A photograph of a modern building with a prominent wooden overhang and large glass windows, illuminated at dusk. The building's interior is visible through the glass, showing a stone wall and wooden accents. In the foreground, there are three large potted plants on a concrete walkway. The sky is a deep blue, and a tree is visible in the background.

City of Mission Viejo California

Comprehensive Annual Financial Report
Year Ended June 30, 2012

ABOUT THE COVER: *Pictured on the cover is the recently renovated Marguerite Tennis Pavilion. The renovations to this 40 year old facility were completed in August of 2012. The Pavilion renovation provides for eight tennis courts, a new clubhouse with a courtyard entry and additional parking. The renovation also incorporated environmentally-friendly features, including a “green” lighting system providing more efficient tennis court lighting, LED light fixtures that replaced old security lighting and a revamped drainage system that benefits Oso Creek.*

*Photograph provided by Robert R. Coffee, of Robert R. Coffee Architect & Associates.
Cover design by Toni Nuñez, Design and Marketing Specialist for the City of Mission Viejo.*

CITY OF MISSION VIEJO CALIFORNIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2012

CITY COUNCIL

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

CITY MANAGER

Dennis R. Wilberg

PREPARED BY DEPARTMENT OF ADMINISTRATIVE SERVICES

Cheryl Dyas
Director of Administrative Services

CITY OF MISSION VIEJO

COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED JUNE 30, 2012

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CITY OF MISSION VIEJO

COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED JUNE 30, 2012

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CITY OF MISSION VIEJO

COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED JUNE 30, 2012

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MISSION VIEJO

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City of Mission Viejo

Administrative Services Department

Frank Ury
Mayor

Rhonda Reardon
Mayor Pro Tem

Trish Kelley
Council Member

Dave Leckness
Council Member

Cathy Schlicht
Council Member

November 21, 2012

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, 2012 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 Rogers, Anderson, Malody & Scott, LLP, certified public accountants. The auditors have issued an unqualified ("clean") opinion on these financial statements. Their report is located at the front of the financial section of this report.

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

Profile of Mission Viejo

Mission Viejo is located in southern California approximately halfway between Los Angeles and San Diego, in the southern-most portion of Orange County commonly referred to as the Saddleback Valley. The City's current population is 94,196, making it the largest city in the Saddleback Valley and the ninth largest of the county's 34 cities.

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

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

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

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

The City is financially accountable for three legally separate entities: the Mission Viejo Housing Authority, the Mission Viejo Community Development Financing Authority, and the Community Development Agency of the City of Mission Viejo ("CDA"), up to the date of dissolution on February 1, 2012. The activities of all three entities are included in these financial statements. 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 four of these legally separate entities can be found in Note 1 to the basic financial statements and additional information on the dissolution of the CDA can be found in Note 20.

The City (the primary government) utilizes a two-year budget, which the Council adopts by June 30 or as soon thereafter as possible in odd-numbered years. Each year of the two-year budget is appropriated separately. The budget is prepared by program area (e.g., public safety), program (e.g., police patrol services) and fund. The City Manager can authorize appropriation transfers in the operating budget within the same program area and fund without limitation, and in the capital budget between capital projects within the same department and fund up to \$30,000. The City Council must authorize all other budget changes. The Community Development Agency, the Community Development Financing Authority and the Housing Authority utilize a one-year budget. These three 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 every six months 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. In addition, certain user fees require voter approval and increases in user fees must follow procedures set forth in State law.

Local economy

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

The two largest employers in the City are Saddleback College and Mission Hospital Regional Medical Center. Both have been major employers in the community since incorporation. Saddleback College is a two-year community college serving approximately 40,000 students annually and employing 1,909 people. It was established in 1968 and is part of the California Community College system. The college is fully accredited and offers over 300 associate degrees, certificate and occupational awards in 190 program areas, including accounting, computer science, engineering, fashion, journalism and nursing. Mission

Hospital Regional Medical Center, the City's second largest employer with 1,275 employees, is a 552-bed facility. It is the largest hospital in South Orange County and one of only three trauma centers in all of Orange County. The hospital is in the middle of a multi-year expansion program to ensure that key services will meet patient care needs as the region continues to grow.

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

Since its incorporation, Mission Viejo has had a strong and well-diversified tax base. Over the years, the relatively high property values and personal income levels within the City have generated tax revenues sufficient to support a very high level of municipal services and facilities for the community to enjoy, as well as healthy fund balances. The tax base has performed well in good economic times, and it has also been able to weather the slower economic times. Since 2001, assessed valuation of property in the City has grown at an average annual rate of 4.8% despite the two recessions during this time period and the first-ever decline in assessed valuations in 2010. Our tax base is well diversified, with City property tax revenue now accounting for about 37% of total governmental revenues. Sales tax revenue has declined recently, but still represents about 22% of governmental revenues. The remainder of the tax base (Community Development Agency property tax increment, franchise taxes, real property transfer taxes and transient occupancy taxes) contributes another 12-13% 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 5.7%, down from 6.7% a year ago.

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

Long-term financial planning

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

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

Although the recession ended in 2009, the City's current MFP was prepared with a conservative approach to future expenditure planning. Due to the permanent cuts to the operating budget over the past few years and additional cuts going forward, the current 2011-13 adopted General Fund budget is balanced without the use of reserves. The current MFP calls for the elimination of an additional 3 FTE's in 2012-13. These reductions will result in a total of 25.75 FTE positions eliminated citywide since 2008. The City also implemented a second tier pension plan for new employees to manage and reduce its exposure to pension liabilities that became effective on July 9, 2011. For many years the City's policy has been to compensate employees at above average levels as a means of attracting and retaining the highest quality staff to deliver City services in the most efficient and effective manner. However, over the past few years, as the City has strived to permanently cut personnel costs as part of the effort to balance the budget, compensation levels in Mission Viejo have dropped more than 3% below the median. A challenge in the coming years will be how the City can both attract and retain the best employees, and continue to deliver the amount and quality of services to which the public has grown accustomed, within available revenues.

Over the past several years, the City's ability to maintain service levels and adopt a balanced budget have been hampered by the State's continual efforts to chisel away at local government revenue as a way of dealing with its own budget challenges. The latest challenge occurred in June 2011 when the State budget was adopted with a bill that eliminated redevelopment agencies. The constitutionality of this redevelopment bill was challenged and on December 29, 2011 the California Supreme Court upheld Assembly Bill X1 26 that provides for the dissolution of all redevelopment agencies ("RDA") in the State of California. The Supreme Court ruling directed that all RDA's be dissolved on February 1, 2012.

Another unexpected action by the State as part of their budget adoption was the elimination of VLF revenue. The City adopted their 2011-13 budget with \$374,000 expected in VLF revenue in FY 2012-13. In addition, the State cut certain state library grants to the City in early 2012 in the amount of \$125,000. In response, the City subsequently reduced General Fund and Library Fund revenues during the FY 2012-13 mid budget cycle update to address these losses of revenue.

Major initiatives

A major goal of the City for the past several years has been to address the affordable housing needs of the City in an acceptable manner that meets both community expectations and the State's regional housing needs assessment (RHNA) requirements. The Community Development Agency, as required by the State, has been accumulating resources every year to assist and promote low to moderate income housing development. The State requires that these funds be spent in a timely manner. Upon dissolution of the Community Development Agency on February 1, 2012, the affordable housing responsibilities were transferred to the Mission Viejo Housing Authority. During fiscal year 2011-12, the Agency and the Authority expended approximately \$300,000 for the sale of four affordable units. The total project consists of 144 townhomes/condominiums to be located in the northern portion of Mission Viejo near the intersection of Jeronimo Road and Los Alisos Boulevard. Every homebuyer of an affordable unit must own and occupy their home. Any sale, refinancing or other transfer of the unit during the 45-year affordability

period will require the new owner to also qualify as a low income or very low income homebuyer. There are 18 additional affordable units to be sold in this development and the Authority has retained encumbered monies for this purpose. The Authority expended another \$4.8 million during fiscal year 2011-12 for a low to moderate income rental housing development on Oso Parkway at Country Club Drive; however, since the source of these funds is through the former redevelopment agency, final approvals for this enforceable obligation is still pending with the Department of Finance.

Another significant ongoing effort has been to manage and improve the flow of traffic throughout the City. The focus for the past several years has been to expand the capacity of the City's major east-west thoroughfares. In March of 2010, the City Council awarded a \$4.1 million construction contract for the Oso Parkway/Marguerite Parkway intersection improvement project. This project was completed during fiscal year 2011-12 and improved the traffic flow at this major intersection by adding one through lane in each direction on Oso Parkway and additional turn lanes in all directions. Widening of other sections of Oso Parkway is scheduled for 2012-13 and beyond. Design work continued on the La Paz Bridge and Road Widening project, between Chrisanta Drive and Muirlands Boulevard. Finally, the City is a partner with the City of Laguna Niguel for the widening of Crown Valley Parkway at the I/5 Interstate. This project includes a dedicated right turn lane for the northbound ramp and four continuous eastbound through lanes from Cabot to match the four through lanes that begin in Mission Viejo at the northbound ramp. This project is expected to be completed in January 2013.

Major resources are also currently being devoted to street resurfacing around the City. Nearly \$12.7 million was budgeted for residential street resurfacing in FY 2011-12 and 2012-13, including the resurfacing of key arterials. Of this amount, \$5.9 million was expended in FY 2011-12. The largest non-street project in the 2011-12 capital budget was the Marguerite Tennis Center Renovation project. This \$5.7 million project was designed to bring the 35-year old facility up to code and update it with modern energy-efficient equipment, replace tennis court lighting, add an eighth tennis court and upgrade the facility's parking lot. The renovated tennis center opened to the public on August 27, 2012.

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, 2011. The Certificate is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports. To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Mission Viejo received its first Certificate of Achievement in 1988-89, its first full year of incorporation as a city, and has received the certificate every year since then. I believe this 2011-12 CAFR continues to conform to the Certificate of Achievement program requirements, and it will be submitted to GFOA for award consideration.

The City also received the GFOA Distinguished Budget Presentation Award and CSMFO Excellence in Operational Budgeting Award for its 2011-2013 biennial budget document. To qualify for the GFOA award,

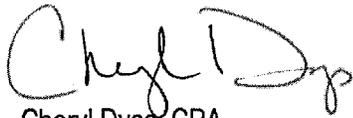
Honorable Mayor, Members of the City Council, City Manager and Citizens of the City of Mission Viejo
November 21, 2012

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 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, Rogers, Anderson, Malody & Scott, 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: Accounting Supervisor Patricia Brunell, Accountant Kim Lashley, Junior Accountant Andrea Pham and Administrative Assistant Sherry Merrifield.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Cheryl Dyas". The signature is fluid and cursive, with the first name "Cheryl" being larger and more prominent than the last name "Dyas".

Cheryl Dyas, CPA
Director of Administrative Services

CITY OF MISSION VIEJO
Comprehensive Annual Financial Report
June 30, 2012

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, 2011

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



Christopher P. Morinell

President

Jeffrey R. Emery

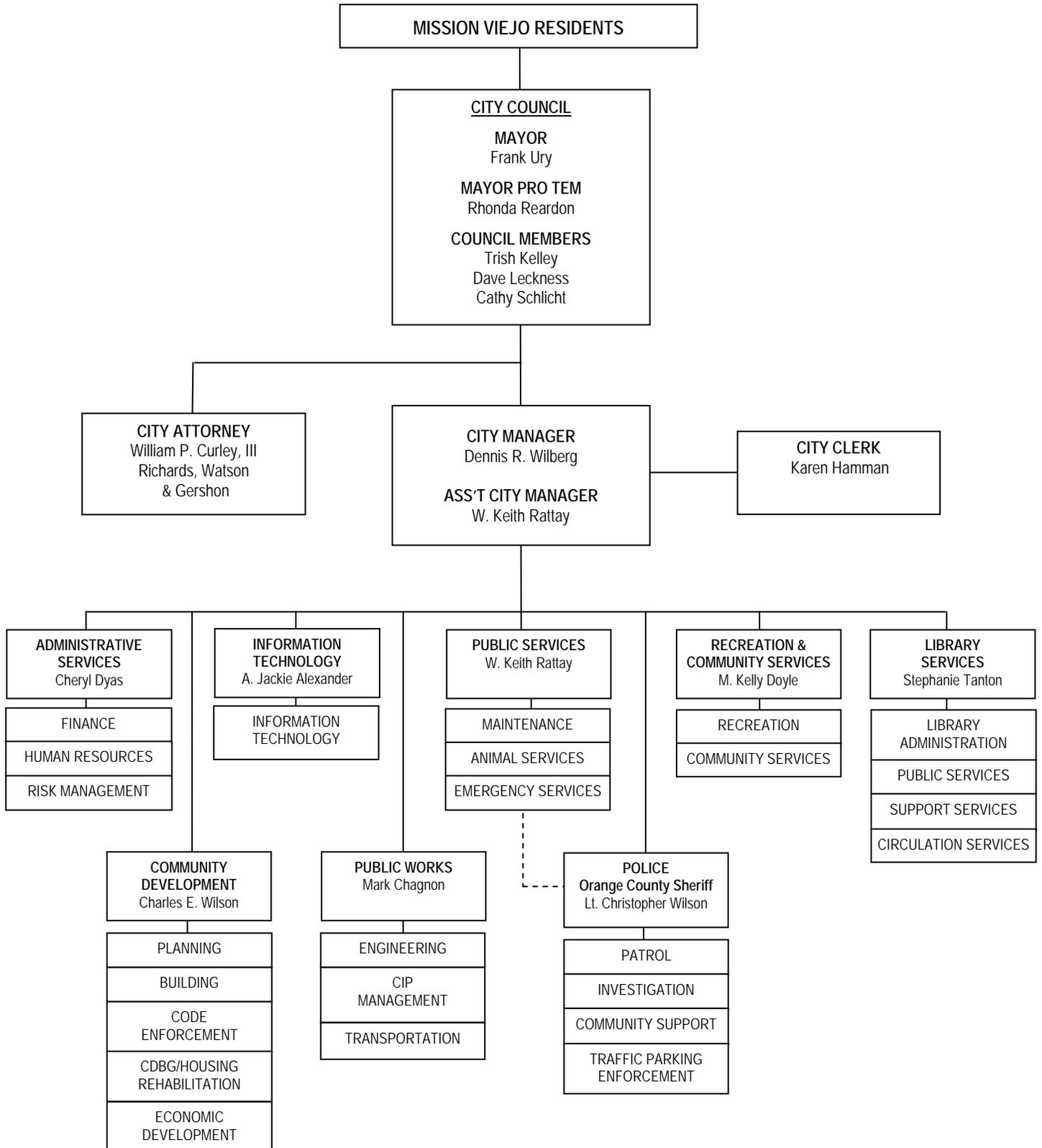
Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Mission Viejo for our Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011.

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

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

CITY OF MISSION VIEJO
Organizational Structure
June 30, 2012



CITY OF MISSION VIEJO

List of Principal Officials
as of June 30, 2012

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



MISSION VIEJO

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INDEPENDENT AUDITOR'S REPORT

PARTNERS

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Scott W. Manno, CPA
Leena Shanbhag, CPA, MST
Jay H. Zercher, CPA (Retired)
Phillip H. Waller, CPA (Retired)

MANAGERS / STAFF

Nancy O'Rafferty, CPA, MBA
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Charles De Simoni, CPA

MEMBERS

American Institute of
Certified Public Accountants

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Quality Center*

California Society of
Certified Public Accountants

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Mission Viejo, California, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Mission Viejo, California's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mission Viejo, California, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

On December 29, 2011, the California Supreme Court upheld Assembly Bill X1 26 (Bill) that provides for the dissolution of all redevelopment agencies in the State of California. Therefore, as of February 1, 2012, the Community Development Agency of the City of Mission Viejo, a component unit of the City, ceased to exist. All functions of the former redevelopment agency either passed to the City or to the Successor Agency to the Community Development Agency of the City of Mission Viejo.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2012, on our consideration of the City of Mission Viejo, California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Roger Anderson, Malady & Smith, LLP

November 21, 2012



MANAGEMENT'S DISCUSSION AND ANALYSIS



MISSION VIEJO

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CITY OF MISSION VIEJO
Management's Discussion and Analysis
Year ended June 30, 2012

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, 2012. 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, 2012 by \$700.3 million. This amount is referred to as the net assets of the City. Of this amount, \$34.8 million is unrestricted net assets and may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net assets decreased by \$8.2 million during the past year. FY 2011-12 revenues decreased by \$6.0 million from prior year levels, and expenses (both expenditures and non-cash expenses such as depreciation) increased by \$0.8 million. (See pages 9-11 for a more detailed discussion of expenses.)
- As of June 30, 2012, the City's governmental funds (the General Fund plus Special Revenue, Debt Service and Capital Projects funds) reported combined ending fund balances of \$40.1 million. Governmental fund expenditures, other financing uses and a loss from an extraordinary event exceeded revenues and other financing sources by \$11.9 million in FY 2011-12. Of the \$40.1 million combined ending fund balances at June 30, 2012, \$7.6 million is categorized as unassigned, \$18.3 million is categorized as assigned, \$9.7 million is categorized as restricted, and \$4.5 is categorized as non-spendable.
- The combined \$28.5 million assigned and unassigned fund balance of the General Fund was 58% of General Fund revenues. Approximately \$16.5 million of the June 30, 2012 assigned fund balance has been designated by the City Council for capital asset replacement and \$1.4 million is encumbered for subsequent years' expenditures.
- The City's total long-term liabilities decreased by \$3.9 million, or 7.2%, during the fiscal year ending June 30, 2012, to a level of \$50.0 million.

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 government-wide financial statements: the Statement of Net Assets and the Statement of Activities. They present information for the government as a whole and present a longer-term view of the City's finances. These two statements help to answer the question: "Is the City as a whole better off or worse off as a result of this year's activities?"

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

The Statement of Activities presents information on how the City's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused employee 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 three other legally separate entities: the City's redevelopment agency, known as the Community Development Agency of the City of Mission Viejo (the "Agency" or "CDA"); the Mission Viejo Housing Authority (the "MVHA"); and the Mission Viejo Community Development Financing Authority (the "Authority"), a joint powers authority formed by the City and the Agency to issue bonds for the construction of major capital facilities. The City is financially accountable for all three of these legally separate entities, which are referred to as component units. The Agency, MVHA and Authority function for all practical purposes as departments of the City, and therefore, these component units have been included in these financial statements as an integral part of the primary government. On February 1, 2012, the Agency was dissolved; therefore, the financial activities reported in these statements for the Agency are for the seven months ended January 31, 2012.

The government-wide financial statements can be found on pages 22-24 of this report.

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources

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available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City maintains 17 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Measure M Fund, Grants Fund, Developer Fees Fund, and Housing Authority Fund, which are considered to be the City's five major funds. Data from the other 12 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 Agency, Authority and MVHA adopted 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 maintains two asset replacement funds separate from the General Fund, but for these financial statements, these funds are combined into the General Fund.

The basic governmental fund financial statements can be found on pages 27-32 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 33-36 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City utilizes one 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

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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 basic fiduciary fund financial statements can be found on pages 37-38 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 39-86 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 87-97 of this report.

The combining 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 98-120 of this report.

Government-wide Financial Analysis

Net assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$700.3 million as of June 30, 2012, the close of the most recent fiscal year. In comparison to 2011 and 2010, net assets were \$708.5 and \$708.0, respectively.

By far the largest portion of the City's net assets at June 30, 2012 (\$651.4 million, or 93% of total net assets) reflects its investment in capital assets (e.g., land, infrastructure, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related 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 \$14.1 million of the City's net assets is restricted net assets, representing resources that are subject to external restrictions on how they may be used. The remaining \$34.8 million is unrestricted net assets, which may be used to meet the government's ongoing obligations to citizens and creditors. Unrestricted net assets decreased \$4.2 million, or 10.8% from June 30, 2011; however the balance is still \$3.8 million higher than the \$31 million balance at June 30, 2010.

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City of Mission Viejo Net Assets at Year-End (in millions)							
	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2012	2011	2012	2011	2012	2011	2011-2012
Current and other							
non-current assets	\$ 63.4	\$ 73.6	\$ 2.6	\$ 2.4	\$ 66.0	\$ 76.0	-13.2%
Capital assets	<u>697.5</u>	<u>696.3</u>	<u>2.2</u>	<u>2.2</u>	<u>699.7</u>	<u>698.5</u>	0.2%
Total assets	<u>760.9</u>	<u>769.9</u>	<u>4.8</u>	<u>4.6</u>	<u>765.7</u>	<u>774.5</u>	-1.1%
Long-term liabilities							
outstanding	49.9	53.8	0.1	0.1	50.0	53.9	-7.2%
Other liabilities	<u>15.2</u>	<u>12.0</u>	<u>0.2</u>	<u>0.1</u>	<u>15.4</u>	<u>12.1</u>	27.3%
Total liabilities	<u>65.1</u>	<u>65.8</u>	<u>0.3</u>	<u>0.2</u>	<u>65.4</u>	<u>66.0</u>	-0.9%
Net assets:							
Invested in							
capital assets,							
net of debt	649.2	644.0	2.2	2.2	651.4	646.2	0.8%
Restricted	14.1	23.3	-	-	14.1	23.3	-39.5%
Unrestricted	<u>32.5</u>	<u>36.8</u>	<u>2.3</u>	<u>2.2</u>	<u>34.8</u>	<u>39.0</u>	-10.8%
Total net assets	<u>\$ 695.8</u>	<u>\$ 704.1</u>	<u>\$ 4.5</u>	<u>\$ 4.4</u>	<u>\$ 700.3</u>	<u>\$ 708.5</u>	-1.2%

At the end of the current fiscal year, the City is able to report positive balances in all reported categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. This same situation held true for the prior fiscal year as well. However, the City's overall net assets decreased \$8.2 million from the prior fiscal year. The reasons for this overall decrease are discussed in the following sections for governmental activities and business-type activities.

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City of Mission Viejo Changes in Net Assets (in millions)							
	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2011-2012
	2012	2011	2012	2011	2012	2011	
Revenues							
Program revenues:							
Charges of services	\$ 4.3	\$ 7.0	\$ 1.3	\$ 1.2	\$ 5.6	\$ 8.2	-31.7%
Operating grants and contributions	8.9	7.6	0.3	0.2	9.2	7.8	17.9%
Capital grants and contributions	3.4	6.7	-	-	3.4	6.7	-49.3%
General revenues:							
Taxes:							
Property taxes	29.9	33.0	-	-	29.9	33.0	-9.4%
Sales and use taxes	11.6	11.1	-	-	11.6	11.1	4.5%
Property taxes in lieu of sales and use taxes	3.8	3.7	-	-	3.8	3.7	2.7%
Other taxes	3.8	3.7	-	-	3.8	3.7	2.7%
Motor vehicle in lieu fees	0.1	0.5	-	-	0.1	0.5	-80.0%
Investment earnings	1.2	1.3	0.1	-	1.3	1.3	0.0%
Other	2.0	0.6	-	0.1	2.0	0.7	185.7%
Total revenues	<u>69.0</u>	<u>75.2</u>	<u>1.7</u>	<u>1.5</u>	<u>70.7</u>	<u>76.7</u>	-7.8%
Expenses							
General government- legislative	1.2	1.3	-	-	1.2	1.3	-7.7%
General government- management/support	10.8	14.8	-	-	10.8	14.8	-27.0%
Public safety	16.7	16.8	-	-	16.7	16.8	-0.6%
Community development	10.1	2.6	-	-	10.1	2.6	288.5%
Public works – engineering/transportation	1.8	3.0	-	-	1.8	3.0	-40.0%
Infrastructure maintenance	24.0	25.2	-	-	24.0	25.2	-4.8%
Recreation, community and library services	9.5	9.1	-	-	9.5	9.1	4.4%
Animal services and other	-	-	1.8	1.7	1.8	1.7	5.9%
Mission Viejo television	-	-	0.2	0.1	0.2	0.1	100.0%
Interest on long-term debt	1.0	1.7	-	-	1.0	1.7	-41.2%
Total expenses	<u>75.1</u>	<u>74.5</u>	<u>2.0</u>	<u>1.8</u>	<u>77.1</u>	<u>76.3</u>	1.0%
Excess/(deficiency) in net assets							
before transfers and extraordinary item	(6.1)	0.7	(0.3)	(0.3)	(6.4)	0.4	-1700.0%
Transfers	(0.4)	(0.5)	0.4	0.5	-	-	
Extraordinary item	(1.8)	-	-	-	(1.8)	-	0.0%
Increase in net assets	(8.3)	0.2	0.1	0.2	(8.2)	0.4	-2150.0%
Net assets, beginning of year	<u>704.1</u>	<u>703.9</u>	<u>4.4</u>	<u>4.2</u>	<u>708.5</u>	<u>708.1</u>	0.1%
Net assets, end of year	<u>\$ 695.8</u>	<u>\$ 704.1</u>	<u>\$ 4.5</u>	<u>\$ 4.4</u>	<u>\$ 700.3</u>	<u>\$ 708.5</u>	-1.2%

Governmental activities. During the current year, net assets for governmental activities decreased \$8.3 million from the prior fiscal year ending balance of \$704.1 million. As reflected above, revenues decreased by \$6.2 million, or 8.2%, from prior year levels and expenses increased \$0.6 million from the previous year. For revenues, the largest declines were reported under charges for services

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program revenue and property taxes general revenue. The decline in charges for services of \$2.7 million has two primary causes: In 2010-11, \$2.1 million in park developer fees were received from Lennar Homes for a housing development located at the corner of Jeronimo Road and Los Alisos Blvd. There were no park developer fees classified as charges for services in the current fiscal year. The second cause was the implementation of a residential and commercial permit fee holiday program, which resulted in a decrease of permit revenue in the amount of \$0.4 million, savings that were passed on to Mission Viejo residents. The residential program was implemented from January 1, 2012 to July 4, 2012 and waived building fees for home improvement related construction. The commercial program was implemented beginning February 1, 2012 and ended July 31, 2012 and provided a 25% discount on building fees for commercial improvement related construction.

The decline in property tax revenue of \$3.1 million is a result of the dissolution of the City's redevelopment agency on February 1, 2012. The City would have received approximately \$7.1 million in tax increment in the current fiscal had the agency not been dissolved, the same amount received in the prior fiscal year. The actual amount received from the County of Orange was \$4.1 million before dissolution, \$3.0 million less than the prior year.

The net revenue from both operating and capital grants and contributions in the current fiscal year was \$12.3 million, as compared to \$14.3 million in the prior year, a decline of \$2.0 million. The significant portion of revenue in this category is derived from individual competitive grants from various county, state and federal organizations. The mix of these grants changes each year and is based on the actual grants awarded to the City.

Expenses (expenditures plus non-cash expenses) associated with governmental activities increased by \$0.6 million, or 0.8%. For each program area, expenses declined from the prior year, except in the Community Development and Recreation, Community, and Library Services program areas. The largest increase was reflected in the Community Development program area in the amount of \$7.5 million. This increase can be primarily attributed to the following four causes. The City expended \$4.8 million, a one-time subsidy for an affordable housing project located on Oso Parkway at Country Club Drive. This project is still in the planning phase and is expected to start development during the 2012-13 fiscal year. The City expended \$2.0 million in the prior fiscal year to Lennar Homes of California, Inc. for an affordable housing subsidy, which was re-classified to deferred revenue in the current year. As a result of the permit fee holiday discussed earlier, building inspection expenses increased in 2011-12 over the prior year due to the increase in permit activity from the program. It is estimated that the additional costs were \$0.2 million. Finally, the Economic Development program was moved to the Community Development program area in 2011-12 from the General Government-Management & Support program area. Total expenses in the Economic Development program for 2011-12 were \$0.2 million.

The largest program area expense decrease is reflected in the General Government-Management & Support program area in the amount of \$4.0 million. Causes for this decline include: personnel costs were decreased in both the City Manager program and across all Administrative Services programs in the amount of \$129,000 and \$262,000, respectively. These savings occurred due to planned reductions in regular full-time and part-time staff in both departments and a re-organization of staffing

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in the Administrative Services department. Secondly, there were two programs that were moved from the General Government-Management & Support program area to other program areas. The first was the Economic Development program, which is reported in the Community Development program area in the current fiscal year. The other was the Cable Television program was moved to the General Government-Legislative program area. Total expenses reported for both these programs in the prior year were \$130,000. Lastly, there is a \$3.8 million decrease in redevelopment agency debt service fund expenses. In the prior year, the Agency expended this amount for tax sharing agreements with other taxing entities (\$3.4 million), owner participation agreements (\$0.1 million), the State required Supplemental Educational Revenue Augmentation Fund (SERAF) payment (\$0.3 million) and other miscellaneous administrative expenses. Due to the dissolution of the redevelopment agency on February 1, 2012, the amount expended for tax sharing agreements did not occur until after dissolution and are recorded in the redevelopment Successor Agency private-purpose trust fund. The SERAF payment was not a required payment in 2011-12.

The cost of all governmental activities in FY 2011-12 was \$75.1 million. That cost was financed by: those who directly benefited from the programs and services (6.2%); other governments and organizations that subsidized certain programs and projects with grants and contributions (17.8%); and general tax revenues and other general revenues of the City (76%).

