

City of
Rancho Santa Margarita
California



Comprehensive Annual
Financial Report
For the Year Ended June 30, 2016

Comprehensive Annual Financial Report

For the Year Ended June 30, 2016

Finance Division

City of Rancho Santa Margarita, California

City Council



L. Anthony Beall
Mayor



Carol A. Gamble
Mayor Pro Tempore



Jerry Holloway
Council Member



Bradley J. McGirr
Council Member



Michael Vaughn
Council Member

City of Rancho Santa Margarita, California

**CITY OF RANCHO SANTA MARGARITA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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Introductory Section

City of Rancho Santa Margarita, California

Introductory Section



CITY OF RANCHO SANTA MARGARITA

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949.635.1800 • fax 949.635.1840 • www.cityofrsm.org

December 12, 2016

To the Honorable Mayor and City Council
City of Rancho Santa Margarita
Rancho Santa Margarita, California

It is with great pleasure that I present to you the City of Rancho Santa Margarita's 16th Comprehensive Annual Financial Report. This report complies with the financial reporting model developed by the Governmental Accounting Standards Board (GASB) Statement 34. This financial reporting model is intended to improve financial reporting by adding significant information not previously available in local government financial statements.

In addition to the fund-by-fund financial information presented in previous financial statements, we now include government-wide financial statements. The government-wide financial statements include a Statement of Net Position that provides the total net equity of the City, including infrastructure, and the Statement of Activities that demonstrates the cost of providing government services. These statements have been prepared using the accrual basis of accounting versus the modified accrual method used in the fund financial statements. A reconciliation report is provided as a key to understanding the changes between the two reporting methods. In addition, this reporting model includes an emphasis on the City's major funds as shown in the Governmental Fund Statements. These statements, combined with other information, are further analyzed in a narrative section entitled Management's Discussion and Analysis (MDA). The MDA provides "financial highlights" and interprets the financial reports by analyzing trends and by explaining changes, fluctuations and variances in the financial data. Furthermore, the MDA is intended to disclose any known significant events or decisions that affect the financial condition of the City.

The City of Rancho Santa Margarita took a leadership role in implementing GASB 34. The City's early implementation in 2001, before the 2003 deadline, enabled the City Council and residents of Rancho Santa Margarita to become more aware of the benefits and information contained in this financial reporting model. The City added infrastructure capitalization in fiscal year 2002. In fiscal year 2003, the City implemented the modified approach for its pavement subsystem, which allows those infrastructure assets to be *non-depreciable*, while establishing a commitment from the City to maintain these infrastructure assets at a minimum acceptable level of condition.

In prior fiscal years and most recently 2012, 2014, and 2016 the City performed a condition assessment of the pavement subsystem, which is required every two years for Measure M transportation funding eligibility and every three years for financial reporting purposes, and affirmed that these infrastructure assets are above the condition level established by the government. In fiscal year ended June 30, 2013, the City implemented GASB No. 63 and No. 65; and implemented the new GASB standards No. 68 and No. 71 for the Comprehensive Annual

Mayor
L. Anthony Beall

Mayor Pro Tempore
Carol A. Gamble

Council Member
Jerry Holloway

Council Member
Bradley J. McGirr

Council Member
Michael Vaughn

City Manager
Jennifer M. Cervantez

Financial Report for fiscal year ended June 30, 2015. The City of Rancho Santa Margarita is proud to be on the leading edge of local governmental financial reporting.

The Comprehensive Annual Financial Report includes the financial activity for all funds of the City. The City provides a wide range of services including planning, building, public works, engineering, police and fire protection, recreation and general administrative activities. These services are delivered through a combination of City staff and contractual agreements.

Included as a part of this letter are several attachments that provide important information regarding the operations and economic environment of the City. The attachments are summarized as follows:

Attachment Content

- A Economic Condition and Outlook
- B Major Projects for the Year and for the Future
- C Other Information

The Comprehensive Annual Financial Report of the City of Rancho Santa Margarita for the fiscal year ended June 30, 2016 is hereby presented. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the City. All disclosures necessary to enable an understanding of the City's financial activities have been included.

The preparation of the Comprehensive Annual Financial Report, in accordance with the GASB 34 financial reporting model, was made possible by the dedicated work of the Finance Department staff. Each member of the staff has my sincere appreciation for their contributions made in the preparation of this report.

Respectfully submitted,



Jennifer M. Cervantez
City Manager

ATTACHMENT A

ECONOMIC CONDITION AND OUTLOOK

Rancho Santa Margarita is located 58 miles southeast of Los Angeles. The City is distinguished by its high-end residential neighborhoods and small-town charm. In Fiscal Year 2016, sales, motor vehicle in-lieu, and property taxes made up approximately 80% of the City's general revenues.

This is the City's 16th fiscal year since incorporation, and the 14th consecutive year that the City provided and paid the full cost of all services transitioned from the County of Orange, including contractual Police Services, which account for over 50% of General Fund expenditures.

For the fiscal year ended June 30, 2016, the City continued on a steady course as the economy continues to recover. The City Council's adopted budget funded all services by utilizing operating revenues. At year end, actual General Fund revenues exceeded expenditures by \$1,455,660. The net surplus includes a one-time increase in sales tax from the wind down and closeout of the "Triple Flip", a reduction in expenditures due to vacancy credits applied to the Orange County Sheriff's Department contract, as well as, expenditure savings within the City departments. The FY 2015/16 budget assumed the use of \$2,087,340 reserve funds for the Habitat Restoration Project, completion of the Rancho Santa Margarita/Alicia Parkway gateway project, and the building repairs to City Hall and the Bell Tower Regional Community Center. General Fund operating expenditures were also reduced approximately \$2,008,298 compared to budgeted amounts through cost cutting measures and budget savings without affecting core City service levels to residents and businesses.

Revenues for Fiscal Year 2016 increased over budget estimates by about \$1,216,391, or .072%. Increased property tax, property tax in-lieu of VLF, and property tax transfer revenue contributed \$51,868, and sales tax revenues reflected an increase of \$562,970 compared to budget estimates. The City showed positive growth throughout the revenue categories with higher growth recorded in areas such as building permit fees and planning and recycling deposits when compared to budget. Other areas of growth included a \$100,000 in sponsorship revenues and one-time only SCE Rule 20A revenues of \$79,359. Although there were many variances between the various revenue line items, the City revenues came in above budget.

Sales tax revenues were the City's largest revenue source at \$6,809,341, or 40%, of General Fund revenue for the fiscal year ended June 30, 2016. Motor vehicle fees and VLF in-lieu taxes of \$4,224,231 made up the City's second largest revenue source at 25% of general revenues. Property taxes of \$2,310,755 accounted for 13% of general revenues.

ECONOMIC CONDITION AND OUTLOOK CONTINUED

Current year sales tax revenues reflected an increase over the prior year actual sales tax revenue. A portion of the sales tax revenue increase was due to the wind down and final closeout of the “Triple Flip”. The City still experienced growth in sales tax revenue and expects it to continue with a slow-to-moderate-growth trend, as consumer and business spending for goods and services stabilize. The City’s outlook for current year estimated property tax revenue of \$2.3 million looks promising as the assessed property values increased between 2014/15 and 2015/16. Current information presents a brighter outlook on the economic recovery stating that home values are rising, credit conditions are improving and household spending is strengthening. Although certain data points to improving general economic conditions, the City remains cautious as it steadily moves forward.

ATTACHMENT B

MAJOR PROJECTS FOR THE YEAR AND FOR THE FUTURE

Land Settlement

The City settled a multi-year dispute with Orange County over land transfers from the City's incorporation in 2000. As part of the settlement, the City transferred to the County an environmentally significant 15 acre parcel of land it purchased in 2009. In return, along with other settlement transactions, the County conveyed 92 acres of land to the City that may be developable and economically useful. The settlement was finalized and recorded in Fiscal Year 2010. As a result of the settlement, the City was required to restore and enhance at least 80 acres of other land to native habitat conditions, and in addition, will have the opportunity to develop an active sports park. The City contracted with Habitat Restoration Sciences, Inc. and the restoration has been completed. The City has now moved into the maintenance phase of the 82.9 acre Upper Oso Habitat Restoration Project, and the maintenance phase has been scheduled to take place over a five year period.

Public Safety

Using the most recent crime statistics (2015) reported on the Federal Bureau of Investigation (FBI) Uniform Crime Report website, Rancho Santa Margarita has consistently been ranked as one of the safest cities in California since Incorporation in 2000. Based on the Police Services 2015 Annual Report, the year 2015 is the fourth consecutive year that Rancho Santa Margarita was ranked as the #1 safest city in Orange County and the sixth consecutive year to be ranked as the #1 safest city in the State of California with a population greater than 20,000. The City expects the ranking of #1 safest city to continue in 2016.

Public Works Improvements

Major projects included annual residential overlays totaling (\$261,102) as well as median hardscape renovations and various sidewalk repairs of (\$178,080). The City also initiated and completed various projects including signal and equipment upgrades, purchase of speed feedback signs, and began the Chiquita Ridge Open Space assessment project for a combined total of (\$164,961) and is currently in the maintenance phase of the 82.9 acre Upper Oso Habitat Restoration Project with a cost of \$186,574. Federal Community Development Block Grant (CDBG) funds were used for median ADA Improvements at a cost of \$63,484. The City also put the finishing touches on the Alicia Parkway and Santa Margarita Parkway (SMP) Gateway into the City (\$202,726); and has continued work on the SMP Bridge Hinge Repair project with cost of \$108,877 in FY 2015/16.

Community Services Programs

Beginning in fiscal year 2001, the City's Community Services Division has hosted an annual New Year's Eve event with great success. This event has been held each New Year's Eve since then and this year will celebrate the City's 17th anniversary. This fiscal year the City continued to provide concerts in the park during the summer months, with the tenth annual series being received with great success. Community Services staff has

MAJOR PROJECTS FOR THE YEAR AND FOR THE FUTURE, CONTINUED

continued adding programs and activities at the Bell Tower Regional Community Center. The City continues to collaborate with community partner tenants who provide youth, teen and senior services programs in the City-owned Center and seeks to expand opportunities for community participation and utilization in the Center for the foreseeable future.

General Plan Update

The California Government Code requires all cities and counties to adopt a comprehensive, long-term general plan for the physical development of the county or city. The City of Rancho Santa Margarita adopted its current General Plan in December 2002 with updates to the Housing Element in 2013 and the Circulation Element in 2014. The City is in the process of updating the remaining elements of the General Plan. This effort began during FY 2015/16 and will conclude during FY 2017/18. A General Plan Consultant was selected in February 2016. During FY 16/17, staff and the consultant completed initial outreach tasks, a retail market study, and an existing conditions report.

Plano Trabuco / Dahlia Court Townhomes

A 36-unit townhome development was approved in July 2015. The project is currently under construction. Park fees will be collected on this development by the City as occupancy permits are issued. Park fees are considered restricted funds collected for park improvements in conjunction with city-approved park implementation programs.

Mission Viejo Animal Care Services

The City has contracted with Orange County Animal Care Services (OCACS) since its incorporation on January 1, 2000. During FY 2015/16, the OCACS was engaged in the procurement for a design-build architect/contractor to construct a new animal shelter at the Tustin Marine Base. As such, the County required its partnering cities to commit to both capital contribution and a 10-year service agreement by April 2016. This prompted the City to consider its options for animal control services; and therefore, reached out to Mission Viejo Animal Services (MVAS) for consideration of a possible partnership for animal control services. Both Animal Control service options were presented to the City Council and on April 27, 2016, the City Council approved an agreement for Animal Control Services with the City of Mission Viejo. The City determined that the agreement with MVAS was the more positive option due to a superior level of service and overall convenience to its residents. The new animal control service with the City of Mission Viejo will begin on January 1, 2017.

ATTACHMENT C

OTHER INFORMATION

Records Management

The City Clerk's Office, a Division of the City Manager's Office, is responsible for the care and custody of all official records and documents for the City. This division provides for the efficient, economical, and effective controls over the creation, maintenance, disposition, and retention of all City records. Staff performs an annual inventory of existing records, including contract documents, as part of the City's records management "best practices." Continued imaging and migration of City records allows for efficient retrieval and safekeeping of important City documents, which allows for enhanced customer service to its residents and the community.

Economic Stimulus Program Reporting

As a recipient of Federal, State and County financial resources, the City is also responsible for reasonably ensuring that its internal control structure is adequate to provide compliance with applicable laws and regulations related to those programs. As part of the American Recovery and Reinvestment Act of 2009, the City has qualified for grant programs that include enhanced electronic reporting and monitoring requirements. To facilitate the operation of the various grant reporting components during the past, current and future fiscal years, the City has incorporated those elements into its current internal control structure, which is subject to ongoing monitoring and periodic evaluation by the management of the City and the City's independent auditors.

Independent Audit

The annual independent audit of the City's financial statements was conducted following the June 30th end of the fiscal year. The accounting firm of White Nelson Diehl Evans LLP was contracted by the City Council to perform the annual audit. As part of the City's annual audit, detailed examinations were made of the City's financial records and reports to verify their accuracy as well as to determine that the City has complied with applicable laws and regulations. In addition, procedures were performed to determine the adequacy of the internal control structure; however, because the cost of control should not exceed the benefits to be derived, the objective is to provide reasonable, rather than absolute assurance, that the financial statements are free of any material misstatements. The results of the City's annual audit for the fiscal year ended June 30, 2016, revealed no instances of material weaknesses or significant deficiencies in the internal control structure, or violations of applicable laws and regulations. The auditors' report on the basic financial statements and combining and individual fund statements and schedules is included in the financial section of this report.

OTHER INFORMATION, CONTINUED

Interim Budgetary Review

Additionally, the City maintains budgetary controls. The objective of the budgetary controls is to reasonably ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. The annual budgets for both Fiscal Year 2015 and 2016 were adopted by the City Council at a public hearing, following several budget development study sessions. Activities of the General, Special Revenue, Debt Service and Capital Projects Funds are included in the annual appropriated budget. The City also maintains an encumbrance accounting system as one method of accomplishing internal budgetary control. Additionally, the City Council has requested and received interim updates of budgetary performance and variance analysis. The updates are intended to provide additional support for staff to monitor and adjust budgeted revenues and expenditures based on comparisons to current and historical activity, and to aid City Council discussions and decisions regarding the City's budget.

Reserves Policy

A continuing priority of the City Council has been to exercise prudent financial management, provide long term financial planning, and strong internal control of City asset uses, by adopting a policy regarding the City's accumulated net resources called fund balance. The City Council completed an annual review of the City's Reserves Policy and adopted to designate \$9,300,558 to several categories of available fund balance. Classifications essentially reflect a government's self-imposed limitations on the use of otherwise available current financial resources. The classification categories are: Council Strategic, Technology, Facilities, Vehicles, and Infrastructure and Emergency. The City Council has not established a minimum amount to be maintained in any of the classification categories.

Purchasing Policy and Contracts Administration

The City has engaged in an ongoing assessment and enhancement of procedures and practices for procurement of goods and services as a component of its delivery of City services to residents and businesses, and in FY 2014/15 revised the City's Procurement Code. Revisions to the City's standardized agreements to ensure the quality and suitability of the City's desired program objectives and risk management practices were completed in FY 2015/16.

OTHER INFORMATION, CONTINUED

Awards

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 Rancho Santa Margarita for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order 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 Comprehensive Annual Financial Report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. This is the fifteenth consecutive year that the City has received this award. We believe our current report conforms to the Certificate of Achievement program requirements, and we are submitting it to GFOA for inclusion in the award program evaluations for this fiscal year ended June 30, 2016.



Government Finance Officers Association

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

Presented to

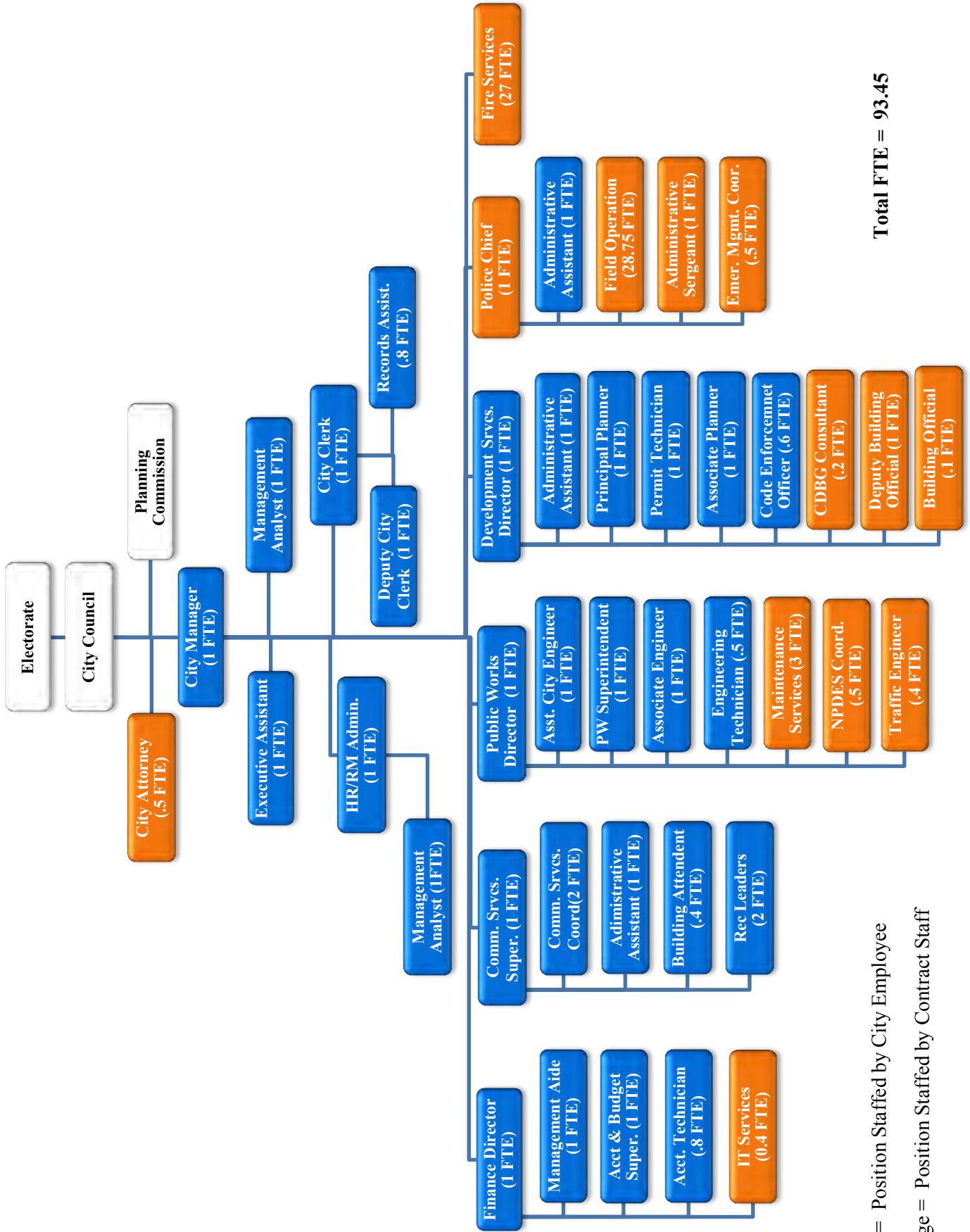
**City of Rancho Santa Margarita
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

City of Rancho Santa Margarita
 ORGANIZATION CHART BY CITY EMPLOYEES & CONTRACT STAFF



Total FTE = 93.45

Blue = Position Staffed by City Employee

Orange = Position Staffed by Contract Staff

City of Rancho Santa Margarita

LIST OF PRINCIPAL OFFICIALS

Council – Manager Form of Government

CITY COUNCIL

L. ANTHONY BEALL
Mayor

CAROL A. GAMBLE
Mayor Pro Tempore

JERRY HOLLOWAY
Council Member

BRADLEY J. MCGIRR
Council Member

MICHAEL VAUGHN
Council Member

CITY ADMINISTRATION

Jennifer Cervantez
City Manager/City Treasurer

Stefanie Turner/Finance Director
Cheryl Kuta, Planning/Community Development Director
Greg Simonian, City Attorney
Amy Diaz, City Clerk
Lieutenant Luke South, Chief of Police Services
Wendi Redington, Community Services Supervisor
E. (Max) Maximous, City Engineer/Public Works Director

Financial Section

City of Rancho Santa Margarita, California



Financial Section

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Rancho Santa Margarita
Rancho Santa Margarita, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Rancho Santa Margarita, California (the City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Rancho Santa Margarita, California, as of June 30, 2016, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters:

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule of contributions - defined benefit pension plans, the other post employment benefits schedule of funding progress, the budgetary comparison schedule, and the information on the modified approach for infrastructure contained in Note 1 to required supplementary information, identified as Required Supplementary Information (RSI) in the accompanying 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 RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining statements and individual fund schedules and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements and individual fund schedules, as listed in the table of contents, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements and individual fund schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Matters (Continued):

Other Information (Continued)

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

White Nelson Dick Evans LLP

Irvine, California
December 12, 2016

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*Management's
Discussion & Analysis*

City of Rancho Santa Margarita, California



*Management's Discussion
& Analysis*

CITY OF RANCHO SANTA MARGARITA MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Rancho Santa Margarita, California (City), we offer readers of the City of Rancho Santa Margarita's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year (FY) ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report, and with the City's financial statements which follow this discussion.

