

City of Rancho Santa Margarita California

Comprehensive Annual Financial Report



**For the Year Ending
June 30, 2017**



Comprehensive Annual Financial Report

For the Year Ended June 30, 2017

Finance Division

City of Rancho Santa Margarita, California

City Council



Carol A. Gamble
Mayor



Michael Vaughn
Mayor Pro Tempore



L. Anthony Beall
Council Member



Jerry Holloway
Council Member



Bradley J. McGirr
Council Member

City of Rancho Santa Margarita, California

**CITY OF RANCHO SANTA MARGARITA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**CITY OF RANCHO SANTA MARGARITA
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**CITY OF RANCHO SANTA MARGARITA
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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 5, 2017

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 17th 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.

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 2014, 2016 and 2017 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 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.

| | | | | | |
|----------------------------------|---|---|--|---|--|
| 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 |
|----------------------------------|---|---|--|---|--|

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, 2017 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 2017, sales, motor vehicle in-lieu, and property taxes made up approximately 78% of the City's general revenues.

This is the City's 17th fiscal year since incorporation, and the 15th 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, 2017, 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, General Fund revenues, outside of transfers in, exceeded budgeted revenues by \$369,847. While General fund expenditures, not including transfers out, came in under budget by \$612,102 compared to budgeted amounts through cost cutting measures and budget savings without affecting core City service levels to residents and businesses. Transfers in and transfers out were under budget by \$485,368 for an overall General Fund net surplus of \$1,467,317 compared to budget. The net operating surplus includes growth in sales tax and building permit fees, as well as, expenditure savings within the City departments. The FY 2016/17 budget assumed the use of reserve funds for planned expenditures, which ultimately reduced the General Fund balance by \$2,068,724. These expenditures included a mitigation obligation payment to the County of Orange, various capital projects, the second phase of the 800 MHz radio and equipment upgrade, the one-time transition costs for the new animal services contract with Mission Viejo, and the second year of the General Plan update. The capital projects included the Habitat Restoration Project, median hardscape renovations, the City Fountain renovation, as well as, the building repairs to City Hall and the Bell Tower Regional Community Center.

Revenues for Fiscal Year 2016/17 increased over budget estimates by about \$369,847, or 2.2%. Increased property tax, property tax in-lieu of VLF, and property tax transfer revenue contributed \$71,431, sales tax revenues reflected an increase of \$163,429 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. The City showed growth of \$56,578 in interest income revenue; however, also experienced lower franchise fee revenues compared to prior years. 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 \$6,669,064, or 38%, of General Fund revenue for the fiscal year ended June 30, 2017. Motor vehicle fees and VLF in-lieu taxes of \$4,358,329 made up the City's second largest revenue source at 25% of general revenues. Property taxes of \$2,750,542 accounted for 15% of general revenues.

ECONOMIC CONDITION AND OUTLOOK CONTINUED

Current year sales tax revenues reflected an increase over the prior year actual sales tax revenue. The City expects sales tax growth 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 \$2.7 million, which includes property transfer tax revenues, looks promising as the assessed property values increased between 2015/16 and 2016/17. 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, with three years remaining.

Public Safety

Using the most recent crime statistics (2016) 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 2016 is the fifth consecutive year that Rancho Santa Margarita was ranked as the #1 safest city in Orange County and the seventh 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 2017.

Public Works Improvements

Major projects included annual residential overlays (\$232,442), annual slurry seal programs for (\$545,632) and pavement rehabilitation projects at a cost of \$202,160. Other projects include median hardscape renovations and various sidewalk repairs of (\$216,910). The City also initiated and completed various projects including signal and equipment upgrades, purchase of speed feedback signs, and continued the Chiquita Ridge Open Space assessment project for a combined total of (\$213,571) and is currently in the maintenance phase of the 82.9 acre Upper Oso Habitat Restoration Project with a cost of \$221,011. Federal Community Development Block Grant (CDBG) funds were used for median ADA Improvements at a cost of \$85,873 and the Veranda Laguna sidewalk improvement project for \$51,949. The City also completed the City Hall and Bell Tower Regional Community Center (BTRCC) repairs including the City fountain, BTRCC ballroom floor and City Hall landscaping for a total of \$1,022,870, as well as, the use of local park trust funds to renovate the City's dog park (\$166,849). Work has continued on the SMP Bridge Hinge Repair project with cost of \$176,075 in FY 2016/17.

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

MAJOR PROJECTS FOR THE YEAR AND FOR THE FUTURE, CONTINUED

continued to provide concerts in the park during the summer months, with the eleventh annual series being received with great success. Community Services staff has 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 2016/17, 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 had 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 began 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, 2017, 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 2016 and 2017 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 assign \$7,524,985 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.

Cost Allocation Plan and User Fees and Charges Study

It is the City's goal to have a well-documented user fee structure that is based on a legally defensible methodology for calculating and establishing the City's development processing fees and other City rates, charges, and user fees, which will incorporate all direct and indirect costs of providing the services and will be compliant with applicable law, including the Mitigation Fee Act (Government Code §66000 et seq.). In order to capture the actual costs of providing services, the City retained NBS Government Finance Group (NBS), to prepare a full-cost allocation plan and to perform a comprehensive study of all City development processing fees and other City rates, charges, and user fees for various governmental services. The updated Master Fee Schedule was approved by City Council on May 10, 2017 and became effective on July 10, 2017.

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, 2016. 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 sixteenth 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, 2017.



Government Finance Officers Association

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

Presented to

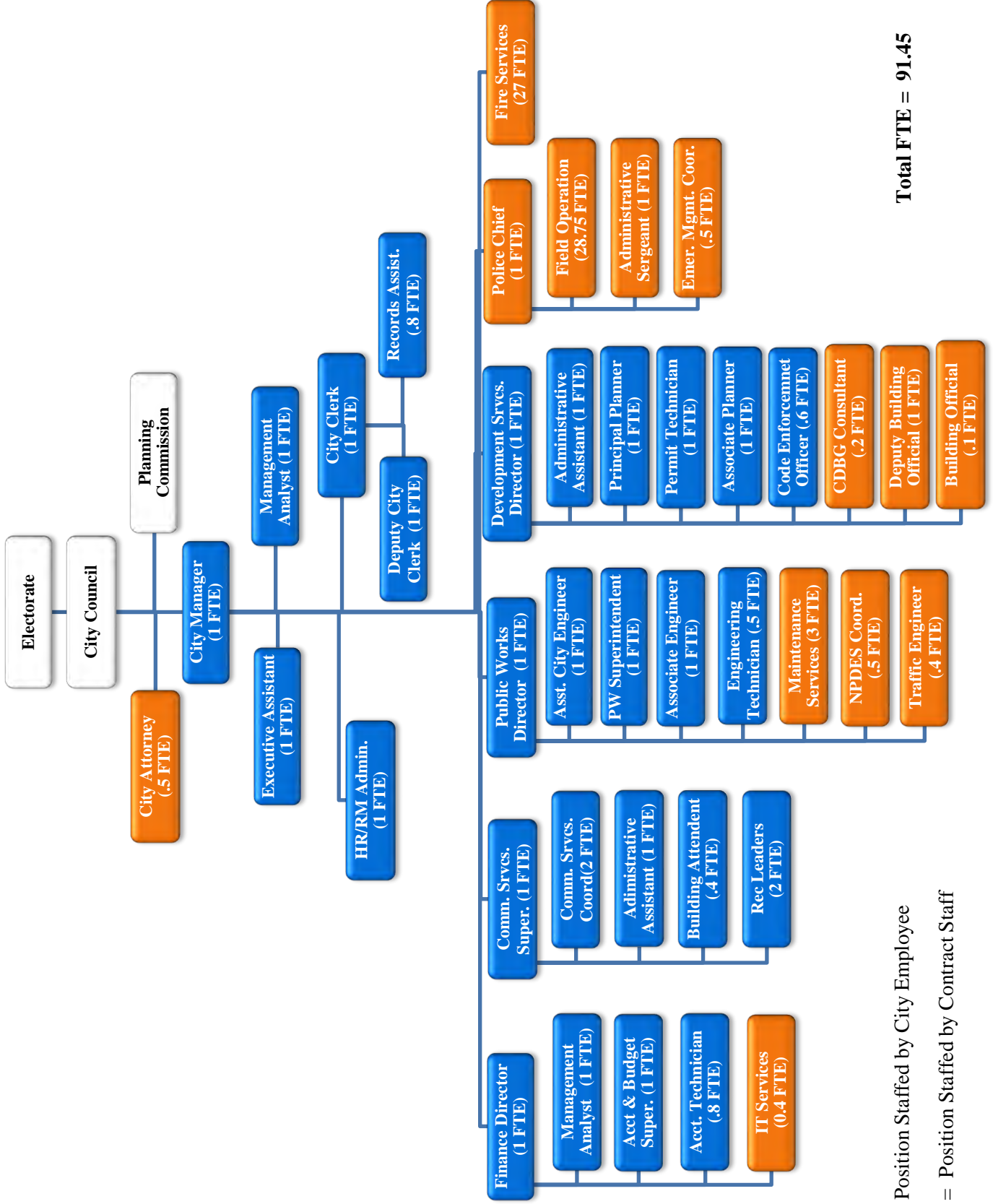
**City of Rancho Santa Margarita
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

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



Total FTE = 91.45

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

CAROL A. GAMBLE
Mayor

MICHAEL VAUGHN
Mayor Pro Tempore

L. ANTHONY BEALL
Council Member

JERRY HOLLOWAY
Council Member

BRADLEY J. MCGIRR
Council Member

CITY ADMINISTRATION

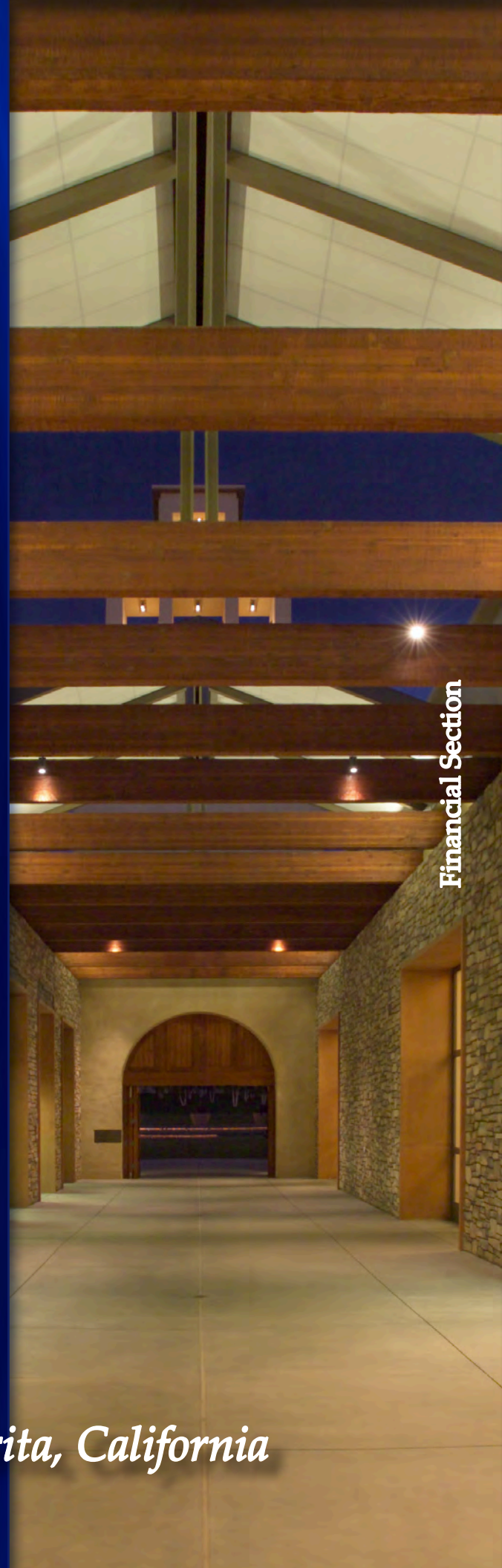
Jennifer Cervantez
City Manager/City Treasurer

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2017, 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 5, 2017, 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 5, 2017

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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, 2017. 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, 2017, by \$128.6 million (*net position*). Of this amount, \$14.0 million (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors. Legal and contractual obligations restrict \$5.4 million of net position for specific City programs. Investment in capital assets totals \$109.2 million.
- The government's total net position decreased by \$1.11 million during the fiscal year ended June 30, 2017. Revenues increased by \$0.28 million. The "Other" revenue decreased by \$0.19 million due to one-time revenues received in the prior year. Sales Tax decreased by \$0.14 million due to additional sales tax recorded from the wind down and close out of the Triple Flip in the prior fiscal year. Property tax revenue, including Property Tax in lieu of VLF, and Property Transfer Tax revenue, increased \$0.21 million; fees and intergovernmental revenue decreased \$0.09 million; operating grants and contributions increased \$0.43 million; while other revenue sources showed minimal change. The net increase from the prior year in total government expenses of \$3.7 million is due to capital projects spending fluctuations and a payment towards the Mitigation Obligation to the County of Orange, as well as, other planned use of reserve expenditures.
- As of June 30, 2017, the City's governmental funds reported combined ending fund balances of \$22.9 million, a decrease of \$2.5 million in comparison with the prior year. Approximately 26.9 percent, or \$6.2 million of this total amount, has been allocated for specific obligations (*nonspendable, restricted, committed fund balance*), and 73.1 percent, or \$16.7 million is available for other spending purposes at the City Council's discretion (*assigned, unassigned fund balance*).
- At June 30, 2017, the City's General Fund totaled \$17.5 million. Of the total fund balance, \$0.8 million is nonspendable or committed for future use. The remaining available fund balance is made up of the assigned fund balance of \$7.5 million and unassigned fund balance of \$9.2 million. This portion of General Fund totaled \$16.7 million which equaled 89 percent of total General Fund expenditures including

transfers out for the fiscal year ended June 30, 2017. Although available, the City Council has classified this \$16.7 million for specific purposes, including emergencies.

- The City's total long-term liabilities decreased by \$1.13 million (8 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 2016, and a decrease in the amount owed on the sales tax mitigation payment.