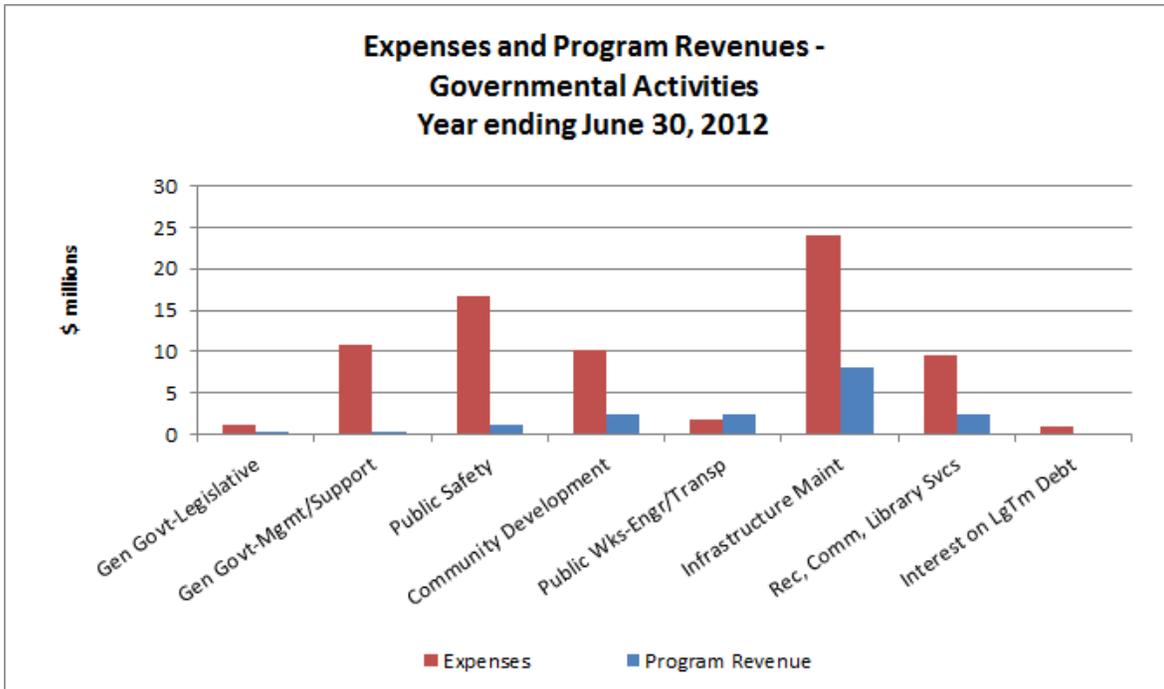
City of Mission Viejo						
Net Cost of Governmental Activities						
(in millions)						
	2012			2011		
	Total Cost of Services	Net Cost of Services	% of Total Cost Borne By General Revenues	Total Cost of Services	Net Cost of Services	% of Total Cost Borne By General Revenues
General government- legislative	\$ 1.2	\$ 1.2	100.0%	\$ 1.3	\$ 1.2	92.3%
General government- management/support	10.8	10.5	97.2%	14.8	14.3	96.6%
Public safety	16.7	15.6	93.4%	16.8	15.9	94.6%
Community development	10.1	7.6	75.2%	2.6	0.3	11.5%
Public works- engineering/ transportation	1.8	(0.5)	-27.8%	3.0	0.4	13.3%
Infrastructure maintenance	24.0	16.0	66.7%	25.2	14.6	57.9%
Recreation, community and library services	9.5	7.0	73.7%	9.1	4.9	53.8%
Interest on long-term debt	1.0	1.0	100.0%	1.7	1.7	100.0%
	<u>\$ 75.1</u>	<u>\$ 58.4</u>	77.8%	<u>\$ 74.5</u>	<u>\$ 53.3</u>	71.5%

The table above illustrates that the net cost of governmental services (expenses less program revenues) was \$58.4 million in the current year, an increase of \$5.1 million from the prior year. General Government - Management & Support, Public Safety and Public Works – Engineering and Transportation were the three program areas that required a smaller amount of costs to be borne by general revenues in FY 2011-12 than in FY 2010-11. Community Development, Infrastructure

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Maintenance and Recreation, Community and Library Services required higher amount of costs to be borne by general revenues in FY 2011-12 than in FY 2010-11. 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 2% of total City expenses. Net assets for business-type activities increased by \$0.1 million in FY 2011-12, compared to an increase of \$0.2 million in FY 2010-11. The operations in the Animal Services fund remained about even compared to the prior year. Franchise taxes in the Mission Viejo Television Fund were approximately \$0.1 higher in 2011-12 from the prior year, resulting in an increase in net assets for that fund.

Financial Analysis of the Governmental Funds

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

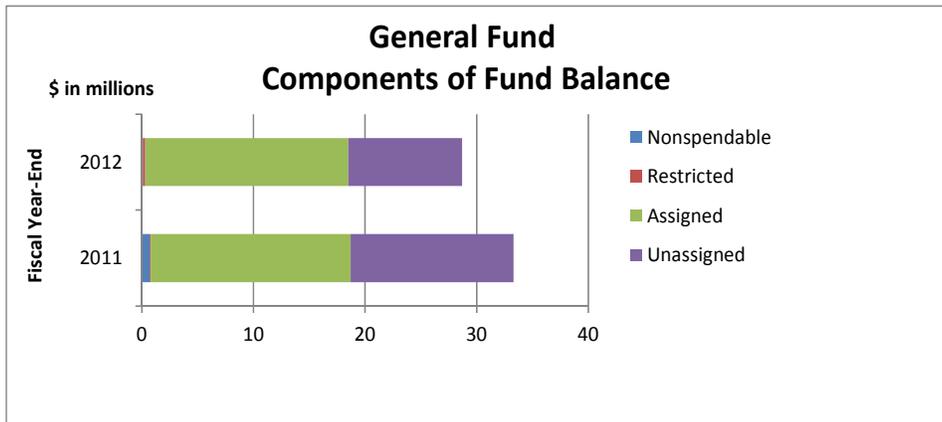
Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure 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.

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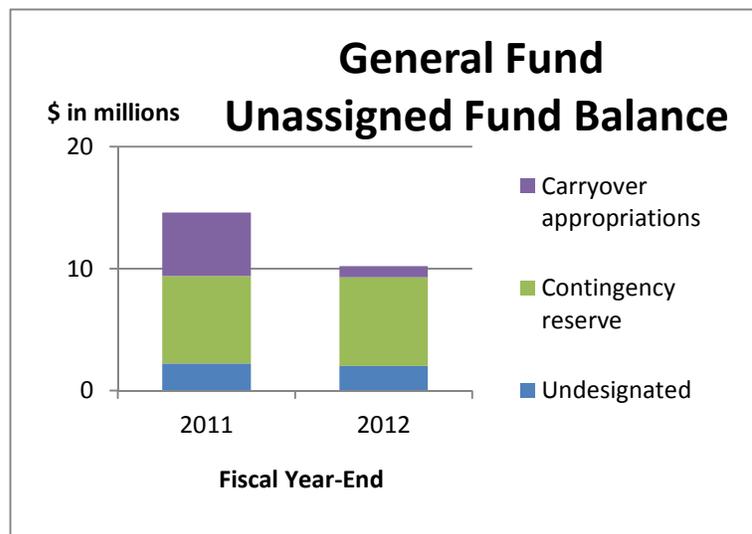
At June 30, 2012, the City's governmental funds (as presented in the balance sheet on pages 27-28) reported combined fund balances of \$40.1 million, a decrease of \$11.9 million in comparison with the prior year. Approximately \$7.6 million of this total amount (19%) constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is either nonspendable, restricted or assigned to indicate that it is 1) not in spendable form (\$4.5 million) 2) legally required to be spent on specific uses or be maintained intact (\$9.7 million), or 3) assigned for a particular purpose (\$18.3 million).

General Fund. The General Fund is the chief operating fund of the City. As of June 30, 2012, the total fund balance of the General Fund was \$28.7 million, a decrease of \$4.6 million from \$33.3 million in the prior year.



The component of fund balance with the largest change from the prior year was the unassigned portion of fund balance. Unassigned fund balance at June 30, 2012 was \$10.2 million, a decrease of \$3.8 million from \$14 million in the prior year.

Unassigned fund balance is comprised of three components: undesignated, contingency reserve, which equals 15% of general fund revenues, and carryover appropriations. The undesignated and contingency reserve portion remains relatively unchanged from the prior year to the current year. The balance of carryover appropriations decreased \$4.3 million from the prior year. The most significant carryover appropriation was for the Marguerite Tennis Center



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Renovation in the amount of \$3.1 million. This entire balance was expended in fiscal year 2011-12.

The largest component of fund balance in the General Fund is assigned fund balance. This total at June 30, 2012 was \$18.3 million, a decrease of \$0.2 million from the prior year of \$18.5 million. Assigned fund balance is comprised of \$16.5 million for capital asset replacement, \$0.4 million for software system replacement, and \$1.4 million for encumbrances.

As a measure of the General Fund's relative fiscal strength, it is useful to calculate the discretionary fund balance amount as a percentage of total fund revenues. For the City, discretionary fund balance includes the entire unassigned fund balance and those amounts assigned for capital asset and software system replacement, since these assignments were made at the discretion of the City Council. The City Council discretionary fund balance at June 30, 2012 was \$27 million or 55% of total FY 2011-12 General Fund revenues.

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

Measure M Fund. The Measure M Fund ended the year with a total negative fund balance of \$1.0 million, a decrease of \$1.3 million from the prior year. There were a number of projects funded by Measure M apportionment and competitive Measure M grant funds that were partially or wholly completed during 2011-12, including the La Paz Bridge Widening project, Oso Widening project, Oso/Marguerite Intersection Improvement project and the Residential Resurfacing project. These projects spent down a portion of the accumulated resources available for these projects at June 30, 2011 of \$335,000 in addition to expending grant awards in the amount of \$940,000 against pending reimbursements. This fund is due \$1.5 million in reimbursements from other governmental agencies at June 30, 2012.

Grants Fund. The Grants Fund ended the year with a total negative fund balance of \$0.3 million, a decrease of \$0.1 million from the prior year. There were a number of projects funded by various grants, including, ARRA funds, Federal Safe Route to School funds, Department of Energy funds, Department of Transportation funds, Community Development Block Grant funds, and State Infrastructure Bond funds that were partially or wholly completed during 2011-12, including the Oso Creek Restoration project, Federal Safe Routes to School project, Solar PV System project, La Paz Bridge Widening project and the Residential Resurfacing project. These projects expended grant awards in the amount of \$0.1 million against pending reimbursements. This fund is due \$1.4 million in reimbursements from other governmental agencies at June 30, 2012.

Developer Fees Fund. The Developer Fees Fund ended the year with a total negative fund balance of \$1.2 million, an increase of \$0.1 million from the prior year. There were a number of projects funded by SCRIP developer fees that were partially or wholly completed during 2011-12, including the Oso Creek Restoration project, Oso Widening project, and the Oso/Marguerite Intersection Improvement project. The City expended \$0.2 million more than SCRIP revenues received for the year. This fund is due \$0.4 million in SCRIP fund reimbursements at June 30, 2012. The deficiency created by SCRIP funding/project activity was offset by the receipt of park development fees in the

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amount of \$0.4 million from UDR. UDR is a developer constructing a housing project on Los Alisos between Marguerite Parkway and the 241 Toll Road. This fund is due a total of \$2.0 million in reimbursements from other governmental agencies at June 30, 2012.

The actual amount of revenue recognized each year is dependent upon whether revenue sources meet the definition of measurable and available at June 30, 2012 in accordance with accounting standards. Available is defined as "received within 60 days of the last day of the fiscal year." If revenue does not meet the availability criteria, the revenue must be deferred to subsequent years. This delay in revenue recognition has resulted in the deficit fund balances reported in the Measure M, Grant and Developer Fees Funds.

Housing Authority Fund. The Housing Authority Fund had a fund balance of \$6.8 million at the end of fiscal year 2011-12, compared to \$5.7 million at the end of the prior year. This is an increase in \$1.1 million; however, there were two very distinct transactions that occurred in this fund during the year. In January 2012, \$4.8 million was distributed to Watermarke Properties, Inc. as an affordable housing subsidy for a housing development located on Oso Parkway at Country Club Drive. These funds originated from property tax increment revenue accumulated by the now dissolved redevelopment agency and were designated to satisfy the Enforceable Obligation of the redevelopment agency that arose through a 2008 legal judgment and settlement agreement. Then, on February 1, 2012, all assets, liabilities and fund balances of the Low and Moderate Income Housing Fund (LMIHF) of the dissolved redevelopment agency were transferred to the Housing Authority. The net fund balance transferred was \$5.8 million. The Board of the Housing Authority accepted the responsibilities of the LMIHF of the now dissolved redevelopment agency, thus designating the Housing Authority as the Successor Housing Agency for the LMIHF.

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 assets at June 30, 2012 were \$1.9 million, a \$0.1 million increase from the prior year. For Mission Viejo Television, unrestricted net assets remained unchanged at \$0.4 million. The operating loss for Animal Services was \$0.4 million, an increase of \$0.1 from the prior year. Mission Viejo Television reported operating income in both the current and prior year at less than \$0.1 million. The operating loss for Animal Services was offset by an operating subsidy transferred from the City's General Fund in the amount of \$0.4 million. The operating subsidy in the prior year was \$0.5 million. There are no operating subsidies from the City's General Fund for Mission Viejo Television.

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 are approved by the City Council in September each year and increase the original budget accordingly. Total carryover appropriations

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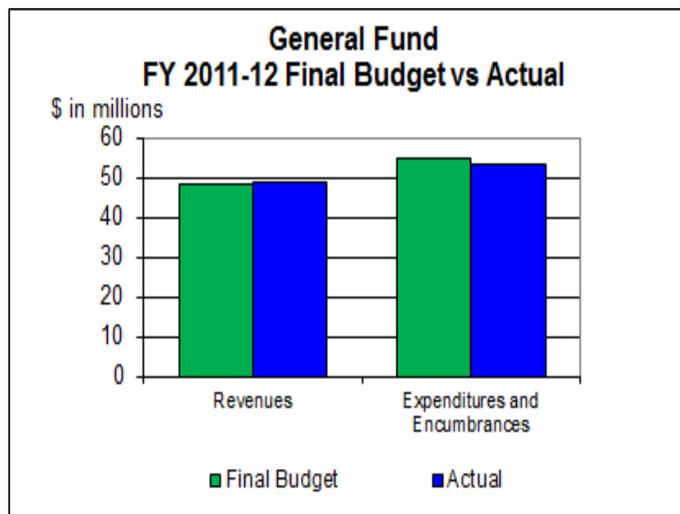
CITY OF MISSION VIEJO
Management's Discussion and Analysis
Year ended June 30, 2012

for 2011-12 were \$6.1 million. The most significant carryover appropriation was \$3.1 for the Marguerite Tennis Center Renovation project. During the year, there were a number of amendments approved to increase the original adopted budgeted appropriations. The more significant of these amendments include: total net amendments of \$1.3 million for the Marguerite Tennis Center Renovation project; an appropriation of \$35,000 for shade structures at Curtis Park; and an appropriation to increase building inspection services by \$250,000, which was offset by building fee revenue. Also, during the annual mid-year budget review, an amendment was made to increase appropriations by \$388,000 across several operational programs. The amendments to appropriations at mid-year were entirely offset by amendments to the revenue budget.

For revenues, in addition to the mid-year increase in revenue of \$388,000, there were two additional amendments to the revenue budget. The first was a decrease in charges for services revenue in the Community Development program area of \$426,000 for the implementation of the residential and commercial permit fee holiday program. The residential program was implemented from January 1, 2012 to July 4, 2012 and waived building fees for home improvement related construction. The commercial program was implemented beginning February 1, 2012 and ended July 31, 2012 and provided a 25% discount on building fees for commercial improvement related construction. The second amendment was an increase to Community Development Building program charges for services revenue by \$450,000 for unanticipated revenue from commercial improvement and new development construction.

Final budget compared to actual results. The City prepares budgetary schedules on a basis which differs from generally accepted accounting principles (GAAP). Under the budgetary basis of accounting, expenditures include all encumbrances in existence at year-end, in addition to all expenditures as defined by generally accepted accounting principles. Encumbrances are commitments to outside vendors that have been made in the form of outstanding contracts and purchase orders.

Actual revenues for the year were \$0.6 million greater than revised budget estimates. The most significant difference between estimated and actual revenues was a positive variance for developer fee revenue in the amount of \$682,000. In the current fiscal year, the City received this amount as reimbursements from the Santa Margarita Company related to the Las Flores development in the amount of \$295,000 and \$387,000 from CFD 2004-1 related to the Ladera development. Fees from both of these developments were used for the Oso/Marguerite Parkway Intersection Improvement project.



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Actual expenditures and encumbrances combined were \$1.4 million less than the final appropriations budget. Of the total \$1.4 million, operating expenditures were \$0.8 million less than budget and capital projects came in \$0.6 million under budget. The most significant difference between estimated and actual expenditures for the operating budget was a positive variance of \$0.5 million in the General Government-Management and Support program area budget. As discussed earlier when summarizing governmental activities, causes for these operational savings include: personnel costs were decreased in both the City Manager program and across all Administrative Services programs in the amounts of \$129,000 and \$262,000, respectively. These savings occurred due to planned reductions in regular full-time and part-time staff in both departments and a re-organization of staffing in the Administrative Services department. Also, there were two programs that were moved from the Management & Support program area to other program areas; however, while the shifting of these programs resulted in savings to the Management & Support program area of \$0.1 million, these costs were incurred in other program areas. In the capital budget, the most significant difference between estimated and actual expenditures was a positive variance for the City Hall Solar PV System project of \$0.2 million. This project was able to be completed with the use of grant funds without a General Fund match.

Of the \$1.4 million current year savings, \$1.0 million is being carried over to FY 2012-13 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, 2012, amounts to \$699.7 million, net of accumulated depreciation. This investment in assets includes land, buildings, machinery, equipment, vehicles and infrastructure. The total increase in capital assets for the current fiscal year was \$1.2 million, or 0.2%.

CITY OF MISSION VIEJO
Management's Discussion and Analysis
Year ended June 30, 2012

City of Mission Viejo Capital Assets At Year-End (Net of Depreciation, in Millions)							
	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2012	2011	2012	2011	2012	2011	2011-2012
Land	\$ 48.7	\$ 48.7	\$ 1.0	\$ 1.0	\$ 49.7	\$ 49.7	0.0%
Rights of way	242.9	241.7	-	-	242.9	241.7	0.5%
Buildings and Improvements	76.7	78.5	1.0	1.0	77.7	79.5	-2.3%
Machinery, equipment and furniture	3.3	3.6	0.2	0.2	3.5	3.8	-7.9%
Vehicles	0.2	0.1	-	-	0.2	0.1	100.0%
Infrastructure	311.9	312.4	-	-	311.9	312.4	-0.2%
Construction in progress	<u>13.8</u>	<u>11.3</u>	<u>-</u>	<u>-</u>	<u>13.8</u>	<u>11.3</u>	22.1%
Total	<u>\$ 697.5</u>	<u>\$ 696.3</u>	<u>\$ 2.2</u>	<u>\$ 2.2</u>	<u>\$ 699.7</u>	<u>\$ 698.5</u>	0.2%

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

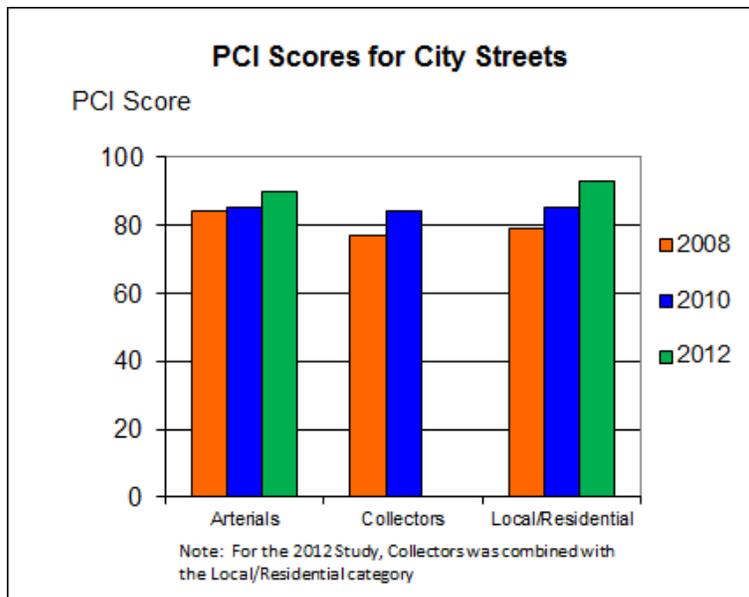
- Rights-of-way increased by \$1.2 million. In conjunction with the construction for the Oso Parkway Widening project and the La Paz Bridge Widening, the City was required to purchase rights-of-way in the amounts of \$0.9 million and \$0.3 million, respectively, to complete these projects.
- For construction in progress, the City completed \$4.6 million in projects during the year. The largest of these projects was the Oso/Marguerite Intersection Improvement project. The completion of this project required that \$4.2 million be deleted from construction in progress and be re-classified to infrastructure. Total deletions to construction in progress was offset by a \$7.1 million addition to construction in progress for the current year. The largest of these projects were for the Oso Creek Restoration project (\$0.5 million), Crown Valley Widening project (\$1.2 million) and the Marguerite Tennis Center Renovation project (\$4.2 million). As the Notice of Completion is filed on each project, the costs associated with each project will be deleted from the Construction in Progress capital asset category and added to the appropriate capital asset category.

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

The City has continued to maintain the condition of its roads at a high level. The City Council's established minimum condition level is for categories of roads to have a PCI rating of 75 or above, using the Pavement Condition Index (PCI) methodology. There are five PCI categories ranging from "Very Good" to "Very Poor." 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. The most recent condition assessment, completed for fiscal year 2011-12, indicated that arterials and local/residential roadways were all in "very good" condition. With average PCI ratings in 2012 of 90 and 93, respectively, for the arterials and local/residential roadways, the scores for both categories increased over the 2010 assessment. All of the City's streets are still comfortably above the City Council's minimum acceptable rating of 75.

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



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Additional information about the City's capital assets is presented in Note 6 of the Notes to Basic Financial Statements on pages 61-63 of this report and Note 2 of the Notes to Required Supplementary Information on pages 95-97.

Long-Term Debt. At the end of the current fiscal year, the City had total long-term liabilities outstanding of \$50.0 million.

City of Mission Viejo Long-Term Liabilities at Year-End (in millions)							
	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2012	2011	2012	2011	2012	2011	2011-2012
Revenue bonds	\$ 47.5	\$ 51.4	\$ -	\$ -	\$ 47.5	\$ 51.4	-7.6%
Bond Premium	0.8	0.8	-	-	0.8	0.8	0.0%
Subtotal – bonds payable	48.3	52.2	-	-	48.3	52.2	-7.5%
Compensated absences	1.6	1.6	0.1	0.1	1.7	1.7	0.0%
Total	<u>\$ 49.9</u>	<u>\$ 53.8</u>	<u>\$ 0.1</u>	<u>\$ 0.1</u>	<u>\$ 50.0</u>	<u>\$ 53.9</u>	-7.2%

The City's total debt decreased by \$3.9 million, or 7.2%, during the current fiscal year. In addition to the regularly scheduled principal payments that were due on all debt issues in the current year of \$1.7 million, the 1999 Series C Revenue Bonds were paid off during the current year. The principal balance due at the time these bonds were paid off was approximately \$2.2 million.

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 \$496 million at June 30, 2012. The City has no general obligation bond debt outstanding.

Additional information on the City's long-term liabilities can be found in Note 7 of the Notes to Basic Financial Statements on pages 64-68 of this report.

CITY OF MISSION VIEJO
Management's Discussion and Analysis
Year ended June 30, 2012

Next Year's Budget, Tax Rates and Fee Levels

The fiscal year 2012-13 City budget was prepared conservatively. Property tax and sales tax estimates were projected with minimal or no growth from the previous fiscal year and there were no tax rate or fee increases as part of the preparation and adoption of the 2012-13 budget. The General Fund budget is balanced without the use of reserves.

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.



BASIC FINANCIAL STATEMENTS

CITY OF MISSION VIEJO

BASIC FINANCIAL STATEMENTS - OVERVIEW YEAR ENDED JUNE 30, 2012

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, 2012 and the results of its operations and cash flows for the fiscal year.

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

Governmental Fund Types

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

Proprietary Fund Type

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

Fiduciary Fund 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 ASSETS

JUNE 30, 2012 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2011)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	
			2012	2011
Assets:				
Cash and investments (note 2)	\$ 36,301,830	\$ 2,435,516	\$ 38,737,346	\$ 48,166,763
Accounts receivable	63,098	-	63,098	80,810
Taxes receivable	3,392,850	107,066	3,499,916	3,564,015
Loans receivable	2,663,417	-	2,663,417	2,449,676
Interest receivable	115,814	-	115,814	218,256
Prepaid items	1,101,861	67,181	1,169,042	1,160,865
Deposits	9,566	-	9,566	9,504
Intergovernmental receivable	5,409,597	20,386	5,429,983	5,055,792
Intergovernmental receivable - Successor Agency (note 4)	1,420,642	-	1,420,642	-
Due from developers (note 5)	7,441,943	-	7,441,943	7,247,714
Restricted assets:				
Cash with fiscal agent (note 2)	5,499,929	-	5,499,929	8,116,627
Capital assets not being depreciated (note 6)	506,823,035	1,000,764	507,823,799	503,728,056
Capital assets, net of depreciation (note 6)	190,642,516	1,185,051	191,827,567	194,764,311
Total assets	760,886,098	4,815,964	765,702,062	774,562,389
Liabilities:				
Accounts payable	4,821,492	130,761	4,952,253	5,828,235
Accrued payroll	386,173	51,694	437,867	793,143
Accrued interest payable	1,631,886	-	1,631,886	1,779,258
Deferred revenues	6,571,260	-	6,571,260	-
Unearned revenue	88,132	-	88,132	92,005
Deposits	1,496,080	140	1,496,220	1,464,708
Intergovernmental payable	-	49,576	49,576	1,705,581
Retainage payable	42,119	-	42,119	50,160
Advances from other governments	116,026	-	116,026	412,322
Noncurrent liabilities:				
Due within one year (note 7)	3,212,070	1,175	3,213,245	1,886,910
Due in more than one year (note 7)	46,691,953	72,386	46,764,339	51,973,364
Total liabilities	65,057,191	305,732	65,362,923	65,985,686
Net assets:				
Invested in capital assets, net of related debt	649,203,896	2,185,815	651,389,711	646,271,010
Restricted for:				
General government - management and support	98,700	-	98,700	-
Community development projects	6,785,664	-	6,785,664	11,846,687
Public safety	55,530	-	55,530	17
Parks and recreation	940,112	-	940,112	1,254,645
Public works	686,820	-	686,820	1,392,879
Capital projects	158,278	-	158,278	420,495
Debt service	5,418,533	-	5,418,533	8,347,167
Unrestricted	32,481,374	2,324,417	34,805,791	39,043,803
Total net assets	\$ 695,828,907	\$ 4,510,232	\$ 700,339,139	\$ 708,576,703

See accompanying notes to basic financial statements.

CITY OF MISSION VIEJO

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2012 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

Functions/programs	Expenses	Program Revenues		
		Charges for services	Operating grants and contributions	Capital grants and contributions
Primary government:				
Governmental activities:				
General government - legislative	\$ 1,222,641	\$ 1,020	\$ -	\$ -
General government - management and support	10,783,048	94,290	181,837	-
Public safety	16,664,706	657,456	188,532	232,069
Community development	10,102,297	1,388,402	1,102,603	-
Public works - engineering and transportation	1,808,209	384,856	1,038,484	889,942
Infrastructure maintenance	24,041,299	12,500	6,163,407	1,873,870
Recreation/community/library services	9,419,034	1,788,114	237,619	400,000
Interest on long-term debt	1,031,685	-	-	-
Total governmental activities	75,072,919	4,326,638	8,912,482	3,395,881
Business-type activities:				
Animal Services	1,756,487	1,305,162	30,583	-
Mission Viejo Television	224,840	700	294,071	-
Total business-type activities	1,981,327	1,305,862	324,654	-
Total primary government	\$ 77,054,246	\$ 5,632,500	\$ 9,237,136	\$ 3,395,881

General revenues:

Taxes:

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 sale of capital assets

Transfers

Total general revenues and transfers

Extraordinary item (note 20)

Change in net assets

Net assets, beginning of year

Net assets, end of year

See accompanying notes to basic financial statements.

