Mgmt and Support	-	-	-	-	-	-	-	88,836	35,946	32,450
Public Safety	796,364	661,643	1,444,667	712,997	657,456	611,820	622,490	590,904	558,417	412,881
Community Development	1,768,485	1,714,191	1,323,456	1,279,153	1,388,402	1,936,689	2,157,105	2,501,057	2,529,804	2,942,021
Engineering & Transportation	557,467	482,480	161,943	467,949	384,856	468,278	951,474	526,963	524,837	622,602
Infrastructure Maintenance	-	-	-	-	-	-	15,000	41,992	51,941	51,353
Rec/Community/Library Services	2,439,763	2,560,945	2,331,648	3,951,337 ⁶	1,788,114	1,807,694	1,878,387	2,242,589	2,255,657	2,212,519
Other Activities	163,670	235,905	172,401	553,623	107,810	53,983	203,635	-	-	-
Operating grants and contributions	4,750,898	4,255,816	7,275,388	7,573,309	8,912,482	7,867,922	7,602,759	8,318,977	4,130,294	5,721,395
Capital grants and contributions	8,847,033	9,472,730	5,508,196	6,697,833	3,395,881	4,533,348	5,549,795	4,277,263	3,227,117	1,838,621
Total governmental activities program revenues	19,323,680	19,383,710	18,217,699	21,236,201	16,635,001	17,279,734	18,980,645	18,589,901	13,315,948	13,834,621
Business-type activities:										
Charges for services										
Animal Services	863,528	634,515	685,173	1,241,507 ⁵	1,305,162	1,366,721	1,424,226	1,364,502	1,452,532	2,810,457 ¹³
Mission Viejo Television	543	404	60	100	700	580	420	440	500	529,645 ¹⁴
Operating grants and contributions	534,414	801,456	590,780	200,985	324,654	-	1,052,005 ¹⁰	686,790	823,279	143,106 ¹⁴
Capital grants and contributions	-	-	-	-	-	-	-	-	9,200	-
Total business-type activities revenues	1,398,485	1,436,375	1,276,013	1,442,592	1,630,516	1,367,301	2,476,651	2,051,732	2,285,511	3,483,208
Total primary government revenues	20,722,165	20,820,085	19,493,712	22,678,793	18,265,517	18,647,035	21,457,296	20,641,633	15,601,459	17,317,829
Net (Expense) Revenue										
Government activities	(51,667,477)	(51,927,041)	(58,834,182)	(53,262,039)	(58,449,901)	(48,902,782)	(45,786,650)	(58,209,289)	(55,472,857)	(62,096,269)
Business-type activities	(94,868)	(527,262)	(549,934)	(373,304)	(351,867)	(608,003)	134	(194,454)	(178,464)	(90,912)
Total primary government net expense	(51,762,345)	(52,454,303)	(59,384,116)	(53,635,343)	(58,801,768)	(49,510,785)	(45,786,516)	(58,403,743)	(55,651,321)	(62,187,181)

**CITY OF MISSION VIEJO
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(ACCURAL BASIS OF ACCOUNTING)
(CONTINUED)**

General Revenues and Other Changes in Net Position										
Governmental activities:										
Property taxes	33,527,411	34,221,795	34,352,871	32,983,492	29,934,859 ⁷	28,148,758	28,497,853	30,436,445	32,317,084	33,102,624
Sales and use taxes	12,231,539	10,557,007	10,547,009	11,059,525	11,622,640	11,998,071	12,574,446	12,721,842	15,218,225	17,186,469 ¹⁵
Property taxes in lieu of sales/use taxes	4,088,418	3,863,059	2,718,259 ⁴	3,731,802	3,834,165	3,937,682	4,316,288	4,211,353	3,324,689	- ¹⁵
Other taxes	3,620,011	3,429,101	3,392,049	3,705,433	3,758,594	3,936,102	4,179,837	4,560,678	4,417,528	4,175,375
Unrestricted motor vehicle in lieu fees	438,534	337,213	341,391	497,722	49,831	51,634	42,733	41,278	38,997	43,321
Investment earnings	3,698,871	2,014,231	1,001,415	1,305,766	1,140,564	1,022,147	1,193,913	242,695	390,182	98,250
Other	322,797	305,386	603,503	655,288	2,031,801 ⁸	1,784,653	1,202,634	1,540,212	521,251	664,063
Gain/(loss) on disposal of capital asset	-	(111,522)	-	3,151	-	-	-	-	271,129	1,021
Extraordinary item	-	-	-	-	(1,849,384) ⁹	-	-	-	-	-
Gain on sale of land reclassified for resale	-	-	-	-	-	-	-	6,672,066	-	-
Transfers	(552,488)	(521,260)	(132,831)	(476,611)	(410,450)	(475,000)	(530,389)	(549,409)	(893,344)	(520,440)
Total governmental activities	57,375,093	54,095,010	52,823,666	53,465,568	50,112,620	50,404,047	51,477,315	59,877,160	55,605,741	54,750,683
Business-type activities:										
Other taxes	-	-	-	-	-	-	-	-	-	-
Investment earnings	124,938	90,070	18,034	69,376	34,860	1,708	17,246	17,194	38,129	8,175
Other	-	-	-	5,941	6,274	-	-	-	-	9,219
Transfers	552,488	521,260	132,831	476,611	410,450	475,000	530,389	549,409	893,344	520,440
Gain/loss on sale/disposal of cap assets	-	770	-	-	-	-	(211,453)	-	-	(24,386)
Total business-type activities	677,426	612,100	150,865	551,928	451,584	476,708	336,182	566,603	931,473	513,448
Total primary government	58,052,519	54,707,110	52,974,531	54,017,496	50,564,204	50,880,755	51,813,497	60,443,763	56,537,214	55,264,131
Change in Net Position										
Government activities	5,707,616	2,167,969	(6,010,516)	203,529	(8,337,281)	1,501,265	5,690,665	1,667,871	132,884	(7,345,586)
Business-type activities	582,558	84,838	(399,069)	178,624	99,717	(131,295)	336,316	372,149	753,009	422,536
Total primary government	6,290,174	2,252,807	(6,409,585)	382,153	(8,237,564)	1,369,970	6,026,981	2,040,020	885,893	(6,923,050)