Financial Highlights

- The government-wide assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflow of resources, at June 30, 2016, by \$129.7 million (*net position*). Of this amount, \$15.0 million (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors. Legal and contractual obligations restrict \$5.6 million of net position for specific City programs. Investment in capital assets totals \$109.1 million.
- The government's total net position increased by \$2.3 million during the fiscal year ended June 30, 2016. Revenues decreased by \$1 million. The "Other" revenue decreased by \$1.5 million due to one-time revenues received in the prior year. Sales Tax increased by \$0.8 million due to both growth and the wind down and close out of the Triple Flip. Property tax revenue, including Property Tax in lieu of VLF, and Property Transfer Tax revenue, increased \$0.3 million; fees and intergovernmental revenue increased \$0.02 million; operating grants and contributions decreased \$0.8 million; while other revenue sources showed minimal change. The net decrease from the prior year in total government expenses of \$3.5 million is due to capital projects spending fluctuations and vacancy credits applied to the Public Safety contract.
- As of June 30, 2016, the City's governmental funds reported combined ending fund balances of \$25.4 million, an increase of \$1.9 million in comparison with the prior year. Approximately 27.6 percent, or \$7.0 million of this total amount, has been allocated for specific obligations (*nonspendable, restricted, committed fund balance*), and 72.4 percent, or \$18.4 million is available for other spending purposes at the City Council's discretion (*assigned, unassigned fund balance*).
- At June 30, 2016, the City's General Fund totaled \$19.6 million. Of the total fund balance, \$1.5 million is nonspendable or committed for future use. The remaining available fund balance is made up of the assigned fund balance of \$9.3 million and unassigned fund balance of \$8.9 million. This portion of General Fund totaled \$18.2 million which equaled 119 percent of total General Fund expenditures including transfers out for the fiscal year ended June 30, 2016. Although available, the City Council has classified this \$18.2 million for specific purposes, including emergencies.

- The City's total long-term liabilities decreased by \$0.11 million (.76 percent) during the current fiscal year. This decrease is the net effect of the payment made for principal retirement on Lease Revenue Refunding Bonds in October 2015, and a slight increase in the sales tax mitigation payment due within one year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's Basic Financial Statements. The City's Basic Financial Statements consist of three components: 1) Government-wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Basic Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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.

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements present information about the functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the City include general government, building and planning, public safety, and public works.

The Government-wide Financial Statements can be found immediately following this discussion and analysis.

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 fund financial statements provide detailed information about the individual funds—not the City as a whole. Some funds are required to be established by State law. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City of Rancho Santa Margarita uses only *governmental funds* for accounting and reporting purposes.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The City maintains various 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, the Capital Projects Fund, and the Debt Service Fund which are considered to be major funds, and are presented in individual columns in the fund statements. Data from other non-major governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report. The governmental Fund Financial Statements can be found following the Government-wide Financial Statements.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Basic Financial Statements can be found immediately following the Fund Financial Statements.

Other Supplementary Information

In addition to the basic financial statements and included within the notes, this report also presents certain *required supplementary information* about the City's General Fund budgetary comparisons. The Notes to the Required Supplementary Information presents infrastructure and budget information. The Required Supplementary Information and Notes to the Required Supplementary Information can be found following the Notes to the Basic Financial Statements.

The combining statements referred to earlier in connection with non-major governmental funds are presented for all non-major Special Revenue Funds. The supplementary financial information also includes budgetary comparison schedules for the non-major governmental funds and the Capital Projects and Debt Service major funds to demonstrate compliance with the annual budget as adopted and amended. These combining and individual fund statements

and schedules can be found immediately following the Notes to the Required Supplementary Information.

The City's *blended component unit*, the Rancho Santa Margarita Public Financing Authority, although legally separate, functions at the discretion and direction of the City's management. Its financial position and results of operations, therefore, have been included as an integral part of the primary government, and are presented as a major fund, the Debt Service Fund, in the financial statements and schedules.

Government-wide Financial Analysis

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

The largest portion of the City's net position (84 percent) reflects its net investment in capital assets (e.g., land, buildings, improvements other than buildings, equipment, infrastructure, and construction in progress); less any related debt used to acquire those assets that are 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.

City of Rancho Santa Margarita
Statement of Net Position
As of June 30, 2016 and 2015
(in thousands)

	Governmental	
	Activities	
	<u>2016</u>	<u>2015</u>
Assets:		
Current and other assets	\$ 28,345	\$ 25,081
Capital assets	117,494	117,591
Total assets	<u>145,839</u>	<u>142,672</u>
Deferred Outflows of Resources:	<u>1,138</u>	<u>744</u>
Liabilities:		
Long-term liabilities	14,158	14,258
Other liabilities	2,898	1,499
Total liabilities	<u>17,056</u>	<u>15,757</u>
Deferred Inflows of Resources:	<u>230</u>	<u>250</u>
Net Position:		
Net investment in capital assets	109,157	108,860
Restricted	5,552	5,223
Unrestricted	14,982	13,326
Total net position	<u>\$ 129,691</u>	<u>\$ 127,409</u>

During the fiscal year ended June 30, 2016, net position of the City increased 1.79 percent to \$129,691 million, of which \$109.1 million is invested in capital assets such as equipment, buildings and infrastructure. Of the remaining total, \$5.6 million is restricted for fulfillment of specifically stipulated spending agreements originated by law, contract or other agreements with external parties. The remaining \$15.0 million, an increase of 12 percent from the prior year total of \$13.3 million is unrestricted; and may be used to meet the City's ongoing obligations, but is subject to classes and categories of use, for specific purposes as determined by the City Council.

City of Rancho Santa Margarita
Statement of Changes in Net Position
For the Years Ended June 30, 2016 and 2015
(in thousands)

	Governmental	
	Activities	
	<u>2016</u>	<u>2015</u>
Revenues		
Program revenues:		
Charges for service	\$ 1,441	\$ 1,211
Operating grants and contributions	2,545	3,260
General revenues:		
Property taxes	6,535	6,235
Sales taxes	6,809	6,037
Fees and intergovernmental	1,833	1,817
Other revenues	238	1,785
Investment revenue	104	67
Total revenues	<u>19,505</u>	<u>20,412</u>
Expenses		
General government	3,421	3,698
Building and planning	1,169	998
Public safety	7,573	8,105
Public works	4,719	7,522
Interest expense	341	355
Total expenses	<u>17,223</u>	<u>20,678</u>
Excess (deficit) of revenues over expenses	<u>2,282</u>	<u>(266)</u>
Increase (Decrease) in net position	2,282	(266)
Beginning net position, restated	<u>127,409</u>	<u>127,675</u>
Ending net position	<u><u>\$ 129,691</u></u>	<u><u>\$ 127,409</u></u>

Overall, Citywide revenues for the fiscal year ended June 30, 2016 decreased by \$.91 million a 4.4 percent decrease over the prior year. Property tax revenue increased by \$.3 million and sales tax revenue increased by \$.8 million; partially due to the wind down and final closeout of the Triple Flip. Other revenue decreased by \$1.5 million due to one-time revenue received in the prior year.

- Total program revenues of \$3.9 million were 20 percent of total revenues.
- Total general revenues of \$15.5 million were 80 percent of total revenues.

Total related expenses decreased by \$3.5 million, a 16.7 percent decrease from the prior year. Public Works expenditures, which account for 27 percent of the total expenditures, were used for overlay, the completion of the Alicia Pkwy and Rancho Santa Margarita Pkwy gateway project and other street and sidewalk repair projects throughout the City as well as the first phase of the City Hall and Bell Tower Regional Community Center building repairs. Public Safety expenditures accounted for 44 percent of total current expenditures. Expenditure decreases reflect capital projects deferred to the following fiscal year and vacancy credits recognized against the Public Safety contract.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information may be useful in assessing the City's financing requirements.

As of June 30, 2016, the City's governmental funds reported total combined ending fund balances of \$25.4 million, an increase of \$1.9 million from the prior year. Approximately 38 percent of the City's governmental funds ending fund balances, or \$9.5 million, constitutes *assigned fund balance*, which have been classified by the City Council for specific uses. Approximately 35 percent of the City's governmental funds ending fund balances, or \$8.9 million, constitutes *unassigned fund balance* which is available for spending at the government's direction. *Restricted fund balance* of \$7.0 million, or 28 percent is available to: 1) pay debt service (\$1.51 million) and 2) use for specific purposes as required by special revenue funds (\$4.04 million). The remainder of fund balance, \$1.46 million, is *committed* to indicate that it is not available for new spending, because it has already been committed to: 1) general plan and fee update (\$0.3 million), 2) liquidate contracts and purchase orders of the prior period (\$1.13 million), 3) a reserve for self-insurance deductible liability (\$0.03 million).

General Fund Financial Highlights

The general fund is the chief operating fund of the City. At June 30, 2016, assigned fund balance was \$9.3 million and unassigned fund balance of the general fund was \$8.9 million, while total fund balance was \$19.62 million. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 61 percent of the total General Fund expenditures. As mentioned above, however, the City Council has classified the assigned fund balance \$9.3 million for specified purposes.

City of Rancho Santa Margarita
Summary of Changes in Fund Balances - General Fund
For the Year Ended June 30, 2016 and 2015
(in thousands)

	2016	2015
Revenues		
Taxes	\$ 13,658	\$ 12,553
Fees and permits	2,030	1,876
Intergovernmental	259	287
Charges for service	747	653
Investment income	79	49
Fines, forfeits and penalties	163	199
Other	238	1,785
Total revenues	17,174	17,402
Expenditures		
General government	3,522	3,691
Building and planning	1,151	993
Public safety	7,441	7,995
Public works	2,264	2,107
Capital outlay	153	64
Total expenditures	14,531	14,850
(Deficit) of revenues over expenditures	2,643	2,552
Net transfers	(1,188)	(1,301)
Increase in Fund Balance	\$ 1,455	\$ 1,251

For the fiscal year ended June 30, 2016, the cash and investments balance in the General Fund was \$19.18 million, an increase of \$1.39 million from the prior fiscal year.

Overall, general fund revenues for the fiscal year ended June 30, 2016 decreased by \$.23 million, or 1.3 percent, over the prior year. Individual components of this change are summarized as follows and refer to comparisons detailed in the Summary of Changes in Net Position presented on a prior page:

- Property tax revenues of the General Fund increased by \$0.3 million due to increases in assessed valuations. The increase in property tax stems from revenue generated by the various property tax categories including, but not limited to, Secured, Unsecured, Supplemental, Property Transfer Tax, and Property Tax in lieu of VLF. Property Tax in lieu of VLF represents \$4.2 million of the \$13.65 million in overall taxes category.

- Sales tax revenues increased \$0.77 million, to \$6.8 million, due to the effects of increased general consumer spending and auto sales as well the wind down of the “Triple Flip”.
- Other revenue decreased by \$1.7 million, to \$0.23 million, mostly due to non-recurring one-time only revenues of \$1.7 million received in the prior fiscal year.

Changes in General Fund expenditures, by function, occurred as follows during the year ended June 30, 2016:

- General government expenditures decreased by .05 percent to \$3.52 million from the prior year expenditures.
- Public safety expenditures decreased by \$0.55 million to \$7.44 million, due to the net effect of increased contract costs associated with police services provided by the Orange County Sheriff’s Department and offsetting vacancy credits applied to the FY 2015/16 contract. Public safety expenditures were 51 percent of total General Fund expenditures.
- Public works expenditures increased by \$0.16 million, to \$2.26 million, with increases in Public Works administration due to higher costs in NPDES and traffic engineering as well as the purchase of a City vehicle. Street Maintenance also had increased costs to additional maintenance work with regards to the streets, traffic signals and NPDES.
- Building and planning expenditures increased by \$0.16 million, to \$1.15 million, reflecting costs associated with the first phase of the General Plan Update as well as an increase in building and development activity within the city from the prior year.

Other Major Funds Highlights: Capital Projects Fund and Debt Service Fund

The Capital Projects Fund accounts for street, bridge, traffic signal and other circulation related capital projects funded by grants, fees and interest revenue. The actual fund balance increased \$0.10 million. This increase stems from the FY 2014/15 expenditure reimbursement for the Santa Margarita Bridge Hinge project being received in FY 2015/16. The Debt Service fund had an increase in fund balance of \$.00641 million which stems from the recording of investment income in the fund.

General Fund Budgetary Highlights

Differences between the General Fund expenditures and the final amended budget were \$2.0 million and can be briefly summarized as follows:

- \$0.97 million in decreases allocated to public safety activities.
- \$0.33 million in decreases for general government activities.
- \$0.87 million in decreases for transfers to other funds.

These overall decreases can be attributed to an Orange County Sherriff’s contract vacancy credit, deferred capital projects, and conservative spending maintained throughout the fiscal year.

The original general fund budget was amended to increase general fund expenditures by \$0.0081 million. This increase was a budget amendment to provide additional community support to the City of Rancho Santa Margarita Chamber of Commerce within the Development Services – Economic Development budget line item.

Capital Asset and Debt Administration

Capital Assets

The City's net capital assets for its governmental activities, as of June 30, 2016, amounts to \$117.49 million. The net capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total decrease in the City's net capital assets for the current fiscal year was .08 percent.

City of Rancho Santa Margarita
Summary of Changes in Capital Assets
(in thousands)

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 6,684	\$ -	\$ -	\$ 6,684
Land - right of way	43,570	-	-	43,570
Construction in Progress	717	1,687	1,134	1,270
Infrastructure - pavement	46,767	-	-	46,767
Total capital assets not being depreciated	<u>97,738</u>	<u>1,687</u>	<u>1,134</u>	<u>98,291</u>
Capital assets, being depreciated:				
Machinery and equipment	654	163	19	798
Buildings	16,619	-	-	16,619
Parks	906	-	-	906
Infrastructure	62,880	1,124	-	64,004
Total capital assets being depreciated	<u>81,059</u>	<u>1,287</u>	<u>19</u>	<u>82,327</u>
Less accumulated depreciation for:				
Machinery and equipment	500	78	19	559
Buildings	6,094	554	-	6,648
Parks	361	36	-	397
Infrastructure	54,251	1,269	-	55,520
Total accumulated depreciation	<u>61,206</u>	<u>1,937</u>	<u>19</u>	<u>63,124</u>
Total capital assets, being depreciated, net	<u>19,853</u>	<u>(650)</u>	<u>-</u>	<u>19,203</u>
Governmental activities capital assets, net	<u>\$ 117,591</u>	<u>\$ 1,037</u>	<u>\$ 1,134</u>	<u>\$ 117,494</u>

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

- Additions to construction in progress were \$1.7 million which included the design work for projects to be completed in future years for various street, traffic, and bridge improvements. The additions are mostly made up of the final phase of the Alicia Pkwy Gateway project, signal and equipment upgrades, the SMP Bridge Hinge Repair project, and the beginning phase of the City Hall and Bell Tower Regional Community Center repairs.
- Infrastructure additions for the year totaled \$1.12 million related to the completion of electronic traffic control devices, sidewalks and curb and gutter projects.
- Machinery and Equipment acquisitions of \$0.1 million included replacements to the City’s computer technology system and the purchase of 800 MHz radios and equipment for Public Safety.

Additional information on the City’s capital assets can be found entitled Note 4 – Capital Assets in the Notes to the Basic Financial Statements section of this report.

The City elected to use the modified approach in reporting its pavement subsystem. Under the modified approach, infrastructure assets that are part of a network or a subsystem of a network are not required to be depreciated as long as two requirements are met. First, the government shall manage the eligible infrastructure assets using an asset management system and secondly, the government shall document that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government. The condition of the pavement subsystem is measured using the Rancho Santa Margarita Pavement Condition Index. The City Council accepted the findings of the Pavement Condition Assessment Update of 2016 and has adopted a condition rating of 70 as the minimum acceptable Pavement Condition Index (PCI) for the entire street pavement subsystem. The assessed PCI was an average of 81.6, or very good. This average PCI was maintained since the last update in 2014. Actual expenses for pavement condition maintenance were less than budgeted amounts due to conservative cost estimates.

Long-term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$10.5 million. The remaining balance of the mitigation obligation to the County of Orange at the end of the current fiscal year was \$1.90 million.

	Balance			Balance	Long-	Due Within
	June 30, 2015	Increases	Decreases	June 30, 2016	Term	One Year
Mitigation Obligation	\$ 1,900	\$ -	\$ -	\$ 1,900	\$ 933	\$ 967
Lease Revenue						
Refunding Bonds	10,934	-	412	10,522	\$ 10,117	405
Compensated Absences	200	228	156	272	150	122
Long-Term Liabilities Total	\$ 13,034	\$ 228	\$ 568	\$ 12,694	\$ 11,200	\$ 1,494

Long-term debt-related events during the fiscal year ended June 30, 2016 included:

- Compensated absences liabilities increased to \$0.27 million and usage by employees amounted to \$0.16 million.
- Interest accrued on the Lease Revenue Refunding Bonds, Series 2012A for the fiscal year ended June 30, 2016 totaled \$0.57 million.

Other long-term liability events during the fiscal year ended June 30, 2016 included:

- Other post-employment benefit obligations, (OPEB) increased by \$0.07 million.
- The Net Pension Liability for Fiscal year 2015/16 had a net increase of \$0.17 million.

Additional information on the City's long-term debt can be found entitled Note 1 – Reporting Entity and Summary of Significant Accounting Policies and Note 5 – Long-term Liabilities in the Notes to the Basic Financial Statements section of this report.

Economic Factors and Next Year's Budgets and Rates

The City of Rancho Santa Margarita's economy is clearly linked to the national and state economy. As the City matures, its local economy can experience departures from other local, state or national trends with resultant recurring revenue fluctuations. Additionally, because the City's revenues are obtained from a limited number of sources, further revenue fluctuations may occur from year to year. The City uses third party consultants and agencies to analyze and review economic forecasts and trends in developing its budget model. These consultants and agencies include the County of Orange, State Board of Equalization, HdL Companies, and various Universities that provide economic data and analysis. Detailed information about the economic analysis, revenue assumptions, and other budgetary process parameters utilized in annual budget preparation, can be obtained from the City's 2015-2016 citywide budget, available through the City Manager's Office.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, at the City of Rancho Santa Margarita, 22112 El Paseo, Rancho Santa Margarita, California, 92688.

*Government-Wide
Financial Statements*

City of Rancho Santa Margarita, California

Government-Wide
Financial Statements



GOVERNMENT-WIDE FINANCIAL STATEMENTS

THE STATEMENT OF NET POSITION AND THE STATEMENT OF ACTIVITIES

The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a manner that considers longer-term resource needs and capacities' effects on the City's overall operations. These statements include *all* assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net position* and changes in them. You can think of the City's net position—the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources—as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net position are one indicator of whether its long term *financial health and physical upkeep and renewal* is improving or deteriorating, and at what pace. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, and other infrastructure, to assess the *overall health* of the City.