Net (expense) revenue
and changes in net assets

Governmental Activities	Business-type Activities	Totals	
		2012	2011
\$ (1,221,621)	\$ -	\$ (1,221,621)	\$ (1,219,723)
(10,506,921)	-	(10,506,921)	(14,274,448)
(15,586,649)	-	(15,586,649)	(15,924,768)
(7,611,292)	-	(7,611,292)	(286,558)
505,073	-	505,073	(372,617)
(15,991,522)	-	(15,991,522)	(14,586,999)
(6,993,301)	-	(6,993,301)	(4,915,140)
(1,031,685)	-	(1,031,685)	(1,681,786)
<u>(58,437,918)</u>	<u>-</u>	<u>(58,437,918)</u>	<u>(53,262,039)</u>
-	(420,742)	(420,742)	(387,692)
-	69,931	69,931	14,388
<u>-</u>	<u>(350,811)</u>	<u>(350,811)</u>	<u>(373,304)</u>
<u>(58,437,918)</u>	<u>(350,811)</u>	<u>(58,788,729)</u>	<u>(53,635,343)</u>
29,934,859	-	29,934,859	32,983,492
11,622,640	-	11,622,640	11,059,525
3,834,165	-	3,834,165	3,731,802
3,758,594	-	3,758,594	3,705,433
49,831	-	49,831	497,722
1,140,564	34,860	1,175,424	1,375,142
2,031,801	6,274	2,038,075	661,229
(11,983)	(1,056)	(13,039)	3,151
(410,450)	410,450	-	-
<u>51,950,021</u>	<u>450,528</u>	<u>52,400,549</u>	<u>54,017,496</u>
<u>(1,849,384)</u>	<u>-</u>	<u>(1,849,384)</u>	<u>-</u>
(8,337,281)	99,717	(8,237,564)	382,153
<u>704,166,188</u>	<u>4,410,515</u>	<u>708,576,703</u>	<u>708,194,550</u>
<u>\$695,828,907</u>	<u>\$ 4,510,232</u>	<u>\$700,339,139</u>	<u>\$708,576,703</u>

CITY OF MISSION VIEJO

BASIC FINANCIAL STATEMENTS - OVERVIEW YEAR ENDED JUNE 30, 2012

DESCRIPTION OF GOVERNMENTAL FUNDS

MAJOR GOVERNMENTAL FUNDS:

GENERAL FUND

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

SPECIAL REVENUE FUNDS

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

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

MEASURE M – This fund represents 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 awarded through competitive allocation.

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

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

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.

CITY OF MISSION VIEJO

BASIC FINANCIAL STATEMENTS - OVERVIEW YEAR ENDED JUNE 30, 2012

DESCRIPTION OF GOVERNMENTAL FUNDS (CONTINUED)

OTHER GOVERNMENTAL FUNDS:

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

DESCRIPTION OF PROPRIETARY FUNDS

ENTERPRISE FUNDS

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

The City of Mission Viejo has the following Enterprise Funds:

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

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

DESCRIPTION OF FIDUCIARY FUNDS

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:

PRIVATE-PURPOSE TRUST FUND

SUCCESSOR AGENCY TO THE COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF MISSION VIEJO PRIVATE-PURPOSE TRUST FUND – This fund is used to account for the assets transferred from the former Community Development Agency of the City of Mission Viejo as of 2/1/2012, 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

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2012 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2011)

	General Fund	Special Revenue Funds	
		Measure M	Grants
Assets:			
Cash and investments (note 2)	\$ 26,260,680	\$ 821,078	\$ -
Accounts receivable	63,098	-	-
Taxes receivable	3,113,878	224,574	-
Loans receivable	23,608	-	2,054,420
Interest receivable	114,604	-	-
Prepaid items	59,263	-	-
Deposits	9,566	-	-
Intergovernmental receivable	19,075	1,489,982	1,419,297
Interfund receivables (note 3)	5,216,884	-	-
Advances receivable	-	-	-
Intergovernmental receivable - Successor Agency (note 4)	-	-	-
Due from developers (note 5)	2,817,759	-	-
Restricted assets:			
Cash and investments with fiscal agents (note 2)	-	-	-
Total assets	\$ 37,698,415	\$ 2,535,634	\$ 3,473,717
Liabilities and fund balances:			
Liabilities:			
Accounts payable	\$ 4,296,276	\$ 198,769	\$ 51,431
Accrued payroll	275,777	366	7,422
Deferred revenues	2,816,684	1,489,982	2,336,937
Unearned revenues	88,132	-	-
Deposits	1,494,980	-	-
Intergovernmental payable	-	-	-
Interfund payable (note 3)	-	1,884,167	1,192,152
Advances payable	-	-	-
Retainage payable	-	-	31,500
Advances from other governments	-	-	116,026
Total liabilities	8,971,849	3,573,284	3,735,468
Fund balances: (note 10)			
Nonspendable:			
Prepaid items	59,263	-	-
Long-term receivables	23,608	-	-
Advances to other funds	-	-	-
Intergovernmental receivable - Successor Agency	-	-	-
Deposits	9,566	-	-
Due from developers	-	-	-
Restricted for:			
General government - management and support	98,700	-	-
Community development projects	-	-	-
Public safety	-	-	-
Parks and recreation	81,368	-	-
Public works	-	-	-
Capital projects	-	-	-
Debt service	-	-	-
Assigned	18,262,314	-	-
Unassigned	10,191,747	(1,037,650)	(261,751)
Total fund balances (deficit)	28,726,566	(1,037,650)	(261,751)
Total liabilities and fund balances	\$ 37,698,415	\$ 2,535,634	\$ 3,473,717

See accompanying notes to basic financial statements.

Special Revenue Funds		Other		Totals	
Developer Fees	Housing Authority	Governmental Funds	2012	2011	
\$ 5,235,779	\$ 2,332,224	\$ 1,652,069	\$ 36,301,830	\$ 45,855,650	
-	-	-	63,098	80,810	
-	-	54,398	3,392,850	3,527,855	
-	585,389	-	2,663,417	2,449,676	
-	-	1,210	115,814	218,256	
-	-	-	59,263	23,513	
-	-	-	9,566	9,504	
2,042,998	-	438,245	5,409,597	5,055,792	
-	-	-	5,216,884	4,984,549	
-	-	-	-	2,025,643	
-	1,420,642	-	1,420,642	-	
-	4,624,184	-	7,441,943	7,247,714	
-	-	5,499,929	5,499,929	8,116,627	
<u>\$ 7,278,777</u>	<u>\$ 8,962,439</u>	<u>\$ 7,645,851</u>	<u>\$ 67,594,833</u>	<u>\$ 79,595,589</u>	
\$ 15,479	\$ 3,471	\$ 256,066	\$ 4,821,492	\$ 5,774,701	
-	-	102,608	386,173	721,171	
6,466,648	2,171,905	733	15,282,889	10,406,187	
-	-	-	88,132	92,005	
-	-	1,100	1,496,080	1,464,438	
-	-	-	-	1,659,357	
2,042,346	1,399	96,820	5,216,884	4,984,549	
-	-	-	-	2,025,643	
-	-	10,619	42,119	50,160	
-	-	-	116,026	412,322	
<u>8,524,473</u>	<u>2,176,775</u>	<u>467,946</u>	<u>27,449,795</u>	<u>27,590,533</u>	
-	-	-	59,263	23,513	
-	585,389	-	608,997	616,260	
-	-	-	-	2,025,643	
-	1,420,642	-	1,420,642	-	
-	-	-	9,566	9,504	
-	2,452,279	-	2,452,279	2,436,047	
-	-	-	98,700	-	
-	2,327,354	-	2,327,354	7,390,193	
-	-	55,530	55,530	17	
-	-	858,744	940,112	1,254,645	
-	-	686,820	686,820	1,392,879	
-	-	158,278	158,278	420,495	
-	-	5,418,533	5,418,533	8,347,167	
-	-	-	18,262,314	18,495,415	
(1,245,696)	-	-	7,646,650	9,593,278	
<u>(1,245,696)</u>	<u>6,785,664</u>	<u>7,177,905</u>	<u>40,145,038</u>	<u>52,005,056</u>	
<u>\$ 7,278,777</u>	<u>\$ 8,962,439</u>	<u>\$ 7,645,851</u>	<u>\$ 67,594,833</u>	<u>\$ 79,595,589</u>	



MISSION VIEJO

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CITY OF MISSION VIEJO

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS JUNE 30, 2012

Fund balances of governmental funds	\$ 40,145,038
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.	697,465,551
Long-term debt and compensated absences that have not been included in the governmental fund activity:	
Long-term liabilities	(48,261,655)
Compensated absences	(1,642,368)
Governmental funds report all OPEB and PERS contributions as expenditures, however, in the Statement of Net Assets, any excesses or deficiencies in contributions in relation to the Annual Required Contribution (ARC) are recorded as an asset or liability.	1,042,598
Accrued interest payable for the current portion of interest due on Bonds has not been reported in the governmental funds.	(1,631,886)
Revenues reported as deferred revenue in the governmental funds and recognized in the Statement of Activities. These are included in the intergovernmental revenues in the governmental fund activity.	<u>8,711,629</u>
Net assets of governmental activities	<u><u>\$ 695,828,907</u></u>

See accompanying notes to basic financial statements.

CITY OF MISSION VIEJO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2012 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

	General Fund	Special Revenue Funds	
		Measure M	Grants
Revenues:			
Taxes	\$ 41,902,611	\$ -	\$ -
Licenses and permits	1,192,491	-	-
Intergovernmental	389,765	1,820,196	1,872,080
Charges for services	1,944,978	-	-
Investment earnings	1,129,014	11,467	(3,275)
Fines and forfeitures	789,459	-	-
Developer fees	681,893	-	-
Other	803,666	85,198	623,000
Total revenues	48,833,877	1,916,861	2,491,805
Expenditures:			
Current:			
General government - legislative	1,221,895	-	-
General government - management and support	8,754,003	-	10,594
Public safety	16,201,030	-	-
Community development	2,113,172	-	615,097
Public works - engineering and transportation	2,220,175	-	34,691
Infrastructure maintenance	12,459,141	-	-
Recreation/community/library services	4,791,756	-	-
Capital outlay	4,316,346	3,191,792	1,973,426
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	11,561	-	-
Total expenditures	52,089,079	3,191,792	2,633,808
Excess (deficiency) of revenues over (under) expenditures	(3,255,202)	(1,274,931)	(142,003)
Other financing sources (uses):			
Transfers in (note 11)	681,351	-	-
Transfers out (note 11)	(1,986,631)	-	-
Payment to refunded bonds escrow agent	-	-	-
Proceeds from sale of capital asset	5,619	-	-
Total other financing sources (uses)	(1,299,661)	-	-
Extraordinary item:			
Gain (loss) on dissolution of redevelopment agency (note 20)	-	-	-
Net change in fund balances	(4,554,863)	(1,274,931)	(142,003)
Fund balances (deficits), beginning of year	33,281,429	237,281	(119,748)
Fund balances (deficits), end of year	\$ 28,726,566	\$ (1,037,650)	\$ (261,751)

See accompanying notes to basic financial statements.

Special Revenue Funds		Other Governmental Funds	Totals	
Developer Fees	Housing Authority		2012	2011
\$ -	\$ -	\$ 7,247,647	\$ 49,150,258	\$ 51,480,252
-	-	-	1,192,491	1,241,009
-	-	4,945,180	9,027,221	12,069,112
-	-	192,543	2,137,521	2,301,119
301	215,900	164,971	1,518,378	1,500,919
-	-	125,939	915,398	969,262
1,178,612	-	1,130,362	2,990,867	2,394,099
25,404	-	232,611	1,769,879	963,943
<u>1,204,317</u>	<u>215,900</u>	<u>14,039,253</u>	<u>68,702,013</u>	<u>72,919,715</u>
-	-	-	1,221,895	1,294,261
-	-	169,124	8,933,721	12,705,588
-	-	502,500	16,703,530	16,723,031
-	4,896,606	477,422	8,102,297	2,570,480
-	-	264,144	2,519,010	2,495,045
-	-	1,478,811	13,937,952	13,912,489
-	-	2,726,125	7,517,881	7,279,008
1,071,049	-	3,680,158	14,232,771	14,984,143
-	-	-	-	-
-	-	1,750,000	1,750,000	1,620,000
-	-	1,165,682	1,177,243	1,368,857
<u>1,071,049</u>	<u>4,896,606</u>	<u>12,213,966</u>	<u>76,096,300</u>	<u>74,952,902</u>
<u>133,268</u>	<u>(4,680,706)</u>	<u>1,825,287</u>	<u>(7,394,287)</u>	<u>(2,033,187)</u>
-	-	3,072,822	3,754,173	11,873,668
-	-	(2,177,992)	(4,164,623)	(12,350,279)
-	-	(2,211,516)	(2,211,516)	-
-	-	-	5,619	3,151
-	-	(1,316,686)	(2,616,347)	(473,460)
-	5,766,370	(7,615,754)	(1,849,384)	-
133,268	1,085,664	(7,107,153)	(11,860,018)	(2,506,647)
<u>(1,378,964)</u>	<u>5,700,000</u>	<u>14,285,058</u>	<u>52,005,056</u>	<u>54,511,703</u>
<u>\$ (1,245,696)</u>	<u>\$ 6,785,664</u>	<u>\$ 7,177,905</u>	<u>\$ 40,145,038</u>	<u>\$ 52,005,056</u>

CITY OF MISSION VIEJO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2012

Net change in fund balances (deficit) - total governmental funds \$ (11,860,018)

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

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

Capital expenditures	8,797,907
Disposition of capital assets	(677,524)
Depreciation expense	(6,915,213)

The following bond payments are expenditures in the governmental funds, but the payments reduce long-term liabilities in the Statement of Net Assets.

Principal payment	1,750,000
Premium	39,702
Payment to refunding bonds escrow agent	2,170,000

Accrued interest for long-term liabilities. This is the net change in accrued interest for the current period. 147,372

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. (69,109)

Governmental funds report all contributions in relation to the annual required contribution (ARC) for OPEB and PERS as expenditures; however, in the Statement of Activities only the ARC is an expense. (25,840)

Revenues reported as deferred revenue in the governmental funds and recognized in the Statement of Activities. These are included in the intergovernmental revenues in the governmental fund activity. (1,694,558)

Change in net assets of governmental activities \$ (8,337,281)

See accompanying notes to basic financial statements.

CITY OF MISSION VIEJO

STATEMENT OF NET ASSETS PROPRIETARY FUNDS

JUNE 30, 2012 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2011)

	Business-Type Activities - Enterprise Funds			
	Animal Services	Mission Viejo Television	Totals	
			2012	2011
Assets:				
Current assets:				
Cash and investments (note 2)	\$ 2,076,205	\$ 359,311	\$ 2,435,516	\$ 2,311,113
Intergovernmental receivable	20,386	-	20,386	-
Taxes receivable	-	107,066	107,066	36,160
Prepaid costs	67,181	-	67,181	68,914
Total current assets	2,163,772	466,377	2,630,149	2,416,187
Noncurrent assets:				
Capital assets, not depreciated (note 6)	1,000,764	-	1,000,764	1,000,764
Capital assets, depreciated, net (note 6)	1,125,771	59,280	1,185,051	1,231,222
Total noncurrent assets	2,126,535	59,280	2,185,815	2,231,986
Total assets	4,290,307	525,657	4,815,964	4,648,173
Liabilities:				
Current liabilities:				
Accounts payable	105,243	25,518	130,761	53,534
Accrued payroll	50,201	1,493	51,694	71,972
Deposits	140	-	140	270
Intergovernmental payable	49,576	-	49,576	46,224
Accrued compensated absences	1,175	-	1,175	1,018
Total current liabilities	206,335	27,011	233,346	173,018
Noncurrent liabilities:				
Compensated absences payable	72,386	-	72,386	64,640
Total noncurrent liabilities	72,386	-	72,386	64,640
Total liabilities	278,721	27,011	305,732	237,658
Net Assets:				
Invested in capital assets	2,126,535	59,280	2,185,815	2,231,986
Unrestricted	1,885,051	439,366	2,324,417	2,178,529
Total net assets	\$ 4,011,586	\$ 498,646	\$ 4,510,232	\$ 4,410,515

See accompanying notes to basic financial statements.

CITY OF MISSION VIEJO

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2012 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

	Business-Type Activities - Enterprise Funds			
	Animal Services	Mission Viejo Television	Totals	
			2012	2011
Operating Revenues:				
Charges for services	\$ 706,526	\$ 700	\$ 707,226	\$ 682,000
Licenses and permits	512,178	-	512,178	486,407
Franchise taxes	-	294,052	294,052	145,366
Fines and forfeitures	86,458	-	86,458	73,200
Other	36,857	19	36,876	61,560
Total operating revenues	1,342,019	294,771	1,636,790	1,448,533
Operating expenses:				
Personnel services	1,182,558	43,075	1,225,633	1,186,771
Supplies	163,833	25,568	189,401	147,913
Utilities	39,925	23,026	62,951	75,240
Contractual services	247,151	118,917	366,068	268,929
Rent	2,123	-	2,123	2,041
Depreciation (note 6)	114,496	14,254	128,750	126,384
Other	6,401	-	6,401	8,618
Total operating expenses	1,756,487	224,840	1,981,327	1,815,896
Operating income (loss)	(414,468)	69,931	(344,537)	(367,363)
Nonoperating revenues (expenses):				
Investment earnings	31,585	3,275	34,860	69,376
Loss on sale of capital assets	(1,056)	-	(1,056)	-
Total nonoperating revenues (expenses)	30,529	3,275	33,804	69,376
Income (loss) before transfers	(383,939)	73,206	(310,733)	(297,987)
Transfers in	410,450	-	410,450	476,611
Change in net assets	26,511	73,206	99,717	178,624
Net assets, beginning of year	3,985,075	425,440	4,410,515	4,231,891
Net assets, end of year	<u>\$ 4,011,586</u>	<u>\$ 498,646</u>	<u>\$ 4,510,232</u>	<u>\$ 4,410,515</u>

See accompanying notes to basic financial statements.

CITY OF MISSION VIEJO

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2012 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

	Business-Type Activities - Enterprise Funds			
	Animal Services	Mission Viejo Television	Totals	
			2012	2011
Cash flows from operating activities:				
Receipts from customers	\$ 1,321,503	\$ 223,865	\$ 1,545,368	\$ 1,448,601
Payments to suppliers for goods and services	(382,796)	(163,569)	(546,365)	(485,590)
Payments to employees for services	(1,194,251)	(42,024)	(1,236,275)	(1,189,811)
Net cash provided (used) by operating activities	(255,544)	18,272	(237,272)	(226,800)
Cash flows from non-capital financing activities:				
Cash transfers in	410,450	-	410,450	476,611
Net cash provided (used) by non-capital financing activities	410,450	-	410,450	476,611
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(61,107)	(22,528)	(83,635)	-
Net cash provided (used) by capital and related financing activities	(61,107)	(22,528)	(83,635)	-
Cash flows from investing activities:				
Interest received	31,585	3,275	34,860	69,376
Net cash provided (used) by investing activities	31,585	3,275	34,860	69,376
Net increase (decrease) in cash and cash equivalents	125,384	(981)	124,403	319,187
Cash and cash equivalents, beginning of year	1,950,821	360,292	2,311,113	1,991,926
Cash and cash equivalents, end of year	\$ 2,076,205	\$ 359,311	\$ 2,435,516	\$ 2,311,113

See accompanying notes to basic financial statements.

CITY OF MISSION VIEJO

STATEMENT OF CASH FLOWS, CONTINUED PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2012 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

	Business-Type Activities - Enterprise Funds			
	Animal Services	Mission Viejo Television	Totals	
			2012	2011
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (414,468)	\$ 69,931	\$ (344,537)	\$ (367,363)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	114,496	14,254	128,750	126,384
(Increase) decrease in intergovernmental receivable	(20,386)	-	(20,386)	-
(Increase) decrease in taxes receivable	-	(70,906)	(70,906)	1,093
(Increase) decrease in prepaid costs	1,733	-	1,733	1,608
Increase (decrease) in accounts payable	73,285	3,942	77,227	10,108
Increase (decrease) in accrued payroll	(21,329)	1,051	(20,278)	(318)
Increase (decrease) in intergovernmental payable	3,352	-	3,352	7,043
Increase (decrease) in deposits	(130)	-	(130)	(1,025)
Increase (decrease) in compensated absences	7,903	-	7,903	(4,330)
Total adjustments	158,924	(51,659)	107,265	140,563
Net cash provided (used) by operating activities	\$ (255,544)	\$ 18,272	\$ (237,272)	\$ (226,800)

Non-cash investing, capital, and financing activities:

There were no significant non-cash investing, capital and financing transactions.

See accompanying notes to basic financial statements.

CITY OF MISSION VIEJO

STATEMENT OF NET ASSETS

FIDUCIARY FUNDS

JUNE 30, 2012 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2011)

	Successor Agency to the Community Development Agency of the City of Mission Viejo Private-purpose Trust Fund		Community Facilities District 92-1 Agency Fund	
	2012	2011	2012	2011
Assets:				
Cash and investments (note 2)	\$ 2,386,524	\$ -	\$ -	\$ 232,624
Interest receivable	331	-	183	-
Restricted assets:				
Cash and investments with fiscal agents (note 2)	-	-	646,503	623,751
Total assets	2,386,855	-	646,686	856,375
Liabilities:				
Accounts payable	1,226,292	-	-	232,624
Intergovernmental payable	21,885	-	-	-
Intergovernmental payable - City (note 4)	1,420,642	-	-	-
Due to bondholders	-	-	646,686	623,751
Total liabilities	2,668,819	-	\$ 646,686	\$ 856,375
Net assets:				
Net assets held for dissolution of redevelopment agency	(281,964)	-		
Total net assets	\$ (281,964)	\$ -		

See accompanying notes to basic financial statements.

CITY OF MISSION VIEJO

STATEMENT OF CHANGES IN NET ASSETS FIDUCIARY FUNDS FIVE MONTHS ENDED JUNE 30, 2012

	Successor Agency to the Community Development Agency of the City of Mission Viejo Private-purpose Trust Fund
Additions:	
Property taxes	\$ 826,533
Total additions	<u>826,533</u>
Deductions:	
Administrative expenses	57,919
Program expenses	1,223,099
Contributions to other governments	1,657,677
Owner participation agreements	7,086
Interest expense	12,100
Total deductions	<u>2,957,881</u>
Extraordinary gain on dissolution of redevelopment agency (note 20)	<u>1,849,384</u>
Change in net assets	(281,964)
Net assets, beginning of year	<u>-</u>
Net assets, end of year	<u>\$ (281,964)</u>

See accompanying notes to basic financial statements.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

(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.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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

(a) Reporting Entity (Continued)

Blended Component Units, (continued)

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

Community Development Agency of the City of Mission Viejo (Agency) was activated on February 27, 1991 pursuant to the State of California Health and Safety Code Section 33000, entitled "Community Redevelopment Law." Its purpose was to prepare and carry out plans for improvement, rehabilitation and redevelopment of blighted areas within the territorial limits of the project area. The activities of the Agency are recorded in the Low and Moderate Income Housing special revenue fund, the CDA Debt Service fund, and the CDA Projects capital projects fund. On December 29, 2011, a Supreme Court ruling directed that all redevelopment agencies be dissolved on February 1, 2012; therefore, these funds account for activities of the CDA through January 31, 2012. See footnote 20 for additional information on the redevelopment dissolution.

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

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

Separate financial statements are not prepared for the Mission Viejo Community Development Financing Authority or the Mission Viejo Housing Authority. Prior year financial statements of the Community Development Agency are available at City Hall, 200 Civic Center, Mission Viejo, CA 92691; however, due to the Agency's dissolution, separate financial statements will not be issued for the fiscal year ended June 30, 2012.

(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.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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

Government-wide Financial Statements

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

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

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

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

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

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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

Government-wide Financial Statements, (continued)

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

Fund Financial Statements

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

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

Governmental Funds

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

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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

Governmental Funds, (continued)

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.

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.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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

Governmental Funds, (continued)

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 assets.

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

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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

Proprietary Funds, (continued)

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

Measure M Fund - This special revenue fund represents 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 awarded through competitive allocation.

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

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

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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

(c) Fund Classifications, (continued)

Mission Viejo Housing Authority Fund - This special revenue fund is used to account for receipts and expenditures required to carry out the community's affordable housing obligations.

The City reports the following major proprietary funds:

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

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

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

Special Revenue Funds – The City maintains a total of ten special revenue funds: four major special revenue funds discussed above and six other special revenue funds. The other funds account for financial resources related to gas tax, low and moderate income housing (this fund was closed during the year as a result of the dissolution of the Community Development Agency), library operations, Ladera funding, law enforcement grants, and air quality. These funds account for specific revenues that are legally restricted and expended for these specific purposes.

Debt Service Funds – The City maintains a total of five debt service funds. These funds account for the resources accumulated and payments made on long-term debt of the governmental funds. The debt service fund associated with the former Community Development Agency was closed during the year as a result of the dissolution of the Community Development Agency.

Capital Projects Fund – The City maintains one capital projects fund. This fund accounts for projects related to the preparation and execution of plans for improvement, rehabilitation, and redevelopment of blighted areas within the Community Development Agency's project area. The fund was closed during the year as a result of the dissolution of the Community Development Agency.

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, 2012

(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. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average daily cash and investment balance.

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

(e) Advances to Other Funds

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

(f) Capital Assets

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

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

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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

(f) Capital Assets, (continued)

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

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

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

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

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

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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

(g) Compensated Absences

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

(h) 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.

(i) Prepaid Items

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

(j) Use of Estimates

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

(k) Reclassifications

Certain 2011 amounts have been reclassified to conform with 2012 presentation. These reclassifications have no effect on net income.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

(2) Cash and Investments

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$ 38,737,346
Restricted assets:	
Cash with fiscal agent	5,499,929
Fiduciary Fund Statement of Assets and Liabilities:	
Cash and investments	2,386,524
Restricted assets:	
Cash and investments with fiscal agent	646,503
Total cash and investments	<u>\$ 47,270,302</u>

Cash and investments at June 30, 2012, consisted of the following:

Cash on hand	\$ 4,505
Deposits with financial institutions	2,901,121
Investments	44,364,676
Total cash and investments	<u>\$ 47,270,302</u>

Four 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 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.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

(2) Cash and Investments, (continued)

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:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
US Securities	5 years	100%	None
US Government Sponsored Entities Securities (FFC, FHLB, FNMA, FHLMC)	5 years	Greater of \$14M or 70%	Greater of \$7M or 35% of total portfolio
FDIC Insured US Corporate Notes	5 years	Greater of \$7M or 35%	Greater of \$4M or 20% of total portfolio
Banker's Acceptances	180 days	Greater of \$4M or 20%	Greater of \$1M or 5% of total portfolio
Non-Negotiable Certificates of Deposit using a placement service	180 days	Greater of \$4M or 20%	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%	\$50,000,000
Local Agency Sponsored Investment Pools	5 years	Greater of \$3M or 15%	5% of market value of total assets in investment pool
Government Money Market Funds	1 year	20%	10% of total portfolio
Bonds or Notes of 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, 2012

(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

CITY OF MISSION VIEJO

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

(2) Cash and Investments, (continued)

Investments Authorized by Debt Agreements, (continued)

CDFA 2009 Lease Revenue Refunding Bonds:

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow liquidity needed for operations.

The City's investment policy requires that investments only be in fixed-rate, fixed coupon securities and prohibit investments in securities with embedded options and securities that may return all or parts of their principal prior to their stated final maturity date. The investment policies set a Benchmark Index for each portfolio. The Benchmark Index has characteristics similar to those of the portfolio in terms of types of securities and maturities. The City manages its exposure to interest rate risk by keeping the average duration of the portfolio in line with the duration of the Benchmark Index. For the fiscal year ended June 30, 2012, the average duration of the Benchmark Index was 1.10 for the City portfolio.