CITY OF MISSION VIEJO
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(ACCURAL BASIS OF ACCOUNTING)
(CONTINUED)

- ¹ 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.
- ² 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.
- ³ Increase is due to the expending of \$4.8M for an affordable housing subsidy and the reclassification of a prior year \$2M housing subsidy.
- ⁴ 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.
- ⁵ Operating costs increased due to providing the City of Aliso Viejo with animal services.
- ⁶ One time park development fees received in 2011 of \$2M.
- ⁷ Decrease is due to the dissolution of redevelopment agencies causing the City to receive \$3M less in property tax increment revenue.
- ⁸ Increase is due to the receipt of miscellaneous developer fee reimbursements related to completed capital projects.
- ⁹ Amount represents the net asset transferred from the redevelopment agency upon dissolution.
- ¹⁰ Large donation received FY 13/14 for the Animal Shelter.
- ¹¹ Elimination of OCTA Gas Tax Exchange funded under general government management and support.
- ¹² Increase due to increase in expenditures in street infrastrucure which are not capitalized and adjustments to construction in progress resulting in expense recognition.
- ¹³ Operating costs increased due to providing the Cities of Laguna Hills and Rancho Santa Margarita with animal services beginning January 2016.
- ¹⁴ MVT franchise taxes reported as Operating Grants and Contributions in previous years.
- ¹⁵ Property taxes in lieu of sales and use taxes reverted back to Sales and use taxes due to Proposition 57 "triple-flip" ending.
- The notes to financial statements are an integral part of this statement.

Source: Statement of Activities

CITY OF MISSION VIEJO
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCURAL BASIS OF ACCOUNTING)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Fund										
Reserved	\$ 6,387,326	\$ 4,572,557	\$ 4,313,636	-	-	-	-	-	-	-
Unreserved	30,435,799 ¹	30,141,564	28,919,290 ⁶	-	-	-	-	-	-	-
Nonspendable	-	-	-	654,403 ²	92,437	554,384 ⁵	534,944	\$ 569,023	\$ 597,668	\$ 606,885
Restricted	-	-	-	140,427 ²	180,068	160,250	242,339	440,319	366,193	3,056,060 ⁶
Assigned	-	-	-	-	18,262,314 ³	17,253,034	17,175,604	16,942,850	18,275,290	4,500,000
Unassigned	-	-	-	32,486,599 ²	10,191,747 ³	11,140,289	13,285,786	15,097,438	13,477,307	26,519,396
Total general fund	<u>36,823,125</u>	<u>34,714,121</u>	<u>33,232,926</u>	<u>33,281,429</u>	<u>28,726,566</u>	<u>29,107,957</u>	<u>31,238,673</u>	<u>33,049,630</u>	<u>32,716,458</u>	<u>34,682,341</u>
All other governmental funds										
Reserved	28,437,107	23,720,546	28,120,395	-	-	-	-	-	-	-
Unreserved, reported in:										
Special revenue funds	-	(609,794)	(4,638,772)	-	-	-	-	-	-	-
Debt service funds	(3,830,123)	(2,331,936)	(2,921,375)	-	-	-	-	-	-	-
Capital projects funds	463,170	263,118	566,786	-	-	-	-	-	-	-
Nonspendable	-	-	-	4,456,564 ²	4,458,310	6,042,642	5,421,335	75	-	-
Restricted	-	-	-	18,664,969 ²	9,505,259 ⁴	11,186,470	17,671,546	16,058,970	16,745,326	18,771,464
Unassigned	-	-	-	-	(2,545,097)	(3,383,951)	(2,276,368)	(3,597,725)	(873,939)	(63,579)
Total other governmental funds	<u>25,070,154</u>	<u>21,041,934</u>	<u>21,127,034</u>	<u>23,121,533</u>	<u>11,418,472</u>	<u>13,845,161</u>	<u>20,816,513</u>	<u>12,461,320</u>	<u>15,871,387</u>	<u>18,707,885</u>

¹ Decrease is due to an increase in expenditures for capital projects, paid with resources accumulated in prior years.

² Fund balance classifications reflect GASB 54 requirements for Fiscal Year 2011.

³ Unassigned balances reported in 2011 were re-classified as assigned in accordance with GASB 54.

⁴ The decrease is due to the disbursement of \$4.8M for a housing subsidy from the Housing Authority; the pay off of one bond issue for \$2.4M; and transfer of \$1.8 as a result of the dissolution of the redevelopment agency.

⁵ Increase relates to re-establishing City/RDA loan due to Department of Finance disallowance of loan payment.

⁶ Section 115 Trust account to offset pension costs.

The notes to financial statements are an integral part of this statement.

