

CITY OF IRVINE, CALIFORNIA
ORANGE COUNTY GREAT PARK FUNDS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

CITY OF IRVINE
ORANGE COUNTY GREAT PARK FUNDS
TABLE OF CONTENTS

For the year ended June 30, 2017

	<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:	13
Budgetary Comparison Schedule	14
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>	17
Schedule of Findings and Responses	19

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, 2017, 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.

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 auditors' 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 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, 2017, 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 of 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, 2017, the changes in its financial position for the year ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are 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 October 31, 2017, 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 Nick Evans LLP

Irvine, California
October 31, 2017

CITY OF IRVINE
ORANGE COUNTY GREAT PARK FUNDS

BALANCE SHEET

June 30, 2017
(amounts expressed in thousands)

	Special Revenue Fund <u>Orange County Great Park Operations</u>	Capital Project Funds <u>Orange County Great Park Development</u>	<u>Total</u>
ASSETS:			
Cash and investments	\$ 86,263	\$ 1,699	\$ 87,962
Receivables, net of allowances	2,174	-	2,174
Accrued interest	136	2	138
Escrow deposits	-	2,628	2,628
Due from Successor Agency	259,691	-	259,691
TOTAL ASSETS	<u>\$ 348,264</u>	<u>\$ 4,329</u>	<u>\$ 352,593</u>
LIABILITIES:			
Accounts payable	\$ 717	\$ 372	\$ 1,089
Accrued liabilities	-	3	3
Due to Irvine Community Land Trust	25,969	-	25,969
Due to other City fund	19	-	19
Due to other governments	13	-	13
Unearned revenue	50	-	50
TOTAL LIABILITIES	<u>26,768</u>	<u>375</u>	<u>27,143</u>
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenue	2,075	-	2,075
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>2,075</u>	<u>-</u>	<u>2,075</u>
FUND BALANCES:			
Restricted	18,088	-	18,088
Committed	38,533	-	38,533
Assigned	262,800	3,954	266,754
TOTAL FUND BALANCES	<u>319,421</u>	<u>3,954</u>	<u>323,375</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 348,264</u>	<u>\$ 4,329</u>	<u>\$ 352,593</u>

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, 2017
(amounts expressed in thousands)

	Special Revenue Fund Orange County Great Park Operations	Capital Project Funds Orange County Great Park Development	Totals
REVENUES:			
Investment income	\$ 72	\$ (18)	\$ 54
Charges for services	2,482	-	2,482
Revenue from developers	9,200	-	9,200
Special assessments	8,520	-	8,520
Contributions from other City funds	-	5,339	5,339
Donations	1	-	1
TOTAL REVENUES	<u>20,275</u>	<u>5,321</u>	<u>25,596</u>
EXPENDITURES:			
Current:			
General government	3,199	1	3,200
Public safety	331	-	331
Public works	2,169	1	2,170
Community development	248	-	248
Community services	3,817	-	3,817
Reimbursement of contribution to City	-	17,204	17,204
Capital outlay	-	3,716	3,716
TOTAL EXPENDITURES	<u>9,764</u>	<u>20,922</u>	<u>30,686</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>10,511</u>	<u>(15,601)</u>	<u>(5,090)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	-	517	517
Transfers out	(517)	-	(517)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(517)</u>	<u>517</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	9,994	(15,084)	(5,090)
FUND BALANCES, BEGINNING OF YEAR	<u>309,427</u>	<u>19,038</u>	<u>328,465</u>
FUND BALANCES, END OF YEAR	<u>\$ 319,421</u>	<u>\$ 3,954</u>	<u>\$ 323,375</u>

See accompanying notes to financial statements.

CITY OF IRVINE
ORANGE COUNTY GREAT PARK FUNDS

NOTES TO FINANCIAL STATEMENTS

June 30, 2017
(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, 2017
(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, current liabilities and deferred inflow of resources 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 the restricted fund balance to have been depleted before using any of the components of the unrestricted fund balance. Further, when the components of the unrestricted fund balance can be used for the same purpose, the committed fund balance is depleted first, followed by the assigned fund balance. The 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, 2017
(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 accordance 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 accounting principles generally accepted in the United States of America. Accordingly, actual revenues and expenditures can be compared with the related budget amounts without any significant reconciling items. Budget amounts contained within the required 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, 2017
(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%	None

Disclosures Relating to Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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, 2017
(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, 2017
(amounts expressed in thousands)

2. CASH AND INVESTMENTS (CONTINUED):

Fair Value Measurements:

The City categorizes its fair value measurement within the fair value hierarchy established by accounting principles generally accepted in the United States of America. 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).

