

**CITY OF IRVINE, CALIFORNIA**  
**ORANGE COUNTY GREAT PARK FUNDS**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

CITY OF IRVINE  
ORANGE COUNTY GREAT PARK FUNDS  
TABLE OF CONTENTS

For the year ended June 30, 2016

	<u>Page Number</u>
Independent Auditors' Report	1
Financial Statements:	
Balance Sheet	3
Statements of Revenues, Expenditures, and Changes in Fund Balance	4
Notes to Financial Statements	5
Required Supplementary Information:	14
Budgetary Comparison Schedule	15
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18
Schedule of Findings and Responses	20

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council  
of the City of Irvine  
Irvine, California

We have audited the accompanying financial statements of the Orange County Great Park Funds of the City of Irvine, California, which include the Operations Special Revenue Fund and the Development Capital Projects Fund (Orange County Great Park Funds), as of and for the year ended June 30, 2016, and the related notes to the financial statements, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City'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 financial position of the Orange County Great Park Funds of the City of Irvine, California, as of June 30, 2016, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

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

## **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Orange County Great Park Funds and do not purport to, and do not, present fairly the financial position of the City of Irvine, California, as of June 30, 2016, the changes in its financial position for the year ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2016, on our consideration of the City of Irvine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*White Nelson Dick Evans LLP*

Irvine, California  
November 1, 2016

CITY OF IRVINE  
ORANGE COUNTY GREAT PARK FUNDS

BALANCE SHEET

June 30, 2016  
(amounts expressed in thousands)

	Special Revenue Fund	Capital Project Funds	
	Orange County Great Park Operations	Orange County Great Park Development	Totals
<b>ASSETS:</b>			
Cash and investments	\$ 58,287	\$ 19,095	\$ 77,382
Receivables, net of allowances	187	-	187
Accrued interest	69	16	85
Due from Successor Agency	280,056	-	280,056
<b>TOTAL ASSETS</b>	<b>\$ 338,599</b>	<b>\$ 19,111</b>	<b>\$ 357,710</b>
<b>LIABILITIES:</b>			
Accounts payable	\$ 839	\$ 70	\$ 909
Accrued liabilities	166	3	169
Due to Irvine Community Land Trust	28,006	-	28,006
Due to other governments	6	-	6
Deposits	19	-	19
Unearned revenue	52	-	52
<b>TOTAL LIABILITIES</b>	<b>29,088</b>	<b>73</b>	<b>29,161</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Unavailable revenue	84	-	84
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>84</b>	<b>-</b>	<b>84</b>
<b>FUND BALANCES:</b>			
Committed for Great Park development and operations	309,427	19,038	328,465
<b>TOTAL FUND BALANCES</b>	<b>309,427</b>	<b>19,038</b>	<b>328,465</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 338,599</b>	<b>\$ 19,111</b>	<b>\$ 357,710</b>

See accompanying notes to financial statements.

CITY OF IRVINE  
ORANGE COUNTY GREAT PARK FUNDS

STATEMENTS OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES

For the year ended June 30, 2016  
(amounts expressed in thousands)

	Special Revenue Fund	Capital Project Funds	Totals
	Orange County Great Park Operations	Orange County Great Park Development	
REVENUES:			
Taxes	\$ 9,116	\$ -	\$ 9,116
Investment income	635	125	760
Intergovernmental	267	-	267
Charges for services	2,695	-	2,695
Revenue from developers	10,050	-	10,050
Contributions from other City funds	-	17,243	17,243
Other revenue	52	-	52
TOTAL REVENUES	22,815	17,368	40,183
EXPENDITURES:			
Current:			
General government	3,351	1	3,352
Public safety	329	-	329
Public works	2,433	73	2,506
Community development	306	-	306
Community services	4,142	-	4,142
Capital outlay	-	978	978
TOTAL EXPENDITURES	10,561	1,052	11,613
EXCESS OF REVENUES OVER EXPENDITURES	12,254	16,316	28,570
OTHER FINANCING SOURCES (USES):			
Proceeds from sale of capital assets	67	-	67
Transfers in	-	920	920
Transfers out	(920)	-	(920)
TOTAL OTHER FINANCING SOURCES (USES)	(853)	920	67
EXTRAORDINARY LOSS	(14,600)	-	(14,600)
SPECIAL ITEM	99	-	99
NET CHANGE IN FUND BALANCES	(3,100)	17,236	14,136
FUND BALANCES, BEGINNING OF YEAR	312,527	1,802	314,329
FUND BALANCES, END OF YEAR	\$ 309,427	\$ 19,038	\$ 328,465

See accompanying notes to financial statements.