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 (85 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, 2017 and 2016
(in thousands)

| | Governmental | |
|--|---------------------|-------------------|
| | Activities | |
| | <u>2017</u> | <u>2016</u> |
| Assets: | | |
| Current and other assets | \$ 25,621 | \$ 28,345 |
| Capital assets | 117,170 | 117,494 |
| Total assets | <u>142,791</u> | <u>145,839</u> |
| | | |
| Deferred Outflows of Resources: | <u>1,466</u> | <u>1,138</u> |
| | | |
| Liabilities: | | |
| Long-term liabilities | 13,085 | 14,158 |
| Other liabilities | 2,498 | 2,898 |
| Total liabilities | <u>15,583</u> | <u>17,056</u> |
| | | |
| Deferred Inflows of Resources: | <u>93</u> | <u>230</u> |
| | | |
| Net Position: | | |
| Net investment in capital assets | 109,252 | 109,157 |
| Restricted | 5,369 | 5,552 |
| Unrestricted | 13,960 | 14,982 |
| Total net position | <u>\$ 128,581</u> | <u>\$ 129,691</u> |

During the fiscal year ended June 30, 2017, net position of the City decreased .86 percent to \$128,581 million, of which \$109.2 million is invested in capital assets such as equipment, buildings and infrastructure. Of the remaining total, \$5.4 million is restricted for fulfillment of specifically stipulated spending agreements originated by law, contract or other agreements with external parties. The remaining \$14.0 million, a decrease of 6.8 percent from the prior year total of \$15 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, 2017 and 2016
(in thousands)

| | Governmental | |
|--|--------------------------|--------------------------|
| | Activities | |
| | <u>2017</u> | <u>2016</u> |
| Revenues | | |
| Program revenues: | | |
| Charges for service | \$ 1,312 | \$ 1,441 |
| Operating grants and contributions | 3,114 | 2,545 |
| General revenues: | | |
| Property taxes | 6,746 | 6,535 |
| Sales taxes | 6,669 | 6,809 |
| Fees and intergovernmental | 1,743 | 1,833 |
| Other revenues | 50 | 238 |
| Investment revenue | 148 | 104 |
| Total revenues | <u>19,782</u> | <u>19,505</u> |
| Expenses | | |
| General government | 3,664 | 3,421 |
| Building and planning | 1,091 | 1,169 |
| Public safety | 9,645 | 7,573 |
| Public works | 6,167 | 4,719 |
| Interest expense | 325 | 341 |
| Total expenses | <u>20,892</u> | <u>17,223</u> |
| Excess (deficit) of revenues over expenses | <u>(1,110)</u> | <u>2,282</u> |
| Increase (Decrease) in net position | (1,110) | 2,282 |
| Beginning net position | <u>129,691</u> | <u>127,409</u> |
| Ending net position | <u><u>\$ 128,581</u></u> | <u><u>\$ 129,691</u></u> |

Overall, Citywide revenues for the fiscal year ended June 30, 2017 increased by \$0.28 million a 1.40 percent increase over the prior year. Property tax revenue increased by \$0.21 million and sales tax revenue decreased by \$0.14 million; partially due to the wind down and final closeout of the Triple Flip in the prior year. Other revenue decreased by \$0.19 million due to one-time revenue received in the prior year.

- Total program revenues of \$4.4 million were 22 percent of total revenues.
- Total general revenues of \$15.4 million were 78 percent of total revenues.

Total related expenses increased by \$3.7 million, a 21.3 percent increase from the prior year. Public Works expenses, which account for 30 percent of the total expenses, were used for overlay, other street and sidewalk repair projects throughout the City, the completion of the City Hall and Bell Tower Regional Community Center building repair project, as well as, the renovation of the City Hall fountain. Public Safety expenses accounted for 46 percent of total current expenses. The increase in expense reflects the completion of prior year deferred capital projects, as well as, expenses for the mitigation payment, the second year of the General Plan, and transition costs related to the new animal control contract with Mission Viejo.

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, 2017, the City's governmental funds reported total combined ending fund balances of \$22.9 million, a decrease of \$2.5 million from the prior year. Approximately 33 percent of the City's governmental funds ending fund balances, or \$7.5 million, constitutes *assigned fund balance*, which have been classified by the City Council for specific uses. Approximately 40 percent of the City's governmental funds ending fund balances, or \$9.2 million, constitutes *unassigned fund balance* which is available for spending at the government's direction. *Restricted fund balance* of \$5.4 million, or 23 percent is available to: 1) pay debt service (\$1.53 million) and 2) use for specific purposes as required by special revenue funds (\$3.84 million). The remainder of fund balance, \$0.79 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 (\$0.18 million), 2) liquidate contracts and purchase orders of the prior period (\$0.58 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, 2017, assigned fund balance was \$7.5 million and unassigned fund balance of the general fund was \$9.2 million, while total fund balance was \$17.5 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 52.7 percent of the total General Fund expenditures. As mentioned above, however, the City Council has classified the assigned fund balance \$7.5 million for specified purposes.

City of Rancho Santa Margarita
Summary of Changes in Fund Balances - General Fund
For the Year Ended June 30, 2017 and 2016
(in thousands)

| | 2017 | 2016 |
|--|-------------------|-----------------|
| Revenues | | |
| Taxes | \$ 13,756 | \$ 13,658 |
| Fees and permits | 1,863 | 2,030 |
| Intergovernmental | 252 | 259 |
| Charges for service | 747 | 747 |
| Investment income | 110 | 79 |
| Fines, forfeits and penalties | 143 | 163 |
| Other | 50 | 238 |
| Total revenues | 16,921 | 17,174 |
| Expenditures | | |
| General government | 3,665 | 3,522 |
| Building and planning | 1,079 | 1,151 |
| Public safety | 9,529 | 7,441 |
| Public works | 2,164 | 2,264 |
| Capital outlay | 132 | 153 |
| Debt service | 967 | - |
| Total expenditures | 17,536 | 14,531 |
| Excess (Deficit) of revenues over expenditure: | (615) | 2,643 |
| Net transfers | (1,454) | (1,188) |
| Increase (Decrease) in Fund Balance | \$ (2,069) | \$ 1,455 |

For the fiscal year ended June 30, 2017, the cash and investments balance in the General Fund was \$17.5 million, a decrease of \$1.68 million from the prior fiscal year.

Overall, general fund revenues for the fiscal year ended June 30, 2017 decreased by \$.25 million, or 1.5 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 \$0.24 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 \$4.3 million of the \$13.75 million in overall taxes category.

- Sales tax revenues decreased \$0.14 million, to \$6.7 million, due to the effects of additional sales tax recorded in the prior fiscal year from the wind down of the “Triple Flip”.
- Other revenue decreased by \$0.18 million, to \$0.05 million, mostly due to lower sponsorship revenues and a non-recurring one-time only revenue from the sale of SCE Rule 2A credits.

Changes in General Fund expenditures, by function, occurred as follows during the year ended June 30, 2017:

- General government expenditures increased by 4.0 percent to \$3.66 million from the prior year expenditures. Much of this increase is due to one-time transition costs associated with Mission Viejo Animal Services.
- Public safety expenditures increased by \$2.1 million to \$9.52 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 the contract in the prior fiscal year. Public safety expenditures were 54 percent of total General Fund expenditures.
- Public works expenditures decreased by \$0.10 million, to \$2.16 million, due to decreases in Public Works administration from lower costs in NPDES and traffic engineering, as well as, no costs associated with the City vehicle that was purchased in the prior year. Street Maintenance had no significant cost variances and remained relatively flat from year to year.
- Building and planning expenditures decreased by \$0.07 million, to \$1.08 million, reflecting lower personnel costs as well as a decrease in various other expenditures with in the building and planning department.
- Debt Service expenditures increased to \$.97 million due to the Mitigation payment made during the 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 decreased \$0.20 million. This decrease stems from the completion of various planned projects in FY 2016/17. The Debt Service fund had an increase in fund balance of \$.011 million which stems from the recording of investment income in the fund.

General Fund Budgetary Highlights

Differences between the General Fund expenditures/transfers out and the final amended budget were \$1.1 million and can be briefly summarized as follows:

- \$0.24 million in decreases allocated to public works activities.
- \$0.33 million in decreases for general government activities.
- \$0.50 million in decreases for transfers to other funds.

These overall decreases can be attributed to deferred capital projects, and conservative spending maintained throughout the fiscal year.

The original general fund budget was amended to increase general fund expenditures by \$0.274 million. This increase was a budget amendment to provide additional funding for the Mitigation obligation payment as well as additional funding for legal services.

Capital Asset and Debt Administration

Capital Assets

The City's net capital assets for its governmental activities, as of June 30, 2017, amounts to \$117.17 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 .27 percent.

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

| | Balance June 30, 2016 | Increases | Decreases | Balance June 30, 2017 |
|--|--------------------------------------|------------------|------------------|--------------------------------------|
| Governmental Activities: | | | | |
| Total capital assets not being depreciated | 98,290 | 1,674 | 2,262 | 97,702 |
| Total capital assets being depreciated | 82,327 | 2,342 | 4 | 84,665 |
| Total accumulated depreciation | 63,123 | 2,077 | 3 | 65,197 |
| Total capital assets, being depreciated, net | 19,204 | 265 | 1 | 19,468 |
| Governmental activities capital assets, net | <u>\$ 117,494</u> | <u>\$ 1,939</u> | <u>\$ 2,263</u> | <u>\$ 117,170</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 completion of the City Hall and Bell Tower Regional Community Center building repairs, the City Hall fountain renovation, signal and equipment upgrades, trash reduction catch basin inserts, and the on-going SMP Bridge Hinge Repair project.
- Infrastructure additions for the year totaled \$0.30 million related to the completion of electronic traffic control devices, sidewalks and curb and gutter projects, as well as, trash reduction catch basins.
- Machinery and Equipment acquisitions of \$0.2 million included the beginning phase of the City’s audio visual equipment and the second phase 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 2017 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 78.6, or very good. This average PCI was maintained since the last update in 2016. 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 \$10.1 million. The remaining balance of the mitigation obligation to the County of Orange at the end of the current fiscal year was \$0.93 million.

| | Balance | | | Balance | Long- | Due Within |
|------------------------------|----------------------|------------------|------------------|----------------------|-----------------|-------------------|
| | June 30, 2016 | Increases | Decreases | June 30, 2017 | Term | One Year |
| Mitigation Obligation | \$ 1,900 | \$ - | \$ 967 | \$ 933 | \$ 85 | \$ 848 |
| Lease Revenue | | | | | | |
| Refunding Bonds | 10,521 | - | 432 | 10,089 | \$ 9,669 | 420 |
| Compensated | | | | | | |
| Absences | 272 | 230 | 211 | 291 | 160 | 131 |
| Long-Term Liabilities | | | | | | |
| Total | <u>\$ 12,693</u> | <u>\$ 230</u> | <u>\$ 1,610</u> | <u>\$ 11,313</u> | <u>\$ 9,914</u> | <u>\$ 1,399</u> |

Long-term debt-related events during the fiscal year ended June 30, 2017 included:

- Compensated absences liabilities increased to \$0.29 million and usage by employees amounted to \$0.21 million.
- Interest accrued on the Lease Revenue Refunding Bonds, Series 2012A for the fiscal year ended June 30, 2017 totaled \$0.54 million.

Other long-term liability events during the fiscal year ended June 30, 2017 included:

- Other post-employment benefit obligations, (OPEB) increased by \$0.06 million.
- The Net Pension Liability for Fiscal year 2016/17 had a net increase of \$0.25 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 2016-2017 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

RANCHO SANTA MARGARITA
CIVIC PLAZA

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, 2017

| | <u>Governmental Activities</u> |
|---|---|
| Assets: | |
| Cash and investments (note 2) | \$ 21,969,084 |
| Cash and investments with fiscal agent (note 2) | 1,523,328 |
| Receivables: | |
| Due from other governments | 1,740,119 |
| Accrued interest | 42,089 |
| Accounts, net | 343,367 |
| Prepaid items | 2,665 |
| Non-depreciable capital assets (note 4) | 97,702,182 |
| Capital assets, depreciated , net (note 4) | 19,468,412 |
| Total assets | <u>142,791,246</u> |
| Deferred Outflows of Resources: | |
| Deferred amount on refunding, net of accumulated amortization | 392,248 |
| Deferred amounts on pension plans | 1,073,940 |
| Total deferred outflows of resources | <u>1,466,188</u> |
| Liabilities: | |
| Accounts payable | 1,944,707 |
| Wages payable | 80,664 |
| Unearned revenue (note 10) | 59,205 |
| Retentions payable | 135,723 |
| Deposits | 224,268 |
| Interest payable | 53,872 |
| Long-term liabilities (note 5): | |
| Due within one year | 1,399,550 |
| Due in more than one year | 11,685,402 |
| Total liabilities | <u>15,583,391</u> |
| Deferred Inflows of Resources: | |
| Deferred amounts on pension plans | <u>92,671</u> |
| Net position: | |
| Net investment in capital assets | 109,252,099 |
| Restricted for: | |
| Public safety | 113,112 |
| Public works | 3,728,757 |
| Debt service | 1,526,835 |
| Unrestricted | 13,960,569 |
| Total net position | <u><u>\$ 128,581,372</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, 2017**

| | <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 | \$ 2,700,266 | \$ 424,862 | \$ 300,919 | \$ - | \$ (1,974,485) |
| Building and planning | 1,090,593 | 660,136 | 742,576 | - | 312,119 |
| Public safety | 9,644,961 | 142,914 | 136,857 | - | (9,365,190) |
| Public works | 6,162,890 | 83,792 | 1,933,904 | - | (4,145,194) |
| Capital outlay | 925 | - | - | - | (925) |
| Principal Retirement | 967,536 | - | - | - | (967,536) |
| Interest expense | 325,176 | - | - | - | (325,176) |
| Total governmental activities | <u>\$ 20,892,347</u> | <u>\$ 1,311,704</u> | <u>\$ 3,114,256</u> | <u>\$ -</u> | <u>(16,466,387)</u> |