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 balance became a debt of the Successor Agency. On October 24, 2014, a settlement agreement was entered into that resolved lawsuits filed by the City, Successor Agency, and Irvine Community Land Trust against the State of California. The lawsuit was related to debts owed by the former Redevelopment Agency to the City and Irvine Community Land Trust that the State Department of Finance denied property tax funding. The settlement agreement calls for the State to remit to the Successor Agency a total of \$292,000 in property tax receipts over an unspecified period, which when received by the Successor Agency will be remitted to the City. As of June 30, 2017, the outstanding balance due from the Successor Agency is \$259,691.

As part of the settlement agreement, 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 due to the Irvine Community Land Trust from the City at June 30, 2017, was \$25,969.

CITY OF IRVINE
ORANGE COUNTY GREAT PARK FUNDS

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017
(amounts expressed in thousands)

4. INTERFUND TRANSFERS:

Interfund transfers of \$517 were made to fund various capital projects related to the Orange County Great Park.

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, 2019, 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 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 \$111 for an annual rental of \$447. An additional \$0.64 per ton is charged as a Green Waste Host Fees and the amount collected June 30, 2017, was \$447. 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, 2017, was \$91.

A farming lease with El Toro Farms, LLC to grow strawberries and vegetable crop. The lease began in July 2005 and has been renewed over the years and currently terminates June 30, 2019. Rental revenue at June 30, 2017, was \$33.

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, 2017, was \$160.

A lease with AMCI/Omnicom for the use of other sites within OCGP. The lease is month to month with \$313 received in the fiscal year June 30, 2017.

CITY OF IRVINE
ORANGE COUNTY GREAT PARK FUNDS

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017
(amounts expressed in thousands)

5. LEASES (CONTINUED):

The future minimum rental revenue to be received from the aforementioned operating leases as of June 30, 2017, is as follows:

Fiscal Year Ending June 30,	Annual Rent
<u>2018</u>	\$ 572
2019	<u>32</u>
	<u>\$ 604</u>

6. LITIGATION:

At June 30, 2017, 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.

7. SUBSEQUENT EVENTS:

Events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of October 31, 2017, which is the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF IRVINE
ORANGE COUNTY GREAT PARK OPERATIONS SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE

For the year ended June 30, 2017
(amounts expressed in thousands)

	Budgeted Amount		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ 658	\$ 658	\$ 72	\$ (586)
Charges for services	2,294	2,883	2,482	(401)
Revenue from developers	9,200	9,200	9,200	-
Special assessment	9,785	9,785	8,520	(1,265)
Donations	-	-	1	1
	<u>21,937</u>	<u>22,526</u>	<u>20,275</u>	<u>(2,251)</u>
TOTAL REVENUES				
EXPENDITURES:				
Current:				
City Manager:				
Personnel	1,192	1,192	1,031	161
Supplies	89	89	10	79
Internal service allocations	44	44	44	-
Contract services	2,343	2,584	1,654	930
Training and business expense	30	30	5	25
Capital equipment	55	55	36	19
Miscellaneous	92	92	28	64
	<u>3,845</u>	<u>4,086</u>	<u>2,808</u>	<u>1,278</u>
Total City Manager				
Administrative Services:				
Personnel	382	382	376	6
Internal service allocations	8	8	8	-
Contract services	7	7	7	-
Training and business expenses	2	2	-	2
	<u>399</u>	<u>399</u>	<u>391</u>	<u>8</u>
Total Administrative Services				
Public Safety:				
Personnel	359	359	331	28
	<u>359</u>	<u>359</u>	<u>331</u>	<u>28</u>
Total Public Safety				

(Continued)

CITY OF IRVINE
ORANGE COUNTY GREAT PARK OPERATIONS SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE
(CONTINUED)

For the year ended June 30, 2017
(amounts expressed in thousands)