Source: Governmental Funds Balance Sheet

CITY OF MISSION VIEJO
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
REVENUES										
Taxes	\$ 53,701,448	\$ 51,911,454	\$ 50,849,597	\$ 51,480,252	\$ 49,150,258	\$ 46,976,084	\$ 48,533,127	\$ 50,440,362	\$ 53,480,709	\$ 53,079,452
Licenses and permits	1,388,460	1,265,539	1,244,695	1,241,009	1,192,491	1,779,083	2,123,226	1,775,273	1,899,432	2,132,053
Intergovernmental	10,131,158	10,774,264	12,668,991	12,069,112	9,027,221	8,352,626	8,471,890	7,824,560	9,703,408	9,950,436
Charges for services	2,357,708	2,248,499	2,167,175	2,301,119	2,137,521	3,077,209 ⁷	3,557,646	3,453,513	3,278,467	3,563,912
Investment earnings	4,378,762	3,180,455	1,851,646	1,500,919	1,518,378	156,612 ⁷	358,774	367,070	470,299	161,556
Fines and forfeitures	921,669	799,652	865,963	969,262	915,398	838,406	943,592	1,041,542	813,287	507,538
Developer fees	3,165,749	3,885,108	1,164,858	2,394,099	2,990,867	3,246,060	4,800,000	-	1,000,000	4,069,104
Other	1,065,056	1,321,170	763,812	963,943	1,769,879	2,381,790	2,175,981	1,445,204	1,794,735	1,415,390
Total revenues	77,110,010	75,386,141	71,576,737	72,919,715	68,702,013	66,807,870	70,964,236	66,347,524	72,440,337	74,879,441
EXPENDITURES										
Current:										
General Government-Legislative	1,536,513	2,057,338	2,057,561	1,294,261	1,221,895	1,242,612	1,175,359	1,399,352	1,370,524	1,725,169
General Govt-Mgmt and Support	14,958,723 ¹	13,374,990	14,811,597 ²	12,705,588 ²	8,933,721	8,355,137	6,724,600	10,044,693 ⁸	7,819,648	7,672,599
Public Safety	15,610,489	16,086,919	16,551,580	16,723,031	16,703,530	16,900,401	16,940,727	18,092,654	19,184,846	19,949,598
Community Development	2,922,531	2,423,507	4,390,143 ³	2,570,480	8,102,297 ³	3,079,388	3,270,422	3,280,456	3,409,459	4,348,923
Engineering & Transportation	3,197,302	3,135,609	2,621,355	2,495,045	2,519,010	2,298,426	2,423,926	2,378,539	2,913,831	2,688,907
Infrastructure Maintenance	17,808,967	16,392,734	14,335,933	13,912,489	13,937,952	14,686,204	14,570,652	14,823,913	16,110,507	16,463,740
Rec/Community/Library Services	7,538,916	7,910,635	7,609,303	7,279,008	7,517,881	7,792,327	8,002,589	7,875,459	8,811,348	7,671,084
Capital Outlay	19,872,424	10,931,773	7,642,900	14,984,143 ⁵	14,232,771	6,526,594	5,460,896	14,426,925 ⁹	6,427,322	7,973,171
Debt service:										
Principal retirement	1,505,000	1,535,000	1,415,000	1,620,000	1,750,000	1,530,000	1,715,000	1,740,000	1,770,000	2,060,000 ¹⁰
Interest	3,022,592	1,838,663	1,940,016	1,368,857	1,177,243	1,117,803	1,056,096	724,173	689,158	378,893 ¹⁰
Administrative charges	-	-	1,382,435 ⁴	-	-	-	-	370,447	141,250	503,316 ¹⁰
Payment to bond escrow agent	-	-	-	-	-	-	-	-	-	1,363,981 ¹⁰
Total expenditures	87,973,457	75,687,168	74,757,823	74,952,902	76,096,300	63,528,892	61,340,267	75,156,611	68,647,893	72,799,381
Excess (deficiency) of revenues over expenditures	(10,863,447)	(301,027)	(3,181,086)	(2,033,187)	(7,394,287)	3,278,978	9,623,969	(8,809,087)	3,792,444	2,080,060
OTHER FINANCING SOURCES (USES)										
Transfers in	6,312,178	5,370,292	25,437,485 ⁴	11,873,668	3,754,173	3,541,011	4,208,247	4,198,196	5,371,184	5,829,812
Transfers out	(6,864,666)	(5,891,552)	(25,570,316) ⁴	(12,350,279)	(4,164,623)	(4,016,011)	(4,738,636)	(4,747,605)	(6,264,528)	(6,350,253)
Proceeds of bonds	-	-	17,305,000 ⁴	-	-	-	-	-	-	13,150,000 ¹⁰
Premium on bonds	-	-	853,583 ⁴	-	-	-	-	-	-	1,107,810 ¹⁰
Payment to bond escrow agent	-	-	(16,244,503) ⁴	-	(2,211,516)	-	-	-	-	(14,016,069) ¹⁰
Sale of City property	22,896	23,099	3,742	3,151	5,619	4,102	8,488	27,782	1,365	1,021
Sale of land	-	-	-	-	-	-	-	2,600,000	-	-
Proceeds from housing loan payoff	-	-	-	-	-	-	-	186,481	-	-
Total other financing sources (uses)	(529,592)	(498,161)	1,784,991	(473,460)	(2,616,347)	(470,898)	(521,901)	2,264,854	(891,979)	(277,679)
Extraordinary Item	-	-	-	-	(1,849,384) ⁶	-	-	-	-	-
Net change in fund balances	(11,393,039)	(799,188)	(1,396,095)	(2,506,647)	(11,860,018)	2,808,080	9,102,068	(6,544,233)	2,900,465	1,802,381
Fund balances - beginning	67,948,282	56,555,243	55,756,055	54,511,703	52,005,056	40,145,038	42,953,118	52,055,189	45,687,380	51,587,845
Fund balances - ending	\$ 56,555,243	\$ 55,756,055	\$ 54,359,960	\$ 52,005,056	\$ 40,145,038	\$ 42,953,118	\$ 52,055,186	\$ 45,510,956	\$ 48,587,845	\$ 53,390,226
Debt service as a percentage of noncapital expenditures										
	6.63%	4.99%	4.56%	4.37%	4.35%	4.40%	4.68%	3.77%	3.58%	6.42% ¹¹

CITY OF MISSION VIEJO
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCURAL BASIS OF ACCOUNTING)
(CONTINUED)

¹ Increase due to the jumpstart in prefunding other post-employment retiree health benefit costs and increased spending on information technology.

² 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.

³ Increase due to funding for a new low and moderate income housing project in the City.

⁴ Related to the issuance of 2009 Lease Revenue Refunding Bonds.

⁵ Increase is due in part to the commencement of work on the Oso Creek Restoration project and the Oso/Marguerite parkway Intersection Improvement project, and the completion of the Crown Valley Parkway Widening project.