General revenues:

| | |
|-----------------------------------|-----------------------|
| Taxes: | |
| Property taxes | 6,746,586 |
| Sales taxes | 6,669,064 |
| Real property transfer taxes | 362,285 |
| Franchise fees | 1,380,895 |
| Investment income | 147,992 |
| Other | 50,074 |
| | <u>15,356,896</u> |
| Total general revenues | <u>15,356,896</u> |
| Change in net position | (1,109,491) |
| Net position at beginning of year | <u>129,690,863</u> |
| Net position at end of year | <u>\$ 128,581,372</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, 2017**

| Assets | General | Capital Projects | Debt Service | Non-Major Governmental Funds | Totals |
|--|----------------------|-----------------------------|-------------------------|---|----------------------|
| Cash and investments | \$ 17,496,862 | \$ 784,465 | \$ - | \$ 3,687,757 | \$ 21,969,084 |
| Cash and investments w/fiscal agent | - | - | 1,523,328 | - | 1,523,328 |
| Receivables: | | | | | |
| Due from other governments | 1,199,230 | 313,379 | - | 227,510 | 1,740,119 |
| Accrued interest | 30,228 | 91 | 3,507 | 8,263 | 42,089 |
| Accounts, net | 332,939 | - | - | 10,428 | 343,367 |
| Prepaid items | 2,665 | - | - | - | 2,665 |
| Total assets | <u>\$ 19,061,924</u> | <u>\$ 1,097,935</u> | <u>\$ 1,526,835</u> | <u>\$ 3,933,958</u> | <u>\$ 25,620,652</u> |
| Liabilities, Deferred Inflows of Resources, and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 1,138,688 | \$ 713,930 | \$ - | \$ 92,089 | \$ 1,944,707 |
| Wages payable | 80,664 | - | - | - | 80,664 |
| Unearned revenue | 59,205 | - | - | - | 59,205 |
| Retentions payable | - | 135,723 | - | - | 135,723 |
| Deposits | 224,268 | - | - | - | 224,268 |
| Total liabilities | <u>1,502,825</u> | <u>849,653</u> | <u>-</u> | <u>92,089</u> | <u>2,444,567</u> |
| Deferred Inflows of Resources: | | | | | |
| Unavailable revenue from grants | \$ 4,914 | \$ 244,661 | \$ - | \$ - | \$ 249,575 |
| Total deferred inflows of resources | <u>4,914</u> | <u>244,661</u> | <u>-</u> | <u>-</u> | <u>249,575</u> |
| Fund balance: | | | | | |
| Nonspendable: Prepaid items | 2,665 | - | - | - | 2,665 |
| Restricted for debt service | - | - | 1,526,835 | - | 1,526,835 |
| Restricted for public safety | - | - | - | 113,112 | 113,112 |
| Restricted for public works | - | - | - | 3,728,757 | 3,728,757 |
| Committed for General Plan Update | 182,570 | - | - | - | 182,570 |
| Committed for Habitat Restoration | 576,077 | - | - | - | 576,077 |
| Committed for self insurance | 30,000 | - | - | - | 30,000 |
| Assigned: | | | | | |
| Council projects/equipment/facilities | 7,524,985 | - | - | - | 7,524,985 |
| Capital projects working capital | - | 3,621 | - | - | 3,621 |
| Unassigned | 9,237,888 | - | - | - | 9,237,888 |
| Total fund balance | <u>17,554,185</u> | <u>3,621</u> | <u>1,526,835</u> | <u>3,841,869</u> | <u>22,926,510</u> |
| Total liabilities and fund balance | <u>\$ 19,061,924</u> | <u>\$ 1,097,935</u> | <u>\$ 1,526,835</u> | <u>\$ 3,933,958</u> | <u>\$ 25,620,652</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, 2017**

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

| | | |
|--|--------------|----------------|
| Fund balances of governmental funds | | \$ 22,926,510 |
| Capital assets net of depreciation have not been included as financial resources in governmental funds: | | 117,170,594 |
| Long term debt, accrued interest payable, compensated absences, and OPEB obligation have not been included in the governmental funds: | | |
| Mitigation Obligation | | (932,999) |
| Lease Revenue Refunding Bonds Payable | | (9,640,000) |
| Bond Premium | | (449,353) |
| Deferred Amount on Bond Refunding, net | | 392,248 |
| Accrued Interest Payable | | (53,872) |
| Compensated Absences Payable | | (290,877) |
| Other Post Employment Benefits (OPEB) Obligation | | (341,134) |
| 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 | \$ 1,073,940 | |
| Deferred inflows of resources | (92,671) | |
| Pension Liability | (1,430,589) | (449,320) |
| 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. | | 249,575 |
| Net position of governmental activities | | \$ 128,581,372 |

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, 2017**

| | <u>General</u> | <u>Capital Projects</u> | <u>Debt Service</u> | <u>Non-Major Governmental Funds</u> | <u>Totals</u> |
|--|----------------------|-----------------------------|-------------------------|---|----------------------|
| Revenues: | | | | | |
| Taxes | \$ 13,756,201 | \$ - | \$ - | \$ - | \$ 13,756,201 |
| Fees and permits | 1,862,464 | - | - | 695,314 | 2,557,778 |
| Intergovernmental | 252,433 | 176,266 | - | 1,826,953 | 2,255,652 |
| Charges for services | 747,230 | - | - | - | 747,230 |
| Investment income | 109,749 | (771) | 11,301 | 27,713 | 147,992 |
| Fines, forfeits and penalties | 142,914 | - | - | - | 142,914 |
| Other | 50,074 | - | - | - | 50,074 |
| | <u>16,921,065</u> | <u>175,495</u> | <u>11,301</u> | <u>2,549,980</u> | <u>19,657,841</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | 3,664,807 | - | - | 60,261 | 3,725,068 |
| Building and planning | 1,078,723 | - | - | - | 1,078,723 |
| Public safety | 9,528,665 | - | - | 116,296 | 9,644,961 |
| Public works | 2,163,862 | 3,399,793 | - | 261,639 | 5,825,294 |
| Capital outlay | 132,355 | - | - | - | 132,355 |
| Debt Service: | | | | | |
| Principal Retirement | 967,536 | - | 405,000 | - | 1,372,536 |
| Interest | - | - | 331,338 | - | 331,338 |
| Total expenditures | <u>17,535,948</u> | <u>3,399,793</u> | <u>736,338</u> | <u>438,196</u> | <u>22,110,275</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(614,883)</u> | <u>(3,224,298)</u> | <u>(725,037)</u> | <u>2,111,784</u> | <u>(2,452,434)</u> |
| Other financing sources (uses): | | | | | |
| Transfers in (note 3) | 749,312 | 3,023,542 | 736,338 | - | 4,509,192 |
| Transfers out (note 3) | <u>(2,203,153)</u> | <u>-</u> | <u>-</u> | <u>(2,306,039)</u> | <u>(4,509,192)</u> |
| Total financing sources (uses) | <u>(1,453,841)</u> | <u>3,023,542</u> | <u>736,338</u> | <u>(2,306,039)</u> | <u>-</u> |
| Net change in fund balances | (2,068,724) | (200,756) | 11,301 | (194,255) | (2,452,434) |
| Fund balances, beginning 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> |
| Fund balances, end of year | <u>\$ 17,554,185</u> | <u>\$ 3,621</u> | <u>\$ 1,526,835</u> | <u>\$ 3,841,869</u> | <u>\$ 22,926,510</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, 2017**

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

| | |
|--|----------------|
| Net change in fund balances - total governmental funds | \$ (2,452,434) |
|--|----------------|

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.

| | |
|---|-------------|
| Capital Expenditures, Net of Dispositions | 1,754,966 |
| Depreciation of Capital Assets | (2,077,483) |
| Loss on Disposition of Capital Assets | (925) |

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:

| | |
|--|----------|
| Retired Principal on long term debt (Mitigation Obligation) | 967,536 |
| Retired Principal on long term debt (Lease Revenue Refunding Bonds) | 405,000 |
| 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) | 2,701 |
| Compensated Absences | (19,199) |
| Net OPEB Obligation | (57,790) |

| | |
|--|---------|
| 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. | 239,661 |
|--|---------|

| | |
|---|---------|
| 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. | 125,015 |
|---|---------|

| | |
|---|----------------|
| Change in net position of governmental activities | \$ (1,109,491) |
|---|----------------|

See Accompanying Notes to the Basic Financial Statements.

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*Notes to the
Financial Statements*

City of Rancho Santa Margarita, California

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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, 2017 (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, 2017 (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:

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 non-employer contributing entities for pensions that are not within the scope of GASB 68, effective for periods beginning after June 15, 2016, and did not impact the City.

GASB 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, effective for periods beginning after June 15, 2016, and did not impact the City.

GASB 77 - Tax Abatement Disclosure, effective for periods beginning after December 15, 2015, and did not impact the City.

GASB 78 - Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, effective for periods beginning after December 15, 2015, and did not impact the City.

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, and did not impact the City.

GASB 80 - Blending Requirements for Certain Component Units, effective for periods beginning after June 15, 2016, and did not impact the City.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

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

Pending Accounting Standards:

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

- GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for periods beginning after June 15, 2017.
- GASB 81 - *Irrevocable Split-Interest Agreements*, effective for periods beginning after December 15, 2016.
- 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.
- GASB 83 - *Certain Asset Retirement Obligations*, effective for periods beginning after June 15, 2018.
- GASB 84 - *Fiduciary Activities*, effective for periods beginning after December 15, 2018.
- GASB 85 - *Omnibus 2017*, effective for periods beginning after June 15, 2017.
- GASB 86 - *Certain Debt Extinguishment Issues*, effective for periods beginning after June 15, 2017.
- GASB 87 - *Leases*, effective for periods beginning after December 15, 2019.

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 five 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

CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)

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

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 actual and expected experience while the fourth item is a deferred outflow related to pensions for the changes in employer's proportion and differences between the employer's contribution and the employer's proportionate share of contributions. These amounts are 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. An additional fifth item is a deferred outflow related to pensions for the net differences between projected and actual earnings on investments of the pension plan's fiduciary net position. This amount is amortized over five 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 the difference between actual and expected experience and the third item is a deferred inflow related to pensions for changes in actuarial assumptions. These amounts are 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.

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.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

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

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as 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 notwithstanding 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-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.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

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

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.

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 \$22,926,510 differs from "net position" of governmental activities of \$128,581,372 reported in the statement of net position. This difference primarily results from the long-term economic focus of the

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

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

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 | \$182,367,842 |
| Accumulated depreciation | <u>(65,197,248)</u> |
| Net capital assets | <u>\$117,170,594</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 five items that qualify for reporting in this category. The first item is the deferred amount on bond refunding. The pension amount is the combined amounts of the second through fifth items: the second which is equal to the employer contributions made after the measurement date of the net pension liability, the third item is 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, as well as, the fifth item related to pensions for the difference in projected and actual earnings on investments of the pension plan’s fiduciary net position. These amounts are reported in the government-wide statement of net position.

| | |
|-----------------------------------|--------------|
| Deferred amount on bond refunding | \$ 392,248 |
| Deferred amounts on pension plans | \$ 1,073,940 |

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

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

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, 2017 were:

| | |
|---------------------------------------|---------------------|
| Mitigation obligation | \$ 932,999 |
| Lease revenue refunding bonds payable | 9,640,000 |
| Bond premium | 449,353 |
| Interest payable | 53,872 |
| Compensated absences | 290,877 |
| Net OPEB Obligation | 341,134 |
| Net pension liability | <u>1,430,589</u> |
| Net long-term liabilities | <u>\$13,138,824</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 item is a deferred inflow related to pensions for the difference between actual and expected experience and the second item is a deferred inflow related to pensions for changes in actuarial assumptions. The third item is unavailable revenues related to grants receivable collections.

| | |
|-----------------------------------|------------|
| Deferred amounts on pension plans | \$ 92,671 |
| Unavailable revenues | (249,575) |

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, 2017 (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 \$(2,452,434) differs from the “change in net position” for governmental activities \$(1,109,491) 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 | \$ 1,754,966 |
| Depreciation expense | (2,077,483) |
| Loss on disposition of capital assets | <u>(925)</u> |
| Difference | <u>\$ (323,442)</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, 2017 were:

| | |
|---|--------------------|
| Amortization of deferred loss on bond refunding | \$ (23,773) |
| Amortization of premium on bond refunding | 27,234 |
| Principal retirement of lease revenue refunding bonds | 405,000 |
| Principal retirement of mitigation obligation | 967,536 |
| Accrued interest payable | <u>2,701</u> |
| Liabilities changes | <u>\$1,378,698</u> |

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (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 | \$ (19,199) |
| Net OPEB Obligation | (57,790) |

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 | \$ 239,661 |
|---------------------|------------|

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 | \$ 125,015 |
|---------------------|------------|

(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, 2017 (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.

Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement should be reported at acquisition value rather than fair value.

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.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

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

(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.

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.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

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

(k) Fund Equity

The City’s Reserve Policy refers to the GASB 54 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:

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.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

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

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.

- (1) 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 | \$21,969,084 |
| Cash and investments with fiscal agent | <u>1,523,328</u> |
| Total Cash and Investments | <u><u>\$23,492,412</u></u> |

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

Cash and Investments held by City:

| | |
|---|----------------------------|
| Deposits in banks or on hand | \$ 7,492,523 |
| Local Agency Investment Fund (LAIF) | <u>14,476,561</u> |
| Total Cash and Investments held by City | <u><u>\$21,969,084</u></u> |

Cash and Investments held by Fiscal Agent:

| | |
|-------------------------------------|------------------|
| Money Market Mutual Fund | \$ 748 |
| Local Agency Investment Fund (LAIF) | <u>1,522,580</u> |

| | |
|--|----------------------------|
| Total Cash and Investments held by Fiscal Agent | <u><u>\$ 1,523,328</u></u> |
| Total Cash and Investments | <u><u>\$23,492,412</u></u> |

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (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, 2017 (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, 2017 (CONTINUED)**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

| <u>Investment Type</u> | <u>Remaining Maturity (in Months)</u> | | | | |
|--|---------------------------------------|------------------------|-------------------------|-------------------------|---------------------------------------|
| | <u>Total Amount</u> | <u>0-12 Months</u> | <u>12-23 Months</u> | <u>24-35 Months</u> | <u>Greater than 36 Months</u> |
| Local Agency Investment Fund (LAIF) | \$ 14,476,561 | \$ 14,476,561 | \$ - | \$ - | \$ - |
| Held by bond fiscal agent: | | | | | |
| Money Market Mutual Fund | 748 | 748 | - | - | - |
| Local Agency Investment Fund (LAIF) | 1,522,580 | 1,522,580 | - | - | - |
| Total | <u>\$ 15,999,889</u> | <u>\$ 15,999,889</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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.

| <u>Investment Type</u> | <u>Total Amount</u> | <u>Minimum Legal Rating</u> | <u>Rating as of Fiscal Year End</u> | |
|--|----------------------|-------------------------------------|-------------------------------------|----------------------|
| | | | <u>AAA</u> | <u>Not Rated</u> |
| Local Agency Investment Fund (LAIF) | \$ 14,476,561 | N/A | \$ - | \$ 14,476,561 |
| Held by bond fiscal agent: | | | | |
| Money Market Mutual Fund | 748 | N/A | 748 | - |
| Local Agency Investment Fund (LAIF) | 1,522,580 | N/A | - | 1,522,580 |
| Total | <u>\$ 15,999,889</u> | | <u>\$ 748</u> | <u>\$ 15,999,141</u> |

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (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, 2017, 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).