CITY OF MISSION VIEJO

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

(2) Cash and Investments, (continued)

Disclosures Relating to Interest Rate Risk, (continued)

City of Mission Viejo:

<u>Investment Type</u>	<u>Market Value</u>	<u>Modified Duration (in years)</u>
US Government Sponsored Entities Securities	\$ 17,677,117	2.14
FDIC Insured US Corporate Notes	2,010,436	0.67
Government Money Market Funds	503,956	-
Local Agency Investment Fund	12,458,654	-
Local Agency Sponsored Investment Pool	3,534,324	-
Held by Trustee:		
Money Market Funds	440,226	-
Local Agency Investment Fund	<u>206,529</u>	-
Total	<u>\$ 36,831,242</u>	1.06

Successor Agency of the Community Development Agency:

<u>Investment Type</u>	<u>Market Value</u>	<u>Modified Duration (in years)</u>
Local Agency Investment Fund	\$ 493	-
Local Agency Sponsored Investment Pool	<u>2,031,480</u>	-
Total	<u>\$ 2,031,973</u>	-

Mission Viejo Housing Authority:

<u>Investment Type</u>	<u>Market Value</u>	<u>Modified Duration (in years)</u>
Local Agency Investment Fund	<u>\$ 1,532</u>	-
Total	<u>\$ 1,532</u>	-

CITY OF MISSION VIEJO

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

(2) Cash and Investments, (continued)

Disclosures Relating to Interest Rate Risk, (continued)

Mission Viejo Community Development Financing Authority:

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

<u>Investment Type</u>	<u>Market Value</u>	<u>Remaining Maturity</u>	
		<u>12 Months or Less</u>	<u>More than 60 Months</u>
Held by Trustee:			
Government Money Market Funds	\$ 4,136,268	\$ 4,136,268	\$ -
Local Agency Investment Fund	<u>1,363,661</u>	<u>1,363,661</u>	<u>-</u>
Total	<u>\$ 5,499,929</u>	<u>\$ 5,499,929</u>	<u>\$ -</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

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

Disclosures Relating to Credit Risk

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

CITY OF MISSION VIEJO

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

(2) Cash and Investments, (continued)

Disclosures Relating to Credit Risk, (continued)

<u>Investment Type</u>	<u>Market Value</u>	<u>Minimum</u>		<u>Rating as of Year End</u>		
		<u>Legal Rating</u>	<u>Exempt from Disclosure</u>	<u>AAA*</u>	<u>A1/P1</u>	<u>Not Rated</u>
FDIC Insured US Corporate Notes	\$ 2,010,436	N/A	\$ -	\$ 2,010,436	\$ -	\$ -
US Government Sponsored Entities Securities	17,677,117	N/A	-	17,677,117	-	-
Government Money Market Funds	4,640,224	AAA	-	4,640,224	-	-
Local Agency Investment Fund	13,824,340	N/A	-	-	-	13,824,340
Local Agency Sponsored Investment Pool	5,565,804	N/A	-	5,565,804	-	-
Held by Trustee:						
Government Money Market Funds	440,226	AAA	-	440,226	-	-
Local Agency Investment Fund	206,529	N/A	-	-	-	206,529
Total	\$ 44,364,676		\$ -	\$ 30,333,807	\$ -	\$ 14,030,869

*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, 2012 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	8.5%	\$ 3,069,630
City	Federal Home Loan Bank	US Government Sponsored Entities Securities	28.8%	10,408,979
City	Federal National Mortgage Association	US Government Sponsored Entities Securities	11.6%	4,198,508

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

(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, 2012, all of the City's deposits with financial institutions in excess of federal depository insurance limits were collateralized by an interest in an undivided collateral pool as required by State law.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

(2) Cash and Investments, (continued)

Investment in California Asset Management Program Pool

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

(3) Interfund Balances

Interfund balances at June 30, 2012 consisted of the following:

<u>Interfund receivables</u>	<u>Interfund payables</u>	<u>Amount</u>
General Fund	Measure M Fund	\$ 1,884,167
	Grants Fund	1,192,152
	Developer Fees Fund	2,042,346
	Housing Authority	1,399
	Other Governmental Funds	<u>96,820</u>
	Total	<u>\$ 5,216,884</u>

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

CITY OF MISSION VIEJO

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

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

Intergovernmental receivable/payable - Successor Agency/City at June 30, 2012 consisted of the following:

<u>Intergovernmental Receivable - Successor Agency</u>	<u>Intergovernmental Payable - City</u>	<u>Amount</u>
Mission Viejo Housing Authority	Successor Agency	<u>\$ 1,420,642</u>
	Total	<u>\$ 1,420,642</u>

The intergovernmental receivable/ payable between the Mission Viejo Housing Authority Fund and the Successor Agency Fund consists of the balance due on monies loaned to the Successor Agency Fund (formerly the Mission Viejo Community Development Agency) to fund the Supplemental Educational Revenue Augmentation Fund payment in FY 2009-10. The repayment of this amount is subject to approval of the State Department of Finance (DOF) as an Enforceable Obligation of the Successor Agency and redevelopment agency dissolution law under AB1484. Under AB1484, the Successor Agency is unable to repay this loan until after June 30, 2014. After this date, repayment may be made, subject to DOF approval and within maximum repayment limits established under Section 34176(e)(6)B) of AB1484.

(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, 2012, the outstanding balance is \$313,872 which includes unpaid accrued interest of \$32,493. When the Agency was dissolved on February 1, 2012, this outstanding receivable was transferred to the Housing Authority as the Successor Housing Agency.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

(5) Due from Developers, (continued)

In August 1998, the Mission Viejo Community Development Agency (now the Successor Agency) loaned \$2,143,000 to a developer in accordance with an affordable housing agreement executed by the Agency and Developer on April 20, 1998. The first \$900,000 of the note bears simple interest of 4% per annum for the first six years of the note. The remaining \$1,243,000 bears no interest during the first six years after the date of the note. Commencing upon the sixth anniversary date of the note, the entire principal balance bears simple interest at the rate of 4% per annum until paid in full. No payments are required to be made on the note during the first six years. Thereafter, principal payments equal to 100% of the developer's annual net profits up to \$142,733 will be due. In addition, principal payments equal to 50% of the developer's annual net profits in excess of \$142,733 per year will be due for the remaining balance of the note. A portion of each payment received must be spent on approved Community Development Block Grant items. Principal payments are due annually on April 1 beginning on April 1, 2006. On the 32nd anniversary of the note, any remaining outstanding balance of principal and interest will be due and payable. The outstanding balance at June 30, 2012 is \$2,177,352 which includes unpaid accrued interest of \$237,499. When the Agency was dissolved on February 1, 2012, this outstanding receivable was transferred to the Housing Authority as the Successor Housing Agency.

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, 2012, the amount due from the developer for these costs was \$2,817,759.

In June 2010, the Mission Viejo Community Development Agency loaned \$2,000,000 to a developer in accordance with an affordable housing agreement executed by the Agency and the Developer on March 1, 2010. The loan is secured by both a loan repayment guarantee executed by the Developer and a first deed of trust on the property, and will mature upon Developer's sale of the last of 22 affordable units to be built by the Developer to an eligible low income or very low income homebuyer. The unpaid principal balance of the loan shall accrue interest at the rate of Wall Street Journal prime rate plus 1%, compounded annually. At the closing of each sale of an affordable unit, an amount equal to \$90,909 plus accrued and unpaid interest on said amount through the date of closing shall be deemed repaid. Upon the closing of the sale of the 22nd unit, any remaining outstanding principal balance and all accrued and unpaid interest shall be deemed repaid. The amount due from the developer at June 30, 2012 was \$1,771,260. When the Agency was dissolved on February 1, 2012, this outstanding receivable was transferred to the Housing Authority as the Successor Housing Agency.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

(5) Due from Developers, (continued)

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, 2012, four of the 22 affordable units had closed escrow for a total loan balance of \$361,700.

(6) Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

Governmental activities:	Balance at <u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>June 30, 2012</u>
Capital assets, not depreciated:				
Land	\$ 48,687,918	\$ -	\$ -	\$ 48,687,918
Rights of way	241,695,952	1,223,053	-	242,919,005
Construction in progress	11,287,795	7,126,323	4,566,171	13,847,947
Infrastructure - street network:				
Streets	<u>201,055,627</u>	<u>312,538</u>	<u>-</u>	<u>201,368,165</u>
Total capital assets, not depreciated	<u>502,727,292</u>	<u>8,661,914</u>	<u>4,566,171</u>	<u>506,823,035</u>
Capital assets, being depreciated:				
Buildings and improvements	111,641,455	1,659,517	-	113,300,972
Equipment and furniture	8,092,904	730,062	441,459	8,381,507
Vehicles	1,130,726	79,951	24,011	1,186,666
Infrastructure - street network:				
Curbs and gutters	33,825,003	151,274	-	33,976,277
Sidewalks	31,011,930	57,791	-	31,069,721
Roadway bridges	6,289,000	-	-	6,289,000
Traffic signals	10,999,531	275,452	-	11,274,983
Infrastructure - medians and parkways network:				
Medians and parkways	36,670,773	970,483	-	37,641,256
Infrastructure - Storm drain network:				
Storm drains	<u>40,106,712</u>	<u>117,712</u>	<u>-</u>	<u>40,224,424</u>
Total capital assets, being depreciated	<u>279,768,034</u>	<u>4,042,242</u>	<u>465,470</u>	<u>283,344,806</u>

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

(6) Capital Assets, (continued)

	Balance at <u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>June 30, 2012</u>
Governmental activities (continued):				
Less accumulated depreciation for:				
Buildings and improvements	(33,112,467)	(3,566,803)	-	(36,679,270)
Equipment and furniture	(4,561,972)	(938,766)	(429,460)	(5,071,278)
Vehicles	(1,018,996)	(40,853)	(18,408)	(1,041,441)
Infrastructure - street network:				
Curbs and gutters	(9,500,618)	(451,000)	-	(9,951,618)
Sidewalks	(8,988,469)	(413,557)	-	(9,402,026)
Roadway bridges	(1,914,436)	(83,853)	-	(1,998,289)
Traffic signals	(6,658,472)	(367,416)	-	(7,025,888)
Infrastructure - medians and parkways network:				
Medians and parkways	(8,916,084)	(488,944)	-	(9,405,028)
Infrastructure - Storm drain network:				
Storm drains	<u>(11,563,431)</u>	<u>(564,021)</u>	<u>-</u>	<u>(12,127,452)</u>
Total accumulated depreciation	<u>(86,234,945)</u>	<u>(6,915,213)</u>	<u>(447,868)</u>	<u>(92,702,290)</u>
Total capital assets being depreciated, net	<u>193,533,089</u>	<u>(2,872,971)</u>	<u>17,602</u>	<u>190,642,516</u>
Governmental activities				
Capital assets, net	<u>\$ 696,260,381</u>	<u>\$ 5,788,943</u>	<u>\$ 4,583,773</u>	<u>\$ 697,465,551</u>
Business-type activities:	Balance at <u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>June 30, 2012</u>
Capital assets, not depreciated:				
Land	<u>\$ 1,000,764</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,000,764</u>
Total capital assets, not depreciated	<u>1,000,764</u>	<u>-</u>	<u>-</u>	<u>1,000,764</u>
Capital assets, being depreciated:				
Buildings	1,641,647	-	-	1,641,647
Improvements other than buildings	371,419	42,168	-	413,587
Machinery and equipment	<u>904,200</u>	<u>41,467</u>	<u>4,876</u>	<u>940,791</u>
Total capital assets, being depreciated	<u>2,917,266</u>	<u>83,635</u>	<u>4,876</u>	<u>2,996,025</u>

CITY OF MISSION VIEJO

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

(6) Capital Assets, (continued)

	Balance at <u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>June 30, 2012</u>
Business-type activities (continued):				
Less accumulated depreciation for:				
Buildings	(801,443)	(53,344)	-	(854,787)
Improvements other than buildings	(144,220)	(12,564)	-	(156,784)
Machinery and equipment	<u>(740,381)</u>	<u>(62,842)</u>	<u>(3,820)</u>	<u>(799,403)</u>
Total accumulated depreciation	<u>(1,686,044)</u>	<u>(128,750)</u>	<u>(3,820)</u>	<u>(1,810,974)</u>
 Total capital assets, being depreciated, net	 <u>1,231,222</u>	 <u>(45,115)</u>	 <u>1,056</u>	 <u>1,185,051</u>
 Business-type activities Capital assets, net	 <u>\$ 2,231,986</u>	 <u>\$ (45,115)</u>	 <u>\$ 1,056</u>	 <u>\$ 2,185,815</u>

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

General Government - Legislative	\$ 746
General Government - Management and Support	1,723,758
Public Safety	41,127
Public Works - Engineering and Transportation	512,253
Infrastructure Maintenance	2,774,735
Recreation, Community and Library Services	<u>1,862,594</u>
Total	<u>\$ 6,915,213</u>

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

Animal Services	\$ 114,496
Mission Viejo Television	<u>14,254</u>
Total	<u>\$ 128,750</u>

CITY OF MISSION VIEJO

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

(7) Long-Term Liabilities

Changes in the long-term liabilities for the year ended June 30, 2012 were as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year	Due Beyond One Year
<u>Governmental Activities:</u>						
Bonds/notes payable:						
1999 Series A bonds	\$ 24,900,000	\$ -	\$ (1,000,000)	\$ 23,900,000	\$ 1,000,000	\$ 22,900,000
1999 Series B bonds	7,347,326	-	-	7,347,326	-	7,347,326
1999 Series C bonds	2,470,000	-	(2,470,000)	-	-	-
2009 Series A bonds	16,710,000	-	(450,000)	16,260,000	530,000	15,730,000
Bond premium	794,031	-	(39,702)	754,329	39,702	714,627
Total bonds payable	52,221,357	-	(3,959,702)	48,261,655	1,569,702	46,691,953
Other liabilities:						
Compensated absences	1,573,259	1,148,960	(1,079,851)	1,642,368	1,642,368	-
Governmental activities long-term liabilities	<u>\$ 53,794,616</u>	<u>\$ 1,148,960</u>	<u>\$ (5,039,553)</u>	<u>\$ 49,904,023</u>	<u>\$ 3,212,070</u>	<u>\$ 46,691,953</u>
<u>Business-type Activities:</u>						
Other liabilities:						
Compensated absences	<u>\$ 65,658</u>	<u>\$ 91,007</u>	<u>\$ (83,104)</u>	<u>\$ 73,561</u>	<u>\$ 1,175</u>	<u>\$ 72,386</u>

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

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

(7) Long-Term Liabilities, (continued)

Revenue Bonds

1999 Series A Variable Rate Demand Revenue Bonds

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

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

Interest on the bonds is calculated weekly at a rate determined to reflect the current market conditions. At any time, the Authority may elect to convert the bonds to a fixed interest rate. Principal amounts mature between September 1, 2002 and September 1, 2028 in amounts ranging from \$400,000 to \$1,900,000. The bond reserve requirement of \$2,359,500 was fully funded at June 30, 2012. The amount of principal outstanding at June 30, 2012 is \$23,900,000.

The bonds provide for an option exercisable by each bondholder for the bonds held by that bondholder to be purchased by the Authority at a price equal to one hundred percent of the principal amount of the bonds purchased plus accrued interest, if any. The purchase price and principal of, and interest on, the Series A Bonds purchased under this option are payable from amounts available to be drawn by the Trustee under an irrevocable direct pay letter of credit issued by Union Bank. This letter of credit terminates on May 18, 2013. The Trustee is permitted to draw on the letter of credit to pay the principal, redemption amounts, and interest on the Series A Bonds and the purchase price of any Series A Bonds tendered but not remarketed to the extent that other moneys are not available. During the year ended June 30, 2012, letter of credit commitment fees in the amount of \$162,499 were paid to Union Bank.

CITY OF MISSION VIEJO

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

(7) Long-Term Liabilities, (continued)

Revenue Bonds, (continued)

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

If Union Bank fails to honor a draw request, an irrevocable confirming letter of credit issued by the California State Teachers' Retirement System has been established to honor the draw. During the year ended June 30, 2012, letter of credit commitment fees in the amount of \$65,000 were paid to the California State Teachers' Retirement System.

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

Year Ending June 30,	Principal	Interest *	Totals
2013	\$ 1,000,000	\$ 31,070	\$ 1,031,070
2014	1,100,000	29,770	1,129,770
2015	1,100,000	28,340	1,128,340
2016	1,100,000	26,984	1,126,984
2017	1,200,000	25,480	1,225,480
2018	1,200,000	23,920	1,223,920
2019	1,300,000	22,360	1,322,360
2020	1,300,000	20,727	1,320,727
2021	1,400,000	18,980	1,418,980
2022	1,500,000	17,160	1,517,160
2023	1,500,000	15,210	1,515,210
2024	1,600,000	13,296	1,613,296
2025	1,600,000	11,180	1,611,180
2026	1,600,000	9,100	1,609,100
2027	1,700,000	7,020	1,707,020
2028	1,800,000	4,823	1,804,823
2029	1,900,000	1,245	1,901,245
Total	<u>\$ 23,900,000</u>	<u>\$ 306,665</u>	<u>\$ 24,206,665</u>

* The above debt service requirements to maturity were calculated using the interest rate as of June 30, 2012 of 0.13%.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

(7) Long-Term Liabilities, (continued)

1999 Series B Subordinate Lien Taxable Revenue Bonds

On May 19, 1999, the Mission Viejo Community Development Financing Authority authorized \$10,000,000 and issued \$115,000 of 1999 Series B Subordinate Lien Taxable Revenue Bonds to finance a portion of the costs of the acquisition, construction, installation and equipping of various public capital improvements to the Mission Viejo Mall. Through June 30, 2012 an additional \$7,232,326 of Series B Bonds were issued. As of June 30, 2012, 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, 2012, the outstanding principal is \$7,347,326 and the unpaid interest is \$1,489,422.

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, 2012.

1999 Series C Revenue Bonds

On August 1, 1999, the Mission Viejo Community Development Financing Authority issued \$4,990,000 of Series C Revenue Bonds to provide funds to acquire the 1999 Special Tax Refunding Bonds (see note 8) and to provide for new money for the construction of certain public facilities. The amount of principal outstanding at June 30, 2011 was \$2,470,000. A principal payment of \$300,000 was paid in August 2011; and then on November 8, 2011, the 1999 Special Tax Refunding Bonds were refunded resulting in the complete defeasance of the 1999 Series C Revenue Bonds in the amount of \$2,170,000.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

(7) Long-Term Liabilities, (continued)

CDFA 2009 Lease Revenue Refunding Bonds

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

Interest on the bonds ranges from 3.875% to 5.25% and is payable semi-annually on May 1 and November 1 of each year. Principal amounts mature between May 1, 2010 and May 1, 2031 in amounts ranging from \$165,000 to \$1,110,000. The bond reserve requirement of \$1,362,313 was fully funded at June 30, 2012. The amount of principal outstanding at June 30, 2012 was \$16,260,000.

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

Year Ending June 30,	Principal	Interest	Totals
2013	\$ 530,000	\$ 773,363	\$ 1,303,363
2014	615,000	746,862	1,361,862
2015	640,000	716,113	1,356,113
2016	670,000	684,112	1,354,112
2017	705,000	657,313	1,362,313
2018	735,000	622,062	1,357,062
2019	770,000	585,313	1,355,313
2020	810,000	546,812	1,356,812
2021	845,000	506,313	1,351,313
2022	885,000	473,569	1,358,569
2023	910,000	438,169	1,348,169
2024	960,000	401,769	1,361,769
2025	1,005,000	353,769	1,358,769
2026	1,050,000	303,518	1,353,518
2027	1,110,000	251,019	1,361,019
2028	935,000	195,519	1,130,519
2029	980,000	154,613	1,134,613
2030	1,025,000	110,512	1,135,512
2031	1,080,000	56,700	1,136,700
Total	<u>\$ 16,260,000</u>	<u>\$ 8,577,420</u>	<u>\$ 24,837,420</u>

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

(8) Community Facilities District Bonds

On December 2, 1992, \$4,950,000 of special tax bonds dated December 1, 1992 were issued for the Mission Viejo Community Facilities District No. 92-1 pursuant to the Mello Roos Community Facilities Act of 1982. The bond proceeds were used to finance the acquisition and construction of public flood control facilities. On August 1, 1999, the City of Mission Viejo issued \$4,601,699 of 1999 Special Tax Refunding Bonds to provide for the advance refunding of the 1992 bonds. All of the 1999 bonds were purchased by the Mission Viejo Community Development Financing Authority. 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, 2012 was \$2,060,000. An amount of \$646,686 is being held by the City and is reflected as due to bondholders at June 30, 2012 in the Statement of Fiduciary Assets and Liabilities.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

(9) Net Assets

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

Invested in capital assets, net of related debt describes the portion of net assets 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 assets describes the portion of net assets 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.

Unrestricted net assets describes the portion of net assets which are 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, 2012, all of the net assets in the proprietary funds, except those invested in capital assets, were unrestricted. As provided under accounting principles generally accepted in the United States of America, restrictions are only established in proprietary funds for equity legally restricted by parties external to the governmental unit.

(10) Fund Balances

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

In the fund financial statements, governmental fund balance, 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.

CITY OF MISSION VIEJO

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

(10) Fund Balances, (continued)

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, 2012.

Assigned fund balance amounts are designated by the City Council for specific purposes and do not meet the criteria to be classified as restricted or committed. Assigned fund balances at June 30, 2012 were reported solely in the General Fund and include the following assignments:

Encumbrances	\$ 1,432,369
Capital asset replacement reserves	16,470,945
Software replacement reserves	<u>359,000</u>
Total assigned fund balance	<u><u>\$ 18,262,314</u></u>

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 contingency, which is equal to 15% of General Fund revenues in the amount of \$7.3 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.

(11) Interfund Transfers

Interfund transfers for the year ended June 30, 2012 consisted of the following:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 681,351
Animal Services Enterprise Fund	General Fund	410,450
Other governmental funds	General Fund	1,576,181
	Other governmental funds	<u>1,496,641</u>
Total		<u><u>\$ 4,164,623</u></u>

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

(11) Interfund Transfers, (continued)

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

Transfers to Major Funds

The \$681,351 transferred to the General Fund was received from the CDFA 1999 Mall Bonds Debt Service Fund representing the 2011 release of the rolling reserve.

Transfers from Major Funds

Of the \$1,576,181 transferred from the General Fund to other governmental funds, \$1,235,731 was transferred to the CDFA 2009 Lease Revenue Refunding Bonds Debt Service Fund for payment of the debt service on those bonds and \$340,450 was transferred to the Library Operations fund to fund operations. In addition, the General Fund transferred \$410,450 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.

Transfers To/From Other Governmental Funds

Of the \$1,496,641 transferred from other governmental funds to other governmental funds, \$1,134,141 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 and \$362,500 was for the transfer of the mall portion of property tax increment from the CDA Debt Service Fund to the CDFA 1999 Mall Bonds Debt Service Fund.

(12) Fund Deficits and Expenditures in Excess of Appropriations

The following funds reported deficits in fund balance as of June 30, 2012:

	<u>Deficit Balances</u>
Major Governmental Funds:	
Special Revenue Funds:	
Measure M	\$ (1,037,650)
Grants	(261,751)
Developer Fees	(1,245,696)

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

CITY OF MISSION VIEJO

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

(12) Fund Deficits and Expenditures in Excess of Appropriations, (continued)

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

<u>Major Governmental Funds:</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance</u>
General Fund:			
Recreation/Community/Library Services	\$ 4,785,631	\$ 4,795,956	\$ (10,325)
Special Revenue Funds:			
Measure M	176,919	212,402	(35,483)
Grants	-	55,688	(55,688)
Housing Authority	5,700,000	6,170,598	(470,598)

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

The City is a member of the California Joint Powers Insurance Authority (Authority). The Authority is composed of 123 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other lines of coverage. The Authority began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

Self-Insurance Programs of the Authority

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

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

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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

Liability

In the liability program claims are pooled separately between police and non-police 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 in excess of \$750,000 up to the reinsurance attachment point of \$5 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$5 million to \$10 million are paid under a reinsurance contract subject to a \$2.5 million annual aggregate deductible. Costs of covered claims from \$10 million to \$15 million are paid under two reinsurance contracts subject to a combined \$3 million annual aggregate deductible. On a cumulative basis for all 2011-12 reinsurance contracts the annual aggregate deductible is \$5.5 million. (6) Costs of covered claims from \$15 million up to \$50 million are covered through excess insurance policies.

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

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

Workers' Compensation

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

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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

Workers' Compensation, (continued)

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.

Purchased Insurance:

Pollution Legal Liability Insurance

The City participates in the pollution legal liability insurance program (formerly called environmental insurance) which is available through the Authority. The policy covers sudden and gradual pollution of scheduled property, streets, and storm drains owned by the City. Coverage is on a claims-made basis. There is a \$50,000 deductible. The Authority has a limit of \$50 million for the 3-year period from July 1, 2011 through July 1, 2014. Each member of the Authority has a \$10 million sub-limit during the 3-year term of the policy.

Property Insurance

The City participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. City property is currently insured according to a schedule of covered property submitted by the City of Mission Viejo to the Authority. City property currently has all-risk property insurance protection in the amount of \$104,585,703. There is a \$5,000 deductible per occurrence except for non-emergency vehicle insurance which has a \$1,000 deductible. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

Earthquake and Flood Insurance

The City purchases earthquake and flood insurance on a portion of its property. The earthquake insurance is part of the property protection insurance program of the Authority. City property currently has earthquake protection in the amount of \$61,844,043. There is a deductible of 5% per unit of value with a minimum deductible of \$100,000. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

Crime Insurance

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

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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

Special Event Tenant User Liability Insurance

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

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 2011-12.

- (14) Joint Venture - Orange County Fire Authority

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

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

(15) Significant Commitments

Owner Participation Agreements

In 1996, the Mission Viejo Community Development Agency (now the Successor Agency) (Agency) entered into an owner participation agreement with Kaleidoscope Partners, L.P., the owners of certain real property located at the northeast corner of the San Diego Freeway (I-5) and Crown Valley Parkway. The developer constructed a commercial shopping, entertainment, and retail facility on the site. This agreement obligates the Agency to pay the owners 100% of property tax increment revenues generated by the site, less amounts retained for set aside and pass through obligations, subject to the project generating sales tax revenues above certain agreed-upon minimum thresholds. The payments are due semi-annually on May 1 and November 1 commencing upon the first date that the site generates property tax increment. The payments will continue until the earliest of May 2024, the date on which the developer has received \$1,400,000, or the date on which the annual net operating income to the developer exceeds 12% of total project costs. The amount to be paid under this agreement is contingent upon the receipt of future project revenues. Total cumulative payments made as of June 30, 2012 are \$96,916.

In April 2000, the Agency (now the Successor Agency) entered into an owner participation agreement with GSM Development, LLC, to assist in property acquisition and provide commercial rehabilitation assistance for the development of an Infiniti dealership within the City of Mission Viejo. The agreement obligates the Agency to pay up to \$2,003,331 to the developer over eleven years based on sales tax revenues generated by the site. Payments are due quarterly with the first payment due March 2002. Payments will cease with the forty-fourth payment or on the date which the maximum amount payable is incurred by the Agency, whichever is earlier. As of June 30, 2012, the Agency has paid \$1,610,383 under this agreement.

Encumbrances

Encumbrances at June 30, 2012 consisted of the following:

General Fund	\$ 1,432,369
Grants Special Revenue Fund	50,894
Developer Fees Special Revenue Fund	395,037
Measure M Special Revenue Fund	400,309
Mission Viejo Housing Authority Special Revenue Fund	1,273,992
Other non-major Governmental Funds	<u>613,465</u>
Total Encumbrances at June 30, 2012	<u>\$ 4,166,066</u>

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

(15) Significant Commitments, (continued)

Encumbrances, (continued)

Generally, encumbrances can be broken out between operating and capital improvements. Operating encumbrances at June 30, 2012 were \$1,119,633, while capital improvement encumbrances were \$1,772,441. Significant encumbrances that relate to active capital improvement projects as of June 30, 2012 are as follows:

<u>Projects:</u>	<u>Commitment</u>
Marguerite Tennis Center Renovation	\$ 716,486
Library Community Room Remodel	285,332
Traffic Safety/Signal Coordination	141,818
Marguerite Resurfacing/Median Oso to La Paz	344,365

The encumbrance reported in the Mission Viejo Housing Authority of \$1,273,992 relates to an agreement with Lennar Homes to provide a low and moderate income housing subsidy for The Ridge housing development.

(16) Lease Commitment

On December 1, 2000, the City entered into a lease agreement with the Santa Margarita Water District for office and storage space. The lease terminates on November 30, 2020. Minimum annual lease commitments as of June 30, 2012 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 38,973
2014	38,973
2015	38,973
2016	38,973
2017	38,973
2018	38,973
2019	38,973
2020	<u>16,239</u>
Total	<u>\$ 289,050</u>

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

(17) Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer annually up to \$17,000, until future years. Employees over age 50 may elect to defer up to an additional \$5,500 annually. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

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

(18) Defined Benefit Pension Plan

Plan Description

The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. For employees hired prior to July 9, 2011, the 2.7% at 55 retirement plan is applicable. Effective July 9, 2011, new employees will be enrolled in the 2% at 60 retirement plan. Benefits for the 2.7% at 55 plan are based on final compensation that is the monthly average of the member's highest 12 consecutive months' of full-time equivalent monthly pay. Benefits for the 2% at 60 plan are based on a three year average final compensation. Copies of PERS' annual financial report may be obtained from their executive office: 400 "P" Street, Sacramento, California 95814.

Funding Policy

Participants are required to contribute 8.0% of their annual covered salary. For the year ending June 30, 2012 the City made 5% of the contribution from July 1, 2011 through January 6, 2012, and 3.75% of the contribution from January 7, 2012, through June 30, 2012, required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate calculated as a percentage of payroll. The employer contribution rate for the year ended June 30, 2012 was 16.361% for non-safety employees. The City has no safety employees. The contribution requirements of plan members and the City are established and may be amended by PERS.

CITY OF MISSION VIEJO

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

(18) Defined Benefit Pension Plan, (continued)

Annual Pension Cost and Net Pension Asset

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

Annual required contribution	\$ 1,587,526
Interest on net pension asset	(18,753)
Adjustment to annual required contribution	<u>35,655</u>
Annual pension cost	1,604,428
Contributions made	<u>(1,587,526)</u>
Decrease in net pension asset	16,902
Net pension asset - beginning of year	<u>(241,973)</u>
Net pension asset - end of year	<u><u>\$ (225,071)</u></u>

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

Five-Year Trend Information:

Fiscal Year	Annual Pension Cost (APC) (Employer Contribution)	Actual Contribution	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/08	\$ 1,443,350	\$ 1,430,811	99%	\$ (285,728)
6/30/09	1,606,484	1,592,973	99%	(272,217)
6/30/10	1,464,115	1,449,557	99%	(257,659)
6/30/11	1,421,642	1,405,956	99%	(241,973)
6/30/12	1,604,428	1,587,526	99%	(225,071)

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

(18) Defined Benefit Pension Plan, (continued)

Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 79.5% funded. The actuarial accrued liability for benefits was \$51.4 million, and the actuarial value of assets was \$40.8 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$10.6 million. The covered payroll (annual payroll of active employees covered by the plan) was \$9.6 million, and the ratio of the UAAL to the covered payroll was 109.6%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

The required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by age, service and type of employment, ranging from 3.55% to 14.45%, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period at June 30, 2009 was 23 years.