⁶ Amount represents the net asset transfer from the Redevelopment Agency upon dissolution.

⁷ Rents on property previously reported as earnings on investments, now reported as charges for services.

⁸ Increase due to funding of \$2.1M in other post employment retirement benefit health costs, and \$1.5M in pension costs.

⁹ Increase due to the commencement of work on Oso Parkway widening, and increased spending on city-wide pavement projects.

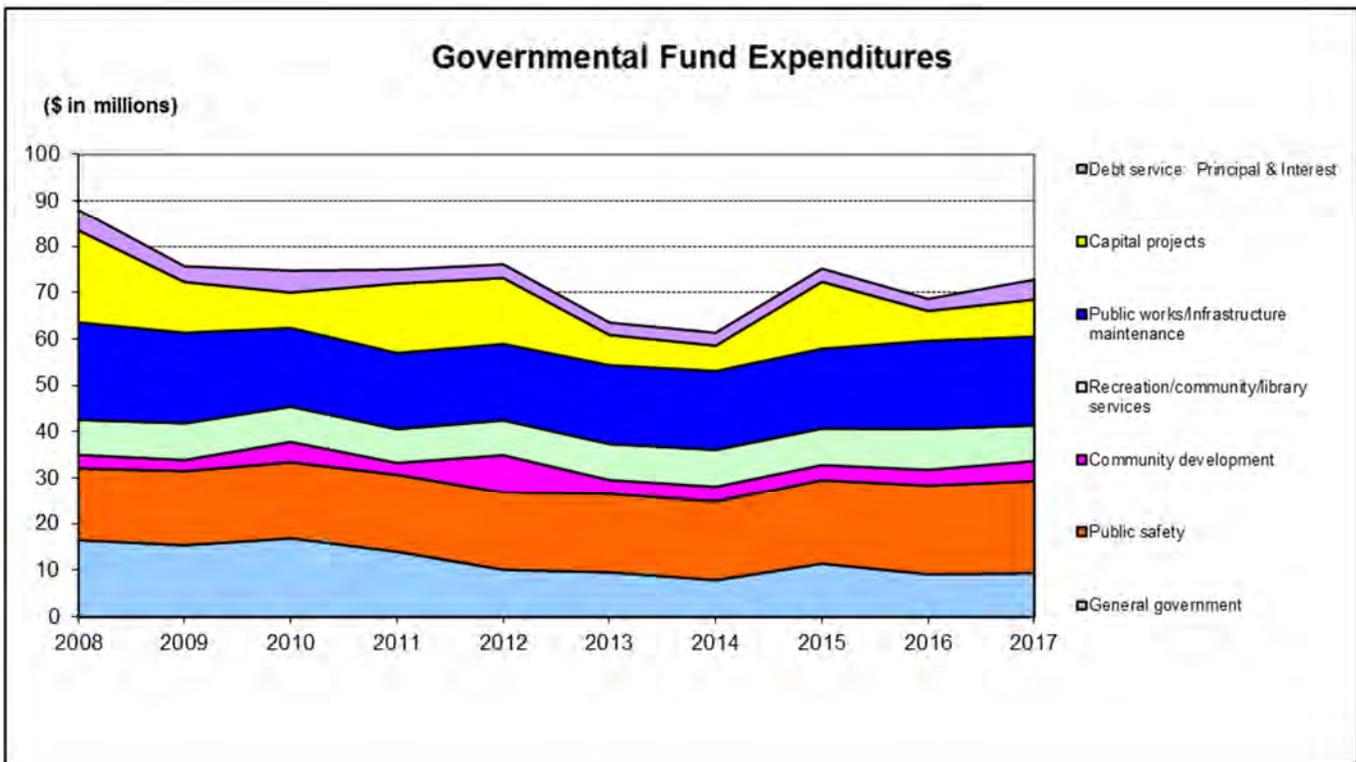
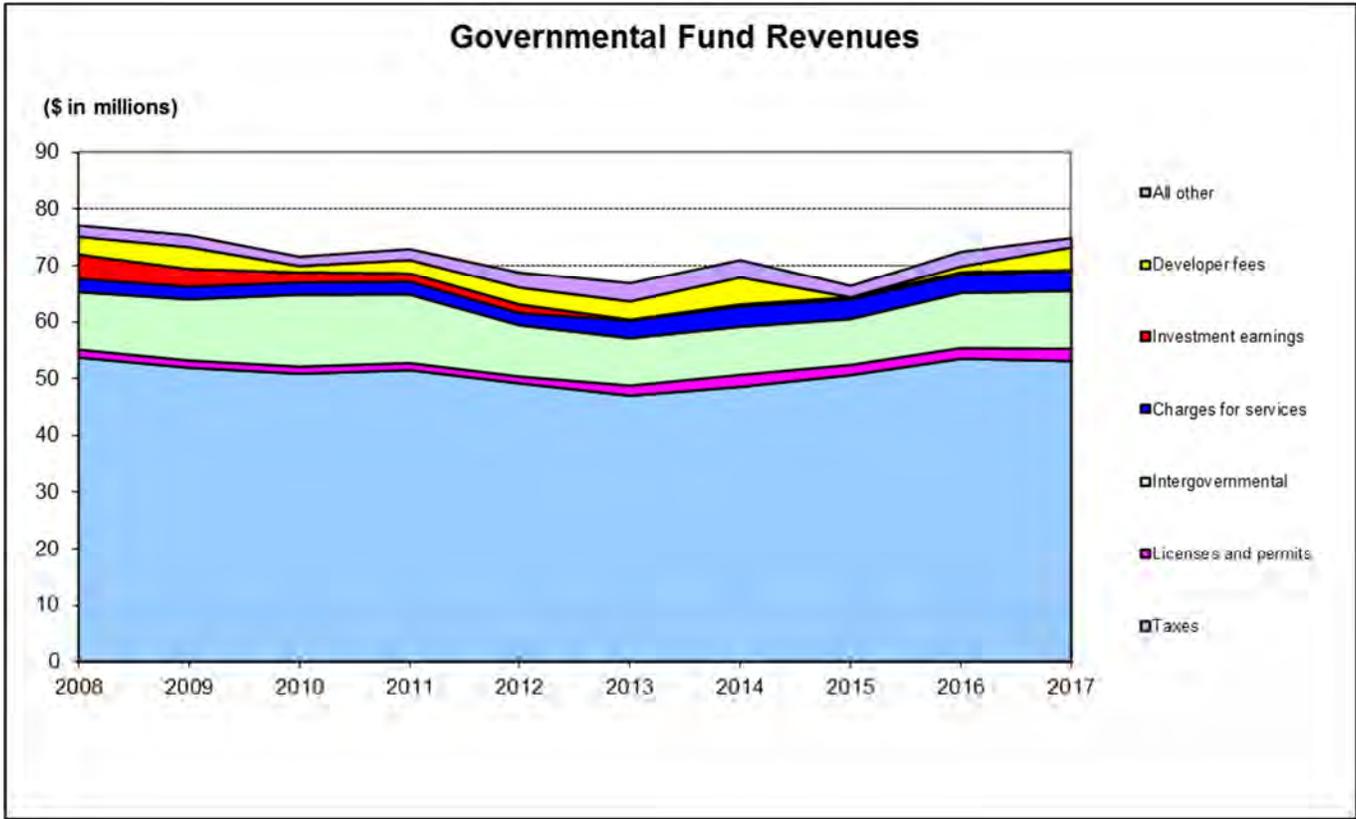
¹⁰ Changes due to Refunding Lease Revenue Bonds.