The Statement of Net Position and the Statement of Activities present information about governmental activities. All of the City's basic services are considered to be governmental activities, including general government, building and planning, public safety, and public works.

**CITY OF RANCHO SANTA MARGARITA
STATEMENT OF NET POSITION
JUNE 30, 2016**

	<u>Governmental Activities</u>
Assets:	
Cash and investments (note 2)	\$ 24,238,343
Cash and investments with fiscal agent (note 2)	1,513,476
Receivables:	
Due from other governments	2,205,245
Accrued interest	25,737
Accounts, net	359,332
Prepaid items	2,821
Non-depreciable capital assets (note 4)	98,290,365
Capital assets, depreciated , net (note 4)	19,203,671
Total assets	<u>145,838,990</u>
Deferred Outflows of Resources:	
Deferred amount on refunding, net of accumulated amortization	416,021
Deferred amounts on pension plans	721,758
Total deferred outflows of resources	<u>1,137,779</u>
Liabilities:	
Accounts payable	2,250,584
Wages payable	148,606
Unearned revenue (note 10)	53,493
Retentions payable	138,860
Deposits	249,907
Interest payable	56,573
Long-term liabilities (note 5):	
Due within one year	1,494,792
Due in more than one year	11,199,008
Other Post-Employment Benefits (OPEB) Obligation (note 7)	283,344
Net pension liability (note 6)	1,180,978
Total liabilities	<u>17,056,145</u>
Deferred Inflows of Resources:	
Deferred amounts on pension plans	<u>229,761</u>
Net position:	
Net investment in capital assets	109,157,228
Restricted for:	
Public safety	99,309
Public works	3,936,815
Debt service	1,515,534
Unrestricted	14,981,977
Total net position	<u><u>\$ 129,690,863</u></u>

See Accompanying Notes to the Basic Financial Statements.

**CITY OF RANCHO SANTA MARGARITA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>	
Governmental activities:					
General government	\$ 3,421,649	\$ 431,449	\$ 216,005	\$ -	\$ (2,774,195)
Building and planning	1,169,254	786,225	159,258	-	(223,771)
Public safety	7,572,663	163,463	121,913	-	(7,287,287)
Public works	4,718,605	59,890	2,048,235	-	(2,610,480)
Interest expense	341,109	-	-	-	(341,109)
Total governmental activities	<u>\$ 17,223,280</u>	<u>\$ 1,441,027</u>	<u>\$ 2,545,411</u>	<u>\$ -</u>	<u>(13,236,842)</u>

General revenues:

Taxes:	
Property taxes	6,534,986
Sales taxes	6,809,341
Real property transfer taxes	333,339
Franchise fees	1,499,296
Investment income	103,995
Other	237,769
Total general revenues	<u>15,518,726</u>
Change in net position	2,281,884
Net position at beginning of year	<u>127,408,979</u>
Net position at end of year	<u>\$ 129,690,863</u>

See Accompanying Notes to the Basic Financial Statements.

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Fund Financial Statements

City of Rancho Santa Margarita, California

Fund Financial
Statements



GOVERNMENTAL FUNDS

GENERAL FUND

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

CAPITAL PROJECTS FUND

The Capital Projects fund has been classified as a major fund and is used to account for various street projects and infrastructure improvements as well as major facility construction and improvements.

DEBT SERVICE FUND

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

This fund is used to account for the payment of interest and principal of the City of Rancho Santa Margarita Public Financing Authority (“PFA”) and related transactions to facilitate the refunding of the Rancho Santa Margarita Nonprofit Corporation 2003 Certificates of Participation which financed the construction of the City’s civic center facilities.

NON-MAJOR FUNDS

All other funds are combined into this category. Additional information about the individual funds can be found in the Supplementary Schedules Section of this document.

**CITY OF RANCHO SANTA MARGARITA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016**

Assets	General	Capital Projects	Debt Service	Non-Major Governmental Funds	Totals
Cash and investments	\$ 19,176,450	\$ 1,259,100	\$ -	\$ 3,802,793	\$ 24,238,343
Cash and investments w/fiscal agent	-	-	1,513,476	-	1,513,476
Receivables:					
Due from other governments	1,929,190	57,061	-	218,994	2,205,245
Accrued interest	19,613	96	2,058	3,970	25,737
Accounts, net	318,525	-	-	40,807	359,332
Prepaid items	2,821	-	-	-	2,821
Total assets	<u>\$ 21,446,599</u>	<u>\$ 1,316,257</u>	<u>\$ 1,515,534</u>	<u>\$ 4,066,564</u>	<u>\$ 28,344,954</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities:					
Accounts payable	\$ 1,304,161	\$ 915,983	\$ -	\$ 30,440	\$ 2,250,584
Wages payable	148,606	-	-	-	148,606
Unearned revenue	53,493	-	-	-	53,493
Retentions payable	-	138,860	-	-	138,860
Deposits	249,907	-	-	-	249,907
Total liabilities	<u>1,756,167</u>	<u>1,054,843</u>	<u>-</u>	<u>30,440</u>	<u>2,841,450</u>
Deferred Inflows of Resources:					
Unavailable revenue from grants	\$ 67,523	\$ 57,037	\$ -	\$ -	\$ 124,560
Total deferred inflows of resources	<u>67,523</u>	<u>57,037</u>	<u>-</u>	<u>-</u>	<u>124,560</u>
Fund balance:					
Nonspendable: Prepaid items	2,821	-	-	-	2,821
Restricted for debt service	-	-	1,515,534	-	1,515,534
Restricted for public safety	-	-	-	99,309	99,309
Restricted for public works	-	-	-	3,936,815	3,936,815
Committed for General Plan/Fee Update	313,846	-	-	-	313,846
Committed for Habitat Restoration	170,599	-	-	-	170,599
Committed for Building Repair	945,736	-	-	-	945,736
Committed for self insurance	30,000	-	-	-	30,000
Assigned:					
Council projects/equipment/facilities	9,300,558	-	-	-	9,300,558
Capital projects working capital	-	204,377	-	-	204,377
Unassigned	8,859,349	-	-	-	8,859,349
Total fund balance	<u>19,622,909</u>	<u>204,377</u>	<u>1,515,534</u>	<u>4,036,124</u>	<u>25,378,944</u>
Total liabilities and fund balance	<u>\$ 21,446,599</u>	<u>\$ 1,316,257</u>	<u>\$ 1,515,534</u>	<u>\$ 4,066,564</u>	<u>\$ 28,344,954</u>

See Accompanying Notes to the Basic Financial Statements.

**CITY OF RANCHO SANTA MARGARITA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016**

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

Fund balances of governmental funds		\$ 25,378,944
Capital assets net of depreciation have not been included as financial resources in governmental funds:		117,494,036
Long term debt, accrued interest payable, compensated absences, and OPEB obligation have not been included in the governmental funds:		
Mitigation Obligation		(1,900,535)
Lease Revenue Refunding Bonds Payable		(10,045,000)
Bond Premium		(476,587)
Loss on Bond Refunding		416,021
Accrued Interest Payable, net		(56,573)
Compensated Absences Payable		(271,678)
Other Post Employment Benefits (OPEB) Obligation		(283,344)
Pension related debt applicable to the City governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Deferred outflows of resources and deferred inflows of resources related to pensions are only reported in the Statement of Net Position as the changes in these amounts effects only the government-wide statements for governmental activities.		
Deferred outflows of resources	\$ 721,758	
Deferred inflows of resources	(229,761)	
Pension Liability	(1,180,978)	(688,981)
Certain receivables will be collected after year-end, but are not available to pay for current-period expenditures, and therefore are offset by unavailable revenue in the governmental funds.		124,560
Net position of governmental activities		<u>\$ 129,690,863</u>

See Accompanying Notes to the Basic Financial Statements.

**CITY OF RANCHO SANTA MARGARITA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Revenues:					
Taxes	\$ 13,657,845	\$ -	\$ -	\$ -	\$ 13,657,845
Fees and permits	2,029,767	-	-	166,670	2,196,437
Intergovernmental	258,899	269,011	-	1,893,842	2,421,752
Charges for services	747,093	-	-	-	747,093
Investment income	79,409	753	6,413	17,420	103,995
Fines, forfeits and penalties	163,463	-	-	-	163,463
Other	237,769	-	-	-	237,769
Total revenues	17,174,245	269,764	6,413	2,077,932	19,528,354
Expenditures:					
Current:					
General government	3,522,408	-	-	582	3,522,990
Building and planning	1,150,918	-	-	-	1,150,918
Public safety	7,440,456	-	-	125,395	7,565,851
Public works	2,263,692	1,966,163	-	278,309	4,508,164
Capital outlay	153,273	9,634	-	-	162,907
Debt Service:					
Principal Retirement	-	-	385,000	-	385,000
Interest	-	-	347,137	-	347,137
Total expenditures	14,530,747	1,975,797	732,137	404,286	17,642,967
Excess (deficiency) of revenues over (under) expenditures	2,643,498	(1,706,033)	(725,724)	1,673,646	1,885,387
Other financing sources (uses):					
Transfers in (note 3)	766,436	1,807,505	732,137	-	3,306,078
Transfers out (note 3)	(1,954,274)	-	-	(1,351,804)	(3,306,078)
Total financing sources (uses)	(1,187,838)	1,807,505	732,137	(1,351,804)	-
Net change in fund balances	1,455,660	101,472	6,413	321,842	1,885,387
Fund balances, beginning of year,	18,167,249	102,905	1,509,121	3,714,282	23,493,557
Fund balances, end of year	<u>\$ 19,622,909</u>	<u>\$ 204,377</u>	<u>\$ 1,515,534</u>	<u>\$ 4,036,124</u>	<u>\$ 25,378,944</u>

See Accompanying Notes to the Basic Financial Statements.

**CITY OF RANCHO SANTA MARGARITA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

Net change in fund balances - total governmental funds	\$ 1,885,387
<p>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.</p>	
Capital Expenditures, Net of Dispositions	1,840,049
Depreciation of Capital Assets	(1,937,198)
<p>Retirement of principal on long term debt, accrued interest payable, compensated absences, and OPEB obligation expenses reported in the Statement of Activities require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. The following represent the net change for the current period:</p>	
Retired Principal on long term debt (Lease Revenue Refunding Bonds)	385,000
Amortization of deferred loss on bond refunding	(23,773)
Amortization of premium on Refunding Bonds Issued	27,234
Accrued Interest Payable on long term debt (Lease Revenue Refunding Bonds)	2,567
Compensated Absences	(71,445)
Net OPEB Obligation	(71,496)
<p>Pension expense reported in the governmental funds includes the annual required contributions. In the Statement of Activities, pension expense includes the change in the net pension liability, and related change in pension amounts for deferred outflows of resources and deferred inflows of resources.</p>	
	268,749
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. Conversely, collection of these revenues are reported in the governmental funds when received, but not in the Statement of Activities since they have been recognized previously.</p>	
	(23,190)
Change in net position of governmental activities	\$ 2,281,884

See Accompanying Notes to the Basic Financial Statements.

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Notes to the Financial Statements

City of Rancho Santa Margarita, California



*Notes to the Financial
Statements*

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

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

The City of Rancho Santa Margarita (the City) was incorporated on January 1, 2000 under the General Laws of the State of California. The City operates under a Council-Manager form of government. The City provides all municipal services, including street maintenance, street sweeping, street lighting, traffic signal maintenance, animal control, engineering, public works, building and planning operations, and law enforcement.

Generally accepted accounting principles require that these financial statements represent the City of Rancho Santa Margarita and its component units, entities for which the City is considered to be financially accountable. These basic financial statements of the City of Rancho Santa Margarita include the financial activities of the City and the blended component unit of the City of Rancho Santa Margarita Public Financing Authority. Separate financial statements are not issued for the Rancho Santa Margarita Public Financing Authority.

Rancho Santa Margarita Public Financing Authority (“PFA”) was formed on October 15, 2012 as a joint powers authority (“JPA”) in order to facilitate the refunding of the Rancho Santa Margarita Nonprofit Corporation (“RSMNP”) 2003 COPs and financing the construction of various public road improvements within the City, and such other projects identified in the City’s capital improvement plan (the “2012 project”). The PFA is a blended component unit as it is a separate legal entity from the City and is governed by a five-member Board of Directors consisting of the City Council of the primary government and is financially accountable to the PFA. On December 1, 2012 the City and the PFA (“Authority”) entered into a Ground Lease agreement in which the City leased certain real property and the improvements located thereon to the Authority and the City will sublease the real property back from the Authority pursuant to a Lease Agreement. The leases are financing arrangements which transfer ownership of the assets to the City at the end of the lease term. On December 19, 2012, the PFA issued Lease Revenue Refunding Bonds in the amount of \$11,230,000 in order to refund the outstanding RSMNP 2003 Certificates of Participation balance of \$11,045,000 and fund the “2012 Project”. The new 2012 bonds have the same term as the 2003 Certificates and are to be paid off in 2033. The activity of the PFA is reported in the Debt Service Fund.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Basis of Accounting and Measurement Focus

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

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

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole. These statements include a separate column for the governmental activities of the primary government. Eliminations are required to be made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). The City required no such eliminations.

In addition, general government expenses have not been allocated as indirect expenses to the various functions of the City.

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

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

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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.

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

New Accounting Pronouncements:

Current Year Standards:

In fiscal year 2015-2016, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *“Fair Value Measurement and Application”*. GASB Statement No. 72 requires the City to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that were used for the fair value measurements. There was no material impact on the City’s financial statements as a result of the implementation of GASB Statement No. 72.

GASB Statement No. 73, *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68”*, was required to be implemented in the current fiscal year, except for those provisions that address employer and governmental non-employer contributing entities for pensions that are not within the scope of GASB Statement No. 68, and is effective for periods beginning after June 15, 2016, and did not impact the City.

GASB Statement No. 76, *“The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”*, was required to be implemented in the current fiscal year, and did not impact the City.

CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

GASB Statement No. 79, “*Certain External Investment Pools and Pool Participants*”, was required to be implemented in the current fiscal year, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for periods beginning after December 15, 2015, and did not impact the City.

GASB Statement No. 82, “*Pension Issues an Amendment of GASB Statement No. 67, No. 68 and No. 73*”, changed the measurement of covered payroll reported in required supplementary information and has been early implemented.

Pending Accounting Standards:

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

- GASB 73 - “*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*”, contains provisions that address employer and governmental nonemployer contributing entities for pensions that are not within the scope of GASB 68, effective for periods beginning after June 15, 2016.
- GASB 74 - “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*”, effective for periods beginning after June 15, 2016.
- GASB 75 - “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*”, effective for periods beginning after June 15, 2017.
- GASB 77 - “*Tax Abatement Disclosure*”, effective for periods beginning after December 15, 2015.
- GASB 78 - “*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*”, effective for periods beginning after December 15, 2015.
- GASB 79 - “*Certain External Investment Pools and Pool Participants*”, contains certain provisions on portfolio quality, custodial credit risk, and shadow pricing, effective for periods beginning after December 15, 2015.
- GASB 80 - “*Blending Requirements for Certain Component Units*”, effective for periods beginning after June 15, 2016.
- GASB 81 - “*Irrevocable Split-Interest Agreements*”, effective for periods beginning after December 15, 2016.

CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

- GASB 82 - “*Pension Issues*”, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

Deferred Outflows / Inflows of Resources

In addition to assets, the statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. The City has four items that qualify for reporting in this category. The first item is the deferred loss on refunding reported in the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the life of the refunding debt. The second item is a deferred outflow related to pensions. This amount is equal to employer contributions made after the measurement date of the net pension liability. The third item is a deferred outflow related to pensions for the difference between expected and actual experience and the fourth item is a deferred outflow related to pensions for the changes in proportion and differences between employer contributions and the proportionate share of contributions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans, which is 3.8 years.

In addition to liabilities, the statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The City has three items that qualify for reporting in this category. The first item is unavailable revenues, which is reported only in the governmental fund balance sheet. The governmental funds report unavailable revenues from one source: grants receivable collections. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item is a deferred inflow related to pensions for changes in actuarial assumptions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans, which is 3.8 years. The third item is a deferred inflow related to pensions for the difference in projected and actual earnings on investments of the pension plan’s fiduciary net position. This amount is amortized over five years.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 funds are presented after the government-wide financial statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds.

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 fund balance. *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 has elected an availability period of 60 days not withstanding involuntary state imposed temporary deferrals of revenues collected and regularly scheduled to be transmitted to the City.

Sales taxes, property taxes, franchise fees, gas taxes, motor vehicle in lieu, 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.

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

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources are generally included on their balance sheets. The reported fund balance is considered to be a measure of “available spendable resources.”

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect fund balance, 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 *an other financing source* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

(b) Major Funds

The major funds are described as follows:

General Fund

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

Capital Projects Fund

The Capital Projects Fund has been classified as a major fund and is used to account for various street projects and infrastructure improvements as well as major facility construction and improvements.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Debt Service Fund

The Debt Service Fund has been classified as a major fund. It is used to account for transactions related to servicing the City’s bond indebtedness.

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

The Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted or otherwise assigned for specific purposes.

(c) Explanation of differences between governmental funds Balance Sheet and the government-wide Statement of Net Position

“Total fund balances” of the City’s governmental funds equal to \$25,378,944 differs from “net position” of governmental activities of \$129,690,863 reported in the statement of net position. This difference primarily results from the long-term economic focus of the Statement of Net Position versus the current financial resources focus of the governmental fund Balance Sheets.

Capital Related Items

When capital assets (property, plant, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the Statement of Net Position includes those capital assets among the assets of the City as a whole.

Invested in capital assets	\$180,617,502
Accumulated depreciation	<u>(63,123,466)</u>
Net capital assets	<u>\$117,494,036</u>

Deferred Outflows of Resources

The separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has four items that qualify for reporting in this category. The first item is the loss on bond refunding. The pension amount is the combined amounts of the second item, which is equal to the employer contributions made after the measurement date of the net pension liability, and the third item, which is the difference between expected and actual experience and the fourth item is a deferred outflow related to pensions for the changes in proportion and

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

differences between employer contributions and the proportionate share of contributions. These amounts are reported in the government-wide statement of net position.

Loss on bond refunding	\$ 416,021
Deferred amounts on pension plans	\$ 721,758

Liabilities Transactions

Payment liabilities applicable to the City’s governmental activities not due and payable in the current period are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Position. Balances at June 30, 2016 were:

Mitigation obligation	\$ 1,900,535
Long-term debt	10,045,000
Bond premium	476,587
Interest payable	56,573
Compensated absences	271,678
Net OPEB Obligation	283,344
Net pension liability	<u>1,180,978</u>
Net long-term liabilities	<u>\$14,214,695</u>

Deferred Inflows of Resources

The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has three items that qualify for reporting in this category. The first and second items are deferred inflows related to pensions with the first as the result from changes in assumptions and the second is the difference in projected and actual earnings on investments of the pension plan fiduciary net position. The third item is unavailable revenues related to grants receivable collections.

Deferred amounts on pension plans	\$ 229,761
Unavailable revenues	(124,560)

Reclassifications and Eliminations

Interfund balances must generally be eliminated in the government-wide statements. Amounts involving fiduciary funds should be reported as external transactions.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once – in the function in which they are allocated.

(d) Explanation of differences between governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities.

The “net change in fund balances” for governmental funds \$1,885,387 differs from the “change in net position” for governmental activities \$2,281,884 reported in the statement of activities. The differences arise primarily from the long-term economic focus of the Statement of Activities versus the current financial resources focus of the governmental funds.

Capital Related Items

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net position decreases by the amount of depreciation expense charged for the year and loss on disposal of assets.