(19) Other Post Employment Benefits (OPEB)

Plan Description

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

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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

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, 2011, the date of the latest actuarial valuation:

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

Funding Policy

The obligation of the City to contribute to the plan is established and may be amended by the City Council. Employees are not required to contribute to the plan. The City has established a policy of contributing to the irrevocable CERBT trust administered by CalPERS 100% of the annual required contribution of the employer (ARC), an amount actuarially determined every two years in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The ARC for fiscal year 2011-12 was \$717,996, 7.0% of estimated covered payroll.

CITY OF MISSION VIEJO

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

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

Annual OPEB Cost and Net OPEB 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 asset:

Annual required contribution	\$ 717,996
Interest on net OPEB asset	(69,392)
Adjustment to annual required contribution	<u>80,062</u>
Annual OPEB cost	728,666
Contributions made	<u>(717,996)</u>
Decrease in net OPEB asset	10,670
Net OPEB asset - beginning of year	<u>(895,378)</u>
Net OPEB asset - end of year	<u><u>\$ (884,708)</u></u>

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

Three Year Trend Information:

<u>Fiscal Year</u>	<u>Annual OPEB Cost (AOC) (Employer Contribution)</u>	<u>Actual Contribution</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/10	\$ 498,190	\$ 489,000	98%	\$ (905,281)
6/30/11	528,903	519,000	98%	(895,378)
6/30/12	728,666	717,996	98%	(884,708)

Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 38.1% funded. The actuarial accrued liability for benefits was \$7.4 million, and the actuarial value of assets was \$2.8 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$4.6 million. The covered payroll (annual payroll of active employees covered by the plan) was \$9.8 million, and the ratio of the UAAL to the covered payroll was 46.6%.

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.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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

Funded Status and Funding Progress, (continued)

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.

Actuarial Methods and Assumptions

The required contribution was determined as part of the June 30, 2011, 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) 3% per year increases, pre-retirement, to the City's Fixed Monthly City Contribution to Benefits, and 0% per year, postretirement; (d) an annual inflation component of 3.0%; and (e) healthcare cost trend rates ranging from 8.5% to 5% for medical, and 4% and 3% 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 15 year period. The average remaining amortization period at June 30, 2011 was 15 years.

The City administered Supplemental Health Account for Retired Employees (SHARE) plan is a defined contribution post-employment benefits plan established by the City Council. This plan is intended to assist employees first eligible for City health benefits on or after January 1, 2007, in saving for 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, 2012, 31 employees were eligible to participate in this plan. Required employer contributions were made during the year in the amount of \$18,737 and required employee contributions totaled \$12,979. At June 30, 2012, 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, 2012

(20) Successor Agency Trust For Assets of Former Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (the Bill) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City since the City had previously reported its redevelopment agency as a blended component unit on the City's financial statements.

The Bill provides that upon dissolution of the redevelopment agency, either the city or another unit of local government will agree to serve as the "successor agency" to hold the assets of the dissolved redevelopment agency until they are distributed to other units of state and local government. On August 15, 2011, the City Council adopted resolution 11-55, electing to become the Successor Agency for the former redevelopment agency in accordance with the Bill.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California were prohibited from entering into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution, including the completion of any unfinished projects that were subject to legally enforceable contractual commitments.

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

CITY OF MISSION VIEJO

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

(20) Successor Agency Trust For Assets of Former Redevelopment Agency, (continued)

Prior to that date, the final seven months of activity of the redevelopment agency continued to be reported in the governmental funds of the City. These funds included the Low and Moderate Income Housing Special Revenue Fund, the CDA Debt Service Fund, and the CDA Projects Capital Projects Fund. After the date of dissolution, the assets, liabilities, and activities of the dissolved redevelopment agency are reported in a private-purpose trust fund, a type of fiduciary fund, in the financial statements of the City.

The transfer of assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from the governmental funds of the City to the private-purpose trust fund was reported as an extraordinary gain (loss) in both the government fund and fiduciary fund financial statements.



REQUIRED SUPPLEMENTARY INFORMATION



MISSION VIEJO

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CITY OF MISSION VIEJO

**REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PENSION PLAN
YEAR ENDED JUNE 30, 2012**

DEFINED BENEFIT PENSION PLAN
PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Entry Age Normal Accrued Liability (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Actuarial Accrued Liability (UAAL)/ (Excess Assets) (a)-(b)	Funded Status Based on AVA (b)/(a)	Market Value of Assets (MVA) (c)	Funded Status Based on MVA (c)/(a)	Annual Covered Payroll (d)	UAAL As a % of Payroll [(a)-(b)]/(d)
6/30/06	\$24,346,044	\$20,312,606	\$ 4,033,438	83.4%	\$21,361,601	87.7%	\$ 7,681,993	52.5%
6/30/07	29,475,073	24,506,369	4,968,704	83.1%	27,789,959	94.3%	8,835,113	56.2%
6/30/08	34,504,320	28,755,811	5,748,509	83.3%	28,666,932	83.1%	9,866,479	58.3%
6/30/09	42,076,529	32,897,337	9,179,192	78.2%	24,225,380	57.6%	10,322,231	88.9%
6/30/10	46,287,502	36,787,929	9,499,573	79.5%	29,489,295	63.7%	9,879,953	96.1%
6/30/11	51,387,228	40,829,833	10,557,395	79.5%	37,204,353	72.4%	9,629,988	109.6%

CITY OF MISSION VIEJO

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYMENT BENEFIT PLAN
YEAR ENDED JUNE 30, 2012**

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

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Entry Age Normal Actuarial Accrued Liability (a)	Actuarial Value of Assets (AVA) (b)	Unfunded	Funded Ratio Based on AVA (b) / (a)	Annual Covered Payroll (c)	UAAL
			Actuarial Accrued Liability (UAAL)/ (Excess Assets) (a) - (b)			As a % of Payroll [(a)-(b)]/(c)
6/30/08	\$ 4,751,000	\$ 1,462,000	\$ 3,289,000	30.8%	\$ 9,866,479	33.3%
6/30/10	6,524,000	2,247,000	4,277,000	34.4%	9,879,953	43.3%
6/30/11	7,362,000	2,805,000	4,557,000	38.1%	9,771,000	46.6%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Employer Contributions	
	Annual Required Contribution	Percentage Contributed
2010	\$ 498,190	98%
2011	528,903	98%
2012	728,666	98%

CITY OF MISSION VIEJO

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL (BUDGETARY BASIS) GENERAL FUND YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with
	Original	Final				Final Budget Positive (Negative)
Revenues:						
Taxes	\$ 41,340,000	\$ 41,564,000	\$ 41,902,611	\$ -	\$ 41,902,611	\$ 338,611
Licenses and permits	1,314,200	1,338,200	1,192,491	-	1,192,491	(145,709)
Intergovernmental	642,800	401,100	389,765	-	389,765	(11,335)
Charges for services	2,211,820	2,211,820	1,944,978	-	1,944,978	(266,842)
Investment earnings	1,088,250	1,088,250	1,129,014	-	1,129,014	40,764
Fines and forfeitures	741,000	806,500	789,459	-	789,459	(17,041)
Developer fees	-	-	681,893	-	681,893	681,893
Other	546,350	810,686	803,666	-	803,666	(7,020)
Total revenues	47,884,420	48,220,556	48,833,877	-	48,833,877	613,321
Expenditures:						
General government - legislative	1,364,791	1,326,293	1,221,895	19,330	1,241,225	85,068
General government - management and support	8,257,011	9,501,306	8,754,003	225,142	8,979,145	522,161
Public safety	16,369,541	16,373,064	16,201,030	23,218	16,224,248	148,816
Community development	1,716,407	2,266,470	2,113,172	153,294	2,266,466	4
Public works - engineering and transportation	2,150,902	2,306,226	2,220,175	44,215	2,264,390	41,836
Infrastructure maintenance	12,010,252	12,921,796	12,459,141	461,686	12,920,827	969
Recreation/community/library services	4,565,276	4,785,631	4,791,756	4,200	4,795,956	(10,325)
Capital outlay:						
Ferrocarril	-	94,345	-	-	-	94,345
Marguerite - Resurfacing Oso/La Paz	-	30,000	-	-	-	30,000
2007 Playground Renovation	-	61,481	-	-	-	61,481
Dog Park	-	110,542	49,258	4,140	53,398	57,144
Marguerite Aquatics Decking	-	28,422	11,537	-	11,537	16,885
Oso Creek Trail Signage	-	10,491	9,215	-	9,215	1,276
MV Library Room Remodel	-	45,376	-	45,376	45,376	-
Solar PV System - City Hall	-	222,389	-	-	-	222,389
Bleacher Shade Covers	-	69,823	21,669	36,950	58,619	11,204
Marguerite Tennis Renovation and Lighting	-	4,565,853	4,198,675	343,083	4,541,758	24,095
Arterial Highway Slurry Seal	-	83,576	71	1,930	2,001	81,575
Residential Resurfacing	-	69,805	-	69,805	69,805	-
Oso/Marguerite Intersection Improvements	-	33,621	25,921	-	25,921	7,700
Debt service:						
Interest and fiscal charges	12,800	12,800	11,561	-	11,561	1,239
Total expenditures	46,446,980	54,919,310	52,089,079	1,432,369	53,521,448	1,397,862
Excess (deficiency) of revenues over (under) expenditures	1,437,440	(6,698,754)	(3,255,202)	(1,432,369)	(4,687,571)	2,011,183
Other financing sources (uses):						
Transfers in	681,000	681,000	681,351	-	681,351	351
Transfers out	(2,132,000)	(2,132,000)	(1,986,631)	-	(1,986,631)	145,369
Proceeds from sale of capital asset	-	-	5,619	-	5,619	5,619
Total other financing sources (uses)	(1,451,000)	(1,451,000)	(1,299,661)	-	(1,299,661)	151,339
Net change in fund balance	(13,560)	(8,149,754)	(4,554,863)	(1,432,369)	(5,987,232)	2,162,522
Fund balance, beginning of year	33,281,429	33,281,429	33,281,429	-	33,281,429	-
Fund balance, end of year	<u>\$ 33,267,869</u>	<u>\$ 25,131,675</u>	<u>\$ 28,726,566</u>	<u>\$ -</u>	<u>\$ 27,294,197</u>	<u>\$ 2,162,522</u>

CITY OF MISSION VIEJO

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
MEASURE M FUND
YEAR ENDED JUNE 30, 2012**

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Intergovernmental	\$ 2,899,500	\$ 4,773,996	\$ 1,820,196	\$ -	\$ 1,820,196	\$ (2,953,800)
Investment earnings	28,000	28,000	11,467	-	11,467	(16,533)
Other	-	13,906	85,198	-	85,198	71,292
Total revenues	2,927,500	4,815,902	1,916,861	-	1,916,861	(2,899,041)
Expenditures:						
Public works - engineering and transportation	-	2,492	-	-	-	2,492
Capital outlay:						
Oso Resurfacing - Country Club /ECL	-	14,256	14,256	-	14,256	-
Crown Valley Traffic Signal Synch	-	11,900	1,754	-	1,754	10,146
Marguerite Traffic Signal Synch	-	58,300	1,751	-	1,751	56,549
La Paz Bridge Widening	193,500	236,099	160,744	-	160,744	75,355
La Paz Widening	-	369,919	185,766	17,890	203,656	166,263
Cabot/Camino Capistrano Bridge	-	18,178	18,178	-	18,178	-
Oso Widening	1,452,000	1,552,569	713,572	39,967	753,539	799,030
Traffic Safety /Signal Coordination	-	279,734	197,443	48,991	246,434	33,300
Marguerite Resurfacing/Median Oso to La Paz	-	315,321	628	285,321	285,949	29,372
Sidewalk Repair Program	-	10,079	10,079	-	10,079	-
Arterial Highway Slurry Seal	74,000	176,919	206,725	5,677	212,402	(35,483)
Residential Resurfacing	1,203,000	1,549,077	1,270,916	2,463	1,273,379	275,698
Oso/Marguerite Intersection Improvements	-	409,980	409,980	-	409,980	-
Total expenditures	2,922,500	5,004,823	3,191,792	400,309	3,592,101	1,412,722
Net change in fund balances	5,000	(188,921)	(1,274,931)	(400,309)	(1,675,240)	(1,486,319)
Fund balance, beginning of year	237,281	237,281	237,281	-	237,281	-
Fund balance, end of year	\$ 242,281	\$ 48,360	\$ (1,037,650)	\$ -	\$ (1,437,959)	\$ (1,486,319)

CITY OF MISSION VIEJO

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL (BUDGETARY BASIS) GRANTS FUND YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Intergovernmental	\$ 1,350,716	\$ 6,868,866	\$ 1,872,080	\$ -	\$ 1,872,080	\$ (4,996,786)
Investment earnings	-	-	(3,275)	-	(3,275)	(3,275)
Other	-	-	623,000	-	623,000	623,000
Total revenues	1,350,716	6,868,866	2,491,805	-	2,491,805	(4,377,061)
Expenditures:						
General government - management and support	10,595	13,186	10,594	-	10,594	2,592
Community development	430,552	636,973	615,097	4,248	619,345	17,628
Public works - engineering and transportation	-	34,897	34,691	-	34,691	206
Capital outlay:						
Oso Creek Restoration	-	330,889	301,251	18,239	319,490	11,399
SRT Sidewalk Access Ramp	-	141,420	-	-	-	141,420
Oso Creek Trail Signage	-	90,527	-	-	-	90,527
Federal Safe Routes to Schools	492,000	492,000	417,925	28,407	446,332	45,668
Solar PV System	-	232,069	232,069	-	232,069	-
La Paz Railroad Bridge Widening	-	2,965,778	358,372	-	358,372	2,607,406
Intelligent Transport System	-	-	55,688	-	55,688	(55,688)
Cabot/Camino Capistrano Bridge	-	1,052,625	124,336	-	124,336	928,289
Marguerite Resurfacing/Median Oso to La Paz	417,560	417,560	-	-	-	417,560
Residential Resurfacing	167,000	500,574	483,785	-	483,785	16,789
Total expenditures	1,517,707	6,908,498	2,633,808	50,894	2,684,702	4,223,796
Net change in fund balance	(166,991)	(39,632)	(142,003)	(50,894)	(192,897)	(153,265)
Fund balance, beginning of year	(119,748)	(119,748)	(119,748)	-	(119,748)	-
Fund balance, end of year	<u>\$ (286,739)</u>	<u>\$ (159,380)</u>	<u>\$ (261,751)</u>	<u>\$ -</u>	<u>\$ (312,645)</u>	<u>\$ (153,265)</u>

CITY OF MISSION VIEJO

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
DEVELOPER FEES FUND
YEAR ENDED JUNE 30, 2012**

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Investment earnings	\$ -	\$ -	\$ 301	\$ -	\$ 301	\$ 301
Developer fees	-	5,485,000	1,178,612	-	1,178,612	(4,306,388)
Other	-	25,404	25,404	-	25,404	-
Total revenues	-	5,510,404	1,204,317	-	1,204,317	(4,306,087)
Expenditures:						
Capital outlay:						
Oso Creek Restoration	-	219,690	156,372	10,858	167,230	52,460
Marguerite Tennis Renovations	-	400,000	14,826	373,403	388,229	11,771
Oso Widening	-	2,110,582	240,165	9,967	250,132	1,860,450
Oso/Marguerite Intersection Improvements	-	1,365,690	659,686	809	660,495	705,195
Total expenditures	-	4,095,962	1,071,049	395,037	1,466,086	2,629,876
Net change in fund balances	-	1,414,442	133,268	(395,037)	(261,769)	(1,676,211)
Fund balance, beginning of year	(1,378,964)	(1,378,964)	(1,378,964)	-	(1,378,964)	-
Fund balance, end of year	<u>\$ (1,378,964)</u>	<u>\$ 35,478</u>	<u>\$ (1,245,696)</u>	<u>\$ (395,037)</u>	<u>\$ (1,640,733)</u>	<u>\$ (1,676,211)</u>

CITY OF MISSION VIEJO

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
HOUSING AUTHORITY FUND
YEAR ENDED JUNE 30, 2012**

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Investment earnings	\$ -	\$ -	\$ 215,900	\$ -	\$ 215,900	\$ 215,900
Total revenues	<u>-</u>	<u>-</u>	<u>215,900</u>	<u>-</u>	<u>215,900</u>	<u>215,900</u>
Expenditures:						
Community development	5,700,000	5,700,000	4,896,606	1,273,992	6,170,598	(470,598)
Total expenditures	<u>5,700,000</u>	<u>5,700,000</u>	<u>4,896,606</u>	<u>1,273,992</u>	<u>6,170,598</u>	<u>(470,598)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,700,000)</u>	<u>(5,700,000)</u>	<u>(4,680,706)</u>	<u>(1,273,992)</u>	<u>(5,954,698)</u>	<u>(254,698)</u>
Other financing sources (uses):						
Transfers in	1,700,000	1,700,000	-	-	-	(1,700,000)
Total other financing sources (uses)	<u>1,700,000</u>	<u>1,700,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,700,000)</u>
Extraordinary item:						
Gain (loss) on dissolution of redevelopment agency (note 20)	-	-	5,766,370	-	5,766,370	5,766,370
Net change in fund balance	<u>(4,000,000)</u>	<u>(4,000,000)</u>	<u>1,085,664</u>	<u>(1,273,992)</u>	<u>(188,328)</u>	<u>3,811,672</u>
Fund balance, beginning of year	5,700,000	5,700,000	5,700,000	-	5,700,000	-
Fund balance, end of year	<u>\$ 1,700,000</u>	<u>\$ 1,700,000</u>	<u>\$ 6,785,664</u>	<u>\$ -</u>	<u>\$ 5,511,672</u>	<u>\$ 3,811,672</u>

CITY OF MISSION VIEJO

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2012

(1) Budgetary Policy and Control

General Budget Policies

The City Council adopts a biennial budget for all funds of the primary government and the Community Development Agency (dissolved January 31, 2012), prior to the beginning of each biennium, which begins on July 1 of each odd-numbered year. Annual budgets are adopted for the Community Development Financing Authority. Public discussions are conducted prior to the budget's adoption by the Council. Annual appropriations are approved by the Council prior to the beginning of each year of the biennial budget period. All appropriations lapse at year-end. The City Council has the legal authority to amend the budget at any time during the fiscal year. For the operating budget, the City Manager has the authority to move appropriations between accounts (without dollar limitation) within the same fund as long as the transfers are within the same program area. For the capital improvement program, the City Manager has the authority to transfer up to \$30,000 in appropriations between capital projects within the same fund as long as the transfers are within the responsibility of the same department. All other appropriation changes require City Council approval. The total additional appropriations for all funds for fiscal year ended June 30, 2012 were \$25,809,351. Of this amount, \$8,472,330 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 Agency, 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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2012

(1) Budgetary Policy and Control, (continued)

Budgetary Basis of Accounting

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

(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.

CITY OF MISSION VIEJO

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2012

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

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 slurring) and rehabilitation (which includes overlays and reconstruction).

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:

<u>City of Mission Viejo PCI Index</u>	
<u>PCI Range</u>	<u>Condition</u>
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.

CITY OF MISSION VIEJO

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2012

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

Streets, (continued)

Condition Levels:	2008 Study	2010 Study	2012 Study
Arterials (MPAH)	Good	Very Good	Very Good
Collectors	Good	Good	(combined w/ Local/Residential)
Local/Residential	Good	Very Good	Very Good

The June 2012 study indicated that the average pavement condition of the City's streets is "Very Good" for Arterials, and "Very Good" for Local streets. The average PCI for Arterials was assessed at 90 PCI and Local streets were assessed at 93 PCI. In comparison, the 2010 study assessed Arterials at 85 PCI, Collectors at 84 PCI and Local/Residential streets at 85 PCI and the 2008 study assessed Arterials at 84 PCI, Collectors at 77 PCI and Local Residential streets at 79 PCI.

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>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
Needed	\$ 2,581,404	\$ 3,006,379	\$ 4,604,490	\$ 5,786,000	\$ 4,520,000
Actual	<u>3,405,547</u>	<u>3,594,516</u>	<u>8,613,102</u>	<u>6,729,300</u>	<u>5,991,780</u>
Difference	<u>\$ 824,143</u>	<u>\$ 588,137</u>	<u>\$ 4,008,612</u>	<u>\$ 943,300</u>	<u>\$ 1,471,780</u>



MISSION VIEJO

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CITY OF MISSION VIEJO

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012**

	Special Revenue	Debt Service	CDA Capital Projects	Totals
Assets:				
Cash and investments	\$ 1,644,839	\$ 7,230	\$ -	\$ 1,652,069
Taxes receivable	54,398	-	-	54,398
Interest receivable	-	1,210	-	1,210
Intergovernmental receivable	438,245	-	-	438,245
Restricted assets:				
Cash and investments with fiscal agents	-	5,499,929	-	5,499,929
Total assets	\$ 2,137,482	\$ 5,508,369	\$ -	\$ 7,645,851
Liabilities and fund balances:				
Liabilities:				
Accounts payable	\$ 256,066	\$ -	\$ -	\$ 256,066
Accrued payroll	102,608	-	-	102,608
Deferred revenues	733	-	-	733
Deposits	1,100	-	-	1,100
Interfund payable	6,984	89,836	-	96,820
Retainage payable	10,619	-	-	10,619
Total liabilities	378,110	89,836	-	467,946
Fund balances:				
Restricted for:				
Public safety	55,530	-	-	55,530
Parks and recreation	858,744	-	-	858,744
Public works	686,820	-	-	686,820
Capital projects	158,278	-	-	158,278
Debt service	-	5,418,533	-	5,418,533
Total fund balances	1,759,372	5,418,533	-	7,177,905
Total liabilities and fund balances	\$ 2,137,482	\$ 5,508,369	\$ -	\$ 7,645,851

CITY OF MISSION VIEJO

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012**

	Special Revenue	Debt Service	CDA Capital Projects	Total
Revenues:				
Taxes	\$ 2,008,731	\$ 5,238,916	\$ -	\$ 7,247,647
Intergovernmental	4,945,180	-	-	4,945,180
Charges for services	192,543	-	-	192,543
Investment earnings	26,701	138,314	(44)	164,971
Fines and forfeitures	125,939	-	-	125,939
Developer fees	1,130,362	-	-	1,130,362
Other	232,611	-	-	232,611
Total revenues	8,662,067	5,377,230	(44)	14,039,253
Expenditures:				
Current:				
General government - management and support	51,952	1,973	115,199	169,124
Public safety	502,500	-	-	502,500
Community development	436,021	-	41,401	477,422
Public works - engineering and transportation	264,144	-	-	264,144
Infrastructure maintenance	1,478,811	-	-	1,478,811
Recreation/community/library service	2,726,125	-	-	2,726,125
Capital outlay	3,672,443	-	7,715	3,680,158
Debt service:				
Principal retirement	-	1,750,000	-	1,750,000
Interest and fiscal charges	-	1,165,682	-	1,165,682
Total expenditures	9,131,996	2,917,655	164,315	12,213,966
Excess (deficiency) of revenues over (under) expenditures	(469,929)	2,459,575	(164,359)	1,825,287
Other financing sources (uses):				
Transfers in	340,450	2,732,372	-	3,072,822
Transfers out	-	(2,177,992)	-	(2,177,992)
Payment to refunded bonds escrow agent	-	(2,211,516)	-	(2,211,516)
Total other financing sources (uses)	340,450	(1,657,136)	-	(1,316,686)
Extraordinary item:				
Gain (loss) on dissolution of redevelopment agency (note 20)	(5,766,370)	(1,924,063)	74,679	(7,615,754)
Net change in fund balances	(5,895,849)	(1,121,624)	(89,680)	(7,107,153)
Fund balances (deficits), beginning of year	7,655,221	6,540,157	89,680	14,285,058
Fund balances (deficits), end of year	\$ 1,759,372	\$ 5,418,533	\$ -	\$ 7,177,905

CITY OF MISSION VIEJO

OTHER SPECIAL REVENUE FUNDS YEAR ENDED JUNE 30, 2012

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 2103, 2105, 2106, 2107 and 2107.5 of the State of California, as well as funds exchanged with Orange County Transportation Authority as part of the gas tax exchange program. These funds are earmarked for maintenance, rehabilitation or improvement of public streets.

LOW AND MODERATE INCOME HOUSING – To account for Community Development Agency tax increment revenues required by law to be set aside for low and moderate income housing projects through January 31, 2012.

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

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

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 busses. It also includes funds allocated through a competitive process as a result of this legislation.

CITY OF MISSION VIEJO

**COMBINING BALANCE SHEET
OTHER SPECIAL REVENUE FUNDS
JUNE 30, 2012**

	Gas Tax	Low and Moderate Income Housing	Library Operations
Assets:			
Cash and investments	\$ 502,050	\$ -	\$ 974,108
Taxes receivable	-	-	25,398
Intergovernmental receivable	409,877	-	-
Total assets	\$ 911,927	\$ -	\$ 999,506
Liabilities and fund balances:			
Liabilities:			
Accounts payable	\$ 208,732	\$ -	\$ 35,093
Accrued payroll	3,068	-	99,540
Deferred revenues	-	-	733
Deposits	-	-	1,100
Interfund payable	6,984	-	-
Retainage payable	6,323	-	4,296
Total liabilities	225,107	-	140,762
Fund balances:			
Restricted for:			
Public safety	-	-	-
Parks and recreation	-	-	858,744
Public works	686,820	-	-
Capital projects	-	-	-
Total fund balances	686,820	-	858,744
Total liabilities and fund balances	\$ 911,927	\$ -	\$ 999,506

Ladera Funding	Law Enforcement Grants	Air Quality	Totals
\$ -	\$ 27,162	\$ 141,519	\$ 1,644,839
-	-	29,000	54,398
-	28,368	-	438,245
<u>\$ -</u>	<u>\$ 55,530</u>	<u>\$ 170,519</u>	<u>\$ 2,137,482</u>
\$ -	\$ -	\$ 12,241	\$ 256,066
-	-	-	102,608
-	-	-	733
-	-	-	1,100
-	-	-	6,984
-	-	-	10,619
-	-	12,241	378,110
-	55,530	-	55,530
-	-	-	858,744
-	-	-	686,820
-	-	158,278	158,278
-	55,530	158,278	1,759,372
<u>\$ -</u>	<u>\$ 55,530</u>	<u>\$ 170,519</u>	<u>\$ 2,137,482</u>

CITY OF MISSION VIEJO

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2012**

	Gas Tax	Low and Moderate Income Housing	Library Operations
Revenues:			
Taxes	\$ -	\$ -	\$ 2,008,731
Intergovernmental	4,470,336	-	207,009
Charges for services	-	-	192,543
Investment earnings	(9,117)	14,654	18,473
Fines and forfeitures	-	-	125,939
Developer fees	-	-	-
Other	212,175	-	20,436
Total revenues	4,673,394	14,654	2,573,131
Expenditures:			
Current:			
General government - management and support	-	-	49,633
Public safety	402,500	-	-
Community development	-	394,971	-
Public works - engineering and transportation	264,144	-	-
Infrastructure maintenance	1,201,322	-	277,489
Recreation/community/library services	-	-	2,726,125
Capital outlay	3,511,487	-	115,878
Total expenditures	5,379,453	394,971	3,169,125
Excess (deficiency) of revenues over (under) expenditures	(706,059)	(380,317)	(595,994)
Other financing sources (uses):			
Transfers in	-	-	340,450
Total other financing sources (uses)	-	-	340,450
Extraordinary item:			
Gain (loss) on dissolution of redevelopment agency (note 20)	-	(5,766,370)	-
Net change in fund balances	(706,059)	(6,146,687)	(255,544)
Fund balances (deficits), beginning of year	1,392,879	6,146,687	1,114,288
Fund balances (deficits), end of year	\$ 686,820	\$ -	\$ 858,744

Ladera Funding	Law Enforcement Grants	Air Quality	Totals
\$ -	\$ -	\$ -	\$ 2,008,731
-	154,885	112,950	4,945,180
-	-	-	192,543
-	628	2,063	26,701
-	-	-	125,939
1,130,362	-	-	1,130,362
-	-	-	232,611
<u>1,130,362</u>	<u>155,513</u>	<u>115,013</u>	<u>8,662,067</u>
-	-	2,319	51,952
-	100,000	-	502,500
-	-	41,050	436,021
-	-	-	264,144
-	-	-	1,478,811
-	-	-	2,726,125
38,178	-	6,900	3,672,443
<u>38,178</u>	<u>100,000</u>	<u>50,269</u>	<u>9,131,996</u>
<u>1,092,184</u>	<u>55,513</u>	<u>64,744</u>	<u>(469,929)</u>
-	-	-	340,450
-	-	-	340,450
-	-	-	(5,766,370)
1,092,184	55,513	64,744	(5,895,849)
(1,092,184)	17	93,534	7,655,221
<u>\$ -</u>	<u>\$ 55,530</u>	<u>\$ 158,278</u>	<u>\$ 1,759,372</u>