CITY OF IRVINE  
ORANGE COUNTY GREAT PARK FUNDS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016  
(amounts expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying financial statements present only the Orange County Great Park Operations Special Revenue Fund and Development Capital Projects Fund (Orange County Great Park Funds) of the City of Irvine, California (the City) and do not include any other funds of the City. The City's basic financial statements are available at City Hall.

a. Historical Background:

The Orange County Great Park was formed by the City of Irvine to transform the former United States Marine Corps Air Station El Toro into the first great metropolitan park of the 21st Century. The former military base was built as a wartime air station for the purpose of aircraft squadron formation and unit training prior to overseas combat. In February 2005, the land was purchased during auction by Lennar Corporation, one of the country's leading residential and commercial developers. This purchase was the beginning of a unique partnership between the City of Irvine, the federal government, and Lennar Corporation that will result in the formation of the greatest metropolitan park in the United States. Under the terms of a development agreement between Lennar Corporation and the City of Irvine, Lennar Corporation was granted limited development rights in return for the land and capital that will allow the construction of the Orange County Great Park. The agreement required Lennar to transfer more than 1,347 acres to public ownership and contribute \$200 million dollars toward the development of the Great Park. The Great Park Plan will allow development on the property that is consistent with the uses allowed by the voter-approved Measure W. Under the Great Park Plan, the 4,639-acre El Toro Property will become a master planned community.

b. Basis of Accounting:

The accompanying financial statements for the Orange County Great Park Funds of the City of Irvine, California, have been prepared on the modified accrual basis of accounting. Generally, revenues are recognized when they become "susceptible to accrual", that is, measurable and available to finance expenditures of the current period. Revenues susceptible to accrual include property taxes, intergovernmental, and investment earnings received within 60 days of year-end. Expenditures are recognized when the fund liability is incurred, if measurable. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Voluntary, nonexchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

CITY OF IRVINE  
ORANGE COUNTY GREAT PARK FUNDS

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016  
(amounts expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. Measurement Focus:

The Orange County Great Park Funds are accounted for on a spending or “financial flow” measurement focus. This means that generally only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance for the Orange County Great Park Funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

d. Fund Balance Flow Assumptions:

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

e. Cash and Investments:

Cash and investments are pooled with the City of Irvine, California’s cash and investments for investment purposes. The Orange County Great Park Funds’ share of the pooled cash and investments is stated at fair value, as determined by the City.



CITY OF IRVINE  
ORANGE COUNTY GREAT PARK FUNDS

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016  
(amounts expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

f. Deferred Inflows of Resources:

In addition to liabilities, the 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 fund balance that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Orange County Great Park Operations Special Revenue Fund has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category: unavailable revenues from grant sources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

g. Use of Estimates:

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

h. Budgetary Basis of Accounting:

The budget for the Orange County Great Park Operating Special Revenue Fund is adopted at a budget category by department level of control, and the budget for the Orange County Great Park Development Capital Projects Fund is adopted at the project level on a basis consistent with the generally accepted accounting principles. Accordingly, actual revenues and expenditures can be compared with the related budget amounts without any significant reconciling items. Budget amounts contained within the supplementary information section are the original and final amended amounts as reviewed by the Board of Directors and approved by the City Council.

CITY OF IRVINE  
ORANGE COUNTY GREAT PARK FUNDS

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016  
(amounts expressed in thousands)

2. CASH AND INVESTMENTS:

**Investments Authorized by the California Government Code:**

Any cash of the Orange County Great Park Funds is entirely pooled with the City of Irvine's cash and investment pool. The table below identifies the investment types that are authorized by the City of Irvine's investment pool and the California Government Code (where more restrictive). The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Obligations	5 years	None	None
Federal Agencies (United States Government-Sponsored Agency Securities)	5 years	None	None
Banker's Acceptances	180 days	25%	\$5,000
Commercial Paper	270 days	15%	3%
Repurchase Agreements	75 days	25%	None
Reverse Repurchase Agreements	75 days	15%	None
California Local Agency Investment Fund (LAIF)	N/A	25%	N/A
Municipal Bonds	5 years	None	None
Corporate Medium-Term Notes	5 years	15%	3%
Money Market Mutual Funds	N/A	20%	10%
Supranationals	5 years	10%	10%

**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. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

CITY OF IRVINE  
ORANGE COUNTY GREAT PARK FUNDS

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016  
(amounts expressed in thousands)

2. CASH AND INVESTMENTS (CONTINUED):

**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. There are minimum ratings required by the California Government Code or the City's investment policy (where more restrictive). See the City's Comprehensive Annual Financial Report for further details.