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

The City’s investment in LAIF and money market mutual funds are not subject to the fair value hierarchy.

NOTE 3 – TRANSFERS IN AND OUT

Transfers in and out for the year ended June 30, 2017 are as follows:

| | Transfers From: | | | | Total |
|------------------------|------------------------|-----------------------|-------------------|---------------------|---------------------|
| | General Fund | Capital Projects Fund | Debt Service Fund | Non-major Funds | |
| Transfers To: | | | | | |
| General Fund | \$ - | \$ - | \$ - | \$ 749,312 | \$ 749,312 |
| Capital Projects | 1,466,815 | - | - | 1,556,727 | 3,023,542 |
| Debt Service Fund | 736,338 | - | - | - | 736,338 |
| Total Transfers | \$ 2,203,153 | \$ - | \$ - | \$ 2,306,039 | \$ 4,509,192 |

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

- The transfer of \$749,312 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 \$1,556,727 from the Non-major Funds to the Capital Projects Fund was primarily to fund the various slurry seal and overlay road projects (\$778,074), various street rehabilitation projects (\$205,960) and other street and sidewalk repairs and maintenance throughout the city (\$274,104). The transfer also includes traffic signal and equipment upgrades and traffic feedback signs of (\$101,393), as well as, the dog park improvement project for (\$166,849) and trash reduction catch basin inserts for (\$30,347).
- The transfer of \$736,338 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 \$1,466,815 from the General Fund to the Capital Projects Fund was to fund habitat restoration (\$221,011), City Hall building improvements (\$916,569), City Hall fountain renovation (\$49,254), first phase of the City Hall landscaping renovation (\$19,154), Bell Tower Regional Community Center ballroom flooring repairs (\$37,893), other improvements to City Hall (\$22,824), median hardscape renovations (\$81,791), and Chiquita Ridge Open Space assessment (\$118,319).

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

NOTE 4 – CAPITAL ASSETS

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

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|--------------------|---------------------------|
| 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 | 1,270,020 | 1,673,662 | 2,261,845 | 681,837 |
| Infrastructure - pavement | <u>46,766,726</u> | <u>-</u> | <u>-</u> | <u>46,766,726</u> |
| Total capital assets not being depreciated | <u>98,290,365</u> | <u>1,673,662</u> | <u>2,261,845</u> | <u>97,702,182</u> |
| Capital assets being depreciated: | | | | |
| Machinery & Equipment | 797,614 | 191,622 | 4,626 | 984,610 |
| Buildings | 16,618,510 | 1,671,207 | - | 18,289,717 |
| Parks | 906,478 | 166,849 | - | 1,073,327 |
| Infrastructure - all others | <u>64,004,535</u> | <u>313,471</u> | <u>-</u> | <u>64,318,006</u> |
| Total capital assets being depreciated | <u>82,327,137</u> | <u>2,343,149</u> | <u>4,626</u> | <u>84,665,660</u> |
| Less accumulated depreciation: | | | | |
| Machinery & Equipment | 558,528 | 133,579 | 3,701 | 688,406 |
| Buildings | 6,647,402 | 609,657 | - | 7,257,059 |
| Parks | 397,395 | 42,933 | - | 440,328 |
| Infrastructure | <u>55,520,141</u> | <u>1,291,314</u> | <u>-</u> | <u>56,811,455</u> |
| Total accum. Depreciation: | <u>63,123,466</u> | <u>2,077,483</u> | <u>3,701</u> | <u>65,197,248</u> |
| Total capital assets being depreciated, net | <u>19,203,671</u> | <u>265,666</u> | <u>925</u> | <u>19,468,412</u> |
| Total capital assets, net | <u>\$117,494,036</u> | <u>\$ 1,939,328</u> | <u>\$2,262,770</u> | <u>\$117,170,594</u> |
| Depreciation expense was charged in the following functions in the Statement of Activities: | General government | | \$ 133,579 | |
| | Public works | | <u>1,943,904</u> | |
| | Total | | <u>\$2,077,483</u> | |

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

NOTE 4 – CAPITAL ASSETS, (Continued)

Significant Commitments

The City had various active, on-going and un-completed projects at June 30, 2017. At year-end, the City’s encumbrances with contractors or consultants for work performed before June 30, 2017, but not yet paid were as follows:

| <u>Projects</u> | <u>Spent-to-date</u> | <u>Remaining Commitment</u> |
|------------------------------------|----------------------|---------------------------------|
| Encumbered in General Fund: | | |
| General Plan Update | \$ 146,704 | \$ 182,570 |
| Open Space Habitat Restoration | 2,144,135 | 576,077 |
| Total encumbered in General Fund | <u>\$2,290,839</u> | <u>\$ 758,647</u> |
| Encumbered in Gas Tax Fund: | | |
| SMP Bridge | \$ 511,362 | \$ 52,274 |
| Open Space Habitat Restoration | 70,852 | 79,148 |
| Park Renovation | 137,299 | 39,244 |
| Verde Laguna Sidewalk & Landscape | 41,772 | 179,106 |
| Transit Planning Feasibility Study | 30,833 | 18,564 |
| Total encumbered in Gas Tax Fund | <u>\$ 792,118</u> | <u>\$ 368,336</u> |

NOTE 5 – LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the fiscal year ended June 30, 2017 was as follows:

| | <u>Balance at June 30, 2016</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance at June 30, 2017</u> | <u>Due Within One Year</u> |
|-------------------------------|-------------------------------------|-------------------|---------------------|-------------------------------------|--------------------------------|
| Mitigation Obligation | \$ 1,900,535 | \$ - | \$ 967,536 | \$ 932,999 | \$ 848,655 |
| Lease Revenue Refunding Bonds | | | | | |
| City Hall & Regional | | | | | |
| Community Center | 10,045,000 | - | 405,000 | 9,640,000 | 420,000 |
| Bond premium | 476,587 | - | 27,234 | 449,353 | - |
| Compensated absences | <u>271,678</u> | <u>229,814</u> | <u>210,615</u> | <u>290,877</u> | <u>130,895</u> |
| Total Governmental | | | | | |
| Long-Term Liabilities | <u>\$ 12,693,800</u> | <u>\$ 229,814</u> | <u>\$ 1,610,385</u> | <u>\$ 11,313,229</u> | <u>\$ 1,399,550</u> |

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (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. Payments resumed June 30, 2017 based on 2016 sales tax revenue and is projected to be paid in full with in the following 2 year period.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (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 |
|-----------------------------|----------------------|------------------------------------|
| 2017 | 6,669,064 | 848,655 |
| 2018 | 6,869,136 | 84,344 |
| Total of estimated payments | | \$ 932,999 |

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, 2017 is \$9,640,000.

The Lease Revenue Refunding Bonds are subject to Federal arbitrage regulations. The City has no arbitrage calculation due until December 2017.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (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, 2017, are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|---------------------|---------------------|----------------------|
| 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 | 490,000 | 242,437 | 732,437 |
| 2023-2027 | 2,735,000 | 902,712 | 3,637,712 |
| 2027-2031 | 3,220,000 | 446,456 | 3,666,456 |
| 2032-2033 | 1,420,000 | 42,900 | 1,462,900 |
| Totals | <u>\$ 9,640,000</u> | <u>\$ 2,788,955</u> | <u>\$ 12,428,955</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, 2017 (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 to 62 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, 2017, 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 | 10.624% | 8.008% | 6.70% (b) |
| Payment of unfunded liability | \$96,188 | \$82 | \$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 are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS’ annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. City contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

NOTE 6 – PENSION PLAN (continued)

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

As of June 30, 2017, 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 | \$ 1,430,589 |

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, 2016, 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, 2015 rolled forward to June 30, 2016 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 the measurement date ended June 30, 2015 and 2016 was as follows:

| | Miscellaneous |
|------------------------------|---------------|
| Proportion - June 30, 2015 | 0.04305% |
| Proportion - June 30, 2016 | 0.04118% |
| Change - Increase (Decrease) | -0.00187% |

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

NOTE 6 – PENSION PLAN (continued)

For the year ended June 30, 2017, the City recognized pension expense of \$56,439. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Pension contributions subsequent to measurement date | \$ 296,102 | \$ - |
| Differences between actual and expected experience | 9,564 | (2,191) |
| Changes in assumptions | | (90,480) |
| Change in employer's proportion and differences between the employer's contribution and the employer's proportionate share of contributions | 297,353 | |
| Net differences between projected and actual earnings on plan investments | 470,921 | |
| Total | <u>\$ 1,073,940</u> | <u>\$ (92,671)</u> |

\$296,102 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension expense as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|-------------------------------------|---------------|
| 2018 | \$ 189,381 |
| 2019 | 156,324 |
| 2020 | 217,488 |
| 2021 | 121,974 |
| 2022 | 0 |
| Thereafter | 0 |

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

NOTE 6 – PENSION PLAN (continued)

Actuarial Assumptions

For the measurement period ended June 30, 2016 (the measurement date), the total pension liability was determined by rolling forward June 30, 2015 total pension liability determined in the June 30, 2015 actuarial accounting valuation. The June 30, 2016 total pension liability was based on the following actuarial methods and assumptions:

| | <u>Miscellaneous</u> |
|----------------------------------|---------------------------------|
| Valuation Date | June 30, 2015 |
| Measurement Date | June 30, 2016 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.65% |
| Inflation | 2.75% |
| Salary Increases | (1) |
| Mortality Rate Table | (2) |
| Post Retirement Benefit Increase | (3) |

- (1) Varies by entry age and service
- (2) 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 April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available on the CalPERS website.
- (3) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

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

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

NOTE 6 – PENSION PLAN (continued)

Change of Assumptions

There were no changes of assumptions during the measurement period June 30, 2016. Deferred inflows and resources for changes of assumptions presented in the financial statements represent the unamortized portion of the changes of assumptions to prior measurement periods.

Discount Rate

The discount rate used to measure the total pension liability was 7.65% for each plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the Plans, the tests revealed the assets would not run out. Therefore, the current 7.65% is applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained from the CalPERS website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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 (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds’ asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), 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 PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

NOTE 6 – PENSION PLAN (continued)

Discount Rate (continued)

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. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2015.

| 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 | 20.0% | 0.99% | 2.43% |
| Inflation Sensitive | 6.0% | 0.45% | 3.36% |
| Private Equity | 10.0% | 6.83% | 6.95% |
| Real Estate | 10.0% | 4.50% | 5.13% |
| Infrastructure and Forestland | 2.0% | 4.50% | 5.09% |
| Liquidity | 1.0% | (0.55)% | (1.05)% |
| Total | <u>100.0%</u> | | |

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

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

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:

| | <u>Miscellaneous</u> |
|-----------------------|----------------------|
| 1% Decrease | 6.65% |
| Net Pension Liability | \$ 2,232,477 |
| Current Discount Rate | 7.65% |
| Net Pension Liability | \$ 1,430,589 |
| 1% Increase | 8.65% |
| Net Pension Liability | \$ 767,868 |

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

NOTE 6 – PENSION PLAN (continued)

Pension Plan Fiduciary Net Position

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

Subsequent Events

In December 2016, CalPERS' Board of Directors voted to lower the discount rate used in its actuarial valuations from 7.5% to 7.0% over three fiscal years, beginning in fiscal year 2018. The change in the discount rate will affect the contribution rates for employers beginning in fiscal year 2019, and result in increases to employers' normal costs and unfunded actuarial liabilities. For the GASB Statement 68 accounting valuations, the discount rate will move straight to 7% starting with the June 30, 2017 measurement date reports and will result in an increase to employer's total pension liabilities.

C. Payable to the Pension Plan:

At June 30, 2017, the City had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

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.

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

**CITY OF RANCHO SANTA MARGARITA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

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

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, 2017:

| | |
|--|-----------|
| 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 2016-17, the City paid \$128 per month as the full amount required by the plan for each retiree from City service, for a total of \$7,590. 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.

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.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

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

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 6/30/2017 | \$ 37,637 |
| 30 year amortization of UAL | <u>32,795</u> |
| Annual required contribution | \$ 70,432 |
| Interest on net OPEB obligation | 11,334 |
| Adjustments to annual required contributions | <u>(16,386)</u> |
| Annual OPEB cost (expense) | \$ 65,380 |
| Contributions made | <u>(7,590)</u> |
| Increase in net OPEB obligation | \$ 57,790 |
| | |
| Net OPEB obligation-beginning of year | <u>\$ 283,344</u> |
| Net OPEB obligation-end of year | <u>\$ 341,134</u> |

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (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, 2017 and the two preceding years were as follows:

| <u>Fiscal Year</u> | <u>Annual OPEB Cost</u> | <u>Actual Contribution Net of Adjustments</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|--------------------|-------------------------|---|---|----------------------------|
| 6/30/2015 | \$ 42,185 | \$ 4,948 | 11.73% | \$ 211,848 |
| 6/30/2016 | \$ 78,906 | \$ 7,410 | 9.39% | \$ 283,344 |
| 6/30/2017 | \$ 65,380 | \$ 7,590 | 11.61% | \$ 341,134 |

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.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

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

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 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 \$104,649 for the fiscal year ended June 30, 2017.

Workers' Compensation and Employer's Liability

There is a \$5,000 deductible and the policy provides statutory limits. The contribution for this coverage was \$72,596 for the fiscal year ending June 30, 2017.

Property Insurance

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

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

NOTE 8 – RISK MANAGEMENT, (continued)

Crime Bonds

The City purchases commercial crime coverage through PARSAC with limits of \$1,000,000 and a \$2,500 deductible.