CITY OF MISSION VIEJO

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL (BUDGETARY BASIS) OTHER SPECIAL REVENUE FUNDS - GAS TAX FUND YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final				
Revenues:						
Intergovernmental	\$ 4,404,250	\$ 4,296,550	\$ 4,470,336	\$ -	\$ 4,470,336	\$ 173,786
Investment earnings	30,000	30,000	(9,117)	-	(9,117)	(39,117)
Other	-	202,175	212,175	-	212,175	10,000
Total revenues	4,434,250	4,528,725	4,673,394	-	4,673,394	144,669
Expenditures:						
General government - management and support	1,500	1,500	-	-	-	1,500
Public safety	402,500	402,500	402,500	-	402,500	-
Public works - engineering and transportation	282,000	360,261	264,144	28,201	292,345	67,916
Infrastructure maintenance	1,273,755	1,273,835	1,201,322	-	1,201,322	72,513
Capital outlay:						
Traffic Safety Program	-	25,763	(20,116)	-	(20,116)	45,879
Traffic Safety/Signal Coordination	-	30,000	-	11,425	11,425	18,575
Marguerite Resurfacing - Oso Parkway to La Paz	-	183,218	37,367	59,044	96,411	86,807
Sidewalk Repair	-	39,443	17,543	-	17,543	21,900
Arterial Highway Slurry Seal	65,500	18,980	13,637	5,343	18,980	-
Residential Resurfacing	2,394,020	3,563,188	3,463,056	31,995	3,495,051	68,137
Total expenditures	4,419,275	5,898,688	5,379,453	136,008	5,515,461	383,227
Net change in fund balance	14,975	(1,369,963)	(706,059)	(136,008)	(842,067)	527,896
Fund balance, beginning of year	1,392,879	1,392,879	1,392,879	-	1,392,879	-
Fund balance, end of year	\$ 1,407,854	\$ 22,916	\$ 686,820	\$ (136,008)	\$ 550,812	\$ 527,896

CITY OF MISSION VIEJO

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL (BUDGETARY BASIS) OTHER SPECIAL REVENUE FUNDS - LOW AND MODERATE INCOME HOUSING FUND YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final				
Revenues:						
Investment earnings	\$ 75,688	\$ 75,688	\$ 14,654	\$ -	\$ 14,654	\$ (61,034)
Total revenues	75,688	75,688	14,654	-	14,654	(61,034)
Expenditures:						
Community development	3,790,000	5,346,241	394,971	-	394,971	4,951,270
Total expenditures	3,790,000	5,346,241	394,971	-	394,971	4,951,270
Excess (deficiency) of revenues over (under) expenditures	(3,714,312)	(5,270,553)	(380,317)	-	(380,317)	4,890,236
Other financing sources (uses):						
Transfers in	1,782,561	1,782,561	-	-	-	(1,782,561)
Total other financing sources (uses):	1,782,561	1,782,561	-	-	-	(1,782,561)
Extraordinary item:						
Gain (loss) on dissolution of redevelopment agency (note 20)	-	-	(5,766,370)	-	(5,766,370)	(5,766,370)
Net change in fund balance	(1,931,751)	(3,487,992)	(6,146,687)	-	(6,146,687)	(2,658,695)
Fund balance, beginning of year	6,146,687	6,146,687	6,146,687	-	6,146,687	-
Fund balance, end of year	\$ 4,214,936	\$ 2,658,695	\$ -	\$ -	\$ -	\$ (2,658,695)

CITY OF MISSION VIEJO

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 OTHER SPECIAL REVENUE FUNDS - LIBRARY OPERATIONS FUND
 YEAR ENDED JUNE 30, 2012**

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with
	Original	Final				Final Budget Positive (Negative)
Revenues:						
Taxes	\$ 2,017,000	\$ 2,017,000	\$ 2,008,731	\$ -	\$ 2,008,731	\$ (8,269)
Intergovernmental	246,000	200,350	207,009	-	207,009	6,659
Charges for services	219,500	219,500	192,543	-	192,543	(26,957)
Investment earnings	23,000	23,000	18,473	-	18,473	(4,527)
Fines and forfeitures	131,000	131,000	125,939	-	125,939	(5,061)
Other	16,000	16,000	20,436	-	20,436	4,436
Total revenues	2,652,500	2,606,850	2,573,131	-	2,573,131	(33,719)
Expenditures:						
General government - management and support	29,900	214,900	49,633	133,301	182,934	31,966
Infrastructure maintenance	363,520	379,042	277,489	5,778	283,267	95,775
Recreation/community/library services	2,664,840	2,775,443	2,726,125	11,045	2,737,170	38,273
Capital outlay:						
MV Library Common Room Remodel	67,000	406,374	115,878	239,956	355,834	50,540
Total expenditures	3,125,260	3,775,759	3,169,125	390,080	3,559,205	216,554
Excess (deficiency) of revenues over (under) expenditures	(472,760)	(1,168,909)	(595,994)	(390,080)	(986,074)	182,835
Other financing sources (uses):						
Transfers in	415,000	415,000	340,450	-	340,450	(74,550)
Total other financing sources (uses)	415,000	415,000	340,450	-	340,450	(74,550)
Net change in fund balance	(57,760)	(753,909)	(255,544)	(390,080)	(645,624)	108,285
Fund balance, beginning of year	1,114,288	1,114,288	1,114,288	-	1,114,288	-
Fund balance, end of year	\$ 1,056,528	\$ 360,379	\$ 858,744	\$ (390,080)	\$ 468,664	\$ 108,285

CITY OF MISSION VIEJO

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL (BUDGETARY BASIS) OTHER SPECIAL REVENUE FUNDS - LADERA FUNDING YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Developer fees	\$ -	\$ 1,207,845	\$ 1,130,362	\$ -	\$ 1,130,362	\$ (77,483)
Total revenues	-	1,207,845	1,130,362	-	1,130,362	(77,483)
Expenditures:						
Capital outlay:						
Oso/Marguerite Intersection Improvements	-	98,741	38,178	-	38,178	60,563
Total expenditures	-	98,741	38,178	-	38,178	60,563
Net change in fund balance	-	1,109,104	1,092,184	-	1,092,184	(16,920)
Fund balance, beginning of year	(1,092,184)	(1,092,184)	(1,092,184)	-	(1,092,184)	-
Fund balance, end of year	<u>\$ (1,092,184)</u>	<u>\$ 16,920</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (16,920)</u>

CITY OF MISSION VIEJO

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL (BUDGETARY BASIS) OTHER SPECIAL REVENUE FUNDS - LAW ENFORCEMENT GRANTS YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Intergovernmental	\$ -	\$ 100,000	\$ 154,885	\$ -	\$ 154,885	\$ 54,885
Investment earnings	-	-	628	-	628	628
Total revenues	-	100,000	155,513	-	155,513	55,513
Expenditures:						
Public safety	-	100,000	100,000	-	100,000	-
Total expenditures	-	100,000	100,000	-	100,000	-
Net change in fund balance	-	-	55,513	-	55,513	55,513
Fund balance, beginning of year	17	17	17	-	17	-
Fund balance, end of year	<u>\$ 17</u>	<u>\$ 17</u>	<u>\$ 55,530</u>	<u>\$ -</u>	<u>\$ 55,530</u>	<u>\$ 55,513</u>

CITY OF MISSION VIEJO

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 OTHER SPECIAL REVENUE FUNDS - AIR QUALITY
 YEAR ENDED JUNE 30, 2012**

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final				
Revenues:						
Intergovernmental	\$ 115,200	\$ 115,200	\$ 112,950	\$ -	\$ 112,950	\$ (2,250)
Investment earnings	6,800	6,800	2,063	-	2,063	(4,737)
Total revenues	<u>122,000</u>	<u>122,000</u>	<u>115,013</u>	<u>-</u>	<u>115,013</u>	<u>(6,987)</u>
Expenditures:						
General government - management and support	2,250	2,319	2,319	-	2,319	-
Community development	45,000	47,150	41,050	5,975	47,025	125
Public works - engineering and transportation	-	60,000	-	-	-	60,000
Capital outlay:						
CVP Traffic Signal Synch	11,900	-	-	-	-	-
Marguerite Traffic Signal Synch	58,300	-	-	-	-	-
Traffic Signal/Safety Coordination	-	88,302	6,900	81,402	88,302	-
Total expenditures	<u>117,450</u>	<u>197,771</u>	<u>50,269</u>	<u>87,377</u>	<u>137,646</u>	<u>60,125</u>
Net change in fund balance	4,550	(75,771)	64,744	(87,377)	(22,633)	53,138
Fund balance, beginning of year	<u>93,534</u>	<u>93,534</u>	<u>93,534</u>	<u>-</u>	<u>93,534</u>	<u>-</u>
Fund balance, end of year	<u>\$ 98,084</u>	<u>\$ 17,763</u>	<u>\$ 158,278</u>	<u>\$ (87,377)</u>	<u>\$ 70,901</u>	<u>\$ 53,138</u>



MISSION VIEJO

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CITY OF MISSION VIEJO

OTHER DEBT SERVICE FUNDS YEAR ENDED JUNE 30, 2012

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

The City of Mission Viejo has the following 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.

CDA DEBT SERVICE - To accumulate funds for payment of Community Development Agency debt through January 31, 2012. Debt service is financed by property tax increment.

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

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

CITY OF MISSION VIEJO

**COMBINING BALANCE SHEET
OTHER DEBT SERVICE FUNDS
JUNE 30, 2012**

	Mall Parking Lease	CDA Debt Service	CDFA 1999 Mall Bonds
Assets:			
Cash and investments	\$ 7,230	\$ -	\$ -
Interest receivable	-	-	1,210
Restricted assets:			
Cash and investments with fiscal agents	-	-	4,134,670
Total assets	\$ 7,230	\$ -	\$ 4,135,880
Liabilities and fund balances:			
Liabilities:			
Interfund payable	\$ -	\$ -	\$ 89,836
Total liabilities	-	-	89,836
Fund balances:			
Restricted for:			
Debt service	7,230	-	4,046,044
Total fund balances	7,230	-	4,046,044
Total liabilities and fund balances	\$ 7,230	\$ -	\$ 4,135,880

CDFA 1999 Revenue Bonds	CDFA 2009 Lease Revenue Refunding Bonds	Totals
\$ -	\$ -	\$ 7,230
-	-	1,210
-	1,365,259	5,499,929
<u>\$ -</u>	<u>\$ 1,365,259</u>	<u>\$ 5,508,369</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 89,836</u>
-	-	89,836
-	1,365,259	5,418,533
-	1,365,259	5,418,533
<u>\$ -</u>	<u>\$ 1,365,259</u>	<u>\$ 5,508,369</u>

CITY OF MISSION VIEJO

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2012**

	Mall Parking Lease	CDA Debt Service	CDFA 1999 Mall Bonds
Revenues:			
Taxes	\$ 1,134,141	\$ 4,104,775	\$ -
Investment earnings	3,530	2,871	2,125
Total revenues	1,137,671	4,107,646	2,125
Expenditures:			
Current:			
General government - management and support	-	1,973	-
Debt service:			
Principal retirement	-	-	1,000,000
Interest and fiscal charges	-	12,100	296,036
Total expenditures	-	14,073	1,296,036
Excess (deficiency) of revenues over (under) expenditures	1,137,671	4,093,573	(1,293,911)
Other financing sources (uses):			
Transfers in	-	-	1,496,641
Transfers out	(1,134,141)	(362,500)	(681,351)
Payment to refunded bonds escrow agent	-	-	-
Total other financing sources (uses)	(1,134,141)	(362,500)	815,290
Extraordinary item:			
Gain (loss) on dissolution of redevelopment agency (note 20)	-	(1,924,063)	-
Net change in fund balances	3,530	1,807,010	(478,621)
Fund balances (deficits), beginning of year	3,700	(1,807,010)	4,524,665
Fund balances (deficits), end of year	<u>\$ 7,230</u>	<u>\$ -</u>	<u>\$ 4,046,044</u>

CDFA 1999 Revenue Bonds	CDFA 2009 Lease Revenue Refunding Bonds	Totals
\$ -	\$ -	\$ 5,238,916
126,371	3,417	138,314
126,371	3,417	5,377,230
-	-	1,973
300,000	450,000	1,750,000
66,183	791,363	1,165,682
366,183	1,241,363	2,917,655
(239,812)	(1,237,946)	2,459,575
-	1,235,731	2,732,372
-	-	(2,177,992)
(2,211,516)	-	(2,211,516)
(2,211,516)	1,235,731	(1,657,136)
-	-	(1,924,063)
(2,451,328)	(2,215)	(1,121,624)
2,451,328	1,367,474	6,540,157
\$ -	\$ 1,365,259	\$ 5,418,533

CITY OF MISSION VIEJO

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 OTHER DEBT SERVICE FUNDS - MALL PARKING LEASE
 YEAR ENDED JUNE 30, 2012**

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final				
Revenues:						
Taxes	\$ 1,224,000	\$ 1,224,000	\$ 1,134,141	\$ -	\$ 1,134,141	\$ (89,859)
Investment earnings	-	-	3,530	-	3,530	3,530
Total revenues	<u>1,224,000</u>	<u>1,224,000</u>	<u>1,137,671</u>	<u>-</u>	<u>1,137,671</u>	<u>(86,329)</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,224,000</u>	<u>1,224,000</u>	<u>1,137,671</u>	<u>-</u>	<u>1,137,671</u>	<u>(86,329)</u>
Other financing sources (uses):						
Transfers out	<u>(1,224,000)</u>	<u>(1,224,000)</u>	<u>(1,134,141)</u>	<u>-</u>	<u>(1,134,141)</u>	<u>89,859</u>
Total other financing sources (uses)	<u>(1,224,000)</u>	<u>(1,224,000)</u>	<u>(1,134,141)</u>	<u>-</u>	<u>(1,134,141)</u>	<u>89,859</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>3,530</u>	<u>-</u>	<u>3,530</u>	<u>3,530</u>
Fund balance, beginning of year	<u>3,700</u>	<u>3,700</u>	<u>3,700</u>	<u>-</u>	<u>3,700</u>	<u>-</u>
Fund balance, end of year	<u>\$ 3,700</u>	<u>\$ 3,700</u>	<u>\$ 7,230</u>	<u>\$ -</u>	<u>\$ 7,230</u>	<u>\$ 3,530</u>

CITY OF MISSION VIEJO

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 OTHER DEBT SERVICE FUNDS - CDA DEBT SERVICE
 YEAR ENDED JUNE 30, 2012**

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final				
Revenues:						
Taxes	\$ 7,135,000	\$ 7,135,000	\$ 4,104,775	\$ -	\$ 4,104,775	\$ (3,030,225)
Investment earnings	7,500	7,500	2,871	-	2,871	(4,629)
Total revenues	7,142,500	7,142,500	4,107,646	-	4,107,646	(3,034,854)
Expenditures:						
General government - management and support	3,393,118	3,393,118	1,973	-	1,973	3,391,145
Debt service:						
Principal retirement	1,200,000	1,200,000	-	-	-	1,200,000
Interest and fiscal charges	36,200	36,200	12,100	-	12,100	24,100
Total expenditures	4,629,318	4,629,318	14,073	-	14,073	4,615,245
Excess (deficiency) of revenues over (under) expenditures	2,513,182	2,513,182	4,093,573	-	4,093,573	1,580,391
Other financing sources (uses):						
Transfers in	12,000	12,000	-	-	-	(12,000)
Transfers out	(2,507,561)	(2,507,561)	(362,500)	-	(362,500)	2,145,061
Total other financing sources (uses)	(2,495,561)	(2,495,561)	(362,500)	-	(362,500)	2,133,061
Extraordinary item:						
Gain (loss) on dissolution of redevelopment agency (note 20)	-	-	(1,924,063)	-	(1,924,063)	(1,924,063)
Net change in fund balance	17,621	17,621	1,807,010	-	1,807,010	1,789,389
Fund balance (deficit), beginning of year	(1,807,010)	(1,807,010)	(1,807,010)	-	(1,807,010)	-
Fund balance, end of year	\$ (1,789,389)	\$ (1,789,389)	\$ -	\$ -	\$ -	\$ 1,789,389

CITY OF MISSION VIEJO

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 OTHER DEBT SERVICE FUNDS - CDFA 1999 MALL BONDS
 YEAR ENDED JUNE 30, 2012**

	Budget Amounts		Actual Amounts	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final				
Revenues:						
Investment earnings	\$ 19,000	\$ 19,000	\$ 2,125	\$ -	\$ 2,125	\$ (16,875)
Total revenues	<u>19,000</u>	<u>19,000</u>	<u>2,125</u>	<u>-</u>	<u>2,125</u>	<u>(16,875)</u>
Expenditures:						
Debt service:						
Principal retirement	1,000,000	1,000,000	1,000,000	-	1,000,000	-
Interest and fiscal charges	320,000	320,000	296,036	-	296,036	23,964
Total expenditures	<u>1,320,000</u>	<u>1,320,000</u>	<u>1,296,036</u>	<u>-</u>	<u>1,296,036</u>	<u>23,964</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,301,000)</u>	<u>(1,301,000)</u>	<u>(1,293,911)</u>	<u>-</u>	<u>(1,293,911)</u>	<u>7,089</u>
Other financing sources (uses):						
Transfers in	1,949,000	1,949,000	1,496,641	-	1,496,641	(452,359)
Transfers out	(681,351)	(681,351)	(681,351)	-	(681,351)	-
Total other financing sources (uses)	<u>1,267,649</u>	<u>1,267,649</u>	<u>815,290</u>	<u>-</u>	<u>815,290</u>	<u>(452,359)</u>
Net change in fund balance	<u>(33,351)</u>	<u>(33,351)</u>	<u>(478,621)</u>	<u>-</u>	<u>(478,621)</u>	<u>(445,270)</u>
Fund balance, beginning of year	<u>4,524,665</u>	<u>4,524,665</u>	<u>4,524,665</u>	<u>-</u>	<u>4,524,665</u>	<u>-</u>
Fund balance, end of year	<u>\$ 4,491,314</u>	<u>\$ 4,491,314</u>	<u>\$ 4,046,044</u>	<u>\$ -</u>	<u>\$ 4,046,044</u>	<u>\$ (445,270)</u>

CITY OF MISSION VIEJO

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 OTHER DEBT SERVICE FUNDS - CDFA 1999 REVENUE BONDS
 YEAR ENDED JUNE 30, 2012**

	Budget Amounts		Actual	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final				
Revenues:						
Investment earnings	\$ 150,000	\$ 150,000	\$ 126,371	\$ -	\$ 126,371	\$ (23,629)
Total revenues	<u>150,000</u>	<u>150,000</u>	<u>126,371</u>	<u>-</u>	<u>126,371</u>	<u>(23,629)</u>
Expenditures:						
Debt service:						
Principal retirement	300,000	300,000	300,000	-	300,000	-
Interest and fiscal charges	127,215	127,215	66,183	-	66,183	61,032
Total expenditures	<u>427,215</u>	<u>427,215</u>	<u>366,183</u>	<u>-</u>	<u>366,183</u>	<u>61,032</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(277,215)</u>	<u>(277,215)</u>	<u>(239,812)</u>	<u>-</u>	<u>(239,812)</u>	<u>37,403</u>
Other financing sources (uses):						
Payment to refunded bonds escrow agent	-	-	(2,211,516)	-	(2,211,516)	(2,211,516)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(2,211,516)</u>	<u>-</u>	<u>(2,211,516)</u>	<u>(2,211,516)</u>
Net change in fund balance	<u>(277,215)</u>	<u>(277,215)</u>	<u>(2,451,328)</u>	<u>-</u>	<u>(2,451,328)</u>	<u>(2,174,113)</u>
Fund balance, beginning of year	<u>2,451,328</u>	<u>2,451,328</u>	<u>2,451,328</u>	<u>-</u>	<u>2,451,328</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,174,113</u>	<u>\$ 2,174,113</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,174,113)</u>

CITY OF MISSION VIEJO

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 OTHER DEBT SERVICE FUNDS - CDFA 2009 LEASE REVENUE REFUNDING BONDS
 YEAR ENDED JUNE 30, 2012**

	Budget Amounts		Actual	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Investment earnings	\$ 5,000	\$ 5,000	\$ 3,417	\$ -	\$ 3,417	\$ (1,583)
Total revenues	<u>5,000</u>	<u>5,000</u>	<u>3,417</u>	<u>-</u>	<u>3,417</u>	<u>(1,583)</u>
Expenditures:						
General government - management and support	5,000	5,000	-	-	-	5,000
Debt service:						
Principal retirement	450,000	450,000	450,000	-	450,000	-
Interest and fiscal charges	791,363	791,363	791,363	-	791,363	-
Total expenditures	<u>1,246,363</u>	<u>1,246,363</u>	<u>1,241,363</u>	<u>-</u>	<u>1,241,363</u>	<u>5,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,241,363)</u>	<u>(1,241,363)</u>	<u>(1,237,946)</u>	<u>-</u>	<u>(1,237,946)</u>	<u>3,417</u>
Other financing sources (uses):						
Transfers in	1,241,363	1,241,363	1,235,731	-	1,235,731	(5,632)
Total other financing sources (uses)	<u>1,241,363</u>	<u>1,241,363</u>	<u>1,235,731</u>	<u>-</u>	<u>1,235,731</u>	<u>(5,632)</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>(2,215)</u>	<u>-</u>	<u>(2,215)</u>	<u>(2,215)</u>
Fund balance, beginning of year	<u>1,367,474</u>	<u>1,367,474</u>	<u>1,367,474</u>	<u>-</u>	<u>1,367,474</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,367,474</u>	<u>\$ 1,367,474</u>	<u>\$ 1,365,259</u>	<u>\$ -</u>	<u>\$ 1,365,259</u>	<u>\$ (2,215)</u>

CITY OF MISSION VIEJO

CAPITAL PROJECTS FUND YEAR ENDED JUNE 30, 2012

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

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

CDA PROJECTS - The purpose of the CDA Projects Fund is to account for the revenues and expenditures associated with the preparation and execution of plans for improvement, rehabilitation and redevelopment of blighted areas within the territorial limits of the project area through January 31, 2012.

CITY OF MISSION VIEJO

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
CAPITAL PROJECTS FUND - CDA PROJECTS FUND
YEAR ENDED JUNE 30, 2012**

	Budget Amounts		Actual	Budgetary Adjustments	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final				
Revenues:						
Investment earnings	\$ 2,000	\$ 2,000	\$ (44)	\$ -	\$ (44)	\$ (2,044)
Total revenues	2,000	2,000	(44)	-	(44)	(2,044)
Expenditures:						
Current:						
General government - management and support	191,350	191,530	115,199	-	115,199	76,331
Community development	113,650	113,650	41,401	-	41,401	72,249
Capital outlay:						
Cabot/Camino Capistrano Bridge	-	7,290	1,168	-	1,168	6,122
Crown Valley Widening I5 - Cabot	640,000	2,435,259	6,547	-	6,547	2,428,712
Oso Widening	250,000	250,000	-	-	-	250,000
Total expenditures	1,195,000	2,997,729	164,315	-	164,315	2,833,414
Excess (deficiency) of revenues over (under) expenditures	(1,193,000)	(2,995,729)	(164,359)	-	(164,359)	2,831,370
Other financing sources (uses):						
Proceeds from issuance of debt	1,200,000	1,200,000	-	-	-	(1,200,000)
Total other financing sources (uses)	1,200,000	1,200,000	-	-	-	(1,200,000)
Extraordinary item:						
Gain (loss) on dissolution of redevelopment agency (note 20)	-	-	74,679	-	74,679	74,679
Net change in fund balance	7,000	(1,795,729)	(89,680)	-	(89,680)	1,706,049
Fund balance, beginning of year	89,680	89,680	89,680	-	89,680	-
Fund balance, end of year	\$ 96,680	\$ (1,706,049)	\$ -	\$ -	\$ -	\$ 1,706,049

CITY OF MISSION VIEJO

AGENCY FUND

YEAR ENDED JUNE 30, 2012

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

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
YEAR ENDED JUNE 30, 2012**

	Balance at June 30, 2011	Additions	Deletions	Balance at June 30, 2012
Community Facilities District 92-1				
Assets:				
Cash and investments	\$ 232,624	\$ 438,101	\$ 670,725	\$ -
Interest receivable	-	183	-	183
Restricted assets:				
Cash and investments with fiscal agents	623,751	3,942,620	3,919,868	646,503
Total assets	\$ 856,375	\$ 4,380,904	\$ 4,590,593	\$ 646,686
Liabilities:				
Accounts payable	\$ 232,624	\$ 438,101	\$ 670,725	\$ -
Due to bondholders	623,751	3,632,435	3,609,500	646,686
Total liabilities	\$ 856,375	\$ 4,070,536	\$ 4,280,225	\$ 646,686

CITY OF MISSION VIEJO

STATISTICAL TABLES AND OTHER SCHEDULES YEAR ENDED JUNE 30, 2012

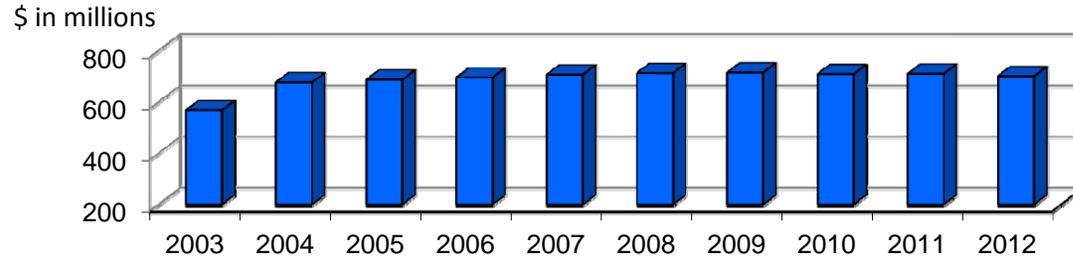
This part of the City of Mission Viejo's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required information says about the City's overall financial health.

Contents	Page
Financial Trends.....	126
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.....	135
These schedules contain information to help the reader assess the City's most significant local revenue source, property tax revenues.	
Debt Capacity.....	139
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.....	143
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.....	145
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	

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

CITY OF MISSION VIEJO

NET ASSETS BY COMPONENT LAST TEN FISCAL YEARS (ACCRUAL BASIS OF ACCOUNTING)



	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities:										
Invested In capital assets, net of related debt	\$ 517,743,671	\$ 627,925,097	\$ 625,779,491	\$ 632,460,889	\$ 640,300,604	\$ 655,353,074	\$ 658,433,369	\$ 651,851,636	\$ 644,039,024	\$ 649,203,896
Restricted	10,897,807	10,851,075	13,153,006	14,737,582	13,544,769	18,087,908	17,607,666	22,790,399	23,261,890	14,143,637
Unrestricted	34,287,556	33,805,512	43,435,759	44,037,190	47,882,955	34,212,481	33,780,397	29,168,881	36,865,274	32,481,374
Total governmental activities										
net assets	562,929,034	672,581,684 ¹	682,368,256	691,235,661	701,728,328	707,653,463	709,821,432	703,810,916 ²	704,166,188	695,828,907 ⁴
Business-type activities:										
Invested in capital assets, net of related debt	2,796,914	2,658,310	2,530,813	2,415,502	2,459,920	2,417,016	2,473,414	2,358,370	2,231,986	2,185,815
Unrestricted	929,828	1,035,120	1,203,564	1,397,343	1,503,644	2,129,106	2,157,546	1,873,521	2,178,529	2,324,417
Total business-type activities										
net assets	3,726,742	3,693,430	3,734,377	3,812,845	3,963,564	4,546,122	4,630,960	4,231,891 ³	4,410,515	4,510,232
Primary government:										
Invested in capital assets, net of related debt	520,540,585	630,583,407	628,310,304	634,876,391	642,760,524	657,770,090	660,906,783	654,210,006	646,271,010	651,389,711
Restricted	10,897,807	10,851,075	13,153,006	14,737,582	13,544,769	18,087,908	17,607,666	22,790,399	23,261,890	14,143,637
Unrestricted	35,217,384	34,840,632	44,639,323	45,434,533	49,386,599	36,341,587	35,937,943	31,042,402	39,043,803	34,805,791
Total primary government										
net assets	\$ 566,655,776	\$ 676,275,114	\$ 686,102,633	\$ 695,048,506	\$ 705,691,892	\$ 712,199,585	\$ 714,452,392	\$ 708,042,807 ^{2,3}	\$ 708,576,703	\$ 700,339,139 ⁴

¹ Increase was due primarily to the addition of two infrastructure networks, Medians & Parkways and Storm Drains.

² Decrease was due to a reduction in capital assets from depreciation and disposals.

³ Decrease was due to the return of prior year subsidies in excess of amounts needed to fund operations.

⁴ Decrease is due to the transfer out of redevelopment assets in the amount of \$1.8M; the disbursement of \$4.8M 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 \$2.4M.