Capital outlay, net of dispositions	\$ 1,820,743
Depreciation expense	<u>(1,917,892)</u>
Difference	<u>\$ (97,419)</u>

Liabilities Transactions

Some liabilities changes applicable to the City’s governmental activities are not reported as fund liabilities. All liabilities balances (both current and long-term) are reported in the Statement of Net Position. Differences at June 30, 2016 were:

Amortization of deferred loss on bond refunding	\$ (23,773)
Amortization of premium on Refunding Bonds	27,234
Principal Retirement and interest	385,000
Accrued Interest Payable	<u>2,567</u>
Liabilities changes	<u>\$ 391,028</u>

**CITY OF RANCHO SANTA MARGARITA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Other Liabilities

Long-term liabilities changes not due and payable in the current period are not reported in the governmental funds.

Compensated Absences	\$ (71,445)
Net OPEB Obligation	(71,496)

Net Pension Expense

Pension expense reported in the governmental funds includes the annual required contributions. In the Statement of Activities, pension expense includes the change in the net pension liability, and related change in pension amounts for deferred outflows of resources and deferred inflows of resources.

Net Pension Expense	\$ 268,749
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Unavailable Revenue

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. Conversely, collection of these revenues are reported in the governmental funds when received, but not in the Statement of Activities since they have been recognized previously.

Unavailable Revenue	\$ (23,190)
---------------------	-------------

(e) Cash and Investments

Investments are reported in the accompanying Balance Sheet at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings and changes in fair value. The City pools cash and investments of all funds, except investments held by fiscal agent. 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 cash and investment balance.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

(f) Capital Assets

Capital assets (including infrastructure) are recorded at cost where historical records are available and at an estimated original 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 \$3,000 (including infrastructure) are capitalized if they have an expected useful life of three years or more.

Capital assets include public domain (infrastructure) capital assets consisting of certain improvements including roads, streets, curbs, gutters, sidewalks, street lights, signs and signals, medians, and storm drains.

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

Equipment	3-10 years
Buildings	30 years
Infrastructure (except pavement subsystem)	25-65 years

The City of Rancho Santa Margarita met all the criteria required to report their pavement subsystem using the modified approach, which allows those infrastructure assets to be *non-depreciable*. Hence, all expenditures made for the pavement subsystem (except for additions and improvements) are expensed in the period incurred. Additions or improvements to the pavement subsystem that increase the capacity or efficiency of those assets (rather than preserve the useful life) are capitalized. The City elected to set their minimum acceptable level of condition at 70 for all pavement based on their pavement management system scale of 1 to 100. The City assesses the condition level every two years.

(g) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1, and are payable in two equal installments due November 1, and February 1, respectively, and are delinquent if not paid by December 10, and April 10, respectively. The County of Orange bills and collects the property taxes and remits them to the City in installments during the year. All material amounts associated with the reporting period are collected soon enough to be considered to be “available” to finance the expenditures of the reporting period.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

The County of Orange is permitted by State Law (Proposition 13) to levy taxes at 1% of full market value (at time of purchase) and can increase the assessed values no more than 2% each year. The City receives a share of this basic levy proportionate to what was received in the 1976 to 1978 period.

(h) Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded, is employed in the governmental funds. Encumbrances at year end are reported as restricted, committed, or assigned fund balance depending on the resources that have been identified to fund the applicable encumbrance.

(i) Interfund Transactions

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (short-term interfund loans) or “advances to/from other funds” (long-term interfund loans).

(j) 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, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates and assumptions.

(k) Fund Equity

The City’s Reserve Policy refers to the GASB-S54 assignments of fund balance and the budget resolution authorizes the use of fund balance reserves for CIP projects. Fund balances are reported in the fund statements in the following classifications:

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Nonspendable Fund Balance

Nonspendable Fund Balance – this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).

Spendable Fund Balance

Restricted Fund Balance – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation. If the Council action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

Committed Fund Balance – this includes amounts that can be used only for the specific purposes determined by a formal action of the Council. It includes Legislation (Council action) that can only be overturned by new legislation requiring the same type of voting consensus that created the original action. Therefore, if the Council action limiting the use of the funds is separate from the action (legislation) that created (enables) the funding source, then it is committed, not restricted. The City considers a resolution to constitute a formal action of City Council for the purposes of establishing committed fund balance.

Assigned Fund Balance – this includes amounts that are designated or expressed by the Council, but does not require a formal action like a resolution or ordinance. The Council may delegate the ability of an employee or committee to assign uses of specific funds, for specific purposes. Such delegation of authority has been granted to the City Manager by the City Council through resolution 13-06-26-01.

Unassigned Fund Balance – this includes the remaining spendable amounts which are not included in one of the other classifications. The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

It is the city's policy, adopted by the City Council, that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

- (l) Pensions - For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City’s California Public Employees’ Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments are reported as follows in the accompanying financial statements:

Statement of Net Position:

Cash and investments	\$24,238,343
Cash and investments with fiscal agent	<u>1,513,476</u>
Total Cash and Investments	<u>\$25,751,819</u>

Cash and investments at June 30, 2016 consisted of the following:

Cash and Investments held by City:

Deposits in banks or on hand	\$ 8,227,676
Local Agency Investment Fund (LAIF)	<u>16,010,667</u>
Total Cash and Investments held by City	<u>\$24,238,343</u>

Cash and Investments held by Fiscal Agent:

Money Market Mutual Fund	\$ 531
Local Agency Investment Fund (LAIF)	<u>1,512,945</u>
Total Cash and Investments held by Fiscal Agent	<u>\$ 1,513,476</u>

Total Cash and Investments	<u>\$25,751,819</u>
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**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

Investments Authorized by the California Government Code and the City’s Investment Policy

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Bills	5 years	60%	None
U.S. Agency Notes	5 years	40%	None
Banker's Acceptances	180 days	10%	30%
Commercial Paper	180 days	10%	10%
Certificates of Deposit	5 years	10%	10%
Federal Agency Securities	5 years	20%	20%
Passbook Savings Demand Accounts	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$20,000,000
Local Government Investment Pool	N/A	None	\$20,000,000

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions or the City’s investment policy.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City’s investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee, subject to certain additional restrictions in the debt agreements. The tables also identify certain provisions of these debt agreements that address maximum maturity, interest rate risk, credit risk, and disclosures relating to custodial credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>
U.S. Treasury Obligations	None
U.S. Agency Securities	None
Municipal Obligations	None
Commercial Paper	270 days
Money Market Mutual Funds	N/A
Investment Contracts	Life of bonds

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 currently manages its exposure to interest rate risk by participating in short term investments such as the Local Agency Investment Fund (LAIF), which invests in a combination of investments with a relatively short term weighted average maturity and offers same day liquidity.

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

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

Investment Type	Remaining Maturity (in Months)				
	Total Amount	0-12 Months	12-23 Months	24-35 Months	Greater than 36 Months
Local Agency Investment Fund (LAIF)	\$ 16,010,667	\$ 16,010,667	\$ -	\$ -	\$ -
Held by bond fiscal agent:					
Money Market Mutual Fund	531	531	-	-	-
Local Agency Investment Fund (LAIF)	1,512,945	1,512,945	-	-	-
Total	\$ 17,524,143	\$ 17,524,143	\$ -	\$ -	\$ -

Disclosures Relating to Credit Risk

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

Investment Type	Total Amount	Minimum Legal Rating	Rating as of Fiscal Year End	
			AAA	Not Rated
Local Agency Investment Fund (LAIF)	\$ 16,010,667	N/A	\$ -	\$ 16,010,667
Held by bond fiscal agent:				
Money Market Mutual Fund	531	N/A	531	-
Local Agency Investment Fund (LAIF)	1,512,945	N/A	-	1,512,945
Total	\$ 17,524,143		\$ 531	\$ 17,523,612

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 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 credit risk for *investment securities* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments securities, other than the following provision for deposits: 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 that 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 market value of at least 150% of the secured public deposits, and letters of credit drawn on the Federal Home Loan Bank may have a minimum market value of 105% of the secured public deposits. At June 30, 2016, the City deposits (bank balances) were either insured by the Federal Deposit Insurance Corporation or collateralized in accordance with the California Government Code.

For investments identified herein as held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

Investment in State Investment Pool

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

Fair Value Measurements

The City categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The City's investment in LAIF is not subject to the fair value hierarchy.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 3 – TRANSFERS IN AND OUT

Transfers in and out for the year ended June 30, 2016 are as follows:

	Transfers From:				Total
	General Fund	Capital Projects Fund	Debt Service Fund	Non-major Funds	
Transfers To:					
General Fund	\$ -	\$ -	\$ -	\$ 766,436	\$ 766,436
Capital Projects	1,222,137	-	-	585,368	1,807,505
Debt Service Fund	732,137	-	-	-	732,137
Total Transfers	<u>\$ 1,954,274</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,351,804</u>	<u>\$ 3,306,078</u>

The reasons for the significant transfers between funds are as follows:

- The transfer of \$766,436 from the Non-major Funds to the General Fund was to fund street maintenance costs and traffic engineering services—both recorded in the General Fund.
- The transfer of \$585,368 from the Non-major Funds to the Capital Projects Fund was primarily to fund the various slurry seal and overlay road projects (\$344,113), and other street and sidewalk repairs and maintenance throughout the city (\$158,213). As well as, traffic signal and equipment upgrades and traffic feedback signs of (\$83,042).
- The transfer of \$732,137 from the General Fund to the Debt Service Fund was to pay principal and interest on the Lease Revenue Refunding Bond for the RSM Public Financing Authority.
- The transfer of \$1,222,137 from the General Fund to the Capital Projects Fund was to fund habitat restoration (\$186,574), city gateway entrance renovations (\$202,726), City Hall building improvements (\$693,918), median hardscape renovations (\$57,000), and Chiquita Ridge Open Space assessment (\$81,919).

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 6,683,500	\$ -	\$ -	\$ 6,683,500
Land - right of way	43,570,119	-	-	43,570,119
Construction in Progress	717,419	1,686,776	1,134,175	1,270,020
Infrastructure - pavement	46,766,726	-	-	46,766,726
Total capital assets not being depreciated	<u>97,737,764</u>	<u>1,686,776</u>	<u>1,134,175</u>	<u>98,290,365</u>
Capital assets being depreciated:				
Machinery & Equipment	654,013	162,907	19,306	797,614
Buildings	16,618,510	-	-	16,618,510
Parks	906,478	-	-	906,478
Infrastructure - all others	62,879,994	1,124,541	-	64,004,535
Total capital assets being depreciated	<u>81,058,995</u>	<u>1,287,448</u>	<u>19,306</u>	<u>82,327,137</u>
Less accumulated depreciation:				
Machinery & Equipment	499,623	78,211	19,306	558,528
Buildings	6,093,451	553,951	-	6,647,402
Parks	361,136	36,259	-	397,395
Infrastructure	54,251,364	1,268,777	-	55,520,141
Total accum. Depreciation:	<u>61,205,574</u>	<u>1,937,198</u>	<u>19,306</u>	<u>63,123,466</u>
Total capital assets being depreciated, net	<u>19,853,421</u>	<u>(649,750)</u>	<u>-</u>	<u>19,203,671</u>
Total capital assets, net	<u>\$117,591,185</u>	<u>\$ 1,037,026</u>	<u>\$1,134,175</u>	<u>\$117,494,036</u>

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

General government	\$ 78,211
Public works	1,858,987
Total	<u>\$1,937,198</u>

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 4 – CAPITAL ASSETS, (Continued)

Construction Commitments

The City had various active, on-going and un-completed construction projects at June 30, 2016. At year-end, in the Capital Projects fund, the City’s encumbrances with contractors for work performed before June 30, 2016, but not yet paid were as follows:

	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Building Repair	\$ 768,064	\$ 945,736
Open Space Habitat Restoration	2,040,872	170,599
General Plan/Fee Study Updates	89,992	313,846
SMP Bridge	350,805	215,381
Open Space Habitat Restoration	46,810	15,965
Street Maintenance	347,855	283,612
Total	<u>\$3,644,398</u>	<u>\$1,945,139</u>

NOTE 5 – LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the fiscal year ended June 30, 2016 was as follows:

	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2016</u>	<u>Due Within One Year</u>
Mitigation Obligation	\$ 1,900,535	\$ -	\$ -	\$ 1,900,535	\$ 967,537
Lease Revenue Refunding Bonds					
City Hall & Regional					
Community Center	10,430,000	-	385,000	10,045,000	405,000
Bond premium	503,821	-	27,234	476,587	-
Compensated absences	<u>200,233</u>	<u>228,010</u>	<u>156,565</u>	<u>271,678</u>	<u>122,255</u>
Total Governmental Long-Term Liabilities	<u>\$ 13,034,589</u>	<u>\$ 228,010</u>	<u>\$ 568,799</u>	<u>\$ 12,693,800</u>	<u>\$ 1,494,792</u>

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 5 – LONG-TERM LIABILITIES, (Continued)

Mitigation Obligation

The City has a mitigation commitment with the County of Orange to make minimum payments each year to mitigate the effect of the reduction of excess revenues over expenditures for future fiscal years as a result of the incorporation of the City of Rancho Santa Margarita. The total commitment of \$12 million was negotiated for payment in two distinct methodologies. The first methodology comprised a series of annual \$1.1 million payments for 6 years with a \$600,000 final payment, for a total of \$7.2 million. This portion of the commitment payments was completed in Fiscal Year 2007. The remaining annual payments associated with the commitment are dependent upon future receipt of sales tax revenues by the City in a respective fiscal year prorated in excess of a indexed base amount for that year. Those payments have not occurred since 2009 due to sales tax revenue declines, but are open ended until the remaining balance of \$1,900,535 is repaid. In the Fiscal Year 2014-15 State of California Budget, the Governor’s budget plan included several one-time spending items, including a \$1.6 billion one-time supplemental payment to retire the state’s outstanding economic recovery bonds (ERB’s).

On August 5, 2015 the State’s Finance Director sent the State Treasurer and the Board of Equalization Executive Director the official letter noting that escrow accounts had been established to “fund all future principal interest and administrative costs until the final maturity of the Bonds in 2019”. The letter also served as the notification to end the revenue exchange period as of December 31, 2015, and thereby signifying the end of the Triple Flip.

The supplemental payment has resulted in an early retirement of the ERB’s generating the expiration of the “Triple-Flip” in FY 2015-16, about one year earlier than otherwise would be the case. The “Triple-Flip” payment also known as sales tax in lieu payment was paid by the County of Orange in the form of ad valorem property tax revenues which was not included in prior sales tax mitigation calculations. The payment was tracked by the City separately from the sales tax revenue payments sent from the State Board of Equalization (SBOE). Upon payment of the ERB’s, the sales tax in lieu payment will end and the City will receive 100% of their sales tax revenue payment from the SBOE. Due to this change, the actual sales tax revenue used in the mitigation calculation will increase greatly initiating a mitigation payment due to the County of Orange earlier than previously projected and higher than estimated. Based on the early retirement of the ERB’s and revised estimated sales tax revenue growth projections, it is estimated that payments will resume June 30, 2017 based on 2016 sales tax revenue and is projected to be paid in full with in the following 3 year period.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 5 – LONG-TERM LIABILITIES, (Continued)

Mitigation Obligation, (Continued)

The estimated sales tax revenue projections and mitigation payments are as follows:

Fiscal Year	Estimated Revenue	Estimated Mitigation Payment
2016	6,809,341	967,537
2017	6,505,635	766,941
2018	6,700,804	166,057
Total of estimated payments		\$ 1,900,535

City of Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding
Bond 2012A Payable

On December 19, 2012, the City of Rancho Santa Margarita Pubic Financing Authority issued \$11,230,000 of Lease Revenue Refunding Bonds with interest rates ranging from 2% to 4% to refinance the 2003 Certificates of Participation issued by the Rancho Santa Margarita Nonprofit Corporation and to finance the construction of various public road improvements within the City, and such other projects identified in the City’s capital improvement plan (the “2012 project”).

The bonds are secured by base rental payments to be made by the Public Financing Authority pursuant to the lease agreement. Principal is payable annually on each November 1, commencing on November 1, 2013. Interest is payable semiannually on each May 1 and November 1, commencing May 1, 2013. The outstanding balance at June 30, 2016 is \$10,045,000.

The Lease Revenue Refunding Bonds are subject to Federal arbitrage regulations. The City has no arbitrage calculation due until November 2018.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 5 – LONG-TERM LIABILITIES, (Continued)

City of Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bond 2012A Payable, (Continued)

The annual requirements to amortize the outstanding Lease Revenue Refunding Bonds, Series 2012A as of June 30, 2016, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	405,000	331,337	736,337
2018	420,000	314,838	734,838
2019	430,000	297,837	727,837
2020	455,000	280,137	735,137
2021	470,000	261,638	731,638
2022-2026	2,635,000	1,005,687	3,640,687
2027-2031	3,130,000	533,119	3,663,119
2032-2033	2,100,000	95,700	2,195,700
Totals	<u>\$ 10,045,000</u>	<u>\$ 3,120,293</u>	<u>\$ 13,165,293</u>

Compensated Absences

Compensated absences liabilities have typically been paid from the City’s General Fund. There is no fixed payment schedule for these long term liabilities.

NOTE 6 – PENSION PLAN

A. General Information about the Pension Plans:

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the City’s Miscellaneous (all other) Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees’ Retirement System (CalPERS) in the PERF C risk pool. Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 6 – PENSION PLAN, (Continued)

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

The Plan’ provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous		
	Tier 1	Tier 2	PEPRA
	Prior to February 27, 2011	On or After February 27,2011	On or After January 1, 2013
Hire date			
Benefit formula	2.5% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 63	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.092% to 2.418%	1.00% to 2.50%
Required employee contribution rates	8% (a)	7%	6.5%
Required employer contribution rates:			
Normal cost rate	10.191%	7.530%	6.70% (b)
Payment of unfunded liability	\$90,902	\$167	\$0

(a) City makes the contributions required of City employees on their behalf and for their account.

(b) City did not have employees under the PEPRA plan in FY 2013/14

Contributions

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

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 6 – PENSION PLAN (continued)

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

As of June 30, 2016, the City reported net pension liabilities for its proportionate shares of the net pension liability of the PERF C risk pool as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 1,180,978

The City’s net pension liability for each Plan is measured as the proportionate share of the net pension liability of the PERF C risk pool. The net pension liability of each Plan is measured as of June 30, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The City’s proportionate share of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City’s proportionate share of the net pension liability for each Plan as of June 30, 2014 and 2015 was as follows:

	Miscellaneous
Proportion - June 30, 2014	0.04094%
Proportion - June 30, 2015	0.04305%
Change - Increase (Decrease)	0.00211%

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 6 – PENSION PLAN (continued)

For the year ended June 30, 2016, the City recognized pension expense of \$604. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 269,353	\$ -
Differences between actual and expected experience	16,176	-
Changes in assumptions	-	(153,040)
Change in employer's proportion and differences between the employer's contribution and the employer's proportionate share of contributions	436,229	-
Net differences between projected and actual earnings on plan investments	-	(76,721)
Total	\$ 721,758	\$ (229,761)

\$269,353 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension expense as follows:

Year Ending June 30,	Amount
2016	\$ 54,447
2017	51,200
2018	18,930
2019	98,067
2020	-
Thereafter	-

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 6 – PENSION PLAN (continued)

Actuarial Assumptions

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.30% to 14.20% (1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

(3) The probabilities of mortality are derived using CalPERS' membership data for all funds. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 6 – PENSION PLAN (continued)

Discount Rate

The discount rate used to measure the total pension liability was changed from 7.50% (net of administrative expense) to 7.65% to correct for an adjustment to exclude administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as a change in methodology occurs.