¹¹ Capital asset expenditures for this calculation are from the Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances to the Statement of Activities.

The notes to financial statements are an integral part of this statement.

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

CITY OF MISSION VIEJO
GOVERNMENTAL FUND REVENUE AND EXPENDITURES
LAST TEN FISCAL YEARS



CITY OF MISSION VIEJO
TAX REVENUE 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 ¹	Successor Agency ²					
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
2012	25,830,084	4,104,775	826,533	15,456,805	2,793,042	357,241	608,311	49,976,791
2013	27,104,227	-	2,973,465	15,935,753	2,794,389	511,596	630,117	49,949,546
2014	27,462,558	-	1,613,733	16,890,734	2,908,188	522,333	749,316	50,146,861
2015	29,019,567	-	2,251,008	16,933,195	3,045,717	615,641	826,242	52,691,370
2016	30,584,018	-	2,130,770	18,542,914	2,877,953	593,415	882,409	55,611,479
2017	31,730,836	-	2,403,051	17,186,469	2,608,129	671,752	882,265	55,482,502

¹ The State of California dissolved redevelopment agencies effective 1-31-12.

² Successor Agency of the Community Development Agency established 2-1-12

Sources: General Ledger

CITY OF MISSION VIEJO
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(IN THOUSANDS)

Fiscal Year Ended June 30	City				Community Development Agency ²				Total Direct Tax Rate
	Secured	Public		Taxable Assessed Value ¹	Secured	Public		Incremental Valuation	
		Utility	Unsecured			Utility	Unsecured		
2008	12,903,096	1,209	341,820	13,246,125	556,199	1,209	86,171	643,579	0.1647%
2009	13,007,415	2,418	347,733	13,357,566	630,632	2,418	96,259	729,309	0.1647%
2010	12,736,555	2,418	365,726	13,104,699	644,506	2,418	102,443	749,367	0.1647%
2011	12,820,786	2,418	334,775	13,157,979	637,830	2,418	81,684	721,932	0.1647%
2012	12,894,834	2,418	328,863	13,226,115	650,631	2,417	76,373	729,421	0.1647%
2013	13,014,823	2,418	303,333	13,320,574	636,435	2,418	82,469	721,322	0.1647%
2014	13,349,374	2,418	287,688	13,639,480	667,245	2,418	83,716	753,379	0.1647%
2015	14,207,345	2,418	323,782	14,533,545	675,710	2,418	80,299	758,427	0.1647%
2016	14,938,921	2,418	321,095	15,262,434	770,481	2,418	97,124	870,023	0.1647%
2017	15,546,057	2,418	286,902	15,835,377	796,666	2,418	68,717	867,801	0.1647%

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 State of California dissolved redevelopment agencies effective 1-31-12.

CITY OF MISSION VIEJO
DIRECT AND OVERLAPPING PROPERTY TAX RATES¹
LAST TEN FISCAL YEARS

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
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	0.00450	0.00430	0.00430	0.00370	0.00370	0.00350	0.00350	0.00350	0.00350	0.00350
Capistrano Unified School District 1999 Bond 2000 A	0.00293	0.00279	0.00308	0.00317	0.00314	0.00335	0.00000	0.00000	0.00000	0.00000
Capistrano Unified School District 1999 Bond 2001 B	0.00468	0.00445	0.00494	0.00507	0.00506	0.00538	0.00507	0.00470	0.00445	0.00439
Capistrano Unified School District 1999 Bond 2002 C	0.00258	0.00247	0.00275	0.00281	0.00281	0.00298	0.00000	0.00000	0.00000	0.00000
Capistrano Unified School District 1999 EL, 2012 Ref	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00465	0.00430	0.00400	0.00404
Santa Margarita Water District Improvement District #1 Bond	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Total School & Water District Overlapping Tax Rates	<u>0.01469</u>	<u>0.01401</u>	<u>0.01507</u>	<u>0.01475</u>	<u>0.01471</u>	<u>0.01521</u>	<u>0.01322</u>	<u>0.01250</u>	<u>0.01195</u>	<u>0.01193</u>
Total Direct and Overlapping Rates	<u>1.01469</u>	<u>1.01401</u>	<u>1.01507</u>	<u>1.01475</u>	<u>1.01471</u>	<u>1.01521</u>	<u>1.01322</u>	<u>1.01250</u>	<u>1.01195</u>	<u>1.01193</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 TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO

Taxpayer	2017			2008		
	Assessed Value	Rank	Percent of Total City Taxable Assessed Value	Assessed Value	Rank	Percent of Total City Taxable Assessed Value
Shops at Mission Viejo LLC	\$ 179,382,569	1	1.13%	-	-	-
HTA-Mission Mob LLC	121,829,999	2	0.77%	-	-	-
Mission Hospital Regional Medical Center	109,840,134	3	0.69%	64,968,096	3	0.49%
Essex Madrid LP	66,553,577	4	0.42%	-	-	-
EQR-Del Lago Vistas Inc	65,177,615	5	0.41%	57,801,102	4	0.44%
UDR Pacific Los Alisos LP	58,561,847	6	0.37%	-	-	-
Vista Real Apartments MV LLC	57,996,839	7	0.37%	-	-	-
Trust Mission Ridge LLC	56,706,302	8	0.36%	-	-	-
Oasis-California Inc	55,232,957	9	0.35%	48,734,134	7	0.37%
Laguna Cabot Road Business Park LP	53,650,652	10	0.34%	-	-	-
Mission Viejo Associates	-	-	-	118,369,935	1	0.89%
Mission Viejo Medical LLC	-	-	-	88,629,593	2	0.67%
Prisa Acquisition LLC	-	-	-	53,379,107	5	0.40%
Target Corporation	-	-	-	48,625,329	8	0.37%
MG Promenade Apt LLC	-	-	-	47,367,309	9	0.36%
MV Unisys LLC	-	-	-	44,586,328	10	0.34%
Macy's California Inc	-	-	-	52,084,042	6	0.39%
	<u>\$ 824,932,491</u>		<u>5.21%</u>	<u>\$ 624,544,975</u>		<u>4.71%</u>

Presented in order of highest to lowest estimated property tax revenue.

Source: HdL Coren & Cone.

CITY OF MISSION VIEJO
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

Fiscal Year Ending June 30	Tax Levied for the Fiscal Year ¹	Collected within the Fiscal Year of Levy		Collections for Prior Years ³	Total Collections to Date	
		Amount ²	Percent of Levy		Amount	Percent of Levy
2008	26,674,212	24,748,754	92.78%	844,471	25,593,225	95.95%
2009	26,965,638	24,743,486	91.76%	837,760	25,581,246	94.87%
2010	26,506,153	24,977,492	94.23%	558,668	25,536,160	96.34%
2011	26,156,545	24,728,390	94.54%	400,919	25,129,309	96.07%
2012	25,969,090	22,047,310	84.90%	364,000	22,411,310	86.30%
2013	19,246,353	19,249,605	100.02%	271,567	19,521,172	101.43% ⁴
2014	20,015,012	19,499,656	97.43%	233,759	19,733,415	98.59%
2015	21,222,023	20,936,644	98.66%	229,431	21,166,075	99.74%
2016	22,459,253	22,325,258	99.40%	215,807	22,325,258	99.40%
2017	23,328,704	23,172,592	99.33%	-	23,172,592	99.33%

¹ Levy and collection data does not include Community Development Agency after 1/31/12 dissolution.

² Includes secured, unsecured, and supplemental City property tax revenues as well as penalties. Excludes sales and use tax compensation, interest, VLF in lieu, CFD 92-1, and HOX.

³ No amount is shown for the current fiscal year because the property taxes levied will be collected in the following year.

⁴ Total tax collections to date exceed 100% due to the receipt of delinquent taxes related to prior years.

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	Percentage of Actual Value of Taxable Property ³
	Lease Revenue Bonds	Certificates of Participation			
2008	15,350,000	2,625,000	0.34%	180.14	0.14%
2009	14,955,000	2,545,000	0.34%	174.79	0.13%
2010	17,993,583	-	0.37%	192.86	0.14%
2011	17,504,031	-	0.37%	187.24	0.13%
2012	17,014,329	-	0.35%	180.63	0.13%
2013	16,444,628	-	0.33%	173.42	0.12%
2014	15,789,926	-	0.30%	165.63	0.12%
2015	15,110,224	-	0.27%	156.34	0.10%
2016	14,400,522	-	0.25%	148.92	0.09%
2017	13,323,956	-	0.23%	137.76	0.08%

Fiscal Year	Other Governmental Activities Debt			Total Primary Government ²	Percentage of Personal Income ¹	Per Capita ¹
	Revenue Bonds	Note Payable	Capitalized Leases			
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	-	-	53,900,909	1.11%	577.73
2011	34,717,326	-	-	52,221,357	1.11%	558.62
2012	31,247,326	-	-	48,261,655	0.98%	512.35
2013	30,247,326	-	-	46,691,954	0.93%	492.41
2014	29,147,326	-	-	44,937,252	0.86%	471.37
2015	28,047,326	-	-	43,157,550	0.78%	446.53
2016	26,947,326	-	-	41,347,848	0.72%	427.58
2017	25,747,326	-	-	39,071,282	0.67%	403.97

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.

³ See the Assessed Value and Estimated Actual Value of Taxable Property schedule for assessed values of taxable property.