CITY OF MISSION VIEJO

CHANGES IN NET ASSETS LAST TEN FISCAL YEARS (ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses:										
Governmental activities:										
General government-legislative	\$ 1,211,733	\$ 1,417,807	\$ 1,643,865	\$ 1,278,397	\$ 1,458,585	\$ 1,539,469	\$ 2,186,488	\$ 2,346,309	\$ 1,295,007 ²⁵	\$ 1,222,641
General govt-management and support	6,998,036	8,872,595	10,545,172	13,767,465 ⁵	13,359,098	15,012,892 ¹³	14,766,918	16,209,817 ¹⁹	14,807,567 ¹⁹	10,783,048 ³¹
Public safety	10,577,967	12,099,669	12,367,812	13,237,344	13,846,244	15,682,611 ¹⁴	16,223,078	16,503,571	16,781,149	16,664,706
Community development	1,964,511	1,895,841	2,093,381	2,180,574	2,114,820	2,619,254	1,910,720	2,392,911	2,571,601	10,102,297
Public works-engineering & transportation	4,274,363	3,344,704	3,616,133	4,050,960	3,278,156	3,396,587	3,367,924	3,166,898	2,998,197	1,808,209
Infrastructure maintenance	13,715,602	9,989,256	15,084,522 ¹	17,208,589 ⁶	20,828,414 ⁹	21,399,169	21,870,932	24,723,127 ²⁰	25,209,859	24,041,299
Recreation, community & library services	5,814,132	5,933,112	6,498,561	6,965,590	7,696,128 ¹⁰	8,811,784 ¹⁵	9,393,228	9,517,636	9,153,074	9,419,034
Interest on long-term debt	2,403,823	2,292,056	2,495,852	2,716,028	3,415,025 ¹¹	2,529,391	1,591,463	2,191,612 ²¹	1,681,786 ²¹	1,031,685
Total governmental activities expenses	<u>46,960,167</u>	<u>45,845,040</u>	<u>54,345,298</u>	<u>61,404,947</u>	<u>65,996,470</u>	<u>70,991,157</u>	<u>71,310,751</u>	<u>77,051,881</u>	<u>74,498,240</u>	<u>75,072,919</u>
Business-type activities:										
Animal services	918,653	957,177	990,544	1,093,211	1,157,320	1,321,913 ¹⁶	1,788,096	1,701,974	1,684,758	1,756,487
Mission Viejo television	148,710	162,784	162,000	159,592	171,321	171,440	175,541	123,973	131,138	224,840
Total business-type activities expenses	<u>1,067,363</u>	<u>1,119,961</u>	<u>1,152,544</u>	<u>1,252,803</u>	<u>1,328,641</u>	<u>1,493,353</u>	<u>1,963,637</u>	<u>1,825,947</u>	<u>1,815,896</u>	<u>1,981,327</u>
Total primary government expenses	<u>\$ 48,027,530</u>	<u>\$ 46,965,001</u>	<u>\$ 55,497,842</u>	<u>\$ 62,657,750</u>	<u>\$ 67,325,111</u>	<u>\$ 72,484,510</u>	<u>\$ 73,274,388</u>	<u>\$ 78,877,828</u>	<u>\$ 76,314,136</u>	<u>\$ 77,054,246</u>
Program revenues:										
Governmental activities:										
Charges for services:										
Public safety	\$ 772,991	\$ 962,083	\$ 966,906	\$ 848,928	\$ 800,345	\$ 796,364	\$ 661,643	\$ 1,444,667	\$ 712,997	\$ 657,456
Community development	1,322,044	1,460,268	1,656,023	2,165,061	2,033,209	1,768,485	1,714,191	1,323,456	1,279,153	1,388,402
Public works-engineering & transportation	451,103	613,377	450,693	518,244	855,540	557,467	482,480	161,943	467,949	384,856
Recreation, community and library services	1,352,406	1,370,860	1,801,927	2,082,022	2,225,515	2,439,763	2,560,945	2,331,648	3,951,337	1,788,114 ²⁷
Other activities	141,672	650,272	560,480	794,574	497,762	163,670	235,905	172,401	553,623	107,810
Operating grants and contributions	4,040,396	8,245,441	4,638,084 ²	4,500,264	4,938,351	4,750,898	4,255,816	7,275,388 ²²	7,573,309	8,912,482
Capital grants and contributions	1,955,568	518,267	3,815,060 ²	6,188,556 ⁷	7,907,221	8,847,033	9,472,730	5,508,196 ²³	6,697,833	3,395,881
Total governmental activities revenues	<u>10,036,180</u>	<u>13,820,568</u>	<u>13,889,173</u>	<u>17,097,649</u>	<u>19,257,943</u>	<u>19,323,680</u>	<u>19,383,710</u>	<u>18,217,699</u>	<u>21,236,201</u>	<u>16,635,001</u>
Business-type activities:										
Charges for services:										
Animal services	266,430	323,380	394,365	475,944	502,477	863,528	634,515	685,173	1,241,507 ²⁶	1,305,162
Mission Viejo television	660	2,221	2,156	1,054	539	543	404	60	100	700
Operating grants and contributions	360,711	382,985	339,577	390,156	459,977	534,414	801,456	590,780	200,985	324,654
Capital grants and contributions	416,999	5,806	-	-	-	-	-	-	-	-
Total business-type activities revenues	<u>1,044,800</u>	<u>714,392</u>	<u>736,098</u>	<u>867,154</u>	<u>962,993</u>	<u>1,398,485</u>	<u>1,436,375</u>	<u>1,276,013</u>	<u>1,442,592</u>	<u>1,630,516</u>
Total primary government revenues	<u>\$ 11,080,980</u>	<u>\$ 14,534,960</u>	<u>\$ 14,625,271</u>	<u>\$ 17,964,803</u>	<u>\$ 20,220,936</u>	<u>\$ 20,722,165</u>	<u>\$ 20,820,085</u>	<u>\$ 19,493,712</u>	<u>\$ 22,678,793</u>	<u>\$ 18,265,517</u>

(continued)

CITY OF MISSION VIEJO

CHANGES IN NET ASSETS
 LAST TEN FISCAL YEARS
 (ACCRUAL BASIS OF ACCOUNTING)
 (CONTINUED)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net (expense)/revenue:										
Governmental activities	\$ (36,923,987)	\$ (32,024,472)	\$ (40,456,125)	\$ (44,307,298)	\$ (46,738,527)	\$ (51,667,477)	\$ (51,927,041)	\$ (58,834,182)	\$ (53,262,039)	\$ (58,437,918)
Business-type activities	(22,563)	(405,569)	(416,446)	(385,649)	(365,648)	(94,868)	(527,262)	(549,934)	(373,304)	(350,811)
Total net (expense)/revenue	<u>\$ (36,946,550)</u>	<u>\$ (32,430,041)</u>	<u>\$ (40,872,571)</u>	<u>\$ (44,692,947)</u>	<u>\$ (47,104,175)</u>	<u>\$ (51,762,345)</u>	<u>\$ (52,454,303)</u>	<u>\$ (59,384,116)</u>	<u>\$ (53,635,343)</u>	<u>\$ (58,788,729)</u>
General revenues and other changes in net assets:										
Governmental activities:										
Taxes:										
Property taxes	\$ 16,528,480	\$ 16,822,016	\$ 20,439,513 ³	\$ 28,315,994 ⁸	\$ 31,183,198	\$ 33,527,411	\$ 34,221,795	\$ 34,352,871	\$ 32,983,492	\$ 29,934,859 ²⁸
Sales and use taxes	14,818,509	15,463,156	13,558,656	13,590,547	13,099,593	12,231,539	10,557,007 ¹⁷	10,547,009	11,059,525	11,622,640
Property taxes in lieu of sales & use taxes	-	-	4,344,402 ⁴	4,567,285	4,381,834	4,088,418	3,863,059	2,718,259 ²⁴	3,731,802	3,834,165
Other	4,430,803	3,429,715	3,713,661	3,720,600	4,082,376	3,620,011	3,429,101	3,392,049	3,705,433	3,758,594
Unrestricted motor vehicle in lieu fees	5,585,512	4,533,335	6,906,017	608,665	611,463	438,534	337,213	341,391	497,722	49,831
Investment income	1,870,344	1,101,787	1,454,287	1,920,079	3,715,080 ¹²	3,698,871	2,014,231 ¹⁸	1,001,415 ¹⁸	1,305,766	1,140,564
Other	234,605	461,817	235,941	879,905	590,355	322,797	305,386	603,503	655,288	2,031,801 ²⁹
Transfers	(385,046)	(360,727)	(432,018)	(428,372)	(432,705)	(552,488)	(521,260)	(132,831)	(476,611)	(410,450)
Gain (loss) on sale/disposal of cap assets	(2,329)	-	22,238	-	-	-	(111,522)	-	3,151	(11,983)
Extraordinary item	-	-	-	-	-	-	-	-	-	(1,849,384) ³⁰
Total governmental activities	<u>43,080,878</u>	<u>41,451,099</u>	<u>50,242,697</u>	<u>53,174,703</u>	<u>57,231,194</u>	<u>57,375,093</u>	<u>54,095,010</u>	<u>52,823,666</u>	<u>53,465,568</u>	<u>50,100,637</u>
Business-type activities:										
Investment earnings	43,294	11,530	25,375	35,745	83,662	124,938	90,070	18,034	69,376	34,860
Transfers	385,046	360,727	432,018	428,372	432,705	552,488	521,260	132,831	476,611	410,450
Other	(756)	-	-	-	-	-	-	-	5,941	6,274
Gain (loss) on sale/disposal of cap assets	-	-	-	-	-	-	770	-	-	(1,056)
Total business-type activities	<u>427,584</u>	<u>372,257</u>	<u>457,393</u>	<u>464,117</u>	<u>516,367</u>	<u>677,426</u>	<u>612,100</u>	<u>150,865</u>	<u>551,928</u>	<u>450,528</u>
Total primary government	<u>\$ 43,508,462</u>	<u>\$ 41,823,356</u>	<u>\$ 50,700,090</u>	<u>\$ 53,638,820</u>	<u>\$ 57,747,561</u>	<u>\$ 58,052,519</u>	<u>\$ 54,707,110</u>	<u>\$ 52,974,531</u>	<u>\$ 54,017,496</u>	<u>\$ 50,551,165</u>
Changes in net assets:										
Governmental activities	\$ 6,156,891	\$ 9,426,627	\$ 9,786,572	\$ 8,867,405	\$ 10,492,667	\$ 5,707,616	\$ 2,167,969	\$ (6,010,516)	\$ 203,529	\$ (8,337,281)
Business-type activities	405,021	(33,312)	40,947	78,468	150,719	582,558	84,838	(399,069)	178,624	99,717
Total primary government	<u>\$ 6,561,912</u>	<u>\$ 9,393,315</u>	<u>\$ 9,827,519</u>	<u>\$ 8,945,873</u>	<u>\$ 10,643,386</u>	<u>\$ 6,290,174</u>	<u>\$ 2,252,807</u>	<u>\$ (6,409,585)</u>	<u>\$ 382,153</u>	<u>\$ (8,237,564)</u>

¹ Infrastructure maintenance expenditures increased in FY2005 due to an increase in capital project activity.

² Operating grants and contributions were down and capital grants and contributions were up due to a reclassification of certain grants deemed operating grants for FY 2004.

³ Property tax revenue increased significantly in FY2005 due to the continued strong housing market which resulted in an increase in assessed valuation of the properties.

⁴ In 2005 the City began receiving property taxes in lieu of a portion of sales tax from the State, commonly referred to as "Triple Flip" revenue.

⁵ General government costs increased primarily due to higher insurance costs.

⁶ Infrastructure maintenance increased due primarily to the transfer of certain environmental maintenance and community center utility costs to this area from Public Works.

CITY OF MISSION VIEJO

CHANGES IN NET ASSETS LAST TEN FISCAL YEARS (ACCRUAL BASIS OF ACCOUNTING) (CONTINUED)

- 7 Capital grants and contributions increased as a result of Federal disaster assistance for emergency slope failure repair work, reimbursements from the Ladera development, and reinstatement of Proposition 42 traffic congestion relief funds.
- 8 The substantial increase was due to the swap by the State of motor vehicle in lieu fees for additional property tax revenue.
- 9 Infrastructure maintenance increased due to an increase in road resurfacing and slurry seal costs, and increases in street, park and median maintenance.
- 10 Recreation, community and library services costs increased due to an increase in personnel costs and an increase in the number of sites where recreation programs are offered.
- 11 The increase in interest on long-term debt was the result of higher interest payments made on variable rate bonds during the year.
- 12 Investment earnings increased due to higher yields on investments and higher invested balances.
- 13 General government - management and support increased primarily due to the jumpstart in prefunding other post-employment retiree health benefit costs.
- 14 Public Safety increase due to the addition of two School Resource Officer positions.
- 15 Recreation, community and library services increased due to increases in the number of programs offered and the number of patrons using City facilities.
- 16 Animal services increased due to increased personnel costs associated with operating the shelter.
- 17 Sales tax decrease was due to the national recession.
- 18 Investment income decreased due to a decline in yields earned on City investments and a decline in the size of the City portfolio.
- 19 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.
- 20 Infrastructure maintenance increase is due to increased spending on maintenance of streets in conjunction with the Crown Valley Widening project.
- 21 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.
- 22 Operating grants and contributions increased due to a reclassification of Measure M revenue from capital grants and contributions for FY 09/10. In addition several small grant payments were received and CDBG reimbursements were also higher.
- 23 Capital grants and contributions decreased due to a reclassification of Measure M revenue to operating grants and contributions for FY 09/10.
- 24 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.
- 25 Legislative costs were significantly less in 2011 since there were no special recall election costs incurred (costs exceeded \$400,000 in 2010) and legal costs were significantly less in 2011.
- 26 Operating costs increased due to providing the City of Aliso Viejo with animal services.
- 27 Decrease is caused by the amount of park development fees received. \$2M in 2011 and only \$0.4M in 2012.
- 28 Decrease is due to the dissolution of redevelopment agencies causing the City to receive \$3M less in property tax increment revenue.
- 29 Increase is due to the receipt of miscellaneous developer fee reimbursements related to completed capital projects.
- 30 Amount represents the net assets transferred from the redevelopment agency upon dissolution.
- 31 Expenses declined more than \$3M in 2012 due to the dissolution of the redevelopment agency.

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

CITY OF MISSION VIEJO

**FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General fund:										
Reserved	\$ 8,851,699	\$ 6,847,283	\$ 9,198,817	\$ 7,065,344	\$ 12,747,110 ¹	\$ 6,387,326	\$ 4,572,557	\$ 4,313,636	\$ -	\$ -
Unreserved	24,968,403	29,131,890	32,553,064	37,792,440	35,815,005	30,435,799 ³	30,141,564	28,919,290	-	-
Nonspendable	-	-	-	-	-	-	-	-	654,403 ⁵	92,437
Restricted	-	-	-	-	-	-	-	-	140,427 ⁵	180,068
Assigned	-	-	-	-	-	-	-	-	18,495,415 ⁵	18,262,314
Unassigned	-	-	-	-	-	-	-	-	13,991,184 ⁵	10,191,747
Total general fund	\$ 33,820,102	\$ 35,979,173	\$ 41,751,881	\$ 44,857,784	\$ 48,562,115	\$ 36,823,125	\$ 34,714,121	\$ 33,232,926	\$ 33,281,429	\$ 28,726,566 ⁶
All other governmental funds:										
Reserved	\$ 18,357,694	\$ 19,142,865	\$ 20,007,732	\$ 34,221,856 ¹	\$ 31,200,022	\$ 28,437,107	\$ 23,720,546	\$ 28,120,395	\$ -	\$ -
Unreserved, reported in:										
Special revenues funds	2,487,513	1,758,008	1,566,645	(8,892,769) ²	(8,264,397) ²	(5,338,036) ²	(609,794)	(4,638,772) ⁴	-	-
Debt service funds	(3,791,930)	(3,810,925)	(4,175,531)	(4,183,223)	(3,524,440)	(3,830,123)	(2,331,936)	(2,921,375)	-	-
Capital projects funds	466,833	121,742	215,481	230,623	(25,018)	463,170	263,118	566,786	-	-
Nonspendable	-	-	-	-	-	-	-	-	4,456,564 ⁵	4,458,310
Restricted	-	-	-	-	-	-	-	-	18,664,969 ⁵	9,505,259 ⁷
Unassigned	-	-	-	-	-	-	-	-	(4,397,906) ⁵	(2,545,097)
Total all other governmental funds	\$ 17,520,110	\$ 17,211,690	\$ 17,614,327	\$ 21,376,487	\$ 19,386,167	\$ 19,732,118	\$ 21,041,934	\$ 21,127,034	\$ 18,723,627	\$ 11,418,472

¹ Increase is due to large encumbered balances at year-end for capital improvement projects.

² Large encumbered balances for capital improvement projects funded by reimbursement-based grants and developer fees resulted in unreserved fund deficits in several special revenue funds.

³ Decrease is due to an increase in expenditures for capital projects, paid with resources accumulated in prior years.

⁴ Increase in negative fund balance is caused by the expending of Measure M, Gas Tax and Grants funds in advance of revenue receipts.

⁵ New GASB 54 classifications for FY 10/11

⁶ Decrease in total general fund balance is related to the expending of \$4.2M on the Marguerite Tennis Center Renovation, utilizing resources accumulated in prior years.

⁷ 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.

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)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Taxes	\$ 35,832,043	\$ 37,791,653	\$ 41,454,221	\$ 49,990,351 ¹	\$ 52,897,806	\$ 53,701,448	\$ 51,911,454	\$ 50,849,597	\$ 51,480,252	\$ 49,150,258
Licenses and permits	890,258	1,022,612	1,050,504	1,631,189	1,673,856	1,388,460	1,265,539	1,244,695	1,241,009	1,192,491
Intergovernmental	13,044,562	13,509,239	14,299,965	11,100,513	10,274,757	10,131,158	10,774,264	12,668,991	12,069,112	9,027,221 ¹⁷
Charges for services	1,583,802	1,752,372	2,066,709	2,208,203	2,650,875	2,357,708	2,248,499	2,167,175	2,301,119	2,137,521
Fines and forfeitures	803,964	1,025,448	964,061	971,164	929,781	921,669	799,652	865,963	969,262	915,398
Developer fees	1,571,440	44,218	387,691	1,829,832	2,219,907	3,165,749	3,885,108	1,164,858 ⁹	2,394,099	2,990,867
Investment earnings	2,641,143	1,104,595	1,902,109	2,509,971	4,296,276 ⁴	4,378,762 ⁴	3,180,455	1,851,646 ¹⁰	1,500,919	1,518,378
Other	708,523	959,571	891,006	1,777,565	1,850,303	1,065,056	1,321,170	763,812	963,943	1,769,879
Total revenues	<u>57,075,735</u>	<u>57,209,708</u>	<u>63,016,266</u>	<u>72,018,788</u>	<u>76,793,561</u>	<u>77,110,010</u>	<u>75,386,141</u>	<u>71,576,737</u>	<u>72,919,715</u>	<u>68,702,013</u>
Expenditures										
General government-legislative	1,176,379	1,408,127	1,640,829	1,272,859	1,454,655	1,536,513	2,057,338	2,057,561	1,294,261	1,221,895
General government-management and support	8,587,327	9,481,875	9,472,632	11,619,765 ²	11,500,722	14,958,723 ⁶	13,374,990	14,811,597 ¹¹	12,705,588 ¹¹	8,933,721 ¹⁸
Public safety	10,520,150	11,977,994	12,342,183	13,202,638	13,821,556	15,610,489 ⁷	16,086,919	16,551,580	16,723,031	16,703,530
Public works-engineering and transportation	3,793,426	3,199,844	3,641,733	3,821,094	3,046,499	3,197,302	3,135,609	2,621,355	2,495,045	2,519,010
Infrastructure maintenance	10,408,333	10,522,399	11,036,227	13,369,920 ³	14,361,764	17,808,967 ⁸	16,392,734	14,335,933 ¹²	13,912,489	13,937,952 ¹⁹
Community development	1,933,804	1,862,875	2,035,609	2,512,625	2,318,741	2,922,531	2,423,507	4,390,143 ¹³	2,570,480	8,102,297
Recreation/community/library services	4,862,031	4,965,716	5,624,495	5,935,518	6,692,548	7,538,916	7,910,635	7,609,303	7,279,008	7,517,881
Capital projects	5,424,868	9,020,728	6,981,864	8,624,841	16,446,670 ⁵	19,872,424	10,931,773	7,642,900	14,984,143 ¹⁵	14,232,771
Debt service:										
Principal	1,333,231	1,463,231	1,588,231	1,240,000	1,370,000	1,505,000	1,535,000	1,415,000	1,620,000	1,750,000
Interest and fiscal charges	2,280,939	2,063,261	2,072,358	3,124,373	3,643,027	3,022,592	1,838,663	1,940,016	1,368,857	1,177,243
Payment to bonds escrow agent	-	-	-	-	-	-	-	1,382,435 ¹⁴	-	-
Total expenditures	<u>50,320,488</u>	<u>55,966,050</u>	<u>56,436,161</u>	<u>64,723,633</u>	<u>74,656,182</u>	<u>87,973,457</u>	<u>75,687,168</u>	<u>74,757,823</u>	<u>74,952,902</u>	<u>76,096,300</u>
Excess of revenues over (under) expenditures	<u>6,755,247</u>	<u>1,243,658</u>	<u>6,580,105</u>	<u>7,295,155</u>	<u>2,137,379</u>	<u>(10,863,447)</u>	<u>(301,027)</u>	<u>(3,181,086)</u>	<u>(2,033,187)</u>	<u>(7,394,287)</u>
Other financing sources (uses):										
Transfers in	5,291,720	5,962,430	5,924,515	5,987,436	5,184,096	6,312,178	5,370,292	25,437,485 ¹⁴	11,873,668	3,754,173 ²⁰
Transfers out	(5,669,165)	(6,323,157)	(6,356,533)	(6,415,808)	(5,616,801)	(6,864,666)	(5,891,552)	(25,570,316) ¹⁴	(12,350,279)	(4,164,623) ²⁰
Proceeds of bonds	-	-	-	-	-	-	-	17,305,000	-	-
Premium on bonds	-	-	-	-	-	-	-	853,583	-	-
Payment to bond escrow agent	-	-	-	-	-	-	-	(16,244,503) ¹⁴	-	(2,211,516) ²¹
Capital asset disposal	10,833	23,370	25,388	1,280	9,338	22,896	23,099	3,742	3,151	5,619
Issuance of debt	29,137	15,779	1,870	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>(337,475)</u>	<u>(321,578)</u>	<u>(404,760)</u>	<u>(427,092)</u>	<u>(423,367)</u>	<u>(529,592)</u>	<u>(498,161)</u>	<u>1,784,991</u>	<u>(473,460)</u>	<u>(2,616,347)</u>
Net change in fund balances before extraordinary item	<u>6,417,772</u>	<u>922,080</u>	<u>6,175,345</u>	<u>6,868,063</u>	<u>1,714,012</u>	<u>(11,393,039)</u>	<u>(799,188)</u>	<u>(1,396,095)</u>	<u>(2,506,647)</u>	<u>(10,010,634)</u>
Extraordinary item	-	-	-	-	-	-	-	-	-	(1,849,384) ¹⁶
Net change in fund balances	<u>\$ 6,417,772</u>	<u>\$ 922,080</u>	<u>\$ 6,175,345</u>	<u>\$ 6,868,063</u>	<u>\$ 1,714,012</u>	<u>\$ (11,393,039)</u>	<u>\$ (799,188)</u>	<u>\$ (1,396,095)</u>	<u>\$ (2,506,647)</u>	<u>\$ (11,860,018)</u>
Debt service as a percentage of noncapital expenditures	7.646%	8.123%	8.494%	8.499%	8.584%	6.630%	4.991%	4.556%	4.369%	4.350%

(continued)

CITY OF MISSION VIEJO

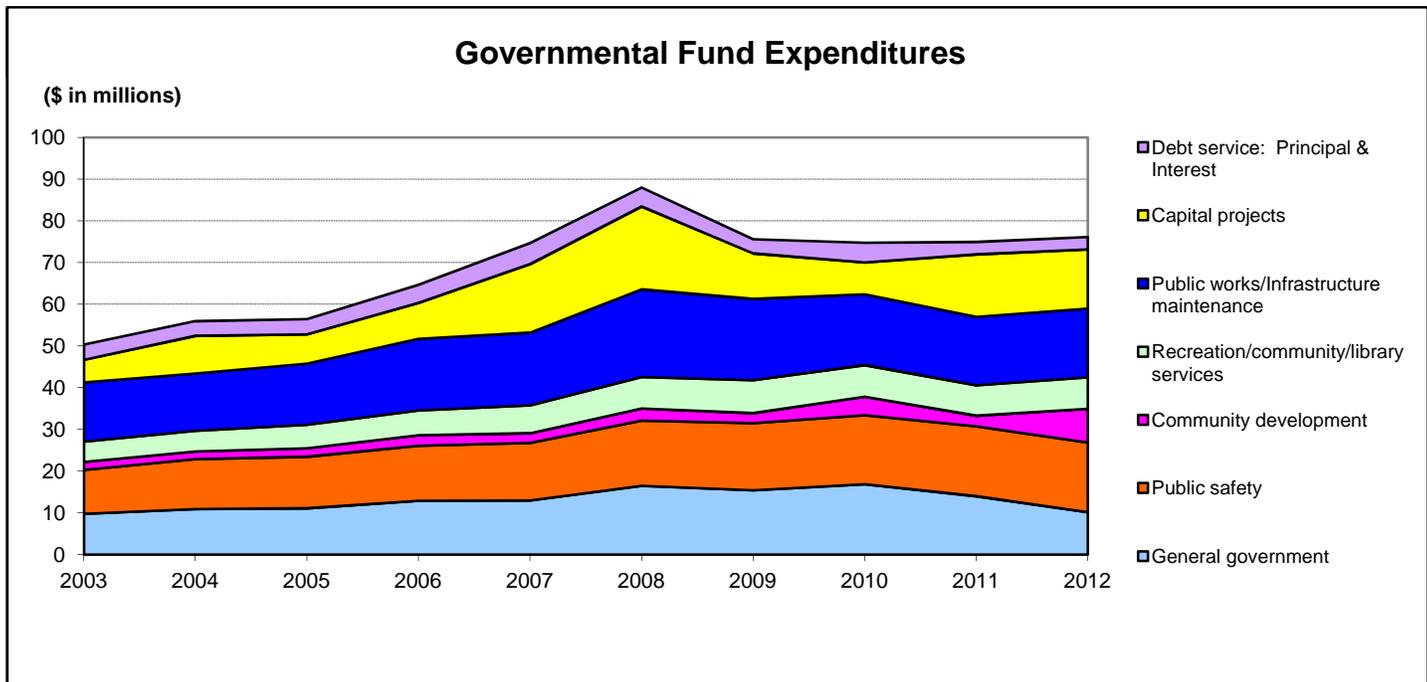
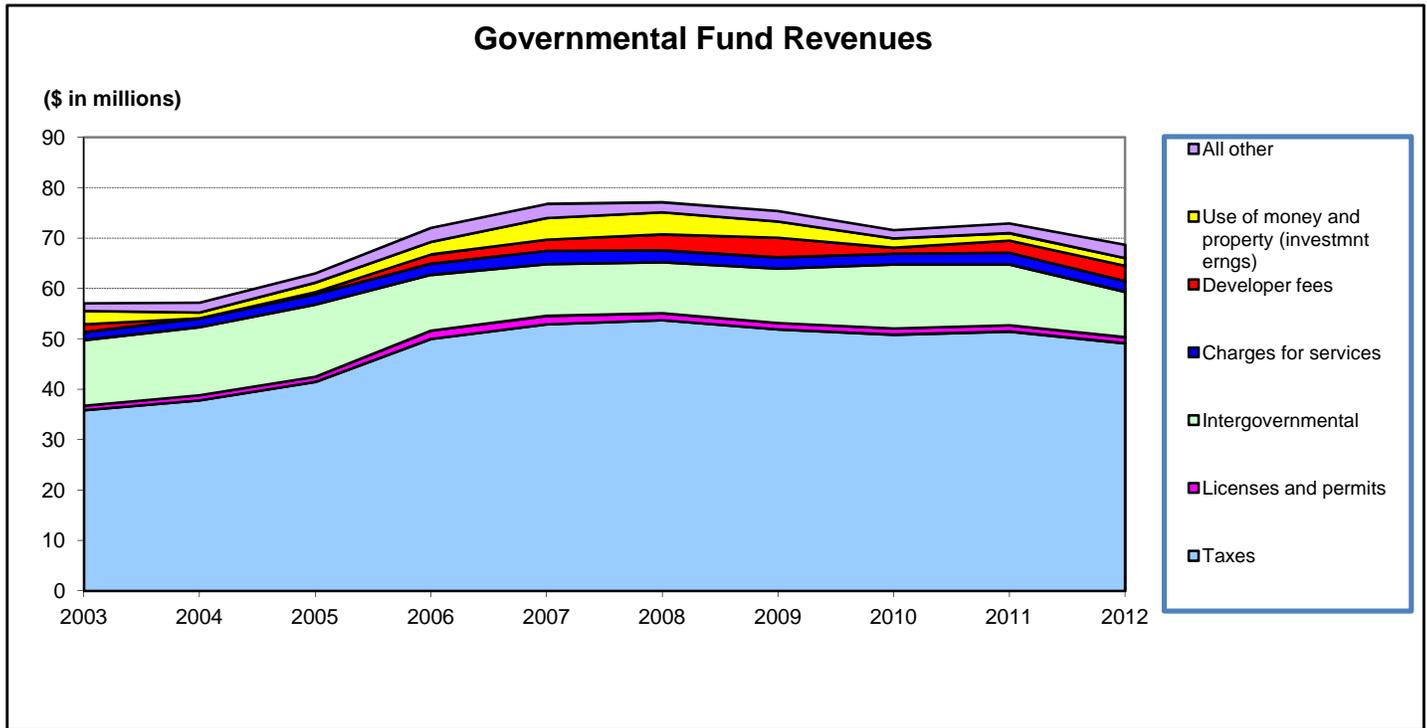
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS LAST TEN FISCAL YEARS (MODIFIED ACCRUAL BASIS OF ACCOUNTING) (CONTINUED)

- ¹ The growth in tax revenue is due to the strong economy and real estate market in the City, and the swap by the State of Motor Vehicle in lieu fees for additional property tax revenue.
- ² The increase is attributable to increased insurance costs and an advance payment made to pay down the unfunded liability in the City's defined benefit pension plan.
- ³ Increase due to certain reclassification of costs from public works-engineering and transportation and recreation/community/library services, as well as increased maintenance expenditures for streets, sidewalks, parks, medians and recreation centers.
- ⁴ Increase due to higher yields on investment and higher invested balances.
- ⁵ Increase due to the commencement of work on two major projects during the year, the Norman P. Murray Center Expansion and Crown Valley Widening projects.
- ⁶ Increase due to the jumpstart in prefunding other post-employment retiree health benefit costs and increased spending on information technology.
- ⁷ Increase primarily due to the addition of two School Resource Officer positions.
- ⁸ Increase due to higher spending on maintenance of City parks, streets, sidewalks, medians and slopes.
- ⁹ Decreased due to the completion of Crown Valley which resulted in a significantly lower amount of developer fees paid from Ladera Ranch.
- ¹⁰ Decreased due to a decline in yields earned on City investments and a decline in the size of the City portfolio.
- ¹¹ Increase in 2010 is due to a payment to the Supplemental Educational Revenue Augmentation Fund as required by the State. This payment was \$1.4 million less in 2011.
- ¹² Decrease is due to a reduction of expenditures as a result of reduced revenues.
- ¹³ Increase due to funding for a new low and moderate income housing project in the City.
- ¹⁴ Related to the issuance of 2009 Lease Revenue Refunding Bonds.
- ¹⁵ Increase is due in part to the commencement of work on the Oso Creek Restoration project and the Oso/Marguerite Parkway Intersection Improvement project, and the completion of the Crown Valley Parkway Widening project.
- ¹⁶ Extraordinary item due to dissolution of redevelopment agency effective 1/31/12.
- ¹⁷ Decrease is due to the decline in the receipt of Measure M, State and Federal grants in the amount of \$2.8M.
- ¹⁸ Decrease is primarily due to operational savings and the dissolution of the redevelopment agency in the amount of \$3M.
- ¹⁹ Increase is due to a \$4.8M disbursement for an affordable housing subsidy.
- ²⁰ There was a one-time \$5.7M transfer between the redevelopment housing fund and the Housing Authority in the prior year. In addition, due to the dissolution of the redevelopment agency, the 20% housing set-aside did not occur in the current year. This transfer was \$1.4M in the prior year.
- ²¹ This payment relates to the pay-off of the 1999 Series C Revenue Bonds.