**Concentration of Credit Risk:**

The City's investment policy generally limits the amount that can be invested in any obligations of one entity or single security except U.S. Treasuries, U.S. Government-Sponsored Enterprise Securities, and LAIF, which is subject to a 25% limitation.

**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 *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, 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 held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the City's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

CITY OF IRVINE  
ORANGE COUNTY GREAT PARK FUNDS

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016  
(amounts expressed in thousands)

2. CASH AND INVESTMENTS (CONTINUED):

**Fair Value Measurements:**

The City categorizes its fair value measurement within the fair value hierarchy. 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 or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.

Level 2: Inputs to the valuation methodology include:

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

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

The asset's or liability's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The determination of what constitutes observable requires judgment by the City's management. City management considers observable data to be that market data which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market.

The categorization of an investment or liability within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to City management's perceived risk of that investment or liability.

CITY OF IRVINE  
ORANGE COUNTY GREAT PARK FUNDS

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016  
(amounts expressed in thousands)

2. CASH AND INVESTMENTS (CONTINUED):

**Additional Information:**

Any cash of the Orange County Great Park Funds is entirely pooled with the City of Irvine's cash and investment pool. Information regarding the exposure of the City of Irvine's cash and investment pool to interest rate risk, credit risk, concentration of credit risk, custodial risk, and fair value measurements is available in the City of Irvine's Comprehensive Annual Financial Report.

3. DUE FROM SUCCESSOR AGENCY:

The City of Irvine loaned the former redevelopment agency \$134,000 to fund the purchase of property located in the Orange County Great Park Redevelopment Area. Upon dissolution of the redevelopment agency on February 1, 2012, this loan became a debt of the Successor Agency and was reported on the Recognized Obligation Payment Schedule as an enforceable obligation, thus eligible for property tax funding. The State Department of Finance denied this obligation. Ultimately, the City and Successor Agency filed lawsuits to compel the State of California Department of Finance to recognize the loan as an enforceable obligation. At a later date, the Irvine Community Land Trust, a component unit of the City, also filed suit to protect its interests. On October 24, 2014, all parties to the lawsuits the City, Successor Agency, and Irvine Community Land Trust entered into a settlement agreement. This settlement agreement called for the City to return \$5,500 in interest payments received from the former redevelopment agency back to the Successor Agency for remittance to the County Auditor-Controller, as well as a guaranteed future revenue stream of \$292,000 from the Redevelopment Property Tax Fund to the Successor Agency. These funds are to be paid to the City in satisfaction of the principal and interest earnings on the \$134,000 loan. In addition, the City agreed to pay the Irvine Community Land Trust 5 percent of the settlement agreement for a total of \$14,600. On January 26, 2016, the City Council approved an increase in funding to the Irvine Community Land Trust from 5 percent to 10 percent of the settlement agreement. The total to be received by the Irvine Community Land Trust is now \$29,200. An extraordinary loss of \$14,600 has been reported in the Orange County Great Park Operations Special Revenue Fund to show the increase in the amount due to the Irvine Community Land Trust as a result of the change to the settlement agreement.

4. INTERFUND TRANSFERS:

Interfund transfers of \$920 were made to fund various capital projects related to the Orange County Great Park.

CITY OF IRVINE  
ORANGE COUNTY GREAT PARK FUNDS

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016  
(amounts expressed in thousands)

5. LEASES:

The City has various operating lease rental agreements producing annual rental revenue to the Orange County Great Park Funds. Rental revenue is included in Charges for Services in the accompanying financial statements.

The Orange County Great Park (OCGP) fund receives revenue for several operating leases for sites within the former MCAS El Toro. The OCGP is currently under development and thus lease rentals are only projected as far out as to the fiscal year ended June 30, 2018, with some leases expiring or planned to be terminated sooner. The leases are for recreational vehicle storage, green waste recycling, office/manufacturing buildings, farming, and other uses of the property.

A lease with Flying Bull RV Storage for the storage of recreational vehicles, which had been in effect since July 2005, was terminated on July 15, 2014, and converted to a month-to-month lease, due to future construction of the lease site. Flying Bull RV Storage vacated the premises on January 29, 2016, and terminated the lease. During the fiscal year ended June 30, 2016, rental income of \$301 was collected on this lease.

A lease with Tierra Verde Industries began in May 2006 has been amended and restated over the years and is for two parcels located in the OCGP. The first parcel is approximately 60 acres and is used as a green waste recycling center. The quarterly rental for this property is \$100 for an annual rental of \$400. An additional \$0.64 per ton is charged as a Green Waste Host Fees and the amount collected June 30, 2016, was \$440. The second parcel under this lease are buildings used for office space, light maintenance, and manufacturing. The rents received for this parcel for the fiscal year ended June 30, 2016, were \$93.