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, 2017 and 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, 2017, in the General Fund, \$59,205 was unearned revenue received in advance of planned Community Services programs or events.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

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 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, 2017, are presented below and followed by explanations as to the nature and purpose of assigned and unassigned classifications.

General Fund:

| | |
|---|-----------------------------|
| Unspendable: Prepaid items | \$ 2,665 |
| Committed for General Plan Update | 182,570 |
| Committed for Habitat Restoration | 576,077 |
| Committed for self insurance | 30,000 |
| Assigned: | |
| Council Strategic | \$ 1,938,772 |
| Technology | 819,176 |
| Facilities | 3,201,259 |
| Vehicles | 268,448 |
| Infrastructure | <u>1,297,330</u> |
| Total Assigned: Council projects/equipment/facilities | 7,524,985 |
| Unassigned: | |
| Emergency Policy | <u>9,237,888</u> |
| Total General Fund Balance | <u><u>\$ 17,554,185</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.

**CITY OF RANCHO SANTA MARGARITA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

NOTE 11 – GENERAL FUND BALANCE CLASSIFICATIONS (continued)

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.

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> |
|-----------------------------|--------------------|
| 2018 | \$ 9,432 |
| 2019 | 9,432 |
| 2020 | 786 |
| | <u>\$ 19,650</u> |

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (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 year

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (CONTINUED)**

NOTE 13 – LITIGATION SETTLEMENT, (continued)

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 \$221,011 for FY 2016/17 and an encumbrance of \$576,077 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.

NOTE 14 – SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through December 5, 2017, 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

RANCHO
SANTA
MARGARITA

CITY
HALL



**CITY OF RANCHO SANTA MARGARITA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

Last Ten Fiscal Years*

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|--------------|--------------|--------------|
| Plan's proportion of the net pension liability | 0.01653% | 0.01721% | 0.01626% |
| Plan's proportionate share of the net pension liability | \$ 1,430,589 | \$ 1,180,978 | \$ 1,011,781 |
| Plan's covered - employee payroll | \$ 2,144,126 | \$ 1,784,340 | \$ 1,680,986 |
| Plan's proportionate share of the net pension liability as a percentage of covered - employee payroll | 66.72% | 66.19% | 60.19% |
| Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability | 74.06% | 78.40% | 78.25% |
| Plan's proportionate share of aggregate employer contributions | \$ 168,530 | \$ 142,383 | \$ 98,432 |

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016:

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.

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

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

**CITY OF RANCHO SANTA MARGARITA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

Last Ten Fiscal Years*

| | 2017 | 2016 | 2015 |
|---|--------------|--------------|--------------|
| Contractually required contribution (actuarially determined) | \$ 296,102 | \$ 269,353 | \$ 258,665 |
| Contributions in relation to the actuarially determined contributions | 296,102 | 269,353 | 258,665 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - |
| Covered - employee payroll | \$ 2,284,352 | \$ 2,144,126 | \$ 1,784,340 |
| Contributions as a percentage of covered - employee payroll | 12.96% | 12.56% | 14.50% |

Notes to Schedule:

| | | | |
|----------------|-----------|-----------|-----------|
| Valuation Date | 6/30/2014 | 6/30/2013 | 6/30/2012 |
|----------------|-----------|-----------|-----------|

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|----------------------------|--|
| Single and agent employers | Entry age ** |
| Amortization method | Level percentage of payroll, closed ** |
| Asset valuation method | Market Value*** |
| Inflation | 2.75% ** |
| Salary increases | Depending on age, service, and type of employment** |
| 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.** |

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

** The valuation for June 30, 2012 and 2013 (applicable to fiscal year ended June 30, 2015 and 2016 respectfully) included the same actuarial assumptions.

*** The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) valued assets using a 15 year Smoothed Market method. The market value asset valuation method was used for June 30, 2013 and 2014 valuations (applicable to fiscal years ended June 30, 2016 and 2017, respectfully).

**CITY OF RANCHO SANTA MARGARITA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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, 2017**

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, 2017**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

| | <u>BUDGETED AMOUNTS</u> | | <u>ACTUAL AMOUNTS</u> | <u>VARIANCE WITH FINAL BUDGET</u> |
|-----------------------------------|-------------------------|----------------------|---------------------------|---------------------------------------|
| | <u>ORIGINAL</u> | <u>FINAL</u> | | <u>POSITIVE (NEGATIVE)</u> |
| Revenues: | | | | |
| Taxes | \$ 13,521,341 | \$ 13,521,341 | \$ 13,756,201 | \$ 234,860 |
| Fees and permits | 1,842,870 | 1,842,870 | 1,862,464 | 19,594 |
| Intergovernmental | 258,717 | 258,717 | 252,433 | (6,284) |
| Charges for service | 656,953 | 656,953 | 747,230 | 90,277 |
| Investment income | 53,171 | 53,171 | 109,749 | 56,578 |
| Fines, forfeits and penalties | 157,792 | 157,792 | 142,914 | (14,878) |
| Other | 60,374 | 60,374 | 50,074 | (10,300) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total revenues | 16,551,218 | 16,551,218 | 16,921,065 | 369,847 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Expenditures: | | | | |
| General government | 3,791,683 | 3,891,684 | 3,664,807 | 226,877 |
| Building and planning | 1,213,944 | 1,213,944 | 1,078,723 | 135,221 |
| Public safety | 9,566,694 | 9,566,694 | 9,528,665 | 38,029 |
| Public works | 2,401,846 | 2,401,846 | 2,163,862 | 237,984 |
| Capital outlay | 106,346 | 106,346 | 132,355 | (26,009) |
| Debt Service: | | | | |
| Principal Retirement | 793,846 | 967,536 | 967,536 | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total expenditures | 17,874,359 | 18,148,050 | 17,535,948 | 612,102 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Other financing sources (uses): | | | | |
| Transfers in (note 3) | 789,129 | 789,129 | 749,312 | 39,817 |
| Transfers out (note 3) | (2,728,338) | (2,728,338) | (2,203,153) | (525,185) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total financing sources (uses) | (1,939,209) | (1,939,209) | (1,453,841) | (485,368) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net change in fund balances | (3,262,350) | (3,536,041) | (2,068,724) | (1,467,317) |
| Fund balances, beginning of year | 19,622,909 | 19,622,909 | 19,622,909 | - |
| Fund balances, end of year | <u>\$ 16,360,559</u> | <u>\$ 16,086,868</u> | <u>\$ 17,554,185</u> | <u>\$ (1,467,317)</u> |

**CITY OF RANCHO SANTA MARGARITA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 2017 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, 2017 (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> |
|---------------------------------|--|------------------------------------|
| 2017: Pavement subsystem | 78.6 | 70 |
| 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.

- Good (86-100) – Minor to low distress, no significant distress.
- Satisfactory (71-85) – Little distress, with the exception of utility patches in good condition, or slight hairline cracks; may be slightly weathered.
- Fair (56-70) – Slight to moderately weathered, slight distress, possible patching.
- Poor (41-55) – Severely weathered or slight to moderate levels of distress, generally limited to patches and non-load related cracking.
- Very Poor (26-40) – Moderate to severe distresses, including load-related types, such as alligator cracking.
- Serious (11-25) – Severely distressed, large quantities of distortion or alligator cracking.
- Failed (0-10) – Failure of the pavement, distress has surpassed tolerable rehabilitation limits.

Based on the pavement condition assessment update performed in FY 2017, as of June 30, 2017, the streets had an average deficiency rating or Pavement Condition Index (PCI) of 78.6, or Satisfactory.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (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 \$2,807,490 have been budgeted for the fiscal year ending June 30, 2018 for maintenance/rehabilitation to maintain PCI standard.

| | Street Maintenance Cost | Street Maintenance Budget |
|-----------|----------------------------|------------------------------|
| June 2017 | \$ 2,205,894 | \$ 3,603,251 |
| 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, 2017 (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

*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 Governmental (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, 2017**

| Assets | Special Revenue Funds | | |
|--|------------------------------|-------------------|--|
| | Gas Tax | Measure M | Air Quality Management District |
| Cash and investments | \$ 1,094,423 | \$ 858 | \$ 154,012 |
| Due from other governments | 87,104 | 123,145 | 15,749 |
| Interest receivable | 2,824 | 409 | 289 |
| Accounts receivable | - | - | - |
| Total assets | <u>\$ 1,184,351</u> | <u>\$ 124,412</u> | <u>\$ 170,050</u> |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ 22,040 | \$ - | \$ - |
| Total liabilities | <u>22,040</u> | <u>-</u> | <u>-</u> |
| Fund balances: | | | |
| Restricted for public safety | - | - | - |
| Restricted for public public works | <u>1,162,311</u> | <u>124,412</u> | <u>170,050</u> |
| Total fund balances | <u>1,162,311</u> | <u>124,412</u> | <u>170,050</u> |
| Total liabilities and fund balances | <u>\$ 1,184,351</u> | <u>\$ 124,412</u> | <u>\$ 170,050</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> |
|---|---|--------------------------------|----------------------------|
| \$ 1,441,150 | \$ 122,152 | \$ 875,162 | \$ 3,687,757 |
| - | 1,512 | - | 227,510 |
| 2,990 | 231 | 1,520 | 8,263 |
| - | - | 10,428 | 10,428 |
| <u>\$ 1,444,140</u> | <u>\$ 123,895</u> | <u>\$ 887,110</u> | <u>\$ 3,933,958</u> |
| | | | |
| \$ - | \$ 10,783 | \$ 59,266 | \$ 92,089 |
| <u>-</u> | <u>10,783</u> | <u>59,266</u> | <u>92,089</u> |
| | | | |
| - | 113,112 | - | 113,112 |
| <u>1,444,140</u> | <u>-</u> | <u>827,844</u> | <u>3,728,757</u> |
| | | | |
| <u>1,444,140</u> | <u>113,112</u> | <u>827,844</u> | <u>3,841,869</u> |
| | | | |
| <u>\$ 1,444,140</u> | <u>\$ 123,895</u> | <u>\$ 887,110</u> | <u>\$ 3,933,958</u> |

**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, 2017**

| | <u>Special Revenue Funds</u> | | |
|--|------------------------------|-------------------|--|
| | <u>Gas Tax</u> | <u>Measure M</u> | <u>Air Quality Management District</u> |
| Revenues: | | | |
| Fees and permits | \$ - | \$ - | \$ - |
| Intergovernmental | 943,099 | 692,575 | 61,955 |
| Investment income | 10,299 | 1,595 | 1,035 |
| Total revenues | <u>953,398</u> | <u>694,170</u> | <u>62,990</u> |
| Expenditures: | | | |
| Current: | | | |
| General government | - | - | - |
| Public safety | - | - | - |
| Public works | 261,639 | - | - |
| Total expenditures | <u>261,639</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of revenues over expenditures | <u>691,759</u> | <u>694,170</u> | <u>62,990</u> |
| Other financing sources (uses): | | | |
| Transfers out | (1,322,161) | (791,586) | (25,443) |
| Total financing sources (uses) | <u>(1,322,161)</u> | <u>(791,586)</u> | <u>(25,443)</u> |
| Net change in fund balances | (630,402) | (97,416) | 37,547 |
| Fund balances, beginning of year | <u>1,792,713</u> | <u>221,828</u> | <u>132,503</u> |
| Fund balances, end of year | <u>\$ 1,162,311</u> | <u>\$ 124,412</u> | <u>\$ 170,050</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> |
|---|---|--------------------------------|----------------------|
| \$ 571,310 | \$ - | \$ 124,004 | \$ 695,314 |
| - | 129,324 | - | 1,826,953 |
| 9,107 | 775 | 4,902 | 27,713 |
| <u>580,417</u> | <u>130,099</u> | <u>128,906</u> | <u>2,549,980</u> |
| - | - | 60,261 | 60,261 |
| - | 116,296 | - | 116,296 |
| - | - | - | 261,639 |
| <u>-</u> | <u>116,296</u> | <u>60,261</u> | <u>438,196</u> |
| <u>580,417</u> | <u>13,803</u> | <u>68,645</u> | <u>2,111,784</u> |
| (166,849) | - | - | (2,306,039) |
| <u>(166,849)</u> | <u>-</u> | <u>-</u> | <u>(2,306,039)</u> |
| 413,568 | 13,803 | 68,645 | (194,255) |
| <u>1,030,572</u> | <u>99,309</u> | <u>759,199</u> | <u>4,036,124</u> |
| <u>\$ 1,444,140</u> | <u>\$ 113,112</u> | <u>\$ 827,844</u> | <u>\$ 3,841,869</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, 2017**

| | <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> |
| Revenues: | | | | |
| Intergovernmental | 1,003,948 | 1,003,948 | 943,099 | (60,849) |
| Investment income | 5,364 | 5,364 | 10,299 | 4,935 |
| | <u>1,009,312</u> | <u>1,009,312</u> | <u>953,398</u> | <u>(55,914)</u> |
| Total revenues | | | | |
| Expenditures: | | | | |
| Public works - current | 280,000 | 280,000 | 261,639 | 18,361 |
| | <u>280,000</u> | <u>280,000</u> | <u>261,639</u> | <u>18,361</u> |
| Total expenditures | | | | |
| Other financing sources (uses): | | | | |
| Transfers out (note 3) | (2,132,623) | (2,435,213) | (1,322,161) | 1,113,052 |
| Total financing sources (uses) | <u>(2,132,623)</u> | <u>(2,435,213)</u> | <u>(1,322,161)</u> | <u>1,113,052</u> |
| Net change in fund balances | (1,403,311) | (1,705,901) | (630,402) | 1,075,499 |
| Fund balances, beginning of year | 1,792,713 | 1,792,713 | 1,792,713 | - |
| Fund balances, end of year | <u>\$ 389,402</u> | <u>\$ 86,812</u> | <u>\$ 1,162,311</u> | <u>\$ 1,075,499</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, 2017**

| | <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> |
| Revenues: | | | | |
| Intergovernmental | 732,259 | 732,259 | 692,575 | (39,684) |
| Investment income | 1,807 | 1,807 | 1,595 | (212) |
| | <u>734,066</u> | <u>734,066</u> | <u>694,170</u> | <u>(39,896)</u> |
| Total revenues | | | | |
| Other financing sources (uses): | | | | |
| Transfers out (note 3) | (944,506) | (944,506) | (791,586) | 152,920 |
| Total financing sources (uses) | <u>(944,506)</u> | <u>(944,506)</u> | <u>(791,586)</u> | <u>152,920</u> |
| Net change in fund balances | (210,440) | (210,440) | (97,416) | 113,024 |
| Fund balances, beginning of year | 221,828 | 221,828 | 221,828 | - |
| Fund balances, end of year | <u>\$ 11,388</u> | <u>\$ 11,388</u> | <u>\$ 124,412</u> | <u>\$ 113,024</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, 2017**