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

CITY OF MISSION VIEJO

GOVERNMENTAL FUND REVENUES AND EXPENDITURES (LAST TEN FISCAL YEARS)



CITY OF MISSION VIEJO

TAX REVENUES BY SOURCE

LAST TEN FISCAL YEARS

(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	Property Tax		Sales & Use Tax	Franchise Tax	Real Property Transfer Tax	Transient Occupancy Tax	Total
	City	Redevelopment Agency ¹					
2003	\$ 13,704,799	\$ 4,056,110	\$ 14,818,509	\$ 2,206,246	\$ 649,645	\$ 396,734	\$ 35,832,043
2004	14,551,779	4,347,003	15,463,156	2,232,287	777,481	419,947	37,791,653
2005	15,909,756	4,529,758	17,301,046	2,411,905	897,540	404,216	41,454,221
2006	22,830,026	5,485,967	17,616,495	2,752,067	769,143	536,653	49,990,351
2007	25,194,371	5,988,826	17,632,233	2,927,803	573,226	581,347	52,897,806
2008	26,654,054	6,519,989	16,722,281	2,880,671	335,254	589,199	53,701,448
2009	26,582,596	7,167,827	14,420,066	2,953,525	311,863	475,577	51,911,454
2010	25,952,524	7,811,875	13,265,268	2,851,736	448,100	520,095	50,849,598
2011	25,908,673	7,074,818	14,791,327	2,753,821	357,313	594,299	51,480,251
2012	25,830,084	4,104,775	15,456,805	2,793,042	357,241	608,311	49,150,258

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

Sources: General Ledger

CITY OF MISSION VIEJO

**ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(IN THOUSANDS OF DOLLARS)**

Fiscal Year Ended June 30	City			Taxable Assessed Value ¹	Community Development Agency ³			Incremental Valuation	Total Direct Tax Rate ²
	Secured	Public Utility	Unsecured		Secured	Public Utility	Unsecured		
2003	\$ 9,034,496	\$ 1,157	\$ 294,978	\$ 9,330,631	\$ 316,981	\$ 136	\$ 76,866	\$ 393,983	0.16471%
2004	9,580,126	3,283	299,230	9,882,639	351,633	2,329	76,308	430,270	0.16471%
2005	10,214,708	2,222	297,265	10,514,195	363,471	1,303	68,168	432,942	0.16471%
2006	11,190,844	2,171	280,342	11,473,357	444,269	1,306	62,187	507,762	0.16471%
2007	12,127,246	2,110	320,408	12,449,764	486,643	1,297	77,063	565,003	0.16471%
2008	12,903,096	1,209	341,820	13,246,125	556,199	1,209	86,171	643,579	0.16471%
2009	13,007,415	2,418	347,733	13,357,566	630,632	2,418	96,259	729,309	0.16471%
2010	12,736,555	2,418	365,726	13,104,699	644,506	2,418	102,443	749,367	0.16471%
2011	12,820,786	2,418	334,775	13,157,979	637,830	2,418	81,684	721,932	0.16471%
2012	12,894,834	2,418	328,863	13,226,115	650,631	2,417	76,373	729,421	0.16471%

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 City general fund direct rate only.

³ The State of California dissolved redevelopment agencies effective 1-31-12.

Source: CDA: Orange County Auditor-Controller
City: 2003-2006 HdL Coren & Cone
2007-2012 Orange County Auditor Controller

CITY OF MISSION VIEJO

DIRECT AND OVERLAPPING PROPERTY TAX RATES ¹ LAST TEN FISCAL YEARS

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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	0.00670	0.00610	0.00580	0.00520	0.00470	0.00450	0.00430	0.00430	0.00370	0.00370
Capistrano Unified School District 1999 Bond 2000 A	0.00332	0.00392	0.00340	0.00312	0.00273	0.00293	0.00279	0.00308	0.00317	0.00314
Capistrano Unified School District 1999 Bond 2001 B	0.00505	0.00597	0.00544	0.00494	0.00430	0.00468	0.00445	0.00494	0.00507	0.00506
Capistrano Unified School District 1999 Bond 2002 C	0.00217	0.00303	0.00307	0.00272	0.00244	0.00258	0.00247	0.00275	0.00281	0.00281
Santa Margarita Water District Improvement District #1 Bond	<u>0.13200</u>	<u>0.06400</u>	<u>0.02400</u>	<u>0.02400</u>	<u>0.00000</u>	<u>0.00000</u>	<u>0.00000</u>	<u>0.00000</u>	<u>0.00000</u>	<u>0.00000</u>
Total School & Water District Overlapping Tax Rates	<u>0.14924</u>	<u>0.08302</u>	<u>0.04171</u>	<u>0.03998</u>	<u>0.01417</u>	<u>0.01469</u>	<u>0.01401</u>	<u>0.01507</u>	<u>0.01475</u>	<u>0.01471</u>
Total Direct and Overlapping Rates	<u>1.14924</u>	<u>1.08302</u>	<u>0.04171</u>	<u>1.03998</u>	<u>0.01417</u>	<u>1.01469</u>	<u>1.01401</u>	<u>1.01507</u>	<u>1.01475</u>	<u>1.01471</u>

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

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

CITY OF MISSION VIEJO

PRINCIPAL PROPERTY TAX PAYERS CURRENT YEAR AND NINE YEARS AGO

Taxpayer	2012			2003		
	Assessed Value	Rank	Percent of Total City Taxable Assessed Value	Assessed Value	Rank	Percent of Total City Taxable Assessed Value
Mission Hospital Regional Medical Center	\$ 129,127,648	1	0.98%	\$ 25,768,994	9	0.28%
Mission Viejo Associates	121,535,394	2	0.92%	152,877,335	1	1.64%
Mission Viejo Medical LLC	92,684,377	3	0.70%	-	-	-
EQR-Del Lago Vistas Inc	60,337,491	4	0.46%	52,177,878	2	0.56%
Laguna Cabot Road Business Park	57,814,117	5	0.44%	-	-	-
Oasis-California Inc	51,079,046	6	0.39%	44,394,535	3	0.48%
MV Unisys LLC	46,626,145	7	0.35%	-	-	-
Target Corporation	43,661,594	8	0.33%	-	-	-
MG Promenade Apartment	41,651,233	9	0.31%	-	-	-
Mission Ridge Associates LLC	39,501,121	10	0.30%	-	-	-
Cox Communications	-	-	-	29,156,249	4	0.31%
New Age Kaleidoscope	-	-	-	28,660,176	5	0.31%
The Bascom Group	-	-	-	28,122,012	6	0.30%
W9 TRR Real Estate Limited	-	-	-	26,992,920	7	0.29%
Saddleback II Associates	-	-	-	26,205,375	8	0.28%
Madrid LLC	-	-	-	24,745,731	10	0.27%
	<u>\$ 684,018,166</u>		<u>5.18%</u>	<u>\$ 439,101,205</u>		<u>4.72%</u>

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

Source: HdL Coren & Cone

CITY OF MISSION VIEJO

**PROPERTY TAX LEVIES & COLLECTIONS
LAST TEN FISCAL YEARS**

Fiscal Year Ending June 30	Tax Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections for Prior Years ¹	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2003	\$ 17,977,467	\$ 17,550,504	97.63%	\$ 210,406	\$ 17,760,910	98.80%
2004	19,222,439	18,652,129	97.03%	246,653	18,898,782	98.32%
2005	20,667,323	20,233,207	97.90%	206,307	20,439,514	98.90%
2006	23,210,863	22,464,597	96.78%	235,770	22,700,367	97.80%
2007	24,702,934	23,882,142	96.68%	306,257	24,188,399	97.92%
2008	26,674,212	25,268,197	94.73%	519,443	25,787,640	96.68%
2009	26,965,638	25,587,957	94.89%	844,471	26,432,428	98.02%
2010	26,506,153	25,815,252	97.39%	837,760	26,653,011	100.55% ²
2011	26,156,545	25,287,058	96.68%	558,668	25,845,726	98.81%
2012	25,969,090 ³	22,448,229 ⁴	86.44%	400,919	22,849,148	87.99%

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

² Total tax collections to date exceed 100% due to the receipt of delinquent taxes related to prior years.

³ Includes City and Community Development Agency.

⁴ Does not include collections for Community Development Agency after 01/31/12 dissolution.

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			
2003	\$ (320,000)	\$ 2,960,000	0.07%	\$ 27.14	0.03%
2004	(655,000)	2,900,000	0.05%	22.94	0.02%
2005	(1,000,000)	2,835,000	0.43%	18.75	0.02%
2006	(1,355,000)	2,770,000	0.03%	14.41	0.01%
2007	(1,720,000)	2,700,000	0.02%	10.00	0.01%
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	17,140,000	-	0.35%	183.71	0.13%
2011	16,710,000	-	0.33%	178.75	0.13%
2012	16,260,000	-	0.32%	172.62	0.12%

Fiscal Year	Other Governmental Activities Debt			Total Primary Government ²	Percentage of Personal Income ¹	Per Capita ¹
	Revenue Bonds	Note Payable	Capitalized Leases			
2003	\$ 42,462,326	\$ 708,813	-	\$ 45,811,139	1.17%	\$ 470.94
2004	41,757,326	361,361	-	44,363,687	1.08%	453.41
2005	40,942,326	-	-	42,777,326	1.35%	437.18
2006	40,122,326	-	-	41,537,326	0.75%	423.14
2007	39,187,326	-	-	40,167,326	0.74%	409.75
2008	38,137,326	-	-	56,112,326	1.05%	562.35
2009	37,077,326	-	-	54,577,326	1.06%	545.11
2010	35,907,326	-	-	53,047,326	1.09%	568.59
2011	34,717,326	-	-	51,427,326	1.02%	550.12
2012	31,247,326	-	-	47,507,326	0.93%	504.35

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, 2012

	<u>Debt Outstanding</u>	<u>Estimate Percentage Applicable ¹</u>	<u>Estimated Share of Overlapping Debt</u>
Overlapping tax and assessment debt:			
Metropolitan Water District	\$ 196,545,000	0.693 %	\$ 1,362,057
Capistrano Unified School District School Facilities Improvement District No. 1	45,509,930	11.031	5,020,200
Saddleback Valley Unified School District	131,925,000	18.791	24,790,027
Santa Margarita Water District Improvement District No. 1	10,000	99.996	10,000
Santa Margarita Water District Improvement District No. 4	102,885,000	0.011	11,317
Santa Margarita Water District Improvement District No. 4B	11,835,000	0.116	13,729
Capistrano Unified School District Community Facilities District No. 87-1	45,905,000	26.284	12,065,670
Orange County Community Facilities District No. 87-3	15,008,792	100.000	15,008,792
Total overlapping tax and assessment debt	<u>549,623,722</u>		<u>58,281,792</u>
Overlapping general fund obligation debt:			
Orange County General Fund Obligations	233,751,000	3.317 %	7,753,521
Orange County Pension Obligations	214,405,353	3.317	7,111,826
Orange County Board of Education Certificates of Participation	16,000,000	3.317	530,720
Municipal Water District of Orange County Water Facilities Corporation	11,145,000	3.922	437,107
Capistrano Unified School District Certificates of Participation	22,005,000	11.022	2,425,391
Moulton-Niguel Water District Certificates of Participation	85,215,000	15.115	12,880,247
Total overlapping general fund obligation debt	<u>582,521,353</u>		<u>31,138,812</u>
Total overlapping debt	<u>\$ 1,132,145,075</u>		89,420,604
City direct debt			<u>47,507,326</u>
Total direct and overlapping debt			<u>\$ 136,927,930</u>

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.

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Assessed valuation	\$ 9,330,631,428	\$ 9,882,638,615	\$ 10,514,195,052	\$ 11,473,356,454	\$ 12,449,763,507	\$ 13,246,125,427	\$ 13,357,565,673	\$ 13,104,698,129	\$ 13,157,979,198	\$ 13,226,115,127
Conversion percentage	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Adjusted assessed valuation	2,332,657,857	2,470,659,654	2,628,548,763	2,868,339,114	3,112,440,877	3,311,531,357	3,339,391,418	3,276,174,532	3,289,494,800	3,306,528,782
Debt limit percentage	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Debt limit	349,898,679	370,598,948	394,282,314	430,250,867	466,866,132	496,729,704	500,908,713	491,426,180	493,424,220	495,979,317
Total net debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	<u>\$ 349,898,679</u>	<u>\$ 370,598,948</u>	<u>\$ 394,282,314</u>	<u>\$ 430,250,867</u>	<u>\$ 466,866,132</u>	<u>\$ 496,729,704</u>	<u>\$ 500,908,713</u>	<u>\$ 491,426,180</u>	<u>\$ 493,424,220</u>	<u>\$ 495,979,317</u>
Total net debt applicable to the limit as percentage of debt limit	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

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

Source:

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

CITY OF MISSION VIEJO

**PLEGGED-REVENUE COVERAGE
LAST TEN FISCAL YEARS**

Fiscal Year	1999 Series A Variable Rate Demand Revenue Bonds ¹					Coverage
	Property Tax Increment ²	Sales Tax ²	Total Available Revenue	Debt Service		
				Principal	Interest	
2003	\$ 622,202	\$ 1,602,811	\$ 2,225,013	\$ 400,000	\$ 386,698	2.83
2004	621,351	1,752,672	2,374,023	500,000	299,663	2.97
2005	661,618	2,125,209	2,786,827	600,000	403,261	2.78
2006	658,243	2,048,916	2,707,159	600,000	771,553	1.97
2007	736,610	1,810,528	2,547,138	700,000	993,795	1.50
2008	670,539	1,632,789	2,303,328	800,000	939,475	1.32
2009	685,774	1,436,723	2,122,497	800,000	430,566	1.72
2010	767,199	1,097,181	1,864,380	900,000	48,950	1.96
2011	666,005	1,126,628	1,792,633	900,000	60,372	1.87
2012	362,500 ³	1,134,141	1,496,641	1,000,000	30,238	1.45

¹ The bonds were issued May 11, 1999.

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

³ Does not include redevelopment tax increment after dissolution by the State on 1-31-12.

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
2003	97,276	37.5	\$ 455,000	\$ 116,997,802	\$ 39,536	2.5%
2004	97,845	39.7	592,500	130,200,000	52,871	2.1%
2005	97,848	38.0	677,000	139,300,000	54,127	2.7%
2006	98,165	38.1	669,750	150,500,000	56,114	2.6%
2007	98,030	38.4	613,000	153,300,000	55,172	2.8%
2008	99,781	39.6	520,500	155,000,000	53,552	3.8%
2009	100,122	38.8	440,000	148,300,000	51,374	6.8%
2010	93,297	39.0	460,000	153,300,000	52,124	6.9%
2011	93,483	39.0	430,000	163,300,000	53,733	6.7%
2012	94,196	35.2	425,000	166,900,000	54,319	5.7%

Sources: ¹ California Department of Finance

² Money.cnn.com (2003-2009, 2012)

Coldwell Banker.com (2010-2011)

³ California Assoc of Realtors (2003), Orange County Register (2004-2008)

HdL Coren & Cone (2009-2012)

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

U. S. Bureau of Economic Analysis (2003)

UCLA: Economic Forecast November 2011 (2004-2011)

Cal State Fullerton Economic Forecast (2012)

⁵ Venturi Staffing (2004)

California Employment Development Department (2003, 2005-2012)

CITY OF MISSION VIEJO

PRINCIPAL EMPLOYERS CURRENT YEAR AND SIX YEARS AGO

Employer	2012			2006 ¹		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Saddleback College	1,909	1	3.45%	2,130	1	3.94%
Mission Hospital Regional Medical Center	1,275	2	2.30%	1,349	2	2.50%
Saddleback Valley Unified School District	1,245	3	2.25%	640	4	1.19%
Capistrano Unified School District	846	4	1.53%	-	-	-
Nordstrom	400	5	0.72%	300	7	0.56%
Target Corp	258	6	0.47%	-	-	-
Macy's Department Store	225	7	0.41%	475	5	0.88%
U.S. Post Office	200	8	0.36%	249	10	0.46%
City of Mission Viejo	196	9	0.35%	-	-	-
Vocational Visions	156	10	0.28%	-	-	-
Unisys Corporation	-	-	-	1,000	3	1.85%
Coldwell Banker	-	-	-	410	6	0.76%
Quest Diagnostics	-	-	-	300	8	0.56%
Bristol Farms	-	-	-	250	9	0.46%
Total	6,710		12.12%	7,103		13.15%

Percentage of "Total City Employment" based on total number of City residents employed in June 2012 of 55,400.

¹ Information for 2003 is not available in order to include ten years of history. Information is from City's 2006 Comprehensive Annual Financial Report.

Source: 2006 Selectory.com
2012 Telephone Survey

CITY OF MISSION VIEJO

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

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government - legislative	11.880	11.230	11.030	10.930	10.880	10.880	10.880	10.880	10.730	10.530
General government - management & support	28.870	27.795	26.345	27.470	28.720	28.720	29.795	28.220	27.070	23.420
Public safety	10.400	10.500	10.650	11.000	11.000	11.950	15.650 ⁵	15.650	14.750	16.200
Community development	9.650	9.650	9.650	9.500	9.650	9.650	9.650	8.650	7.700	8.700
Public works - engineering and transportation	11.730	11.730	12.225	12.225	12.225	14.175 ²	14.175	13.175	12.175	11.175
Infrastructure maintenance	15.895	14.895	16.600	16.000	16.150	18.250 ³	18.350	17.350	18.250	16.650
Recreation/community/library services	<u>36.700</u>	<u>41.150</u> ¹	<u>47.975</u> ¹	<u>51.725</u> ¹	<u>51.950</u>	<u>55.175</u> ^{1,4}	<u>57.675</u> ⁶	<u>56.425</u>	<u>53.425</u>	<u>52.675</u>
Total	<u><u>125.125</u></u>	<u><u>126.950</u></u>	<u><u>134.475</u></u>	<u><u>138.850</u></u>	<u><u>140.575</u></u>	<u><u>148.800</u></u>	<u><u>156.175</u></u>	<u><u>150.350</u></u>	<u><u>144.100</u></u>	<u><u>139.350</u></u>

¹ Includes conversion of temporary positions to regular positions

² Increased staffing in the transportation area

³ Increased staffing for facilities and landscape maintenance

⁴ Increased staffing to accommodate the expansion of programs offered at the Norman P. Murray Community and Senior Center

⁵ Increased staffing to accommodate the addition of the City of Aliso Viejo to the Animal Services program

⁶ Includes conversion of part-time regular positions to full-time status to meet increasing service demands in the Library's youth services and circulation/passport services divisions

Source: City budget document

CITY OF MISSION VIEJO

OPERATING INDICATORS BY FUNCTION LAST TEN FISCAL YEARS

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government - legislative										
Public Records Act requests	165	140	109	133	137	335 ⁶	408	431	529	431
General government - management and support										
Service requests/complaint cases	2,746	2,649	2,319	3,155	2,834	2,940	2,780	3,036	3,292	3,467
Number of computer network nodes supported	350	399	425	415	460	748 ⁷	742	806	819	1,039 ¹¹
Number of vendor checks issued	6,805	6,338	6,289	7,011	6,985	7,223	7,282	6,646	6,506	6,781
Public safety										
Calls for police services	38,468	42,062	48,297 ²	52,534	50,964	49,272	46,664	40,387 ¹⁰	38,161 ¹⁰	36,068
Average response time-Priority 1 call in minutes	6:00	6:11	5:34	5:14	5:03	5:11	5:07	5:32	5:21	6:05
Community development										
Building inspections	8,092	7,000	7,200	8,719	11,753	11,026	9,673	8,394	6,685	9,947 ¹²
Zoning plan checks	1,939	1,300	1,325	1,501	1,350	1,325	1,316	1,576 ⁹	1,863 ⁹	1,753
Public works - engineering and transportation										
Street resurfacing (lane miles)	24.00	32.30	35.50	21.70	23.20	31.00	28.80	28.00	36.30	32.70
Intersections on the city's interconnect system	106	109	109	110	110	110	110	111	111	111
Daily traffic count- La Paz Rd, Marguerite Pkwy to Spadra	31,200	27,800	29,600	27,100	26,800	25,000	24,739	26,808	27,419	32,747
Infrastructure maintenance										
Acres of medians and parkways renovated	- ¹	4	7	9	9	10	6	4	3	6
Recreation/community/library services										
Attendance at recreation and tennis centers	144,943 ³	129,000 ³	180,742	211,265	242,000 ⁵	266,303	281,011	279,480	270,443	259,635 ¹³
Library circulation	673,305 ⁴	720,000	727,599	727,253	738,456	833,488	945,298 ⁸	968,468 ⁸	939,734	917,736
Youth participating in organized sports on City fields	8,444	7,872	7,655	7,620	7,750	7,750	7,750	7,700	7,700	7,800

¹ Information not available.

² Deputy observations/self-initiated activity included in calls for services as of April 15, 2004 per new Sheriff's Department policy.

³ Montanoso recreation center closed for renovation.

⁴ Library expansion completed.

⁵ Increase is due to increased usage by existing members and an increase in the number of members.

⁶ Increase is due to tracking procedure improvements.

⁷ Increase is due to growth in number of staff supported and implementation of VoIP.

⁸ Due to the economic downturn citizens are taking advantage of free services at the Public Library.

⁹ Increase is due to a rise in the number of businesses and residential remodeling.

¹⁰ Decrease is due to a reduction in patrol hours resulting from staffing vacancies.

¹¹ 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.

¹² Increase is due to the "Improve Don't Move" program which waived fees for a limited time and encouraged business and residential remodeling.

¹³ Decrease is due to the construction of the Marguerite Tennis Center and the opening of two LA Fitness clubs in Mission Viejo.

Sources: Various City departments

CITY OF MISSION VIEJO

CAPITAL ASSET STATISTICS BY FUNCTION LAST TEN FISCAL YEARS

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public safety										
Police (provided by Orange County Sheriffs Department)										
Patrol units	19	19	20	20	22	21	24	24	24	24
Animal shelter buildings:										
Main shelter	1	1	1	1	1	1	1	1	1	1
Cattery	1	1	1	1	1	1	1	1	1	1
Rabbit shelter	0	0	0	1	1	1	1	1	1	1
Cat isolation	0	0	0	1	1	1	1	1	1	1
Public works										
Streets (center miles)	226	228	228	228	228	228	228	228	228	228
Traffic signals	110	111	111	111	111	111	114	114	114	114
Infrastructure maintenance										
Number of park sites	40	40	40	40	41	41	41	41	41	41
Acreage: parks, open space, medians and slopes	1122	1122	1122	1122	1122	1122	1122	1122	1122	1122
Recreation/community/library services										
Facilities (buildings)	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	33	33	33	33	33	35	35	35	35	35
Note: No capital asset indicators are available for general government or community development functions.										

Source: Various City departments

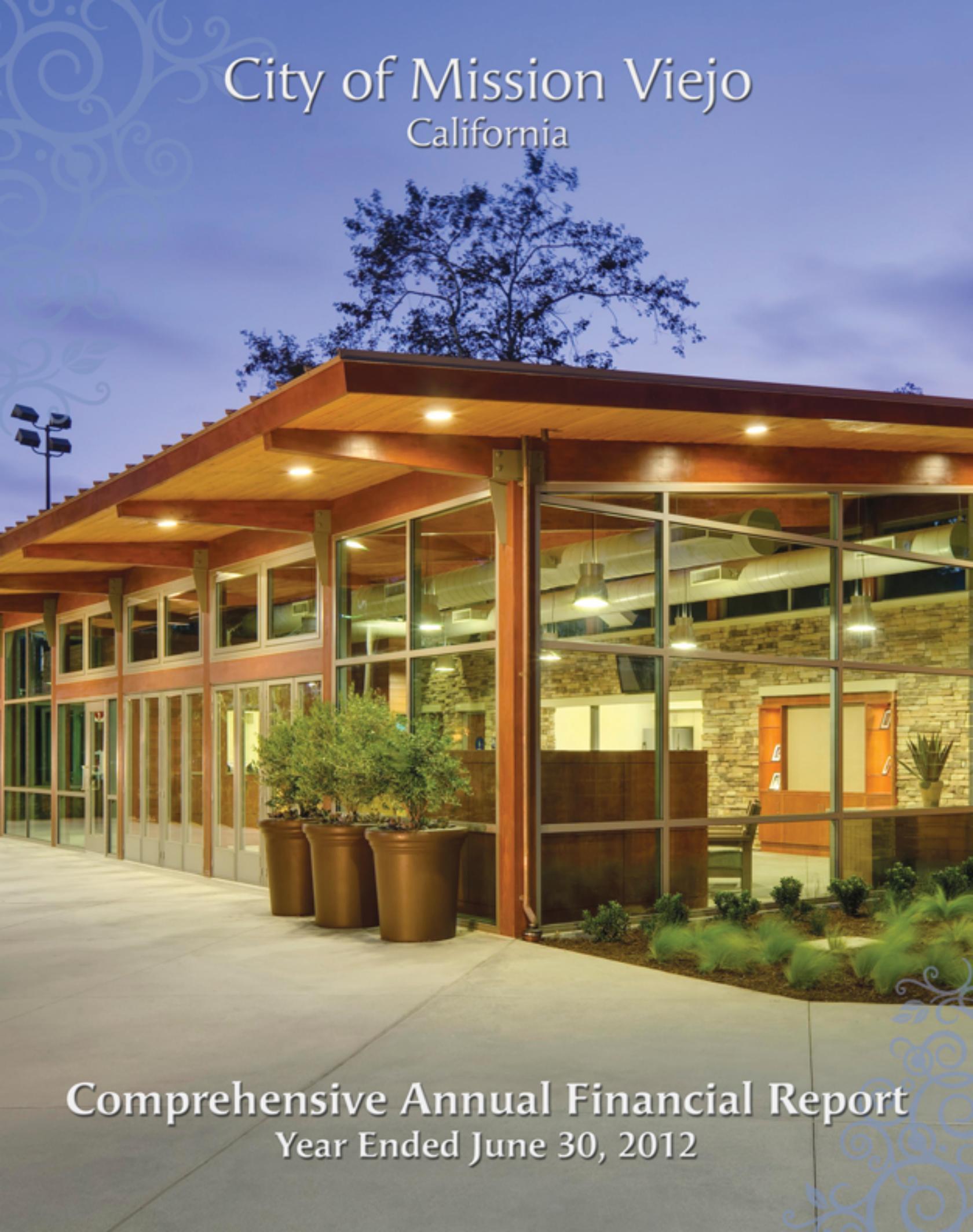


City of Mission Viejo

200 Civic Center

Mission Viejo, CA 92691

www.cityofmissionviejo.org

A photograph of a modern building with a prominent wooden overhang and large glass windows, illuminated at dusk. The building's interior is visible through the glass, showing a stone wall and wooden accents. In the foreground, there are three large potted plants on a concrete walkway. The sky is a deep blue, and a tree is visible in the background.

City of Mission Viejo California

Comprehensive Annual Financial Report
Year Ended June 30, 2012



City of Mission Viejo

200 Civic Center

Mission Viejo, CA 92691

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