A farming lease with El Toro Farms, LLC to grow strawberries and vegetable crop. The lease began in July 2005, has been renewed over the years, and currently terminates June 30, 2017. Rental revenue at June 30, 2016, was \$32.

A lease with Orange County Produce to grow strawberries and other crops. The lease began in July 2010 and has been extended to June 30, 2025. Rental revenue at June 30, 2016, was \$168.

A lease with AMCI/Omnicom for the use of other sites within OCGP. The lease is month to month with \$360 received in the fiscal year June 30, 2016.

CITY OF IRVINE  
ORANGE COUNTY GREAT PARK FUNDS

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016  
(amounts expressed in thousands)

5. LEASES (CONTINUED):

The future minimum rental revenue to be received from the aforementioned operating leases, as of June 30, 2016, is as follows:

Fiscal Year Ending <u>June 30,</u>	Annual <u>Rent</u>
2017	\$ 453
2018	407
2019	78
2020	78
2021	78
2022-2026	<u>311</u>
	<u>\$ 1,405</u>

6. SPECIAL ITEM:

CalPERS's Office of Audit Services released its report on its review of the City's payroll reporting and member enrollment processes related to the City's retirement contract with CalPERS. During the review, it was concluded, by both parties, that corrections were required on some of the members' enrollments. The corrections were made in November 2015, which included a return of the City's contributions of \$99, which management determined were attributable to the Orange County Great Park Operations Special Revenue Fund.

7. LITIGATION:

At June 30, 2016, the City was involved as a defendant in several lawsuits and claims arising out of ordinary conduct of its affairs as they relate to the Orange County Great Park. It is the opinion of management and the City's legal counsel that settlement of these lawsuits and claims, if any, will not have a material effect on the financial position of the Orange County Great Park Funds.

8. SUBSEQUENT EVENTS:

Events occurring after June 30, 2016, have been evaluated for possible adjustment to the financial statements or disclosure as of November 1, 2016, which is the date these financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**



CITY OF IRVINE  
ORANGE COUNTY GREAT PARK OPERATIONS SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE

For the year ended June 30, 2016  
(amounts expressed in thousands)

	Budgeted Amount		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>REVENUES:</b>				
Investment income	\$ 428	\$ 428	\$ 635	\$ 207
Taxes	9,500	9,500	9,116	(384)
Intergovernmental	200	267	267	-
Charges for services	3,681	3,700	2,695	(1,005)
Revenue from developers	10,050	10,050	10,050	-
Donations	-	5	6	1
Other revenue	-	-	46	46
	<u>23,859</u>	<u>23,950</u>	<u>22,815</u>	<u>(1,135)</u>
<b>TOTAL REVENUES</b>				
<b>EXPENDITURES:</b>				
Current:				
City Manager:				
Personnel	1,285	1,285	1,207	78
Supplies	97	133	51	82
Internal service allocations	29	29	29	-
Contract services	2,564	2,615	1,554	1,061
Training and business expense	35	35	10	25
Capital equipment	39	39	-	39
Miscellaneous	80	155	124	31
	<u>4,129</u>	<u>4,291</u>	<u>2,975</u>	<u>1,316</u>
<b>Total City Manager</b>				
Administrative Services:				
Personnel	373	373	366	7
Internal service allocations	7	7	7	-
Contract services	6	6	3	3
Training and business expenses	2	2	-	2
	<u>388</u>	<u>388</u>	<u>376</u>	<u>12</u>
<b>Total Administrative Services</b>				
Public Safety:				
Personnel	377	377	329	48
	<u>377</u>	<u>377</u>	<u>329</u>	<u>48</u>
<b>Total Public Safety</b>				

(Continued)

CITY OF IRVINE  
ORANGE COUNTY GREAT PARK OPERATIONS SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE  
(CONTINUED)

For the year ended June 30, 2016  
(amounts expressed in thousands)