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

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

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 6 – PENSION PLAN (continued)

Charge of Assumptions

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Returns Years 11+ (b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	(0.55)%	(1.05)%
Total	<u>100.0%</u>		

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

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

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 6 – PENSION PLAN (continued)

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

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

	Miscellaneous
1% Decrease	6.65%
Net Pension Liability	\$ 1,902,382
Current Discount Rate	7.65%
Net Pension Liability	\$ 1,180,978
1% Increase	8.65%
Net Pension Liability	\$ 585,375

Pension Plan Fiduciary Net Position

Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

C. Payable to the Pension Plan:

At June 30, 2016, the City had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description The City provides a single-employer defined benefit plan as part of the City’s participation in an elective group medical insurance plan for current employees administered by CalPERS. The CalPERS medical insurance plan offers a comprehensive program of individual and family HMO and PPO coverage, and has typical deductible and co-pay requirements. The City’s contractual agreement with CalPERS to participate in the plan and offer health insurance benefits to employees, their partners and/or relatives stipulates that the City must pay a minimum monthly amount as a premium subsidy benefit; for all employees who retire from City service, continue medical coverage and pay additional amounts to retain coverage and meet other eligibility parameters.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), (Continued)

Eligibility. Employees are eligible to receive the minimum medical premium subsidy benefit amount provided by the plan if they: 1) Satisfy eligibility requirements for vesting of benefits required by CalPERS; 2) Retire from employment with the City; 3) Elect to continue medical insurance coverage through the CalPERS plan; and 4) Pay all additional premium amounts required for the coverage option selected by them to continue in the group medical insurance plan upon retirement from the City, but must pay all premiums required to retain coverage. To receive the City’s medical premium subsidy benefit, retirees must also be vested members of the CalPERS retirement system; i.e., retire on or after age 50 with 5 years of CalPERS retirement membership contributions. If the retiree discontinues coverage in the CalPERS health insurance plan, the City’s obligation to pay a premium subsidy benefit ends. Retirees may continue in the CalPERS plan for the remainder of their lives. The City is not obligated under the group medical insurance plan to pay premiums for any retirees or provide post-retirement medical or health insurance benefits for retirees, or their spouses, partners, or relatives; other than the required minimum benefit payment. Eligibility for the City plan consisted of the following at June 30, 2016:

Eligible retirees from City service	6
Active employees, both enrolled and un-enrolled in the City’s CalPERS health insurance plan	<u>19</u>
Total	<u>25</u>

City’s Funding Policy. The City pays only the minimum required monthly premium subsidy benefit amount for retired City employees; an amount that can be amended by City Council action. The required premium is made (paid) monthly directly to CalPERS at the current-fiscal-year rate set by CalPERS, which is adjusted annually based on the medical cost component of the consumer price index. For Fiscal Year 2015-16, the City paid \$125 per month as the full amount required by the plan for each retiree from City service, for a total of \$7,410. The OPEB obligation has typically been paid from the City’s General Fund.

Annual OPEB Cost and Net OPEB Obligation. The City utilizes the alternative measurement method that differs from a full actuarial valuation and is permitted for employers with fewer than one hundred plan members. Employers who qualify for and use the alternative measurement method should perform new calculations every three years.

The City qualifies to use, and elects to use the alternative measurement method, which allows simplification of certain actuarial assumptions, as a valid means of measuring past, present and future City OPEB costs. The total of all such costs as they are incurred in the future is expressed in current dollars as the present value of those costs. The actuarial accrued liability (AAL) is the present value of benefit costs attributed to past service only.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), (Continued)

The City has not established a trust that is administered by the City for the purpose of holding assets accumulated for plan payment obligations for current or future retirees. Because the City does not have an irrevocable trust for the pre-funding of those benefit costs as they become realized in the future, the City has an equal *unfunded* accrued liability (UAL). The service cost is the proportion of the present value of future benefit costs allocated to the current period (fiscal year) by the actuarial method used in the valuation.

The actuarial cost method used in the City’s current valuation, dated July 1, 2015, is the projected unit credit (PUC) method; under which the present value of costs is apportioned into AAL and service cost. The annual required contribution (ARC) is an amount equal to the combination of service cost for the current fiscal year and amortization, or allocation of a portion of the unfunded liability to the current fiscal year. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover service costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years based on an open group.

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 obligation for these benefits:

Service cost – at 6/30/2016	\$ 37,637
30 year amortization of UAL	<u>32,795</u>
Annual required contribution	\$ 70,432
Interest on net OPEB obligation	8,474
Adjustments to annual required contributions	<u>0</u>
Annual OPEB cost (expense)	\$ 78,906
Contributions made	<u>(7,410)</u>
Increase in net OPEB obligation	\$ 71,496
Net OPEB obligation-beginning of year	<u>\$ 211,848</u>
Net OPEB obligation-end of year	<u>\$ 283,344</u>

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), (Continued)

The three-year trend information of the City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2016 and the two preceding years were as follows:

Fiscal Year	Annual OPEB Cost	Actual Contribution Net of Adjustments	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 42,875	\$ 4,212	9.82%	\$ 174,611
6/30/2015	\$ 42,185	\$ 4,948	11.73%	\$ 211,848
6/30/2016	\$ 78,906	\$ 7,410	9.39%	\$ 283,344

Funded Status and Funding Progress. The funded status of the plan as of July 1, 2015, was as follows:

Actuarial accrued liability (AAL)	\$567,090
Actuarial value of plan assets	<u>0</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$567,090</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$2,144,126
UAAL as a percentage of covered payroll	26.45%

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), (Continued)

historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Actuarial Cost Method. The UAAL is being amortized over an open 30 year period. For the actuarial valuation date of 7/1/2015, the actuarial assumptions included a discount rate of 4% and annual healthcare cost trend rate of 8 percent initially, reduced by decrements of 1 percent per year to an ultimate rate of 5 percent after the third year. The ultimate trend rate is 5%.

NOTE 8 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters.

General and Auto Liability, Public Officials Errors and Omissions, and Employment Practices Liability

The City purchases general liability insurance from Public Agency Risk Sharing Authority of California (PARSAC). There is a self-insured retention of \$10,000 per claim. PARSAC provides limits to \$1,000,000. Excess coverage is provided through a combination of pooling and reinsurance for total excess coverage limits of \$34 million. The total contribution for this coverage was \$99,278 for the fiscal year ended June 30, 2016.

Workers' Compensation and Employer's Liability

There is no deductible and the policy provides statutory limits. The contribution for this coverage was \$74,717 for the fiscal year ending June 30, 2016.

Property Insurance

The City purchases commercial property insurance from PARSAC with program limits of \$1 billion for personal property with a \$5,000 deductible per occurrence.

Fidelity Bonds

The City purchases bond coverage through PARSAC in the amount of \$1,000,000 with a \$2,500 deductible.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 8 – RISK MANAGEMENT (continued)

Insurance premium payments to PARSAC are made from the City's General Fund. There were no significant claims or claims payments during the fiscal year, and there were no significant outstanding claims at June 30, 2016. Furthermore, there have been no claims settlements or judgments that have exceeded insurance coverage since the City's inception on January 1, 2000.

NOTE 9 – CONTINGENT LIABILITIES

Grants, awards and allocations of revenues for restricted purposes that have been received or are receivable from other agencies are subject to audit and adjustment by those grantor agencies. Any ineligible or disallowed expenditures of those funds, including amounts already collected, may constitute a liability of the City to return applicable funds, or request an extension of time to perform in compliance of specific requirements. The amount, if any, of such disallowed funds usage claims made by other agencies cannot be determined at this time. However, the City's management does not expect such amounts, if any, to materially impact the City's General Fund balance reserves.

The City of Rancho Santa Margarita is defendant and plaintiff in pending lawsuits arising out of matters incidental to the operation of the City. Although the outcome of these lawsuits cannot be determined at present, management estimates that any potential judgments against the City not covered by insurance resulting from such litigation will not materially affect the City's financial condition.

NOTE 10 – UNEARNED REVENUE

Unearned revenue reported in the General Fund represents advancements that have not been earned. The City has reported the same amount as "unearned revenue" on the government-wide financial statements. For the Fiscal Year ended June 30, 2016, in the General Fund, \$61,007 was unearned revenue received in advance of planned Community Services programs or events.

NOTE 11 – GENERAL FUND BALANCE CLASSIFICATIONS

A continuing priority of the City Council is to exercise prudent financial management, provide long term financial planning, and strong internal control of City asset uses. To this end the Reserve Policy was adopted on June 25, 2008 regarding the City's accumulated net resources, called fund balance. The Reserve Policy establishes a framework for the funding, use, and maintenance of available fund balance levels for various objectives: To protect the City's ability to provide services to community residents during emergencies or economic

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 11 – GENERAL FUND BALANCE CLASSIFICATIONS (continued)

downturns; provide funding for unanticipated or “one-time” expenditures, plan for the repair/replacement of City facilities, infrastructure or technology; and provide an amount for use in times of catastrophic emergencies or natural disasters.

The City’s fund balance classifications at June 30, 2016, are presented below and followed by explanations as to the nature and purpose of assigned and unassigned classifications.

General Fund:

Unspendable: Prepaid items	\$ 2,821
Committed for General Plan & User Fee Updates	313,846
Committed for Habitat Restoration	170,599
Committed for CH/BTRCC Building Repair	945,736
Committed for self insurance	30,000
Assigned:	
Council Strategic	\$ 2,076,744
Technology	1,006,962
Facilities	4,622,676
Vehicles	271,567
Infrastructure	<u>1,322,609</u>
Total Assigned: Council projects/equipment/facilities	9,300,558
Unassigned:	
Emergency Policy	<u>8,859,349</u>
Total General Fund Balance	<u><u>\$ 19,622,909</u></u>

Assigned for Council Strategic – An amount established for special projects and services to be used at the City Council’s discretion. The Council may authorize expenditure at any time during the fiscal year, up to 75% of the funding target; however, it shall require a majority vote (3/5) of City Council to access these funds.

Assigned for Technology – To be used for replacement and enhancement of technology, and shall require a majority vote (3/5) of the City Council to access these funds. Technology is defined as computers (CPUs, servers, etc.), software, Council Chambers media, etc.

Assigned for Facilities – To be used for repair, replacement, or improvement of City facilities such as the City’s Civic Center, and other acquired facilities and mechanical systems, and shall require a majority vote (3/5) of City Council to access these funds.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 11 – GENERAL FUND BALANCE CLASSIFICATIONS (continued)

Assigned for Vehicles – To be used for replacement of City vehicles and other equipment defined as rolling stock, and shall require a majority vote (3/5) of the City Council to access these funds.

Assigned for Infrastructure – To be used for repair, replacement or improvement of City property, including roads, bridges, sidewalk, and medians and shall require a majority vote (3/5) of the City Council to access these funds. The reserve amount is linked to the current City 7 year CIP plan.

Emergency Policy – Unassigned to be used for resumption of City services, during a natural or man-made disaster, which shall require a super majority vote (4/5) of the City Council to access these funds during non-emergencies, and majority vote (3/5) of the City Council to access these funds during emergencies. Unless earmarked for specific identifiable improvements or projects, emergency funds may not be classified as committed or assigned; and are therefore included in the unassigned classification.

NOTE 12 – OPERATING LEASE

The City entered into a non-cancelable operating lease agreement with Toshiba Financial Services in August 2016 for copy equipment at City Hall and BTRCC at a cost of \$28,296. The monthly cost of the 3-year lease agreement is \$786 and is funded by the General Fund. Future minimum payments relating to the lease are as follows:

<u>Year Ending June 30,</u>	<u>Annual Rent</u>
2017	\$ 8,646
2018	9,432
2019	9,432
2020	786
	<u>\$ 28,296</u>

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 13 – LITIGATION SETTLEMENT

A Corrected Final Judgment was entered June 23, 2010 in San Diego County Superior Court and recorded in Orange County, California on August 18, 2010 relative to on-going litigation of the City. On January 28, 2009, the City Council approved a Settlement Agreement with the County of Orange, the Endangered Habitats League, and Rancho Mission Viejo, ending litigation initiated in 2005 by the City over the ownership of 502 acres of land in and around the City. In mid-2002, the City became aware that not all of the properties that should have been transferred from the County upon the City's incorporation had actually been transferred. While there was agreement as to many of the property interests, the City and County differed in their views as to who should have ownership of 502 acres that had originally been dedicated to the County, prior to the City's incorporation, for open space, recreation and transportation purposes.

When the parties were not able to resolve their differences, the City filed a lawsuit in 2005, claiming ownership to the entire 502-acre parcel. While the lawsuit was moving forward, the County, the Fish and Wildlife Service, the Santa Margarita Water District and Rancho Mission Viejo, LLC entered into an Implementation Agreement regarding the Southern Sub-region HCP Habitat Reserve. The effect of this was to designate specific natural habitat that would be protected in perpetuity and there would be certainty as to the Habitat Reserve.

After more than a year of negotiations, the parties negotiated a settlement agreement which, in addition to finalizing the transfer of property easements that belonged to the City upon incorporation, such as open space and public access easements, included the following key terms. The specific transactions and related items were completed at the times noted and with particular actions as noted.

The City received title to the 92-acre Chiquita Ridge open space parcel from the County of Orange. The City valued that land at \$50,000 per acre, for a total of \$4,600,000, based on recent local and regional comparable sales and appraisals. The 92-acres are not encumbered by the Habitat Reserve designation. While there are no plans for development, the agreement provides that at such time that there is development; there shall be a minimum 23-acre active sports park that will benefit the residents of the City of Rancho Santa Margarita as well as the nearby residents of the unincorporated County area. Development of the 92-acre parcel is limited to 55 acres and any of the remaining 37 acres which are disturbed during construction must be restored to natural habitat conditions.

In addition to any portion of the 37 acres which are restored, the City shall enhance and restore 80 acres of habitat to increase the environmental value of the habitat. The 80 acres will be in or close to the City and will provide a benefit to the City's residents. The County received title to the remaining 410 acres that were in dispute thereby protecting that property as natural habitat and ensuring its enrollment in the Habitat Reserve. The City is required by the Settlement Agreement to prepare a restoration plan by the end of the third year after the Chiquita Ridge parcel conveyance, and begin restoration efforts by the end of the fourth

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 13 – LITIGATION SETTLEMENT, (continued)

year after conveyance. The Restoration Plan including the adoption of a negative declaration was approved by City Council on December 11, 2013. In FY 2012/13 and FY 2013/14, the City incurred costs of \$104,561 and \$168,357 respectively toward the development of the Restoration Plan and the environmental document of the Habitat Restoration Project. On May 28, 2014, City Council approved the professional Habitat Restoration and Enhancement Contractor services agreement with Habitat Restoration Sciences, Inc. with a not to exceed amount of \$2,720,211. Other project related costs have also been approved bringing the total estimated project cost to \$3,157,232. Estimated project costs have been distributed over seven years with the greatest fiscal impact in FY 2014/15 with a cost to the City of \$1,780,899 which included the irrigation installation for the Project as well as the removal of invasive species, and the purchasing and planting of native species. The following five years of the contract are for planned maintenance on the project.

The financial statements include maintenance cost of \$186,574 for FY 2015/16 and an encumbrance of \$170,599 for the Habitat Restoration Sciences, Inc. contract for continued maintenance of the Project. Expenditures will be recorded in the City's financial statements as costs are incurred for required maintenance efforts in future fiscal years.

In a related transaction required in the agreement, the City transferred to the County the 15.1 acre "Wynne Parcel" it purchased for \$2,566,351 in Fiscal Year 2009, following approval of the Settlement Agreement. Pursuant to the Settlement Agreement, the County is required to enroll the parcel in the Habitat Preserve. This parcel is a critical link in the regional wildlife corridor and contains valuable vernal pools and protected species including the fairy shrimp. The County is also required to enroll approximately 100 acres of Dove Canyon Open Space into the Habitat Reserve.

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through December 12, 2016, the date the financial statements were available to be issued.

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*Required
Supplementary
Information*

City of Rancho Santa Margarita, California

*Required Supplementary
Information*



**CITY OF RANCHO SANTA MARGARITA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**CITY OF RANCHO SANTA MARGARITA
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

Last Ten Fiscal Years*

	2016	2015
Plan's proportion of the net pension liability	0.01721%	0.01626%
Plan's proportionate share of the net pension liability	\$ 1,180,978	\$ 1,011,781
Plan's covered - employee payroll	\$ 1,784,340	\$ 1,680,986
Plan's proportionate share of the net pension liability as a percentage of covered - employee payroll	66.19%	60.19%
Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability	78.40%	78.25%
Plan's proportionate share of aggregate employer contributions	\$ 142,383	\$ 98,432

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

* - Fiscal year 2015 was the 1st year of implementation.

**CITY OF RANCHO SANTA MARGARITA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**CITY OF RANCHO SANTA MARGARITA
SCHEDULE OF CONTRIBUTIONS**

Last Ten Fiscal Years*

	2016	2015
Contractually required contribution (actuarially determined)	\$ 269,353	\$ 258,665
Contributions in relation to the actuarially determined contributions	269,353	258,665
Contribution deficiency (excess)	\$ -	\$ -
Covered - employee payroll	\$ 2,144,126	\$ 1,784,340
Contributions as a percentage of covered - employee payroll	12.56%	14.50%

Notes to Schedule:

Valuation Date 6/30/2013

Methods and Assumptions Used to Determine Contribution Rates:

Single and agent employers	Entry age **
Amortization method	Level percentage of payroll, closed **
Remaining amortization period	21 years (2.5%@55) and 30 years (2%@60 and 2%@62) **
Asset valuation method	Market ***
Inflation	2.75% **
Salary increases	3.3% to 14.2% depending on age, service and type of employment, including inflation of 2.75% **
Investment rate of return	7.5%, net of pension plan investment expense, including inflation **
Retirement age	50 years (Tier I 2.5%@55, Tier II 2%@60) and 52 years (PEPRA 2%@62) **
Mortality	Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board, first used in the June 30, 2009 valuation. For purposes of the post-retirement mortality rates, those revised rates include 5 years of projected on-going mortality improvement using Scale AA published by the Society of Actuaries until June 30, 2010. There is no margin for future mortality improvement beyond the valuation date. **

* Fiscal year 2015 was the 1st year of implementation.

** The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) included the same actuarial assumption.

*** The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) valued assets using a 15 year Smoothed Market method.

**CITY OF RANCHO SANTA MARGARITA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The Schedule of Funding Progress below presents three-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits. For the three most recent-fiscal-year periods, the following information is presented:

**SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFITS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) - Unit Credit (b)	Unfunded AAL (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c)
7/1/2009	\$ -	\$141,927	\$141,927	0%	\$1,607,088	8.83%
7/1/2012	\$ -	\$272,705	\$272,705	0%	\$1,663,686	16.39%
7/1/2015	\$ -	\$567,090	\$567,090	0%	\$2,144,126	26.45%

The actuarial valuation dated July 1, 2009 contained a discount rate of 5% and the actuarial valuation dated July 1, 2012 included a discount rate of 4%. The actuarial valuation dated July 1, 2015 also includes a discount rate of 4%; however, the actuarial accrued liability still increased due partially to an additional retiree and the new valuation based on current actuarial assumptions which then contributed to the increase in the actuarial accrued liability from \$272,705 in the 7/1/12 report to \$567,090 in the 7/1/15 report.

**CITY OF RANCHO SANTA MARGARITA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

This fund, as the primary operational fund for the City, is classified as a major fund and is used to account for resources and uses traditionally associated with overall government operations; which are not required legally or by regulation or standards to be accounted for in another fund.

**CITY OF RANCHO SANTA MARGARITA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>
Fund balances, beginning of year	\$ 18,167,249	\$ 18,167,249	\$ 18,167,249	\$ -
Resources (inflows):				
Taxes	13,043,007	13,043,007	13,657,845	614,838
Fees and permits	1,821,989	1,821,989	2,029,767	207,778
Intergovernmental	208,914	208,914	258,899	49,985
Charges for service	561,551	561,551	747,093	185,542
Investment income	42,265	42,265	79,409	37,144
Fines, forfeits and penalties	160,340	160,340	163,463	3,123
Other	113,500	113,500	237,769	124,269
Transfers from other funds	772,724	772,724	766,436	(6,288)
Amounts available for appropriation	<u>34,891,539</u>	<u>34,891,539</u>	<u>36,107,930</u>	<u>1,216,391</u>
Charges to appropriations (outflows):				
General government	3,854,702	3,854,702	3,522,408	332,294
Building and planning	1,097,414	1,105,514	1,150,918	(45,404)
Public safety	8,420,383	8,420,383	7,440,456	979,927
Public works	2,293,242	2,293,242	2,263,692	29,550
Capital outlay	-	-	153,273	(153,273)
Transfers to other funds	2,819,478	2,819,478	1,954,274	865,204
Total charges to appropriations	<u>18,485,219</u>	<u>18,493,319</u>	<u>16,485,021</u>	<u>2,008,298</u>
Fund balances, end of year	<u>\$ 16,406,320</u>	<u>\$ 16,398,220</u>	<u>\$ 19,622,909</u>	<u>\$ 3,224,689</u>

**CITY OF RANCHO SANTA MARGARITA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 – CAPITAL ASSETS – MODIFIED APPROACH FOR INFRASTRUCTURE

The City has elected to use the *modified approach* for the accounting and financial reporting of infrastructure assets contained in the Streets and Roads network Street Pavement subsystem.