**CITY OF MISSION VIEJO
DIRECT AND OVERLAPPING DEBT
AS OF JUNE 30, 2016**

	Debt Outstanding	Estimate Percentage Applicable ¹	Estimated Share of Overlapping Debt
Overlapping tax and assessment debt:			
Metropolitan Water District	\$ 74,905,000	0.613%	\$ 459,168
Capistrano Unified School District School Facilities Improvement District No. 1	27,212,966	11.029%	3,001,318
Saddleback Valley Unified School District	118,585,000	18.398%	21,817,268
Santa Margarita Water District Improvement District No. 4	54,610,000	0.017%	9,284
Santa Margarita Water District Improvement District No. 4B	8,630,000	0.002%	173
Capistrano Unified School District Community Facilities District No. 87-1	21,290,000	26.818%	5,709,552
Total overlapping tax and assessment debt	305,232,966		30,996,763
Overlapping general fund obligation debt:			
Orange County General Fund Obligations	\$ 227,516,000	3.016%	\$ 6,861,883
Orange County Pension Obligations	386,762,539	3.016%	11,664,758
Orange County Board of Education Certificates of Participation	14,440,000	3.016%	435,510
Municipal Water District of Orange County Water Facilities Corporation	-	0%	-
Capistrano Unified School District Certificates of Participation	13,805,000	11.170%	1,542,019
Moulton-Niguel Water District Certificates of Participation	74,190,000	16.067%	11,920,107
Total overlapping general fund obligation debt	716,713,539		32,424,277
Total overlapping debt	\$ 1,021,946,505		63,421,040
Overlapping Tax Increment Debt (Successor Agency):			
City of Mission Viejo Community Development Financing Authority	25,747,326	100.000%	25,747,326 ²
City Direct Debt			13,323,956
Total direct and overlapping debt			\$ 102,492,322

Notes:

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.

Overlapping debt excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

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.

² 1999 Series A and Subordinate Series B Variable Rate Demand Revenue Bonds are secured by first call on net property tax increments and secondly by sales tax revenues of mall properties.

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**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Assessed valuation	\$ 13,246,125,427	\$ 13,357,565,673	\$ 13,104,698,129	\$ 13,157,979,198	\$ 13,226,115,127	\$ 13,320,574,029	\$ 13,639,459,848	\$ 14,533,544,020	\$ 15,262,434,352	\$ 15,835,376,499
Conversion percentage	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Adjusted assessed valuation	3,311,531,357	3,339,391,418	3,276,174,532	3,289,494,800	3,306,528,782	3,330,143,507	3,409,864,962	3,633,386,005	3,815,608,588	3,958,844,125
Debt limit percentage	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Debt limit	496,729,704	500,908,713	491,426,180	493,424,220	495,979,317	499,521,526	511,479,744	545,007,901	572,341,288	593,826,619
Total net debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	\$ 496,729,704	\$ 500,908,713	\$ 491,426,180	\$ 493,424,220	\$ 495,979,317	\$ 499,521,526	\$ 511,479,744	\$ 545,007,901	\$ 572,341,288	\$ 593,826,619
Total net debt applicable to 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 Bond						
Fiscal Year	Property Tax Increment	Sales Tax	Total Available Revenue	Debt Service		Coverage
				Principal	Interest	
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
2012	938,029	1,134,141	2,072,170	1,000,000	30,238	2.01
2013	1,044,529	1,179,693	2,224,222	1,000,000	34,582	2.15
2014	1,035,297	1,410,755	2,446,052	1,100,000	15,846	2.19
2015	1,273,540	1,397,595	2,671,135	1,100,000	8,061	2.41
2016	1,516,090	1,546,898	3,062,988	1,100,000	5,046	2.77
2017	1,235,364	1,442,102	2,677,466	1,200,000	98,273	2.06

Revenues are derived from all property tax increment revenue (subject to 2011 dissolution law). After dissolution, property tax increment recognition was changed to fiscal year in order to correlate with the receipt of funds through the Recognized Obligation Payments Schedule (ROPS). Sales tax revenue represents sales tax generated by The Shops of Mission Viejo that is remaining after minimum thresholds are met.

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
2008	99,781	39.6	520,500	155,000,000	53,552	3.8%
2009	100,122	40.5	440,000	148,300,000	51,374	6.8%
2010	93,297	40.8	460,000	153,300,000	52,124	6.9%
2011	93,483	41.5	430,000	154,100,000	50,440	6.7%
2012	94,196	41.6	425,000	161,700,000	52,342	5.7%
2013	94,824	42.0	535,250	165,300,000	53,032	4.7%
2014	95,334	43.0	580,050	173,300,000	55,096	3.9%
2015	96,652	43.6	595,000	181,300,000	57,133	4.2%
2016	96,701	43.7	625,000	189,800,000	59,303	4.1%
2017	96,718	43.7	655,000	195,200,000	60,523	3.4%

Sources: ¹ California Department of Finance

² Money.cnn.com (2008)

HdL Coren & Cone (2009-2016)

Information for 2017 is unavailable, used number from prior year.

³ Orange County Register (2008)

HdL Coren & Cone (2009-2017)

⁴ Data shown is for the County of Orange; data for City of Mission Viejo is not available.

UCLA: Economic Forecast (2008-2010)

Cal State Fullerton Economic Forecast (2011-2017)

⁵ California Employment Development Department (2008-2017)

CITY OF MISSION VIEJO
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

Employer	2017			2008		
	Employees	Rank	Percentage ¹ of Total City Employment	Employees	Rank	Percentage of Total City Employment
Saddleback College	2,752	1	5.43%	2,130	1	3.76%
Mission Hospital Regional Medical Center	2,600	2	5.13%	1,349	2	2.38%
Saddleback Valley Unified School District	914	3	1.80%	400	6	0.71%
Coldwell Banker	740	4	1.46%	410	5	0.72%
Capistrano Unified School District	690	5	1.36%			
James Hardie Building Products	400	6	0.79%			
Target	320	7	0.63%			
South Coast Children's Society	315	8	0.62%			
Nordstrom	300	9	0.59%	300	7	0.53%
Franchise Services	300	10	0.59%			
Unisys Corporation				1,000	3	1.76%
Macy's				275	8	0.49%
Quest Diagnostics				500	4	0.88%
Bristol Farms				250	9	0.44%
United States Postal Service				249	10	0.44%
Total	<u>9,331</u>		<u>18.39%</u>	<u>6,863</u>		<u>12.10%</u>

¹ Percentage of "Total City Employment" based on total number of City residents employed in September 2017 of 50,700

Source: 2008 FY 07/08 City of Mission Viejo CAFR
2017 Dun & Bradstreet
2017 Total City Employment - California Employment Development Department