	Budgeted Amount		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Public Works:</b>				
Personnel	\$ 732	\$ 732	\$ 574	\$ 158
Supplies	166	166	68	98
Internal service allocations	28	28	28	-
Contract services	2,710	3,032	1,441	1,591
Training and business expenses	8	8	-	8
Utilities	513	513	322	191
Capital equipment	2	2	-	2
	<u>4,159</u>	<u>4,481</u>	<u>2,433</u>	<u>2,048</u>
<b>Community Development:</b>				
Personnel	50	50	10	40
Supplies	3	3	-	3
Contract services	247	665	296	369
	<u>300</u>	<u>718</u>	<u>306</u>	<u>412</u>
<b>Community Services:</b>				
Personnel	2,521	2,521	2,034	487
Supplies	258	258	112	146
Internal service allocations	448	448	448	-
Contract services	1,399	1,411	793	618
Training and business expenses	26	26	3	23
Capital equipment	762	762	668	94
Miscellaneous	90	90	84	6
Repairs and maintenance	5	5	-	5
	<u>5,509</u>	<u>5,521</u>	<u>4,142</u>	<u>1,379</u>
<b>TOTAL EXPENDITURES</b>	<u>14,862</u>	<u>15,776</u>	<u>10,561</u>	<u>5,215</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>8,997</u>	<u>8,174</u>	<u>12,254</u>	<u>4,080</u>

(Continued)

CITY OF IRVINE  
ORANGE COUNTY GREAT PARK OPERATIONS SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE  
(CONTINUED)

For the year ended June 30, 2016  
(amounts expressed in thousands)

	<u>Budgeted Amount</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of capital assets	\$ -	\$ -	\$ 67	\$ 67
Transfers out	<u>(920)</u>	<u>(2,586)</u>	<u>(920)</u>	<u>1,666</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(920)</u>	<u>(2,586)</u>	<u>(853)</u>	<u>1,733</u>
EXTRAORDINARY LOSS	-	-	(14,600)	(14,600)
SPECIAL ITEM	<u>-</u>	<u>-</u>	<u>99</u>	<u>99</u>
NET CHANGE IN FUND BALANCES	8,077	5,588	(3,100)	(8,688)
FUND BALANCES, BEGINNING OF YEAR	<u>312,527</u>	<u>312,527</u>	<u>312,527</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ 320,604</u>	<u>\$ 318,115</u>	<u>\$ 309,427</u>	<u>\$ (8,688)</u>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and  
Members of the City Council  
of the City of Irvine  
Irvine, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by Comptroller General of the United States, the financial statements of the Orange County Great Park Funds of the City of Irvine (the City), which include the Operations Special Revenue Fund and the Development Capital Projects Fund, as of and for the year ended June 30, 2016, and the related notes to the financial statements and have issued our report thereon dated November 1, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as it relates to the Orange County Great Park Funds as a basis for designing our audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control related to the Orange County Great Park Funds. Accordingly, we do not express an opinion on the effectiveness of the City's internal control related to the Orange County Great Park Funds.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the schedule of findings and responses, that we consider to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the financial statements of the Orange County Great Park Funds are free from material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **City of Irvine's Response to Finding**

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance related to the Orange County Great Park Funds. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance related to the Orange County Great Park Funds. Accordingly, this communication is not suitable for any other purpose.

*White Nelson Dick Evans LLP*

Irvine, California  
November 1, 2016

CITY OF IRVINE  
ORANGE COUNTY GREAT PARK FUNDS  
SCHEDULE OF FINDINGS AND RESPONSES

For the year ended June 30, 2016

FINDING 2016-001 – Information Technology Equipment Records

Significant Deficiency

We noted a lack of controls related to the maintenance of capital asset records related to information technology equipment that resulted in the write-off of a significant amount of fully depreciated capital assets by management during the year. It is our understanding that the City of Irvine contracts with a third-party vendor to provide information technology services and has been experiencing difficulties in obtaining proper supporting documentation related to technology equipment replacements and retirements from the former third-party vendor. Inaccurate capital asset records related to technology equipment can result in the misstatement of the machinery and equipment asset classification reported in the financial statements and, potentially, the misappropriation of City of Irvine assets. We recommend that the City of Irvine work with its current third-party vendor to establish procedures and controls to ensure that an inventory of the City of Irvine's technology equipment is maintained and that adequate supporting records of purchases, dispositions, and retirements of technology equipment are received in order to accurately report such equipment for financial reporting purposes.

Management's Response

The City has experienced some turnover in the staff managing the information technology division and its third-party vendor. Over a year ago, the City began the process of requesting proposals from information technology firms to ensure the City had the best-qualified firm assisting the City in its technology requirements.

In August 2016, the City hired a new Manager of Technology and Innovation to oversee the third-party vendor and staff. In September 2016, the City Council approved a new information technology firm as a result of the request for proposal process. The sixty-day transition period between the old and new firm has begun.

The Manager of Technology and Innovation has put into practice the following changes during the first few months of his tenure to strengthen the internal controls over information technology equipment: a physical inventory of the City's technology, including all hardware and software assets; instituted procedures for an annual hardware and software physical inventory; and procurement for technology is now managed by City staff.