Under the modified approach, for financial reporting purposes, infrastructure assets that are part of a network or a subsystem of a network are not required to be depreciated as long as two requirements are met. The first requirement is to manage the eligible infrastructure assets using an asset management system that has the following characteristics:

- An up-to-date inventory of eligible infrastructure assets
- Condition assessments of the eligible infrastructure assets performed at least every three years, with summarized results using a measurement scale
- Annual estimates of the amount necessary to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government

The second requirement is to document that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government. A condition assessment must be performed every three years for financial reporting purposes. 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.

The condition of the pavement subsystem is measured using the Rancho Santa Margarita Pavement Condition Index. In order to establish and maintain eligibility for Measure M transportation funding provided by Orange County, California, the City must adopt and fund a local Pavement Management Plan (PMP). The local PMP is required to be updated every 2 years to maintain Measure M eligibility. The City Council accepted the findings of the PMP update performed in Fiscal Year 2016 and has previously adopted a condition rating of 70 as the minimum acceptable Pavement Condition Index (PCI) for the entire street pavement subsystem. In accordance with the requirements for using the modified approach for this subsystem, these findings will be used until the next PCI assessment is performed for financial reporting purposes within three years of this assessment. The results of the most recent condition assessments were as follows:

**CITY OF RANCHO SANTA MARGARITA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 1 – CAPITAL ASSETS – MODIFIED APPROACH FOR INFRASTRUCTURE, (Continued)

Assessments performed in the fiscal years ended June 30:

	<u>Actual Assessed Condition Level</u>	<u>Minimum Condition Level</u>
2016: Pavement subsystem	81.6	70
2014: Pavement subsystem	81.5	70
2013: Pavement subsystem	78.5	70
2012: Pavement subsystem	79.2	70
2010: Pavement subsystem	78.5	70
2008: Pavement subsystem	76.5	70
2007: Pavement subsystem	73.9	70
2004: Pavement subsystem	75.1	70

The pavement subsystem was assigned a numerical value based upon the scales as identified below. Each street segment has a total possible point value of 100. Once each segment had a total score, the City determined the condition of the street by segment, subdivision and as a whole based upon the street deficiency scale identified below.

- Excellent (85-100) – Minor to low distress, no significant distress.
- Very Good (70-84) – Little distress, with the exception of utility patches in good condition, or slight hairline cracks; may be slightly weathered.
- Good (55-69) – Slight to moderately weathered, slight distress, possible patching.
- Fair (40-54) – Severely weathered or slight to moderate levels of distress, generally limited to patches and non-load related cracking.
- Poor (25-39) – Moderate to severe distresses, including load-related types, such as alligator cracking.
- Very Poor (10-24) – Severely distressed, large quantities of distortion or alligator cracking.
- Failed (0-9) – Failure of the pavement, distress has surpassed tolerable rehabilitation limits.

Based on the pavement condition assessment update performed in FY 2016, as of June 30, 2016, the streets had an average deficiency rating or Pavement Condition Index (PCI) of 81.6, or Very Good.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 1 – CAPITAL ASSETS – MODIFIED APPROACH FOR INFRASTRUCTURE,
(Continued)

The following compares the actual street maintenance cost to the budgeted street maintenance costs since June 30, 2003, which was the first year of implementation of the modified approach for street pavement. Appropriations totaling \$3,060,663 have been budgeted for the fiscal year ending June 30, 2017 for maintenance/rehabilitation to maintain PCI standard.

	Street Maintenance Cost	Street Maintenance Budget
June 2016	\$ 1,421,581	\$ 3,194,079
June 2015	\$ 2,089,256	\$ 2,484,861
June 2014	\$ 2,145,969	\$ 3,011,593
June 2013	\$ 2,067,232	\$ 2,608,357
June 2012	\$ 1,743,138	\$ 2,096,757
June 2011	\$ 2,857,557	\$ 3,171,799
June 2010	\$ 1,210,581	\$ 3,056,000
June 2009	\$ 1,042,169	\$ 1,808,700
June 2008	\$ 2,132,675	\$ 3,277,392
June 2007	\$ 3,812,219	\$ 5,091,446
June 2006	\$ 1,818,402	\$ 2,246,154
June 2005	\$ 919,528	\$ 1,160,000
June 2004	\$ 783,620	\$ 943,000
June 2003	\$ 908,403	\$ 1,200,000

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In June, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Budget development discussions are conducted at public workshops, and City Council study sessions and regular meetings, to obtain resident and business comments.
3. Prior to July 1, the budget is adopted by Council action at a public hearing.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (CONTINUED)**

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING, (Continued)

Formal budgetary integration is employed as a management control device during the year. After adoption, the City Manager is authorized to transfer appropriated funds between major expenditure categories within departments and between departments. However, any revisions that alter the total appropriations of any fund must be approved by the City Council. Expenditures may not legally exceed appropriations at the fund level. All appropriations lapse at the end of the fiscal year, except for capital projects. For any project which is under construction at year-end, the appropriations are allowed to carry forward with the amount being adopted for the current year budget.

Budgets are prepared in accordance with generally accepted accounting principles using the modified-accrual basis of accounting. Accordingly, actual revenue and expenditure amounts can be compared with related budget amounts without any significant reconciling items.

Certain City financial statements and schedules present comparisons of budgeted amounts to actual results for all governmental funds with legally adopted annual budgets. Budgeted revenue amounts represent the original budget modified by Council-authorized adjustments during the year, contingent upon new or additional revenue sources. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year. Budgetary comparisons in the financial statements and schedules are based on the final adjusted amounts.

For financial reporting purposes the departments of City Council, City Manager, City Attorney, City Clerk, Human Resources/Risk Management, Finance and Community Services are combined as General Government, but operate separately for internal budget monitoring within the General Fund. All other budgeted funds are considered single operating units for budgetary control and financial reporting purposes.

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*Supplementary
Schedules*

City of Rancho Santa Margarita, California

BELL
TOWER

REGIONAL
COMMUNITY
CENTER

Supplementary
Schedules

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special Revenue Funds are used to account for activities funded by dedicated or specific program revenues. The following Special Revenue Funds have been classified as non-major funds in the accompanying financial statements:

Gas Tax – This fund is used to account for the City’s share of the motor vehicle gas tax imposed under the provisions of the Street and Highway Code of the State of California under Sections 2105, 2106, 2107, 2107.5 and 2103 which are legally restricted for the acquisition, construction, improvement and maintenance of public streets.

Measure M – This fund is used to account for the City’s share of the sales tax increase authorized by Orange County’s Measure “M”, and renewed Measure M. The monies are legally restricted for the acquisition, construction and improvement of public streets.

Air Quality Management District – This fund is used to account for the City’s share of vehicle registration fees that the State of California has allocated to address air quality concerns in Southern California. These monies are to be used in air quality maintenance programs locally and/or regionally.

Local Park Trust Fund – This fund accounts for funds collected for park improvements in conjunction with city-approved park implementation programs.

Supplemental Law Enforcement Services – This fund is used to account for monies received through the SLESF grant. These monies are used by police services to support front line law enforcement.

PEG Fee Fund – This fund is used to account for monies received through cable communications Public Education Grant, PEG, capital fees and are restricted by Federal law to be used for capital purposes.

**CITY OF RANCHO SANTA MARGARITA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016**

	Special Revenue Funds		
Assets	<u>Gas Tax</u>	<u>Measure M</u>	<u>Air Quality Management District</u>
Cash and investments	\$ 1,734,912	\$ 97,151	\$ 115,479
Due from other governments	77,678	124,370	16,808
Interest receivable	1,501	307	216
Accounts receivable	-	-	-
Total assets	<u>\$ 1,814,091</u>	<u>\$ 221,828</u>	<u>\$ 132,503</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 21,378	\$ -	\$ -
Total liabilities	<u>21,378</u>	<u>-</u>	<u>-</u>
Fund balances:			
Restricted for public safety	-	-	-
Restricted for public public works	<u>1,792,713</u>	<u>221,828</u>	<u>132,503</u>
Total fund balances	<u>1,792,713</u>	<u>221,828</u>	<u>132,503</u>
Total liabilities and fund balances	<u>\$ 1,814,091</u>	<u>\$ 221,828</u>	<u>\$ 132,503</u>

Special Revenue Funds

<u>Local Park Trust Fund</u>	<u>Supplemental Law Enforce- ment Services</u>	<u>PEG Fee Fund</u>	<u>Totals</u>
\$ 1,029,485	\$ 108,110	\$ 717,656	\$ 3,802,793
-	138	-	218,994
1,087	123	736	3,970
-	-	40,807	40,807
<u>\$ 1,030,572</u>	<u>\$ 108,371</u>	<u>\$ 759,199</u>	<u>\$ 4,066,564</u>

\$ -	\$ 9,062	\$ -	\$ 30,440
<u>-</u>	<u>9,062</u>	<u>-</u>	<u>30,440</u>

-	99,309	-	99,309
<u>1,030,572</u>	<u>-</u>	<u>759,199</u>	<u>3,936,815</u>

<u>1,030,572</u>	<u>99,309</u>	<u>759,199</u>	<u>4,036,124</u>
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<u>\$ 1,030,572</u>	<u>\$ 108,371</u>	<u>\$ 759,199</u>	<u>\$ 4,066,564</u>
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**CITY OF RANCHO SANTA MARGARITA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Special Revenue Funds		
	<u>Gas Tax</u>	<u>Measure M</u>	<u>Air Quality Management District</u>
Revenues:			
Fees and permits	\$ -	\$ -	\$ -
Intergovernmental	1,024,245	692,524	62,455
Investment income	7,113	1,143	883
Total revenues	<u>1,031,358</u>	<u>693,667</u>	<u>63,338</u>
Expenditures:			
Current:			
General government	-	-	-
Public safety	-	-	-
Public works	271,604	-	-
Total expenditures	<u>271,604</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>759,754</u>	<u>693,667</u>	<u>63,338</u>
Other financing sources (uses):			
Transfers out	(561,944)	(693,042)	(96,818)
Total financing sources (uses)	<u>(561,944)</u>	<u>(693,042)</u>	<u>(96,818)</u>
Net change in fund balances	197,810	625	(33,480)
Fund balances, beginning of year	<u>1,594,903</u>	<u>221,203</u>	<u>165,983</u>
Fund balances, end of year	<u>\$ 1,792,713</u>	<u>\$ 221,828</u>	<u>\$ 132,503</u>

Special Revenue Funds

<u>Local Park Trust Fund</u>	<u>Supplemental Law Enforce- ment Services</u>	<u>PEG Fee Fund</u>	<u>Totals</u>
\$ -	\$ -	\$ 166,670	\$ 166,670
-	114,618	-	1,893,842
4,755	532	2,994	17,420
<u>4,755</u>	<u>115,150</u>	<u>169,664</u>	<u>2,077,932</u>
-	-	582	582
-	125,395	-	125,395
6,705	-	-	278,309
<u>6,705</u>	<u>125,395</u>	<u>582</u>	<u>404,286</u>
<u>(1,950)</u>	<u>(10,245)</u>	<u>169,082</u>	<u>1,673,646</u>
-	-	-	(1,351,804)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,351,804)</u>
(1,950)	(10,245)	169,082	321,842
<u>1,032,522</u>	<u>109,554</u>	<u>590,117</u>	<u>3,714,282</u>
<u>\$ 1,030,572</u>	<u>\$ 99,309</u>	<u>\$ 759,199</u>	<u>\$ 4,036,124</u>

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

The following Schedules of Revenues, Expenditures and Changes in Fund Balance for legally adopted budgets are presented:

Special Revenue Funds

- Gas Tax
- Measure M
- Air Quality Management District
- Local Park Trust Fund
- Supplemental Law Enforcement Services
- PEG Fee Fund

Capital Projects Fund

- Capital Projects

Debt Service Fund

- Debt Service

**CITY OF RANCHO SANTA MARGARITA
GAS TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>
Fund balances, beginning of year	\$ 1,594,903	\$ 1,594,903	\$ 1,594,903	\$ -
Resources (inflows):				
Intergovernmental	1,054,315	1,054,315	1,024,245	(30,070)
Investment income	5,298	5,298	7,113	1,815
Amounts available for appropriation	<u>2,654,516</u>	<u>2,654,516</u>	<u>2,626,261</u>	<u>(28,255)</u>
Charges to appropriations (outflows):				
Public works - current	288,000	288,000	271,604	16,396
Transfers to other funds	1,989,800	1,989,800	561,944	1,427,856
Total charges to appropriations	<u>2,277,800</u>	<u>2,277,800</u>	<u>833,548</u>	<u>1,444,252</u>
Fund balances, end of year	<u>\$ 376,716</u>	<u>\$ 376,716</u>	<u>\$ 1,792,713</u>	<u>\$ 1,415,997</u>

**CITY OF RANCHO SANTA MARGARITA
 MEASURE M FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Fund balances, beginning of year	\$ 221,203	\$ 221,203	\$ 221,203	\$ -
Resources (inflows):				
Intergovernmental	718,966	718,966	692,524	(26,442)
Investment income	3,613	3,613	1,143	(2,470)
Amounts available for appropriation	<u>943,782</u>	<u>943,782</u>	<u>914,870</u>	<u>(28,912)</u>
Charges to appropriations (outflows):				
Transfers to other funds	<u>909,924</u>	<u>909,924</u>	<u>693,042</u>	<u>216,882</u>
Total charges to appropriations	<u>909,924</u>	<u>909,924</u>	<u>693,042</u>	<u>216,882</u>
Fund balances, end of year	<u>\$ 33,858</u>	<u>\$ 33,858</u>	<u>\$ 221,828</u>	<u>\$ 187,970</u>

**CITY OF RANCHO SANTA MARGARITA
 AIR QUALITY MANAGEMENT DISTRICT FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Fund balances, beginning of year	\$ 165,983	\$ 165,983	\$ 165,983	\$ -
Resources (inflows):				
Intergovernmental	59,700	59,700	62,455	2,755
Investment income	300	300	883	583
Amounts available for appropriation	<u>225,983</u>	<u>225,983</u>	<u>229,321</u>	<u>3,338</u>
Charges to appropriations (outflows):				
Transfers to other funds	<u>138,000</u>	<u>138,000</u>	<u>96,818</u>	<u>41,182</u>
Total charges to appropriations	<u>138,000</u>	<u>138,000</u>	<u>96,818</u>	<u>41,182</u>
Fund balances, end of year	<u>\$ 87,983</u>	<u>\$ 87,983</u>	<u>\$ 132,503</u>	<u>\$ 44,520</u>

**CITY OF RANCHO SANTA MARGARITA
LOCAL PARK TRUST FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Fund balances, beginning of year	\$ 1,032,522	\$ 1,032,522	\$ 1,032,522	\$ -
Resources (inflows):				
Investment income	-	-	4,755	4,755
Amounts available for appropriation	<u>1,032,522</u>	<u>1,032,522</u>	<u>1,037,277</u>	<u>4,755</u>
Charges to appropriations (outflows):				
Public works	-	35,500	6,705	28,795
Total charges to appropriations	<u>-</u>	<u>-</u>	<u>6,705</u>	<u>-</u>
Fund balances, end of year	<u>\$ 1,032,522</u>	<u>\$ 1,032,522</u>	<u>\$ 1,030,572</u>	<u>\$ 4,755</u>

**CITY OF RANCHO SANTA MARGARITA
SUPPLEMENTARY LAW ENFORCEMENT SERVICES FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>
Fund balances, beginning of year	\$ 109,554	\$ 109,554	\$ 109,554	\$ -
Resources (inflows):				
Intergovernmental	99,500	99,500	114,618	15,118
Investment income	500	500	532	32
Amounts available for appropriation	<u>209,554</u>	<u>209,554</u>	<u>224,704</u>	<u>15,150</u>
Charges to appropriations (outflows):				
Public safety - current	125,151	125,151	125,395	(244)
Total charges to appropriations	<u>125,151</u>	<u>125,151</u>	<u>125,395</u>	<u>(244)</u>
Fund balances, end of year	<u>\$ 84,403</u>	<u>\$ 84,403</u>	<u>\$ 99,309</u>	<u>\$ 14,906</u>

**CITY OF RANCHO SANTA MARGARITA
PEG FEE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>
Fund balances, beginning of year	\$ 590,117	\$ 590,117	\$ 590,117	\$ -
Resources (inflows):				
Fees and permits	160,000	158,400	166,670	8,270
Investment income	-	1,600	2,994	1,394
Amounts available for appropriation	<u>750,117</u>	<u>750,117</u>	<u>759,781</u>	<u>9,664</u>
Charges to appropriations (outflows):				
General government	-	-	582	(582)
Total charges to appropriations	<u>-</u>	<u>-</u>	<u>582</u>	<u>(582)</u>
Fund balances, end of year	<u>\$ 750,117</u>	<u>\$ 750,117</u>	<u>\$ 759,199</u>	<u>\$ 9,082</u>

**CITY OF RANCHO SANTA MARGARITA
CAPITAL PROJECTS FUND - MAJOR FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>
Fund balances, beginning of year	\$ 102,905	\$ 102,905	\$ 102,905	\$ -
Resources (inflows):				
Intergovernmental	1,288,000	1,288,000	269,011	(1,018,989)
Investment income	-	-	753	753
Transfers from other funds	4,352,340	4,352,340	1,807,505	(2,544,835)
Amounts available for appropriation	<u>5,743,245</u>	<u>5,743,245</u>	<u>2,180,174</u>	<u>(3,563,071)</u>
Charges to appropriations (outflows):				
Public works	5,710,340	5,710,340	1,966,163	3,744,177
Capital outlay	-	-	9,634	(9,634)
Total charges to appropriations	<u>5,710,340</u>	<u>5,710,340</u>	<u>1,975,797</u>	<u>3,734,543</u>
Fund balances, end of year	<u>\$ 32,905</u>	<u>\$ 32,905</u>	<u>\$ 204,377</u>	<u>\$ 171,472</u>

**CITY OF RANCHO SANTA MARGARITA
DEBT SERVICE FUND - MAJOR FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>
Fund balances, beginning of year	\$ 1,509,121	\$ 1,509,121	\$ 1,509,121	\$ -
Resources (inflows):				
Investment income	-	-	6,413	6,413
Transfers from other funds	732,138	732,138	732,137	(1)
Amounts available for appropriation	<u>2,241,259</u>	<u>2,241,259</u>	<u>2,247,671</u>	<u>6,412</u>
Charges to appropriations (outflows):				
Transfers to other funds	-	-	-	-
Principal retirement	370,000	370,000	385,000	(15,000)
Interest	362,138	362,138	347,137	15,001
Total charges to appropriations	<u>732,138</u>	<u>732,138</u>	<u>732,137</u>	<u>1</u>
Fund balances, end of year	<u>\$ 1,509,121</u>	<u>\$ 1,509,121</u>	<u>\$ 1,515,534</u>	<u>\$ 6,413</u>

Statistical Section

City of Rancho Santa Margarita, California

Statistical Section



STATISTICAL SECTION

This section of the City of Rancho Santa Margarita's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the city's overall financial health.

Financial Trends Schedules – These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.

- Net Position by Component
- Changes in Net Position
- Fund Balances of Governmental Funds
- Changes in Fund Balances of Governmental Funds
- Taxable Sales by Category
- Tax Revenues by Source – Governmental Funds

Revenue Capacity Schedules – These schedules contain information to help the reader assess the factors affecting the city's ability to generate its property and sales taxes.