CITY OF MISSION VIEJO
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS

Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 ⁶
General government - legislative	10.880	10.880	10.880	10.830	9.830	9.530	9.530	10.530	10.530	10.530
General government - management & support	28.720	29.795	28.220	25.970	23.670	23.600	25.600	25.600	25.600	26.600
Public safety	11.950	15.650 ⁴	15.650	15.500	15.500	16.200	16.450	16.450	16.950	21.950
Community development	9.650	9.650	8.650	7.700	8.700	8.720	8.720	8.720	8.720	8.220
Engineering and transportation	14.175 ¹	14.175	13.175	12.175	11.175	11.175	11.175	10.550	10.550	10.800
Infrastructure maintenance	18.250 ²	18.350	17.350	18.250	17.250	16.650	16.650	17.250	16.250	16.250
Recreation/community/library services	55.175 ³	57.675 ⁵	56.425	53.675	52.925	51.400	51.400	48.900	48.675	47.725
Total	148.800	156.175	150.350	144.100	139.050	137.275	139.525	138.000	137.275	142.075

¹ Increased staffing in the transportation area

² Increased staffing for facilities and landscape maintenance

³ Increased staffing to accommodate the expansion of programs offered at the Norman P. Murray Community and Senior Center

⁴ Increased staffing to accommodate the addition of the City of Aliso Viejo to the Animal Services program

⁵ 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

⁶ Increased staffing to accommodate the addition of the Cities of Laguna Hills and Rancho Santa Margarita to the Animal Services program

Source: City budget document (2008-2016), City Authorized Positions schedule (2017)

**CITY OF MISSION VIEJO
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS**

Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General government - legislative										
Public Records Act requests	335	408	431	529	431	385	472	552	584	586
General government - management and support										
Service requests/complaint cases	2,940	2,780	3,036	3,292	3,467	3,681	3,840	3,512	3,221	4,142 ¹²
Number of computer network nodes supported	748	742	806	819	1,039 ⁴	1,063	1,126	1,119	1,182	1,217
Number of vendor checks issued	7,223	7,282	6,646	6,506	6,781	6,445	6,241	6,665 ⁹	6,582	6,335
Public safety										
Calls for police services	38,564	37,375	36,445	36,246	33,982	36,234	34,917 ³	25,206 ¹⁰	29,714	29,246
Average response time-Priority 1 call in minutes	5:11	5:07	5:32	5:21	6:05	5:35	6:16	6:00	5:47	5:45
Community development										
Building inspections	11,026	9,673	8,394	6,685	9,947 ⁵	12,807 ⁵	16,243 ⁷	13,476	13,131	13,177
Zoning plan checks	1,325	1,316	1,576 ²	1,863 ²	1,753	1,890	2,471	2,595	1,930	2,545
Public works - engineering and transportation										
Street resurfacing (lane miles)	31.00	28.80	28.00	36.30	32.70	18.80 ⁸	15.93 ⁸	34.73	46.91 ¹¹	33.24
Intersections on the city's interconnect system	110	110	111	111	111	112	112	112	112	113
Daily traffic count- La Paz Rd, Marguerite Pkwy to Spadra	25,000	24,739	26,808	27,419	32,747	33,500	24,100	25,200	26,200	26,200
Infrastructure maintenance										
Acres of medians and parkways renovated	10	6	4	3	6	9	10	5	3	4
Recreation/community/library services										
Attendance at recreation and tennis centers	266,303	281,011	279,480	270,443	259,635 ⁶	254,161	271,244	263,994	261,511	270,616
Library circulation	833,488	945,298 ¹	968,468 ¹	939,734	917,736	931,376	887,234	800,236	788,292	1,109,462 ¹³
Youth participating in organized sports on City fields	7,750	7,750	7,700	7,700	7,800	7,800	7,500	7,300	7,900	7,900

¹ Due to the economic downturn citizens are taking advantage of free services at the Public Library
² Increase is due to a rise in the number of business and residential remodeling
³ Decrease is due to a reduction in patrol hours resulting from staffing vacancies
⁴ Increase is due to the conversion of the transportation network from analog to an IP based network and an increase in mobile devices supported citywide
⁵ Increase is due to the "Improve Don't Move" program which waved fees for a limited time and encouraged business and residential remodeling
⁶ Decrease is due to the construction of the Marguerite Tennis Center and the opening of two LA Fitness clubs in Mission Viejo
⁷ Increase is due to the "Improve Don't Move" program being extended for commercial projects
⁸ Decrease is due to an overall reduction in funding of street resurfacing projects in FY 12/13 and rescheduling of Jeronimo resurfacing to FY 13/14
⁹ Increase is due to electronic fund transfers now being included in the report from new financial software, Tyler Munis
¹⁰ Decrease due to the fact that this is for a partial year. Prior year numbers are for a calendar year
¹¹ Increase due to some residential streets being deferred from FY 14/15 to FY 15/16
¹² Increase due to adding street light calls to count beginning FY 16/17
¹³ Increase due to implementation of auto-renewal system where each renewal counts as a circulation in addition to the original checkout, and policy change allowing increased number of renewals

CITY OF MISSION VIEJO
CAPITAL ASSET STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public safety										
Police (provided by Orange County Sheriffs Department)										
Patrol units	21	24	24	24	24	24	24	24	23	23
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	1	1	1	1	1	1	1	1	1	1
Cat isolation	1	1	1	1	1	1	1	1	1	1
Public works										
Streets (center miles)	228	228	228	228	228	228	228.2	228.2	228.2	228.2
Traffic signals	111	114	114	114	114	114	114	114	114	115
Infrastructure maintenance										
Number of park sites	41	41	41	41	41	41	42	42	42	42
Acreage: parks, open space, medians and slopes	1122	1122	1122	1122	1122	1122	1128	1128	1128	1128
Recreation/community/library services										
Facilities (buildings)	9	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	35	35	35	35	35	35	35	35	35	35
Note: No capital asset indicators are available for general government or community development functions.										

Source: Various City departments



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City of Mission Viejo
200 Civic Center
Mission Viejo, California