| | <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> |
| Revenues: | | | | |
| Intergovernmental | 59,696 | 59,696 | 61,955 | 2,259 |
| Investment income | 304 | 304 | 1,035 | 731 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total revenues | 60,000 | 60,000 | 62,990 | 2,990 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Other financing sources (uses): | | | | |
| Transfers out (note 3) | (147,000) | (147,000) | (25,443) | 121,557 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total financing sources (uses) | (147,000) | (147,000) | (25,443) | 121,557 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net change in fund balances | (87,000) | (87,000) | 37,547 | 124,547 |
| Fund balances, beginning of year | 132,503 | 132,503 | 132,503 | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Fund balances, end of year | <u>\$ 45,503</u> | <u>\$ 45,503</u> | <u>\$ 170,050</u> | <u>\$ 124,547</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, 2017**

| | <u>BUDGETED AMOUNTS</u> | | <u>ACTUAL AMOUNTS</u> | <u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u> |
|-----------------------------------|-------------------------|-------------------|---------------------------|---|
| | <u>ORIGINAL</u> | <u>FINAL</u> | | |
| Revenues: | | | | |
| Fees and peermits | - | - | 571,310 | 571,310 |
| Investment income | - | - | 9,107 | 9,107 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total revenues | - | - | 580,417 | 580,417 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Other financing sources (uses): | | | | |
| Transfers out (note 3) | (244,000) | (244,000) | (166,849) | 77,151 |
| Total financing sources (uses) | <hr/> | <hr/> | <hr/> | <hr/> |
| | (244,000) | (244,000) | (166,849) | 77,151 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net change in fund balances | (244,000) | (244,000) | 413,568 | 657,568 |
| Fund balances, beginning of year | 1,030,572 | 1,030,572 | 1,030,572 | - |
| Fund balances, end of year | <u>\$ 786,572</u> | <u>\$ 786,572</u> | <u>\$ 1,444,140</u> | <u>\$ 657,568</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, 2017**

| | <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> |
| Revenues: | | | | |
| Intergovernmental | 99,500 | 99,500 | 129,324 | 29,824 |
| Investment income | 500 | 500 | 775 | 275 |
| | <u>100,000</u> | <u>100,000</u> | <u>130,099</u> | <u>30,099</u> |
| Total revenues | | | | |
| Expenditures: | | | | |
| Public safety - current | 123,291 | 123,291 | 116,296 | 6,995 |
| | <u>123,291</u> | <u>123,291</u> | <u>116,296</u> | <u>6,995</u> |
| Total expenditures | | | | |
| Net change in fund balances | (23,291) | (23,291) | 13,803 | 37,094 |
| Fund balances, beginning of year | 99,309 | 99,309 | 99,309 | - |
| Fund balances, end of year | <u>\$ 76,018</u> | <u>\$ 76,018</u> | <u>\$ 113,112</u> | <u>\$ 37,094</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, 2017**

| | <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> |
| Revenues: | | | | |
| Fees and permits | 159,200 | 159,200 | 124,004 | (35,196) |
| Investment income | 800 | 800 | 4,902 | 4,102 |
| | <hr/> | | <hr/> | |
| Total revenues | 160,000 | 160,000 | 128,906 | (31,094) |
| | <hr/> | | <hr/> | |
| Expenditures: | | | | |
| General government | 220,000 | 220,000 | 60,261 | 159,739 |
| | <hr/> | | <hr/> | |
| Total expenditures | 220,000 | 220,000 | 60,261 | 159,739 |
| | <hr/> | | <hr/> | |
| Net change in fund balances | (60,000) | (60,000) | 68,645 | 128,645 |
| Fund balances, beginning of year | 759,199 | 759,199 | 759,199 | - |
| Fund balances, end of year | <u>\$ 699,199</u> | <u>\$ 699,199</u> | <u>\$ 827,844</u> | <u>\$ 128,645</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, 2017**

| | <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> |
| Revenues: | | | | |
| Intergovernmental | 949,000 | 994,000 | 176,266 | (817,734) |
| Investment income | - | - | (771) | (771) |
| | <u>949,000</u> | <u>994,000</u> | <u>175,495</u> | <u>(818,505)</u> |
| Total revenues | | | | |
| Expenditures: | | | | |
| Public works | 5,620,000 | 5,967,590 | 3,399,793 | 2,567,797 |
| | <u>5,620,000</u> | <u>5,967,590</u> | <u>3,399,793</u> | <u>2,567,797</u> |
| Total expenditures | | | | |
| Other financing sources (uses): | | | | |
| Transfers in (note 3) | 4,671,000 | 4,973,590 | 3,023,542 | (1,950,048) |
| Total financing sources (uses) | <u>4,671,000</u> | <u>4,973,590</u> | <u>3,023,542</u> | <u>(1,950,048)</u> |
| Net change in fund balances | - | - | (200,756) | (200,756) |
| Fund balances, beginning of year | 204,377 | 204,377 | 204,377 | - |
| Fund balances, end of year | <u>\$ 204,377</u> | <u>\$ 204,377</u> | <u>\$ 3,621</u> | <u>\$ (200,756)</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, 2017**

| | <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> |
| Revenues: | | | | |
| Investment income | - | - | 11,301 | 11,301 |
| Total revenues | - | - | 11,301 | 11,301 |
| Expenditures: | | | | |
| Debt Service: | | | | |
| Principal retirement | 405,000 | 405,000 | 405,000 | - |
| Interest | 331,338 | 331,338 | 331,338 | - |
| Total expenditures | 736,338 | 736,338 | 736,338 | - |
| Oter financing sources (uses): | | | | |
| Transfers in (note 3) | 736,338 | 736,338 | 736,338 | - |
| Total financing sources (uses) | 736,338 | 736,338 | 736,338 | - |
| Net change in fund balances | - | - | 11,301 | 11,301 |
| Fund balances, beginning of year | 1,515,534 | 1,515,534 | 1,515,534 | - |
| Fund balances, end of year | <u>\$ 1,515,534</u> | <u>\$ 1,515,534</u> | <u>\$ 1,526,835</u> | <u>\$ 11,301</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>2017</u> | <u>2016</u> | <u>2015**</u> | <u>2014</u> |
|--------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| GOVERNMENTAL ACTIVITIES | | | | |
| Net Investment in | | | | |
| Capital Assets | \$ 109,252,099 | \$ 109,157,228 | \$ 108,859,951 | \$ 108,436,257 |
| Restricted for: | | | | |
| Public Safety | 113,112 | 99,309 | 109,554 | 115,371 |
| Public Works | 3,728,757 | 3,936,815 | 3,604,728 | 3,703,419 |
| Debt Service | 1,526,835 | 1,515,534 | 1,509,121 | 2,357,303 |
| Unrestricted | <u>13,960,569</u> | <u>14,981,977</u> | <u>13,325,625</u> | <u>14,065,311</u> |
| Total Governmental Activities | | | | |
| Net Position | <u>\$ 128,581,372</u> | <u>\$ 129,690,863</u> | <u>\$ 127,408,979</u> | <u>\$ 128,677,661</u> |
| PRIMARY GOVERNMENT | | | | |
| Net Investment in | | | | |
| Capital Assets | \$ 109,252,099 | \$ 109,157,228 | \$ 108,859,951 | \$ 108,436,257 |
| Restricted for: | | | | |
| Public Safety | 113,112 | 99,309 | 109,554 | 115,371 |
| Public Works | 3,728,757 | 3,936,815 | 3,604,728 | 3,703,419 |
| Debt Service | 1,526,835 | 1,515,534 | 1,509,121 | 2,357,303 |
| Unrestricted | <u>13,960,569</u> | <u>14,981,977</u> | <u>13,325,625</u> | <u>14,065,311</u> |
| Total Primary Government | | | | |
| Net Position | <u>\$ 128,581,372</u> | <u>\$ 129,690,863</u> | <u>\$ 127,408,979</u> | <u>\$ 128,677,661</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 (2008-2017)

| 2013 | 2012* | 2011 | 2010 | 2009 | 2008 |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| \$ 111,018,064 | \$ 108,216,333 | \$ 111,200,329 | \$ 112,583,691 | \$ 111,994,564 | \$ 110,152,663 |
| 117,440 | 137,441 | 95,880 | 128,859 | 138,057 | 178,529 |
| 3,012,689 | 2,468,544 | 3,481,064 | 4,925,379 | 4,581,004 | 4,625,130 |
| 2,351,627 | 848,392 | 852,271 | 854,699 | 853,179 | 868,427 |
| 12,381,485 | 17,147,323 | 14,328,948 | 13,078,887 | 13,623,344 | 16,733,118 |
| \$ 128,881,305 | \$ 128,818,033 | \$ 129,958,492 | \$ 131,571,515 | \$ 131,190,148 | \$ 132,557,867 |

| | | | | | |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| \$ 111,018,064 | \$ 108,216,333 | \$ 111,200,329 | \$ 112,583,691 | \$ 111,994,564 | \$ 110,152,663 |
| 117,440 | 137,441 | 95,880 | 128,859 | 138,057 | 178,529 |
| 3,012,689 | 2,468,544 | 3,481,064 | 4,925,379 | 4,581,004 | 4,625,130 |
| 2,351,627 | 848,392 | 852,271 | 854,699 | 853,179 | 868,427 |
| 12,381,485 | 17,147,323 | 14,328,948 | 13,078,887 | 13,623,344 | 16,733,118 |
| \$ 128,881,305 | \$ 128,818,033 | \$ 129,958,492 | \$ 131,571,515 | \$ 131,190,148 | \$ 132,557,867 |

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

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|------------------------|------------------------|------------------------|------------------------|
| EXPENSES | | | | |
| Governmental Activities: | | | | |
| General Government | \$ 2,700,266 | \$ 3,421,649 | \$ 3,698,159 | \$ 3,867,419 |
| Building & Planning | 1,090,593 | 1,169,254 | 998,296 | 1,056,954 |
| Public Safety | 9,644,961 | 7,572,663 | 8,105,354 | 7,756,218 |
| Public Works | 6,162,890 | 4,718,605 | 7,521,705 | 5,523,014 |
| Capital Outlay | 925 | - | - | - |
| Principal Retirement | 967,536 | - | - | - |
| Interest Expense | 325,176 | 341,109 | 355,077 | 365,344 |
| Bond Issuance Costs | - | - | - | - |
| Total Governmental Activities Expenses | <u>20,892,347</u> | <u>17,223,280</u> | <u>20,678,591</u> | <u>18,568,949</u> |
| PROGRAM REVENUES | | | | |
| Governmental Activities: | | | | |
| Charges for Services: | | | | |
| General Government | 424,862 | 431,449 | 405,724 | 370,213 |
| Building and Planning | 660,136 | 786,225 | 556,526 | 603,515 |
| Public Safety | 142,914 | 163,463 | 198,883 | 173,246 |
| Public Works | 83,792 | 59,890 | 50,079 | 50,058 |
| Operating Contributions and Grants | 3,114,256 | 2,545,411 | 3,259,584 | 3,402,535 |
| Capital Contributions and Grants | - | - | - | - |
| Total Governmental Activities Program Revenues | <u>4,425,960</u> | <u>3,986,438</u> | <u>4,470,796</u> | <u>4,599,567</u> |
| Total Net Revenues (Expenses) | <u>\$ (16,466,387)</u> | <u>\$ (13,236,842)</u> | <u>\$ (16,207,795)</u> | <u>\$ (13,969,382)</u> |
| GENERAL REVENUES AND OTHER | | | | |
| CHANGES IN NET POSITION | | | | |
| Governmental Activities: | | | | |
| Taxes: | | | | |
| Property Taxes | \$ 6,746,586 | \$ 6,534,986 | \$ 6,235,194 | \$ 2,129,782 |
| Sales Taxes | 6,669,064 | 6,809,341 | 6,037,535 | 6,022,595 |
| Real Property Transfer Taxes | 362,285 | 333,339 | 300,415 | 284,486 |
| Motor Vehicle License Fees | - | - | - | - |
| Motor Vehicle in-lieu tax, unrestricted intergovernmental | - | - | - | 3,773,829 |
| Prop 1A, unrestricted intergovernmental | - | - | - | - |
| Franchise fees | 1,380,895 | 1,499,296 | 1,516,529 | 1,450,159 |
| Investment Income | 147,992 | 103,995 | 66,916 | 59,131 |
| Contribution from other government entity - Settlement Agreement | - | - | - | - |
| Other | 50,074 | 237,769 | 1,785,010 | 45,216 |
| Total Governmental Activities | <u>15,356,896</u> | <u>15,518,726</u> | <u>15,941,599</u> | <u>13,765,198</u> |
| Changes in Net Position | <u>\$ (1,109,491)</u> | <u>\$ 2,281,884</u> | <u>\$ (266,196)</u> | <u>\$ (204,184)</u> |