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

Debt Capacity Schedules – 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.

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

Demographic and Economic Information – These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place and to help make comparisons over time and with other governments.

- Demographic and Economic Statistics
- Principal Employers
- Full-time and Part-time City Employees by Function

Operating Information – These schedules contain information about the city's operations and resources to help the reader understand how the city's financial information related to the services the city provides and the activities it performs.

- Capital Asset Statistics
- Operating Indicators by Function
- Miscellaneous Statistics

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

**City of Rancho Santa Margarita
Net Position by Component
Last Ten Fiscal Years**

	<u>2016</u>	<u>2015**</u>	<u>2014</u>	<u>2013</u>
GOVERNMENTAL ACTIVITIES				
Net Investment in				
Capital Assets	\$ 109,157,228	\$ 108,859,951	\$ 108,436,257	\$ 111,018,064
Restricted for:				
Public Safety	99,309	109,554	115,371	117,440
Public Works	3,936,815	3,604,728	3,703,419	3,012,689
Debt Service	1,515,534	1,509,121	2,357,303	2,351,627
Unrestricted	14,981,977	13,325,625	14,065,311	12,381,485
Total Governmental Activities				
Net Position	<u>\$ 129,690,863</u>	<u>\$ 127,408,979</u>	<u>\$ 128,677,661</u>	<u>\$ 128,881,305</u>
 PRIMARY GOVERNMENT				
Net Investment in				
Capital Assets	\$ 109,157,228	\$ 108,859,951	\$ 108,436,257	\$ 111,018,064
Restricted for:				
Public Safety	99,309	109,554	115,371	117,440
Public Works	3,936,815	3,604,728	3,703,419	3,012,689
Debt Service	1,515,534	1,509,121	2,357,303	2,351,627
Unrestricted	14,981,977	13,325,625	14,065,311	12,381,485
Total Primary Government				
Net Position	<u>\$ 129,690,863</u>	<u>\$ 127,408,979</u>	<u>\$ 128,677,661</u>	<u>\$ 128,881,305</u>

*Restated (\$1,900,535) to include Long Term Liability Mitigation Obligation prior balance.

** Restated (\$1,002,486) due to the implementation of GASB 68 and 71 to record pension liability at the beginning of year July 1.

Source: City Finance Division, Comprehensive Annual Financial Report (2007-2016)

2012*	2011	2010	2009	2008	2007
\$ 108,216,333	\$ 111,200,329	\$ 112,583,691	\$ 111,994,564	\$ 110,152,663	\$ 112,633,691
137,441	95,880	128,859	138,057	178,529	210,445
2,468,544	3,481,064	4,925,379	4,581,004	4,625,130	3,218,553
848,392	852,271	854,699	853,179	868,427	868,883
17,147,323	14,328,948	13,078,887	13,623,344	16,733,118	16,165,385
\$ 128,818,033	\$ 129,958,492	\$ 131,571,515	\$ 131,190,148	\$ 132,557,867	\$ 133,096,957

\$ 108,216,333	\$ 111,200,329	\$ 112,583,691	\$ 111,994,564	\$ 110,152,663	\$ 112,633,691
137,441	95,880	128,859	138,057	178,529	210,445
2,468,544	3,481,064	4,925,379	4,581,004	4,625,130	3,218,553
848,392	852,271	854,699	853,179	868,427	868,883
17,147,323	14,328,948	13,078,887	13,623,344	16,733,118	16,165,385
\$ 128,818,033	\$ 129,958,492	\$ 131,571,515	\$ 131,190,148	\$ 132,557,867	\$ 133,096,957

**City of Rancho Santa Margarita
Changes in Net Position
Last Ten Fiscal Years**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
EXPENSES				
Governmental Activities:				
General Government	\$ 3,421,649	\$ 3,698,159	\$ 3,867,419	\$ 3,888,959
Building & Planning	1,169,254	998,296	1,056,954	1,100,413
Public Safety	7,572,663	8,105,354	7,756,218	7,574,596
Public Works	4,718,605	7,521,705	5,523,014	5,240,653
Capital Outlay	-	-	-	484,024
Interest Expense	341,109	355,077	365,344	329,313
Bond Issuance Costs	-	-	-	236,018
Total Governmental Activities Expenses	<u>17,223,280</u>	<u>20,678,591</u>	<u>18,568,949</u>	<u>18,853,976</u>
PROGRAM REVENUES				
Governmental Activities:				
Charges for Services:				
General Government	431,449	405,724	370,213	332,013
Building and Planning	786,225	556,526	603,515	805,777
Public Safety	163,463	198,883	173,246	194,812
Public Works	59,890	50,079	50,058	103,438
Operating Contributions and Grants	2,545,411	3,259,584	3,402,535	3,561,137
Capital Contributions and Grants	-	-	-	-
Total Governmental Activities Program Revenues	<u>3,986,438</u>	<u>4,470,796</u>	<u>4,599,567</u>	<u>4,997,177</u>
Total Net Revenues (Expenses)	<u>\$ (13,236,842)</u>	<u>\$ (16,207,795)</u>	<u>\$ (13,969,382)</u>	<u>\$ (13,856,799)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET POSITION				
Governmental Activities:				
Taxes:				
Property Taxes	\$ 6,534,986	\$ 6,235,194	\$ 2,129,782	\$ 2,042,934
Sales Taxes	6,809,341	6,037,535	6,022,595	5,827,740
Real Property Transfer Taxes	333,339	300,415	284,486	271,322
Motor Vehicle License Fees	-	-	-	-
Motor Vehicle in-lieu tax, unrestricted intergovernmental	-	-	3,773,829	3,734,052
Prop 1A, unrestricted intergovernmental	-	-	-	-
Franchise fees	1,499,296	1,516,529	1,450,159	1,419,802
Investment Income	103,995	66,916	59,131	51,058
Contribution from other government entity - Settlement Agreement	-	-	-	-
Other	237,769	1,785,010	45,216	573,704
Total Governmental Activities	<u>15,518,726</u>	<u>15,941,599</u>	<u>13,765,198</u>	<u>13,920,612</u>
Changes in Net Position	<u>\$ 2,281,884</u>	<u>\$ (266,196)</u>	<u>\$ (204,184)</u>	<u>\$ 63,813</u>

* Suspended in FY 2015, revenue received as property tax.

Source: City Finance Division, Comprehensive Annual Financial Report (2007-2016)

	2012	2011	2010	2009	2008	2007
\$	3,880,315	\$ 3,774,471	\$ 4,180,760	\$ 4,542,993	\$ 4,794,245	\$ 4,235,381
	948,779	1,147,306	1,075,710	1,064,493	1,148,291	1,089,509
	7,564,128	7,527,342	7,829,913	8,040,476	7,642,333	6,440,965
	4,431,877	6,462,078	4,601,904	4,786,938	6,080,878	7,342,870
	448,843	-	-	-	-	-
	528,210	539,942	550,222	560,110	569,088	707,434
	-	-	-	-	-	-
	<u>17,802,152</u>	<u>19,451,139</u>	<u>18,238,509</u>	<u>18,995,010</u>	<u>20,234,835</u>	<u>19,816,159</u>
	391,960	421,986	373,889	345,078	31,773	19,839
	535,533	570,911	470,654	482,309	539,869	540,904
	281,666	253,103	269,325	274,251	320,097	338,571
	225,528	106,590	31,440	61,750	177,512	94,822
	2,965,391	3,169,109	3,170,366	2,758,111	3,055,388	3,582,070
	-	-	-	-	-	-
	<u>4,400,078</u>	<u>4,521,699</u>	<u>4,315,674</u>	<u>3,921,499</u>	<u>4,124,639</u>	<u>4,576,206</u>
\$	<u>(13,402,074)</u>	<u>(14,929,440)</u>	<u>(13,922,835)</u>	<u>(15,073,511)</u>	<u>(16,110,196)</u>	<u>(15,239,953)</u>
\$	1,999,106	\$ 2,037,141	\$ 1,465,724	\$ 2,199,059	\$ 2,261,933	\$ 2,015,510
	5,348,047	5,167,358	4,481,302	5,145,381	6,400,424	6,325,108
	230,916	235,626	217,950	206,466	192,964	294,601
	-	-	-	-	-	-
	3,807,220	3,790,596	3,820,297	4,012,068	4,126,226	4,943,750
	-	-	598,935	-	-	-
	1,414,887	1,445,587	1,417,649	1,453,986	1,413,134	1,407,872
	120,130	99,019	123,100	422,358	904,939	1,054,180
	-	-	2,033,649	-	-	-
	1,241,844	541,090	145,595	266,475	271,486	349,323
	<u>14,162,150</u>	<u>13,316,417</u>	<u>14,304,201</u>	<u>13,705,793</u>	<u>15,571,106</u>	<u>16,390,344</u>
\$	<u>760,076</u>	<u>(1,613,023)</u>	<u>381,366</u>	<u>(1,367,718)</u>	<u>(539,090)</u>	<u>1,150,391</u>

**City of Rancho Santa Margarita
Fund Balances of Governmental Funds
Last Ten Fiscal Years**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
GENERAL FUND				
Nonspendable	\$ 2,821	\$ 2,251	\$ 6,524	\$ 11,026
Restricted	-	-	-	-
Committed	1,460,181	553,484	1,694,971	61,353
Assigned	9,300,558	9,611,627	8,170,086	8,681,811
Unassigned	8,859,349	7,999,887	7,044,803	7,388,653
Total General Fund	<u>\$ 19,622,909</u>	<u>\$ 18,167,249</u>	<u>\$ 16,916,384</u>	<u>\$ 16,142,843</u>
ALL OTHER GOVERNMENTAL FUNDS				
Committed for encumbrances	\$ -	\$ -	\$ 520,086	\$ 318,917
Restricted for debt service	1,515,534	1,509,121	2,357,303	2,351,627
Restricted for public safety/public works	4,036,124	3,714,282	3,818,790	3,130,129
Assigned, Reported in:				
Capital Project Funds	204,337	102,905	80,923	112,043
Unassigned, Reported in:				
Capital Project Funds	-	-	-	-
Other	-	-	-	-
Total All Other Governmental Funds	<u>\$ 5,755,995</u>	<u>\$ 5,326,308</u>	<u>\$ 6,777,102</u>	<u>\$ 5,912,716</u>

Source: City Finance Division, HdL, Coren & Cone, Comprehensive Annual Financial Report (2007-2016)

2012	2011	2010	2009	2008	2007
\$ 183,016	\$ -	\$ -	\$ -	\$ -	\$ -
58,982	-	-	-	-	-
172,428	55,892	59,085	37,810	157,204	46,426
7,877,157	7,421,985	13,463,475	13,955,115	16,904,167	16,042,455
7,618,809	7,327,526	3,192,501	2,639,821	2,708,598	2,602,150
<u>\$ 15,910,392</u>	<u>\$ 14,805,403</u>	<u>\$ 13,522,560</u>	<u>\$ 13,992,925</u>	<u>\$ 17,061,371</u>	<u>\$ 16,088,881</u>
\$ 188,906	\$ 28,839	\$ 1,113,041	\$ 87,264	\$ 227,552	\$ -
848,392	852,271	854,699	853,178	868,427	868,883
2,547,003	2,465,098	-	-	-	-
894,372	-	-	-	-	-
-	1,083,007	748,696	1,991,978	1,867,508	826,848
-	-	-	-	-	-
<u>\$ 4,478,673</u>	<u>\$ 4,429,215</u>	<u>\$ 2,716,436</u>	<u>\$ 2,932,420</u>	<u>\$ 2,963,487</u>	<u>\$ 1,695,731</u>

City of Rancho Santa Margarita
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
REVENUES				
Taxes	\$ 13,657,845	\$ 8,537,734	\$ 8,436,863	\$ 8,141,996
Fees & Permits	2,196,437	2,043,835	2,556,767	2,396,719
Intergovernmental	2,421,752	6,979,269	6,965,839	6,215,077
Charges for Services	747,093	652,998	666,155	805,971
Investment Income	103,995	66,916	59,131	51,058
Fines, forfeits and penalties	163,463	198,883	173,246	194,812
Other	237,769	1,785,010	45,216	1,243,584
Total Revenues	<u>19,528,354</u>	<u>20,264,645</u>	<u>18,903,217</u>	<u>19,049,217</u>
EXPENDITURES				
Current:				
General Government	3,522,990	3,693,121	3,820,255	3,857,850
Building and Planning	1,150,918	993,466	1,048,181	1,096,348
Public Safety	7,565,851	8,104,085	7,755,684	7,573,874
Public Works	4,508,164	5,060,120	3,627,789	3,435,804
Capital Outlay	162,907	1,883,395	213,143	725,596
Debt Service:				
Principal Retirement	385,000	370,000	430,000	315,000
Interest	347,137	360,387	370,238	399,910
Bond Issuance Costs	-	-	-	236,018
Total Expenditures	<u>17,642,967</u>	<u>20,464,574</u>	<u>17,265,290</u>	<u>17,640,400</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,885,387</u>	<u>(199,929)</u>	<u>1,637,927</u>	<u>1,408,817</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	3,306,078	4,946,538	2,852,635	3,981,812
Transfers Out	(3,306,078)	(4,946,538)	(2,852,635)	(3,981,812)
Refunding bonds issued	-	-	-	11,230,000
Premium on refunding bonds issued	-	-	-	571,905
Payment to refunding bond escrow agent	-	-	-	(11,544,227)
Total Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>257,678</u>
Net Change in Fund Balances	<u>1,885,387</u>	<u>(199,929)</u>	<u>1,637,927</u>	<u>1,666,495</u>
Fund Balances, beginning of year	<u>23,493,557</u>	<u>23,693,486</u>	<u>22,055,559</u>	<u>20,389,064</u>
Fund Balances, end of year	<u>\$ 25,378,944</u>	<u>\$ 23,493,557</u>	<u>\$ 23,693,486</u>	<u>\$ 22,055,559</u>
DEBT SERVICE AS A PERCENTAGE OF NON CAPITAL EXPENDITURES				
	4.63%	3.80%	4.69%	5.62%

Note: Excludes infrastructure per Governmental Accounting Standards Board Statement No. 34

Source: City Finance Division, Comprehensive Annual Financial Report (2007-2016)

	2012	2011	2010	2009	2008	2007
\$	7,578,069	\$ 7,440,125	\$ 6,763,911	\$ 7,550,906	\$ 8,855,321	\$ 8,635,219
	2,072,595	1,793,566	1,655,184	1,736,087	1,835,160	1,764,706
	6,614,126	6,959,705	6,990,663	6,770,179	8,381,614	7,325,820
	657,598	755,808	638,448	607,036	327,128	298,731
	120,130	99,019	123,100	422,358	904,939	1,054,180
	277,866	248,803	269,325	274,251	320,097	338,571
	571,964	541,090	145,595	266,475	271,486	349,323
	<u>17,892,348</u>	<u>17,838,116</u>	<u>16,586,226</u>	<u>17,627,292</u>	<u>20,895,745</u>	<u>19,766,550</u>
	3,856,873	3,739,202	4,097,146	4,496,860	4,740,844	4,807,153
	954,291	1,142,245	1,066,318	1,059,697	1,134,310	1,088,534
	7,560,345	7,488,564	7,823,666	8,019,896	7,623,419	6,434,622
	2,642,796	4,193,615	2,340,380	2,545,637	3,865,499	5,140,138
	887,336	633,846	549,624	3,831,109	348,737	250,138
	305,000	295,000	290,000	280,000	265,000	-
	531,260	542,523	552,760	562,385	571,241	575,547
	-	-	-	-	-	-
	<u>16,737,901</u>	<u>18,034,995</u>	<u>16,719,894</u>	<u>20,795,584</u>	<u>18,549,050</u>	<u>18,296,132</u>
	1,154,447	(196,879)	(133,668)	(3,168,292)	2,346,695	1,470,418
	2,630,493	3,495,811	2,361,221	2,592,624	2,271,638	3,310,023
	(2,630,493)	(3,495,811)	(2,361,221)	(2,592,624)	(2,271,638)	(3,310,023)
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	<u>1,154,447</u>	<u>(196,879)</u>	<u>(133,668)</u>	<u>(3,168,292)</u>	<u>2,346,695</u>	<u>1,470,418</u>
	19,234,618	19,431,497	19,565,165	22,733,457	20,386,762	18,916,344
\$	<u>20,389,065</u>	<u>\$ 19,234,618</u>	<u>\$ 19,431,497</u>	<u>\$ 19,565,165</u>	<u>\$ 22,733,457</u>	<u>\$ 20,386,762</u>
	5.28%	4.81%	5.21%	4.97%	4.59%	3.19%

**City of Rancho Santa Margarita
Taxable Sales by Category
Last Ten Fiscal Years
(In Thousands)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Apparel Stores	*	\$ 9,962	\$ 9,932	\$ 10,212
General Merchandise	*	55,527	56,555	58,062
Food Stores	*	31,714	30,311	29,040
Eating & Drinking Places:	*	75,209	72,194	70,108
Building Materials	*	45,728	44,601	41,165
Auto Dealers & Supplies	*	140,438	131,445	130,646
Service Stations	*	50,884	60,512	61,531
Other Retail Stores	*	72,662	67,481	68,082
All Other Outlets	*	148,880	138,773	130,127
Total	*	\$ 631,004	\$ 611,804	\$ 598,973
City Direct Sales Tax Rate	8.0%	8.0%	8.0%	8.0%

*Data for fiscal year 2015-2016 not available at this time.

Note: Data for fiscal years were estimated by dividing the respective calendar year by two and adding half of each year together.

Source: California State Board of Equalization, HdL Companies

2012	2011	2010	2009	2008	2007
\$ 9,959	\$ 9,445	\$ 9,967	\$ 9,930	\$ 10,509	\$ 12,317
58,366	59,242	57,206	56,689	57,815	62,514
26,516	24,588	24,803	25,515	25,789	26,906
65,728	58,605	56,486	56,962	58,684	62,545
38,572	37,859	35,300	33,287	37,711	45,135
124,677	104,110	80,768	78,287	129,457	170,628
65,058	62,258	50,114	42,070	52,019	46,631
68,151	64,145	61,245	62,752	78,251	87,544
119,655	110,608	104,238	98,641	122,073	138,878
\$ 576,682	\$ 530,860	\$ 480,127	\$ 464,133	\$ 572,308	\$ 653,098
7.5%	7.5%	7.5%	8.5%	7.5%	7.5%

**City of Rancho Santa Margarita
Tax Revenues by Source - Governmental Funds
Last Ten Fiscal Years**

Fiscal Year	Sales and Use Tax	Property Tax	Real Property Transfer	Total
2016	\$ 6,809,341	\$ 6,534,986	\$ 333,339	\$ 13,677,666
2015	6,037,535	2,199,784	300,415	8,537,734
2014	6,022,595	2,129,782	284,486	8,436,863
2013	5,827,740	2,042,934	271,322	8,141,996
2012	5,348,047	1,999,106	230,916	7,578,069
2011	5,167,358	2,037,141	235,626	7,440,125
2010	4,481,302	2,064,659	217,950	6,763,911
2009	5,145,381	2,199,059	206,466	7,550,906
2008	6,400,424	2,261,933	192,964	8,855,321
2007	6,325,108	2,015,510	294,601	8,635,219

Source: City Finance Division, Comprehensive Annual Financial Report (2015-2016)

City of Rancho Santa Margarita
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Residential Property	Commercial Property	Industrial Property	Miscellaneous Property	Less: Tax-Exempt Property	Total Taxable Assessed Value (1)	Total Direct Rate
2016	\$ 6,399,038,568	\$ 500,361,671	\$ 451,284,423	\$ 221,370,319	-	7,572,054,981	2.98%
2015	6,078,637,661	493,114,301	438,561,989	219,863,058	-	7,230,177,009	2.98%
2014	5,633,393,974	487,305,663	429,694,341	214,774,326	-	6,765,168,304	2.98%
2013	5,537,751,127	485,112,928	412,328,785	244,030,547	-	6,679,223,387	2.98%
2012	5,531,375,422	471,169,396	408,247,722	214,027,762	-	6,624,820,302	2.98%
2011	5,494,764,386	477,885,672	413,512,495	216,438,704	-	6,602,601,257	2.98%
2010	5,446,579,878	474,216,684	427,647,694	268,050,952	-	6,616,495,208	2.98%
2009	5,732,867,423	380,038,052	305,419,495	479,713,183	-	6,898,038,153	2.98%
2008	5,819,200,351	373,671,244	286,424,261	497,659,141	-	6,976,954,997	2.98%
2007	5,477,649,646	370,791,656	269,361,787	453,170,650	-	6,570,973,739	2.98%

(1) Note: Estimated value of taxable property not readily available in the State of California

Source: HdL Companies

**City of Rancho Santa Margarita
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(Rate per \$100 of Taxable Value)**

Agency	2015/16	2014/15	2013/14	2012/13
Basic Levy^{1,5}	1.00000	1.00000	1.00000	1.00000
Capistrano Union	0.00845	0.00900	0.00972	0.01171
Metropolitan Water District	0.00350	0.00350	0.00350	0.00350
Metropolitan Water District Annex	0.00350	0.00350	0.00350	0.00350
Saddleback Valley Unified	0.03008	0.02806	0.03207	0.03265
Santa Margarita Water District	1.18070	2.05440	2.35710	4.67620
Total Direct & Overlapping² Tax Rates	2.22623	3.09846	3.40589	5.72756
City's Share of 1% Levy Per Prop 13³	0.02978	0.02978	0.02978	0.02978
Total Direct Rate^{4,6}	0.02978	0.02978	0.02978	0.02978

Notes:

¹In 1978, California voters passed Proposition 13 which set the property tax rate at a 1.00% fixed amount. This 1.00 % is shared by all taxing agencies in which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a % of assessed property values for the payment of any voter approved bonds.

²Overlapping rates are those of local and county governments that apply to property owners within the City. Not all overlapping rates apply to all city property owners.

³City's Share of 1% Levy is based on the share of the general fund tax rate area with the largest net taxable value within the city. ERAF general fund tax shifts may not be included in tax ratio figures.

⁴Total Direct Rate is the weighted average of all individual direct rates applied by the City.

⁵Under Article IXXXXA of the California Constitution, local agencies within the State of California can only levy a tax rate for general obligation bonds. In addition, Article XIII A of the California Constitution specifies that the counties within the State of California may levy a basic tax rate, distributing the proceeds to the proper agencies.

⁶This tax rate does not include any Mello-Roos tax or special assessments.

Source: Orange County Assessor 2006/07 - 2015/16 Tax Rate Table

<u>2011/12</u>	<u>2010/11</u>	<u>2009/10</u>	<u>2008/09</u>	<u>2007/08</u>	<u>2006/07</u>
1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
0.01101	0.01105	0.01077	0.00971	0.01019	0.00947
0.00370	0.00370	0.00430	0.00430	0.00450	0.00470
0.00370	0.19120	0.19180	0.19180	0.19200	0.19220
0.03163	0.03194	0.03043	0.02834	0.02668	0.03694
4.21220	4.22640	4.98790	4.03430	2.78400	2.85940
5.26224	5.46429	6.22520	5.26845	4.01737	4.10271
0.02978	0.02978	0.02978	0.02978	0.02978	0.02978
0.02978	0.02978	0.02978	0.02978	0.02978	0.02978

**City of Rancho Santa Margarita
Principal Property Tax Payers
Current Year and Ten Years Ago**

<u>Taxpayer</u>	<u>2015/16</u>			<u>2006/07</u>		
	<u>Total Assessed Value</u>	<u>Percentage of Total City Taxable Assessed Value</u>	<u>Rank</u>	<u>Total Assessed Value</u>	<u>Percentage of Total City Taxable Assessed Value</u>	<u>Rank</u>
Applied Medical Resources Corporation	\$ 213,094,014	2.81%	1	\$ 49,154,836	0.75%	2
El Prado LLC	75,037,574	0.99%	2			
BEX Portfolio Inc*	65,645,775	0.87%	3	42,579,760	0.65%	4
Villa La Paz Partners LP	39,390,202	0.52%	4	34,641,849	0.53%	5
Antonio Acquisition Company	37,241,599	0.49%	5	31,007,996	0.47%	7
EQR Skyview LP	34,888,897	0.46%	6			
FG RSM SR Apartment LP	28,142,481	0.37%	7			
KRC Santa Margarita II LP	26,334,157	0.35%	8	28,401,772	0.43%	8
Crescent LP	25,967,512	0.34%	9	22,837,244	0.35%	9
Graham Properties LP	25,609,281	0.34%	10			
Cox Com, Inc				78,476,323	1.19%	1
Northwestern Mutual Life				45,141,653	0.69%	3
Sanyo Foods				33,149,411	0.50%	6
CP Empressa RSM LLC				21,918,168	0.33%	10
Totals	<u>\$ 571,351,492</u>	<u>7.55%</u>		<u>\$ 387,309,012</u>	<u>5.89%</u>	

* Used to be BRE Properties

Source: County Tax Assessor's Office and County Tax Roll, The HdL Companies

**City of Rancho Santa Margarita
Property Tax Levies and Collections
Last Ten Fiscal Years**

Fiscal Year	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Total Tax Collections	Percentage of Levy
2016	\$ 2,180,731	\$ 2,136,300	97.96%	\$ 15,343	\$ 2,166,130	99.33%
2015	2,071,571	2,006,282	96.85%	15,250	2,057,169	99.30%
2014	1,943,941	1,894,716	97.47%	21,493	1,929,274	99.25%
2013	1,915,687	1,859,246	97.05%	31,560	1,897,089	99.03%
2012	1,898,324	1,778,174	93.67%	6,180	1,872,561	98.64%
2011	1,885,068	1,857,054	98.51%	62,096	1,857,053	98.51%
2010	1,886,013	1,234,269	65.44%	91,579	1,845,196	97.84%
2009	1,981,063	1,906,112	96.22%	93,040	1,912,628	96.55%
2008	1,986,995	1,910,346	96.14%	57,180	1,913,808	96.32%
2007	1,862,630	1,801,581	96.72%	33,987	1,813,177	97.34%

Source: O.C. Auditor-controller, City Finance Division, Comprehensive Annual Financial Report (2007-2016)

**City of Rancho Santa Margarita
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years**

Fiscal Year	General Obligation Bonds	Lease Revenue Bonds	Certificates of Participation	Mitigation Obligation ⁽³⁾	Total Governmental Activities	As % of Personal Income ⁽¹⁾	Per Capita ⁽²⁾
2016	\$ -	\$ 10,521,587	\$ -	\$ -	10,521,587	0.53%	216
2015	-	10,934,000	-	-	10,934,000	0.55%	224
2014	-	11,331,000	-	-	11,331,000	0.57%	233
2013	-	11,788,000	-	-	11,788,000	0.59%	245
2012	-	-	11,360,000	-	11,360,000	0.59%	235
2011	-	-	11,665,000	-	11,665,000	0.58%	234
2010	-	-	11,960,000	-	11,960,000	0.55%	241
2009	-	-	12,250,000	-	12,250,000	0.60%	247
2008	-	-	12,530,000	-	12,530,000	0.80%	254
2007	-	-	12,795,000	600,000	13,395,000	0.83%	274

⁽¹⁾ Assessed value used because actual value of taxable property not readily available in the State of California.

⁽²⁾ See the Schedule of Demographic and Economic Statistics for personal income and population data.

⁽³⁾ Pursuant to revenue neutrality agreements, upon incorporation in 2000, the City became obligated to make payments to Orange County to mitigate loss of County property and sales tax.

Source: City Finance Division, Employment Development Department, State Department of Finance, U.S. Bureau of Census, and HdL Companies

**City of Rancho Santa Margarita
Ratio of General Bonded Debt Outstanding
Last Ten Fiscal Years**

Fiscal Year	Population	Total General Obligation Bonds	Less Debt Service Fund ⁽¹⁾	Net Bonded Debt	Percent of Debt to Assessed Value ⁽²⁾	Debt per Capita
2016	48,516	\$ -	\$ -	\$ -	0.00%	\$ -
2015	48,823	-	-	-	0.00%	-
2014	48,834	-	-	-	0.00%	-
2013	48,550	-	-	-	0.00%	-
2012	48,079	-	-	-	0.00%	-
2011	48,278	-	-	-	0.00%	-
2010	49,945	-	-	-	0.00%	-
2009	49,643	-	-	-	0.00%	-
2008	49,501	-	-	-	0.00%	-
2007	49,306	-	-	-	0.00%	-

⁽¹⁾ Amounts available for repayment of general obligation bonds.

⁽²⁾ Assessed value used because estimated value of taxable property not readily available in State of California.

Source: City Finance Division, Department of Finance, Bureau of Economic Analysis (U. S. Census Bureau)

**City of Rancho Santa Margarita
Direct & Overlapping Bonded Debt
June 30, 2016**

	Rate Only Applies to	Gross Bonded Debt Balance	Percent Applicable to City	Net Bonded Debt
Direct Debt				
A65.01 City of RSM Public Financing Authority		\$ 10,045,000	100%	\$ 10,045,000
A65.01 City Hall and Community Center		\$ 476,587	100%	\$ 476,587
Total Direct Debt				10,521,587
Overlapping Debt				
628.01 Capistrano Unified SFID#1 1999 Bond#2002C		20,215,000	1.435%	289,992
629.01 Capistrano Unified SFID#1 1999 Bond#2001B		9,557,521	1.435%	137,106
6AB.01 Saddleback Valley USD 2004 Bond#2004A, 2013REF		68,160,000	14.394%	9,810,848
6AW.01 Saddleback Valley USD 2004 Series 2007A, 2016REF		35,060,000	14.394%	5,046,484
6CZ.01 Saddleback Valley USD 2004 Bond Series 2013A 2016		18,650,000	14.394%	2,684,453
*C55.14 Metropolitan Water District		18,880,261	1.698%	320,574
C76.56 Santa Margarita Water ID#4-Bond 1978 Bond	Land	56,250,000	40.077%	22,543,049
C76.57 Santa Margarita Water ID#4A-Bond 1984 Bond	Land	10,285,000	100.000%	10,285,000
C76.58 Santa Margarita Water ID#3-Bond 1978 Bond	Land	10,860,000	99.856%	10,844,359
C76.61 Santa Margarita Water ID#4B-Bond 1984 Bond	Land	18,510,000	0.368%	68,126
Total Overlapping Debt				62,029,991
Total Direct and Overlapping Debt				\$ 72,551,578

2015/16 Assessed Valuation: \$7,572,021,933** after deducting \$0 Incremental Value.

Debt To assessed Valuation Ratios:	Direct Debt	0.14%
	Overlapping Debt	0.82%
	Total Debt	0.96%

*This fund is a portion of a larger agency and is responsible for debt in areas outside the city.

** This amount does not include net aircraft values totaling \$33,048.

This report reflects debt which is being repaid through voter-approved property tax indebtedness. It excludes mortgage revenue, tax allocation bonds, interim financing obligations, non-bonded capital lease obligations, and certificates of participation, unless provided by the city.

Source: HdL Companies

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**City of Rancho Santa Margarita
Legal Debt Margin
Last Ten Fiscal Years**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assessed Valuation	\$ 7,572,054,981	\$ 7,230,177,009	\$ 6,765,168,304	\$ 6,679,223,387
Conversion Percentage	25%	25%	25%	25%
Adjusted Assessed Valuation	\$ 1,893,013,745	\$ 1,807,544,252	\$ 1,691,292,076	\$ 1,669,805,847
Debit Limit Percentage	15%	15%	15%	15%
Debt Limit	\$ 283,952,062	\$ 271,131,638	\$ 253,693,811	\$ 250,470,877
Total Net Debt Applicable to Limit: General Obligation Bonds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Legal Debt Margin	<u>\$ 283,952,062</u>	<u>\$ 271,131,638</u>	<u>\$ 253,693,811</u>	<u>\$ 250,470,877</u>
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	0.00%	0.00%	0.00%	0.00%

Note:

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 Finance Division, HdL Companies; Orange County Auditor-Controller

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 6,624,820,302	\$ 6,602,601,257	\$ 6,616,495,208	\$ 6,898,038,153	\$ 6,979,954,997	\$ 6,570,973,739
25%	25%	25%	25%	25%	25%
\$ 1,656,205,076	\$ 1,650,650,314	\$ 1,654,123,802	\$ 1,724,509,538	\$ 1,744,988,749	\$ 1,642,743,435
15%	15%	15%	15%	15%	15%
\$ 248,430,761	\$ 247,597,547	\$ 248,118,570	\$ 258,676,431	\$ 261,748,312	\$ 246,411,515
-	-	-	-	-	-
<u>\$ 248,430,761</u>	<u>\$ 247,597,547</u>	<u>\$ 248,118,570</u>	<u>\$ 258,676,431</u>	<u>\$ 261,748,312</u>	<u>\$ 246,411,515</u>
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

**City of Rancho Santa Margarita
Demographic and Economic Statistics
Last Ten Fiscal Years**

Fiscal Year	Population	Personal Income ⁽¹⁾ (in thousands)	Per Capita Personal Income	Income per Median Household	Median Age	School Enrollment	Unemployment Rate
2016	48,516	\$ 2,085,270	\$ 42,981	\$ 104,952	35.8	5,814	2.60%
2015	48,823	2,025,227	41,481	102,821	35.2	6,721	3.20%
2014	48,834	1,978,412	40,513	102,975	34.7	6,572	3.20%
2013	48,550	1,996,133	41,115	96,266	34.6	6,354	3.60%
2012	48,079	1,914,458	39,819	97,853	34.1	6,255	5.60%
2011	48,278	1,933,727	40,054	96,503	33.5	6,143	6.20%
2010	49,945	2,174,555	43,539	100,166	32.7	5,965	5.80%
2009	49,643	2,048,221	41,259	97,744	31.9	5,842	5.50%
2008	49,501	1,566,261	31,641	106,222	31.9	5,488	3.80%
2007	49,306	1,535,550	31,143	103,028	31.9	5,454	2.60%

(1) Estimated for 2016

Source: U.S. Bureau of Census, Employment Development Department, California Department of Finance, Saddleback Valley and Capistrano Unified School District

**City of Rancho Santa Margarita
Principal Employers
Current Year and Seven Years Ago**

Employer	2016		2009	
	Number of Employees	Percentage of Employment	Number of Employees	Percentage of Employment
Applied Medical	1,304	4.16%	1,249	4.28%
O'Connell Landscape	980	3.13%	1,090	3.73%
Saddleback Valley School District	606	1.93%	550	1.88%
Lucas & Mercier Construction	553	1.77%	567	1.94%
Control Components Inc. (CCI)	200	0.64%	370	1.27%
Target Corporation	247	0.79%	240	0.82%
Car Sound Exhaust System, Inc.	150	0.48%	210	0.72%
Capistrano Unified School District	215	0.69%	200	0.68%
PADI	180	0.57%	170	0.58%
Santa Margarita Catholic H.S.	175	0.56%	200	0.68%

Source: City Finance Division, Development Services

**City of Rancho Santa Margarita
Full-Time and Part-Time City Employees by Function
Last Ten Fiscal Years**

FUNCTION	Full-Time and Part-Time Employees as of June 30									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
City Manager Full-Time	3.00	2.50	1.50	2.00	2.00	2.00	3.00	3.00	3.00	5.00
City Clerk Full-Time	2.80	2.80	3.40	2.80	2.80	2.80	2.60	2.60	2.60	2.38
Human Resources Full-Time	2.00	2.00	2.00	1.25	-	-	-	-	-	-
Finance Full-Time	3.80	3.80	3.58	4.08	-	-	-	-	-	2.35
Police Services Full-Time	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Bldg./Planning Full-time	5.60	5.60	3.85	3.00	3.00	3.75	3.60	3.50	3.50	7.00
Engr./Pub. Works Full-Time	4.50	4.50	3.50	3.00	3.00	3.00	3.00	3.00	3.00	4.55
Comm. Services Full-Time	6.40	6.40	6.37	6.25	-	-	-	-	-	2.25
Admin. Services Full-Time	-	-	-	-	11.32	11.07	14.10	8.60	8.35	-
Total	29.10	28.60	25.20	23.38	23.12	23.62	27.30	21.70	21.45	24.53

Note: Part-Time Employees are expressed as Full-Time equivalents.

Source: City Finance Division, City Human Resources, Adopted Operating Budget and Capital Improvement Plan FY 2016-2017

**City of Rancho Santa Margarita
Capital Asset Statistics
Last Ten Fiscal Years**

FUNCTION	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
General Government										
Civic Center/City Hall Building	1	1	1	1	1	1	1	1	1	1
Police Services										
Support Vehicles	1	1	1	1	1	1	1	1	1	1
Motorcycles	2	2	2	2	2	2	2	3	3	3
Public Works										
Streets (Miles)	99	99	99	99	99	99	99	99	99	99
Traffic Signals	159	159	159	159	159	159	159	159	159	158
Community Services										
Dog Parks	1	1	1	1	1	1	1	1	1	1
Skate Parks	1	1	1	1	1	1	1	1	1	1

Source: City Public Works Department, Police Services, Community Services

**City of Rancho Santa Margarita
Operating Indicators by Function
Last Ten Fiscal Years**

FUNCTION	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
General Government				
Financial Reports & Audits Completed	111	106	117	62
Checks/Wire Transfers	1,482	1,670	1,768	1,713
Police Services				
Physical Arrests	*	329	377	766
Parking Citations	*	1,365	1,042	1,516
Traffic Citations	*	402	1,469	1,931
Public Works				
Street Paving (miles)	8.07	9.45	23	92
Sidewalks replaced (sq. ft.)	6,358	10,832	4,809	-
Curb refurbished (linear feet)	24,953	14,953	280	13,351
Traffic signs replaced/installed	322	337	262	291
Pavement Condition Index (70 = min. acceptable)	81.6	81.5	81.5	78.5
Building and Planning				
Building Permits Issued	1,671	1,279	1,051	1,145
Building Inspections Completed	3,422	2,515	2,278	2,140
Plan Checks Performed	413	328	279	263
Community Services				
Recreational & Instructional Classes Offered	825	825	775	773
Senior Mobility Ride Vouchers	990	989	939	1,171
Community Events Attendance	19,000	18,000	18,000	18,000
Community Magazine Publications	3	3	3	3

* Data not readily available.

Source: City Finance Division, Public Safety Department, Public Works Department, Development Services and Community Services Division

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
49	15	12	12	12	7
1,759	1,645	2,502	1,664	2,355	2,152
1,035	1,317	1,054	1,226	986	770
1,120	1,613	2,168	2,308	2,090	3,544
2,857	3,184	2,627	3,928	3,814	3,384
8	13	30	6	25	15
1,025	3,973	8,585	4,000	2,975	1,443
15,500	19	1,614	23,000	19,769	12,726
600	56	458	536	559	432
79.2	77.9	76.5	76.5	76	73
1,026	782	764	807	786	751
2,387	2,127	1,801	1,953	3,460	3,613
194	223	185	126	355	327
725	712	460	134	102	121
665	609	623	422	440	145
17,500	15,000	17,000	30,500	30,000	19,300
3	3	3	3	3	3

**City of Rancho Santa Margarita
Miscellaneous Statistics
June 30, 2016**

Geographic Location:	The City of Rancho Santa Margarita is located 58 miles south east of Los Angeles and 450 miles south of San Francisco.
Population:	48,516
Area in square miles:	13
Form of Government:	Council-Manager
Date of Incorporation:	January 1, 2000
Number of Full Time Employees:	23
Public Safety:	
Police Department	Under contract with the Orange County Sheriff's Department
Fire Department	Under contract with the Orange County Fire Authority
Library	One branch, Orange County Public Library System
Recreation:	21 Privately owned and operated parks 1 County owned and operated park 2 Privately owned golf courses
Schools:	
Elementary Schools	11
Middle Schools	2
High Schools	1
Master Home Owners' Associations	7
Miles of Streets	99.5 miles
Number of Streetlights	159
Source:	City Finance Division

City of Rancho Santa Margarita

California