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

Source: City Finance Division, Comprehensive Annual Financial Report (2008-2017)

| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|----|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| \$ | 3,888,959 | \$ 3,880,315 | \$ 3,774,471 | \$ 4,180,760 | \$ 4,542,993 | \$ 4,794,245 |
| | 1,100,413 | 948,779 | 1,147,306 | 1,075,710 | 1,064,493 | 1,148,291 |
| | 7,574,596 | 7,564,128 | 7,527,342 | 7,829,913 | 8,040,476 | 7,642,333 |
| | 5,240,653 | 4,431,877 | 6,462,078 | 4,601,904 | 4,786,938 | 6,080,878 |
| | 484,024 | 448,843 | - | - | - | - |
| | - | - | - | - | - | - |
| | 329,313 | 528,210 | 539,942 | 550,222 | 560,110 | 569,088 |
| | 236,018 | - | - | - | - | - |
| | <u>18,853,976</u> | <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> |
| | 332,013 | 391,960 | 421,986 | 373,889 | 345,078 | 31,773 |
| | 805,777 | 535,533 | 570,911 | 470,654 | 482,309 | 539,869 |
| | 194,812 | 281,666 | 253,103 | 269,325 | 274,251 | 320,097 |
| | 103,438 | 225,528 | 106,590 | 31,440 | 61,750 | 177,512 |
| | 3,561,137 | 2,965,391 | 3,169,109 | 3,170,366 | 2,758,111 | 3,055,388 |
| | - | - | - | - | - | - |
| | <u>4,997,177</u> | <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>(13,856,799)</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> |
| \$ | 2,042,934 | \$ 1,999,106 | \$ 2,037,141 | \$ 1,465,724 | \$ 2,199,059 | \$ 2,261,933 |
| | 5,827,740 | 5,348,047 | 5,167,358 | 4,481,302 | 5,145,381 | 6,400,424 |
| | 271,322 | 230,916 | 235,626 | 217,950 | 206,466 | 192,964 |
| | - | - | - | - | - | - |
| | 3,734,052 | 3,807,220 | 3,790,596 | 3,820,297 | 4,012,068 | 4,126,226 |
| | - | - | - | 598,935 | - | - |
| | 1,419,802 | 1,414,887 | 1,445,587 | 1,417,649 | 1,453,986 | 1,413,134 |
| | 51,058 | 120,130 | 99,019 | 123,100 | 422,358 | 904,939 |
| | - | - | - | 2,033,649 | - | - |
| | 573,704 | 1,241,844 | 541,090 | 145,595 | 266,475 | 271,486 |
| | <u>13,920,612</u> | <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>63,813</u> | <u>760,076</u> | <u>(1,613,023)</u> | <u>381,366</u> | <u>(1,367,718)</u> | <u>(539,090)</u> |

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

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|----------------------|----------------------|----------------------|----------------------|
| GENERAL FUND | | | | |
| Nonspendable | \$ 2,665 | \$ 2,821 | \$ 2,251 | \$ 6,524 |
| Restricted | - | - | - | - |
| Committed | 788,647 | 1,460,181 | 553,484 | 1,694,971 |
| Assigned | 7,524,985 | 9,300,558 | 9,611,627 | 8,170,086 |
| Unassigned | 9,237,888 | 8,859,349 | 7,999,887 | 7,044,803 |
| Total General Fund | <u>\$ 17,554,185</u> | <u>\$ 19,622,909</u> | <u>\$ 18,167,249</u> | <u>\$ 16,916,384</u> |
| ALL OTHER GOVERNMENTAL FUNDS | | | | |
| Committed for encumbrances | \$ - | \$ - | \$ - | \$ 520,086 |
| Restricted for debt service | 1,526,835 | 1,515,534 | 1,509,121 | 2,357,303 |
| Restricted for public safety/public works | 3,841,869 | 4,036,124 | 3,714,282 | 3,818,790 |
| Assigned, Reported in: | | | | |
| Capital Project Funds | 3,621 | 204,377 | 102,905 | 80,923 |
| Unassigned, Reported in: | | | | |
| Capital Project Funds | - | - | - | - |
| Other | - | - | - | - |
| Total All Other Governmental Funds | <u>\$ 5,372,325</u> | <u>\$ 5,756,035</u> | <u>\$ 5,326,308</u> | <u>\$ 6,777,102</u> |

Source: City Finance Division, HdL, Coren & Cone, Comprehensive Annual Financial Report (2008-2017)

| 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| \$ 11,026 | \$ 183,016 | \$ - | \$ - | \$ - | \$ - |
| - | 58,982 | - | - | - | - |
| 61,353 | 172,428 | 55,892 | 59,085 | 37,810 | 157,204 |
| 8,681,811 | 7,877,157 | 7,421,985 | 13,463,475 | 13,955,115 | 16,904,167 |
| 7,388,653 | 7,618,809 | 7,327,526 | 3,192,501 | 2,639,821 | 2,708,598 |
| <u>\$ 16,142,843</u> | <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> |
| | | | | | |
| \$ 318,917 | \$ 188,906 | \$ 28,839 | \$ 1,113,041 | \$ 87,264 | \$ 227,552 |
| 2,351,627 | 848,392 | 852,271 | 854,699 | 853,178 | 868,427 |
| 3,130,129 | 2,547,003 | 2,465,098 | - | - | - |
| | | | | | |
| 112,043 | 894,372 | - | - | - | - |
| - | - | 1,083,007 | 748,696 | 1,991,978 | 1,867,508 |
| - | - | - | - | - | - |
| <u>\$ 5,912,716</u> | <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> |

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

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|----------------------|----------------------|----------------------|----------------------|
| REVENUES | | | | |
| Taxes | \$ 13,756,201 | \$ 13,657,845 | \$ 8,537,734 | \$ 8,436,863 |
| Fees & Permits | 2,557,778 | 2,196,437 | 2,043,835 | 2,556,767 |
| Intergovernmental | 2,255,652 | 2,421,752 | 6,979,269 | 6,965,839 |
| Charges for Services | 747,230 | 747,093 | 652,998 | 666,155 |
| Investment Income | 147,992 | 103,995 | 66,916 | 59,131 |
| Fines, forfeits and penalties | 142,914 | 163,463 | 198,883 | 173,246 |
| Other | 50,074 | 237,769 | 1,785,010 | 45,216 |
| Total Revenues | <u>19,657,841</u> | <u>19,528,354</u> | <u>20,264,645</u> | <u>18,903,217</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government | 3,725,068 | 3,522,990 | 3,693,121 | 3,820,255 |
| Building and Planning | 1,078,723 | 1,150,918 | 993,466 | 1,048,181 |
| Public Safety | 9,644,961 | 7,565,851 | 8,104,085 | 7,755,684 |
| Public Works | 5,825,294 | 4,508,164 | 5,060,120 | 3,627,789 |
| Capital Outlay | 132,355 | 162,907 | 1,883,395 | 213,143 |
| Debt Service: | | | | |
| Principal Retirement | 1,372,536 | 385,000 | 370,000 | 430,000 |
| Interest | 331,338 | 347,137 | 360,387 | 370,238 |
| Bond Issuance Costs | - | - | - | - |
| Total Expenditures | <u>22,110,275</u> | <u>17,642,967</u> | <u>20,464,574</u> | <u>17,265,290</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(2,452,434)</u> | <u>1,885,387</u> | <u>(199,929)</u> | <u>1,637,927</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | 4,509,192 | 3,306,078 | 4,946,538 | 2,852,635 |
| Transfers Out | (4,509,192) | (3,306,078) | (4,946,538) | (2,852,635) |
| Refunding bonds issued | - | - | - | - |
| Premium on refunding bonds issued | - | - | - | - |
| Payment to refunding bond escrow agent | - | - | - | - |
| Total Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balances | <u>(2,452,434)</u> | <u>1,885,387</u> | <u>(199,929)</u> | <u>1,637,927</u> |
| Fund Balances, beginning of year | <u>25,378,944</u> | <u>23,493,557</u> | <u>23,693,486</u> | <u>22,055,559</u> |
| Fund Balances, end of year | <u>\$ 22,926,510</u> | <u>\$ 25,378,944</u> | <u>\$ 23,493,557</u> | <u>\$ 23,693,486</u> |
| DEBT SERVICE AS A PERCENTAGE OF NON CAPITAL EXPENDITURES | | | | |
| | 8.40% | 4.37% | 4.09% | 4.92% |

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

Source: City Finance Division, Comprehensive Annual Financial Report (2008-2017)

| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|----|-------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| \$ | 8,141,996 | \$ 7,578,069 | \$ 7,440,125 | \$ 6,763,911 | \$ 7,550,906 | \$ 8,855,321 |
| | 2,396,719 | 2,072,595 | 1,793,566 | 1,655,184 | 1,736,087 | 1,835,160 |
| | 6,215,077 | 6,614,126 | 6,959,705 | 6,990,663 | 6,770,179 | 8,381,614 |
| | 805,971 | 657,598 | 755,808 | 638,448 | 607,036 | 327,128 |
| | 51,058 | 120,130 | 99,019 | 123,100 | 422,358 | 904,939 |
| | 194,812 | 277,866 | 248,803 | 269,325 | 274,251 | 320,097 |
| | 1,243,584 | 571,964 | 541,090 | 145,595 | 266,475 | 271,486 |
| | <u>19,049,217</u> | <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> |
| | | | | | | |
| | 3,857,850 | 3,856,873 | 3,739,202 | 4,097,146 | 4,496,860 | 4,740,844 |
| | 1,096,348 | 954,291 | 1,142,245 | 1,066,318 | 1,059,697 | 1,134,310 |
| | 7,573,874 | 7,560,345 | 7,488,564 | 7,823,666 | 8,019,896 | 7,623,419 |
| | 3,435,804 | 2,642,796 | 4,193,615 | 2,340,380 | 2,545,637 | 3,865,499 |
| | 725,596 | 887,336 | 633,846 | 549,624 | 3,831,109 | 348,737 |
| | | | | | | |
| | 315,000 | 305,000 | 295,000 | 290,000 | 280,000 | 265,000 |
| | 399,910 | 531,260 | 542,523 | 552,760 | 562,385 | 571,241 |
| | 236,018 | - | - | - | - | - |
| | <u>17,640,400</u> | <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> |
| | | | | | | |
| | 1,408,817 | 1,154,447 | (196,879) | (133,668) | (3,168,292) | 2,346,695 |
| | | | | | | |
| | 3,981,812 | 2,630,493 | 3,495,811 | 2,361,221 | 2,592,624 | 2,271,638 |
| | (3,981,812) | (2,630,493) | (3,495,811) | (2,361,221) | (2,592,624) | (2,271,638) |
| | 11,230,000 | - | - | - | - | - |
| | 571,905 | - | - | - | - | - |
| | (11,544,227) | - | - | - | - | - |
| | 257,678 | - | - | - | - | - |
| | <u>1,666,495</u> | <u>1,154,447</u> | <u>(196,879)</u> | <u>(133,668)</u> | <u>(3,168,292)</u> | <u>2,346,695</u> |
| | | | | | | |
| | 20,389,064 | 19,234,618 | 19,431,497 | 19,565,165 | 22,733,457 | 20,386,762 |
| \$ | <u>22,055,559</u> | <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> |
| | | | | | | |
| | 5.96% | 5.57% | 5.06% | 5.50% | 5.23% | 4.82% |

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

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|-----------------------------------|-------------|-------------------|-------------------|-------------------|
| Apparel Stores | * | \$ 9,708 | \$ 9,992 | \$ 9,951 |
| General Merchandise | * | 55,204 | 55,527 | 56,412 |
| Food Stores | * | 30,261 | 29,619 | 28,618 |
| Eating & Drinking Places: | * | 80,163 | 76,257 | 72,883 |
| Building Materials | * | 48,355 | 45,728 | 44,597 |
| Auto Dealers & Supplies | * | 145,750 | 140,423 | 131,435 |
| Service Stations | * | 44,395 | 50,884 | 59,993 |
| Other Retail Stores | * | 71,017 | 74,732 | 69,669 |
| All Other Outlets | * | 172,150 | 150,442 | 139,894 |
| Total | * | <u>\$ 657,003</u> | <u>\$ 633,604</u> | <u>\$ 613,452</u> |
| City Direct Sales Tax Rate | 7.75% | 8.0% | 8.0% | 8.0% |

*Data for fiscal year 2016-2017 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

| 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| \$ 10,214 | \$ 9,956 | \$ 9,443 | \$ 9,964 | \$ 9,927 | \$ 10,509 |
| 58,019 | 58,370 | 59,246 | 57,210 | 56,689 | 57,815 |
| 27,470 | 24,858 | 22,944 | 22,951 | 23,739 | 24,475 |
| 70,233 | 65,829 | 58,618 | 56,486 | 56,962 | 58,684 |
| 41,165 | 38,570 | 37,859 | 35,300 | 33,287 | 37,711 |
| 130,748 | 124,732 | 104,180 | 80,901 | 78,186 | 129,338 |
| 61,237 | 66,902 | 64,086 | 50,822 | 42,070 | 52,019 |
| 70,055 | 70,481 | 65,901 | 63,199 | 64,585 | 79,689 |
| 129,972 | 119,106 | 110,460 | 103,999 | 98,674 | 122,210 |
| \$ 599,113 | \$ 578,804 | \$ 532,737 | \$ 480,832 | \$ 464,119 | \$ 572,450 |
| 8.0% | 7.5% | 7.5% | 7.5% | 8.5% | 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 |
|--------------------|--------------------------|---------------------|-------------------------------|---------------|
| 2017 | \$ 6,669,064 | \$ 6,745,586 | \$ 362,285 | \$ 13,776,935 |
| 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 |

Source: City Finance Division, Comprehensive Annual Financial Report (2008-2017)

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 |
|--------------------|-----------------------------|----------------------------|----------------------------|-------------------------------|----------------------------------|---|--------------------------|
| 2017 | \$ 6,644,658,255 | \$ 543,292,229 | \$ 461,597,130 | \$ 222,514,928 | - | 7,872,062,542 | 2.98% |
| 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% |

(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 | 2016/17 | 2015/16 | 2014/15 | 2013/14 |
|---|----------------|----------------|----------------|----------------|
| Basic Levy^{1,5} | 1.00000 | 1.00000 | 1.00000 | 1.00000 |
| Capistrano Union | 0.00843 | 0.00845 | 0.00900 | 0.00972 |
| 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 | 0.02688 | 0.03008 | 0.02806 | 0.03207 |
| Santa Margarita Water District | 0.88660 | 1.18070 | 2.05440 | 2.35710 |
| Total Direct & Overlapping² Tax Rates | 1.92891 | 2.22623 | 3.09846 | 3.40589 |
| | | | | |
| 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 2007/08 - 2016/17 Tax Rate Table

| <u>2012/13</u> | <u>2011/12</u> | <u>2010/11</u> | <u>2009/10</u> | <u>2008/09</u> | <u>2007/08</u> |
|----------------|----------------|----------------|----------------|----------------|----------------|
| 1.00000 | 1.00000 | 1.00000 | 1.00000 | 1.00000 | 1.00000 |
| 0.01171 | 0.01101 | 0.01105 | 0.01077 | 0.00971 | 0.01019 |
| 0.00350 | 0.00370 | 0.00370 | 0.00430 | 0.00430 | 0.00450 |
| 0.00350 | 0.00370 | 0.19120 | 0.19180 | 0.19180 | 0.19200 |
| 0.03265 | 0.03163 | 0.03194 | 0.03043 | 0.02834 | 0.02668 |
| 4.67620 | 4.21220 | 4.22640 | 4.98790 | 4.03430 | 2.78400 |
| 5.72756 | 5.26224 | 5.46429 | 6.22520 | 5.26845 | 4.01737 |
| 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>2016/17</u> | | | <u>2007/08</u> | | |
|------------------------------|----------------------------|---|------|----------------------------|---|------|
| | Total Assessed Value | Percentage of Total City Taxable Assessed Value | Rank | Total Assessed Value | Percentage of Total City Taxable Assessed Value | Rank |
| Applied Medical Reso. Corp | \$ 206,056,974 | 2.62% | 1 | \$ 57,405,520 | 0.82% | 2 |
| El Prado LLC | 76,156,994 | 0.97% | 2 | | | |
| BEX Portfolio Inc* | 67,656,687 | 0.86% | 3 | 43,400,198 | 0.62% | 4 |
| Villa La Paz Partners LP | 40,186,008 | 0.51% | 4 | 35,334,685 | 0.51% | 6 |
| Antonio Acquisition Company | 37,840,106 | 0.48% | 5 | 25,297,803 | 0.36% | 8 |
| EQR Skyview LP | 35,422,910 | 0.45% | 6 | | | |
| FG RSM SR Apartment LP | 28,882,829 | 0.37% | 7 | 25,256,537 | 0.36% | 9 |
| KRC Santa Margarita II LLC** | 26,982,321 | 0.34% | 8 | 36,542,411 | 0.52% | 5 |
| VR RSM Two LLC | 26,443,871 | 0.34% | 9 | | | |
| Crescent LP | 26,363,515 | 0.33% | 10 | 23,293,986 | 0.33% | |
| Cox Com, Inc | | | | 106,504,696 | 1.53% | 1 |
| Northwestern Mutual Life | | | | 46,044,486 | 0.66% | 3 |
| TIS Equities IX LLC | | | | 25,493,425 | 0.37% | 7 |
| Totals | <u>\$ 571,992,215</u> | <u>7.27%</u> | | <u>\$ 424,573,747</u> | <u>6.09%</u> | |

* Used to be BRE Properties

** Used to be KSL Santa Margarita Properties II LP

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 |
| 2017 | \$ 2,252,964 | \$ 2,217,196 | 98.41% | \$ 15,584 | \$ 2,238,684 | 99.37% |
| 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% |

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⁾ |
|--------------------|---------------------------------|----------------------------|--------------------------------------|---|--------------------------------------|---|----------------------------------|
| 2017 | \$ - | \$ 10,089,353 | \$ - | \$ 932,999 | 11,022,352 | 0.46% | 227 |
| 2016 | - | 10,521,587 | - | 1,900,535 | 12,422,122 | 0.50% | 254 |
| 2015 | - | 10,934,000 | - | 1,900,535 | 12,834,535 | 0.54% | 263 |
| 2014 | - | 11,331,000 | - | 1,900,535 | 13,231,535 | 0.57% | 273 |
| 2013 | - | 11,788,000 | - | 1,900,535 | 13,688,535 | 0.59% | 285 |
| 2012 | - | - | 11,360,000 | 1,900,535 | 13,260,535 | 0.59% | 275 |
| 2011 | - | - | 11,665,000 | 1,900,535 | 13,565,535 | 0.58% | 272 |
| 2010 | - | - | 11,960,000 | 1,900,535 | 13,860,535 | 0.55% | 279 |
| 2009 | - | - | 12,250,000 | 1,900,535 | 14,150,535 | 0.55% | 286 |
| 2008 | - | - | 12,530,000 | 2,148,991 | 14,678,991 | 0.57% | 298 |

⁽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 |
|--------------------|-------------------|---------------------------------------|--|------------------------|---|------------------------|
| 2017 | 48,602 | \$ - | \$ - | \$ - | 0.00% | \$ - |
| 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% | - |

⁽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, 2017**

| | 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 | | \$ 9,640,000 | 100% | \$ 9,640,000 |
| A65.01 City Hall and Community Center | | \$ 449,354 | 100% | \$ 449,354 |
| Total Direct Debt | | | | 10,089,354 |
| Overlapping Debt | | | | |
| 628.01 Capistrano Unified SFID#1 1999 Bond#2002C | | 18,700,000 | 1.367% | 255,700 |
| 629.01 Capistrano Unified SFID#1 1999 Bond#2001B | | 8,512,966 | 1.367% | 116,405 |
| 6AB.01 Saddleback Valley USD 2004 Bond#2004A | | 65,760,000 | 14.210% | 9,344,299 |
| 6AW.01 Saddleback Valley USD 2004 Series B | | 35,140,000 | 14.210% | 4,993,289 |
| 6CZ.01 Saddleback Valley USD 20113 REF | | 7,685,000 | 14.210% | 1,092,016 |
| 6DK.01 Saddleback Valley USD GOB EL 2014, Series 2016A | | 10,000,000 | 14.210% | 1,420,970 |
| *C55.14 Metropolitan Water District | | 15,208,339 | 1.698% | 255,244 |
| C76.56 Santa Margarita Water ID#4-Bond 1978 Bond | Land | 44,510,000 | 36.833% | 16,394,393 |
| C76.57 Santa Margarita Water ID#4A-Bond 1984 Bond | Land | 7,995,000 | 100.000% | 7,995,000 |
| C76.58 Santa Margarita Water ID#3-Bond 1978 Bond | Land | 8,625,000 | 99.856% | 8,612,983 |
| C76.61 Santa Margarita Water ID#4B-Bond 1984 Bond | Land | 8,245,000 | 0.353% | 29,098 |
| Total Overlapping Debt | | | | 50,509,397 |
| Total Direct and Overlapping Debt | | | | \$ 60,598,751 |

2016/17 Assessed Valuation: \$7,872,029,494** after deducting \$0 Incremental Value.

| | | |
|------------------------------------|------------------|-------|
| Debt To assessed Valuation Ratios: | Direct Debt | 0.13% |
| | Overlapping Debt | 0.64% |
| | Total Debt | 0.77% |

*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>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| Assessed Valuation | \$ 7,872,062,542 | \$ 7,572,054,981 | \$ 7,230,177,009 | \$ 6,765,168,304 |
| Conversion Percentage | 25% | 25% | 25% | 25% |
| Adjusted Assessed Valuation | \$ 1,968,015,636 | \$ 1,893,013,745 | \$ 1,807,544,252 | \$ 1,691,292,076 |
| Debit Limit Percentage | 15% | 15% | 15% | 15% |
| Debt Limit | \$ 295,202,345 | \$ 283,952,062 | \$ 271,131,638 | \$ 253,693,811 |
| Total Net Debt Applicable to Limit: General Obligation Bonds | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Legal Debt Margin | <u>\$ 295,202,345</u> | <u>\$ 283,952,062</u> | <u>\$ 271,131,638</u> | <u>\$ 253,693,811</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>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| \$ 6,679,223,387 | \$ 6,624,820,302 | \$ 6,602,601,257 | \$ 6,616,495,208 | \$ 6,898,038,153 | \$ 6,979,954,997 |
| 25% | 25% | 25% | 25% | 25% | 25% |
| \$ 1,669,805,847 | \$ 1,656,205,076 | \$ 1,650,650,314 | \$ 1,654,123,802 | \$ 1,724,509,538 | \$ 1,744,988,749 |
| 15% | 15% | 15% | 15% | 15% | 15% |
| \$ 250,470,877 | \$ 248,430,761 | \$ 247,597,547 | \$ 248,118,570 | \$ 258,676,431 | \$ 261,748,312 |
| - | - | - | - | - | - |
| <u>\$ 250,470,877</u> | <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> |
| 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 |
|--------------------|-------------------|--|-----------------------------------|------------------------------------|-------------------|--------------------------|--------------------------|
| 2017 | 48,602 | \$ 2,182,109 | \$ 44,897 | \$ 105,328 | 36.7 | 6,019 | 2.20% |
| 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 | 1,922,382 | 39,819 | 97,853 | 34.1 | 6,255 | 5.60% |
| 2011 | 48,278 | 2,000,497 | 40,054 | 96,503 | 33.5 | 6,143 | 6.20% |
| 2010 | 49,945 | 2,161,429 | 43,539 | 100,166 | 32.7 | 5,965 | 5.80% |
| 2009 | 49,643 | 2,241,418 | 45,280 | 97,744 | 31.9 | 5,842 | 5.50% |
| 2008 | 49,501 | 2,205,188 | 44,725 | 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 2017

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 | 2017 | | 2010 | |
|------------------------------------|---------------------|--------------------------|---------------------|--------------------------|
| | Number of Employees | Percentage of Employment | Number of Employees | Percentage of Employment |
| Applied Medical | 1,304 | 4.16% | 1,174 | 4.02% |
| Cox Communications* | 0 | 0.00% | 1,200 | 4.11% |
| O'Connell Landscape | 1,000 | 3.19% | 980 | 3.36% |
| Saddleback Valley School District | 288 | 0.92% | 606 | 2.08% |
| Lucas & Mercier Construction | 250 | 0.80% | 553 | 1.89% |
| Control Components Inc. (CCI) | 200 | 0.64% | 370 | 1.27% |
| Target Corporation | 255 | 0.81% | 247 | 0.85% |
| Car Sound Exhaust System, Inc. | 150 | 0.48% | 207 | 0.71% |
| Capistrano Unified School District | 215 | 0.69% | 210 | 0.72% |
| PADI | 180 | 0.57% | 200 | 0.68% |
| Santa Margarita Catholic H.S. | 175 | 0.56% | 200 | 0.68% |

*Cox Communication relocated their offices to another location outside of the City in 2015.

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 | | | | | | | | | |
|-------------------------------|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
| City Manager Full-Time | 3.00 | 3.00 | 2.50 | 1.50 | 2.00 | 2.00 | 2.00 | 3.00 | 3.00 | 3.00 |
| City Clerk Full-Time | 2.80 | 2.80 | 2.80 | 3.40 | 2.80 | 2.80 | 2.80 | 2.60 | 2.60 | 2.60 |
| Human Resources Full-Time | 1.00 | 2.00 | 2.00 | 2.00 | 1.25 | - | - | - | - | - |
| Finance Full-Time | 3.80 | 3.80 | 3.80 | 3.58 | 4.08 | - | - | - | - | - |
| Police Services Full-Time | - | 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 | 5.60 | 3.85 | 3.00 | 3.00 | 3.75 | 3.60 | 3.50 | 3.50 |
| Engr./Pub. Works Full-Time | 4.50 | 4.50 | 4.50 | 3.50 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| Comm. Services Full-Time | 6.40 | 6.40 | 6.40 | 6.37 | 6.25 | - | - | - | - | - |
| Admin. Services Full-Time | - | - | - | - | - | 11.32 | 11.07 | 14.10 | 8.60 | 8.35 |
| Total | 27.10 | 29.10 | 28.60 | 25.20 | 23.38 | 23.12 | 23.62 | 27.30 | 21.70 | 21.45 |

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>2017</u> | <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> |
|---------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| 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 | 2 | 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 | 159 |
| 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 | 2017 | 2016 | 2015 | 2014 |
|---|-------------|-------------|-------------|-------------|
| General Government | | | | |
| Financial Reports & Audits Completed | 109 | 111 | 106 | 117 |
| Checks/Wire Transfers | 1,654 | 1,482 | 1,670 | 1,768 |
| Police Services | | | | |
| Physical Arrests | * | 282 | 329 | 377 |
| Parking Citations | * | 1,502 | 1,365 | 1,042 |
| Traffic Citations | * | 136 | 402 | 1,469 |
| Public Works | | | | |
| Street Paving (miles) | 8.44 | 8.07 | 9.45 | 23 |
| Sidewalks replaced (sq. ft.) | 7,225 | 6,358 | 10,832 | 4,809 |
| Curb refurbished (linear feet) | 300 | 24,953 | 14,953 | 280 |
| Traffic signs replaced/installed | 353 | 322 | 337 | 262 |
| Pavement Condition Index (70 = min. acceptable) | 78.6 | 81.6 | 81.5 | 81.5 |
| Building and Planning | | | | |
| Building Permits Issued | 1,538 | 1,671 | 1,279 | 1,051 |
| Building Inspections Completed | 3,048 | 3,422 | 2,515 | 2,278 |
| Plan Checks Performed | 337 | 413 | 328 | 279 |
| Community Services | | | | |
| Recreational & Instructional Classes Offered | 825 | 825 | 825 | 775 |
| Senior Mobility Ride Vouchers | 300 | 990 | 989 | 939 |
| Community Events Attendance | 20,000 | 19,000 | 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>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|-------------|-------------|-------------|-------------|-------------|-------------|
| 62 | 49 | 15 | 12 | 12 | 12 |
| 1,713 | 1,759 | 1,645 | 2,502 | 1,664 | 2,355 |
| 766 | 1,035 | 1,317 | 1,054 | 1,226 | 986 |
| 1,516 | 1,120 | 1,613 | 2,168 | 2,308 | 2,090 |
| 1,026 | 1,497 | 3,184 | 2,627 | 3,928 | 3,814 |
| 92 | 8 | 13 | 30 | 6 | 25 |
| - | 1,025 | 3,973 | 8,585 | 4,000 | 2,975 |
| 13,351 | 15,500 | 19 | 1,614 | 23,000 | 19,769 |
| 291 | 600 | 56 | 458 | 536 | 559 |
| 78.5 | 79.2 | 77.9 | 76.5 | 76.5 | 76 |
| 1,145 | 1,026 | 782 | 764 | 807 | 786 |
| 2,140 | 2,387 | 2,127 | 1,801 | 1,953 | 3,460 |
| 263 | 194 | 223 | 185 | 126 | 355 |
| 773 | 725 | 712 | 460 | 134 | 102 |
| 1,171 | 665 | 609 | 623 | 422 | 440 |
| 18,000 | 17,500 | 15,000 | 17,000 | 30,500 | 30,000 |
| 3 | 3 | 3 | 3 | 3 | 3 |

**City of Rancho Santa Margarita
Miscellaneous Statistics
June 30, 2017**

| | |
|----------------------------------|--|
| 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: | 48,602 |
| Area in square miles: | 13 |
| Form of Government: | Council-Manager |
| Date of Incorporation: | January 1, 2000 |
| Number of Full Time Employees: | 22 |
| 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