	Budgeted Amount		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Public Works:				
Personnel	\$ 739	\$ 739	\$ 639	\$ 100
Supplies	151	151	55	96
Internal service allocations	30	30	30	-
Contract services	3,129	3,145	1,205	1,940
Training and business expenses	6	6	-	6
Utilities	463	463	240	223
Capital equipment	2	2	-	2
	<u>4,520</u>	<u>4,536</u>	<u>2,169</u>	<u>2,367</u>
Total Public Works				
Community Development:				
Personnel	71	71	25	46
Supplies	3	3	1	2
Contract services	606	606	222	384
	<u>680</u>	<u>680</u>	<u>248</u>	<u>432</u>
Total Community Development				
Community Services:				
Personnel	2,552	2,552	2,094	458
Supplies	215	215	173	42
Internal service allocations	673	673	673	-
Contract services	1,135	1,511	697	814
Training and business expenses	25	25	6	19
Capital equipment	80	80	79	1
Miscellaneous	225	225	94	131
Repairs and maintenance	7	7	1	6
	<u>4,912</u>	<u>5,288</u>	<u>3,817</u>	<u>1,471</u>
Total Community Services				
TOTAL EXPENDITURES				
	<u>14,715</u>	<u>15,348</u>	<u>9,764</u>	<u>5,584</u>
EXCESS OF REVENUES OVER EXPENDITURES				
	<u>7,222</u>	<u>7,178</u>	<u>10,511</u>	<u>3,333</u>

(Continued)

CITY OF IRVINE
ORANGE COUNTY GREAT PARK OPERATIONS SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE
(CONTINUED)

For the year ended June 30, 2017
(amounts expressed in thousands)

	<u>Budgeted Amount</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of capital assets	\$ -	\$ 280	\$ -	\$ (280)
Transfers out	-	(517)	(517)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(237)</u>	<u>(517)</u>	<u>(280)</u>
NET CHANGE IN FUND BALANCES	7,222	6,941	9,994	3,053
FUND BALANCES, BEGINNING OF YEAR	<u>309,427</u>	<u>309,427</u>	<u>309,427</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ 316,649</u>	<u>\$ 316,368</u>	<u>\$ 319,421</u>	<u>\$ 3,053</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, 2017, and the related notes to the financial statements and have issued our report thereon dated October 31, 2017.

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 to determine the 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and responses, as Finding 2017-001, to be a material weakness.

Internal Control over Financial Reporting (Continued)

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. We consider the deficiencies described in the accompanying schedule of findings and responses, as Finding 2017-002 and 2017-003, to be a significant deficiencies.

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 Responses to Findings

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

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 Diehl Evans LLP

Irvine, California
October 31, 2017

CITY OF IRVINE
ORANGE COUNTY GREAT PARK FUNDS

SCHEDULE OF FINDINGS AND RESPONSES

For the year ended June 30, 2017

Finding 2017-001 – Material Weakness – Revenue Recognition

Governmental funds are accounted for on the modified accrual basis. As such, revenues are recognized only when they are measurable and available. Availability is defined as being collected within the current period or within 60 days after year-end. Those accrued revenues that are not available are recorded on the balance sheet as a deferred inflow of resources. We noted that the revenue related to a certain material receivable balance in the City's Capital Project Improvement Fund was recorded as both unearned revenue and a deferred inflow of resources on the balance sheet which resulted in an understatement of fund balance. The cause for this duplication was an incorrect prior period adjustment made in fiscal year 2015-16. We recommend that a more thorough review of capital project related reimbursements occur during the year-end closing process to ensure the accuracy of the revenue recognition related to specific capital projects.

City's Response

This was an isolated event involving a construction project with complicated cooperative agreements as well as amendments with several other agencies. Going forward all projects with multiple agreements that involve more than one agency are subject to an additional review by Fiscal Services before any billings and/or reimbursements are recorded.

Finding 2017-002 – Significant Deficiency – Construction in Progress

We identified certain capital improvement projects, where construction was completed and the projects were placed in service as of the end of the fiscal year; however, the asset values had not been transferred from the capital asset classification, "Construction in Progress" (CIP), to the appropriate capital asset category (e.g. infrastructure, improvements, etc.). As a result, the commencement of depreciation of the capital assets was delayed and the asset category balances in the capital asset note disclosures as of the end of the fiscal year were misstated. The City does perform an annual process in November each year to identify completed capital projects and has the City Council formally accept the projects as being complete. It is at this time that City adjusts the related CIP balances. Unfortunately, this practice can cause timing issues with generally accepted accounting principles. An important part of financial reporting is ensuring the accuracy of capital asset classifications and appropriately estimating the use of those capital assets in the form of depreciation expense. As these projects are completed and placed in service, the assets should be transferred to the appropriate capital asset category and depreciation of the capital assets should commence pursuant to the City's depreciation policy. We recommend that the City consider moving the timing of their annual analysis process for formally accepting the completion of capital projects to July or August so that it can coincide with the year-end financial closing process to ensure that accounting for the completed capital projects is done in accordance with generally accepted accounting principles.

CITY OF IRVINE
ORANGE COUNTY GREAT PARK FUNDS

SCHEDULE OF FINDINGS AND RESPONSES
(CONTINUED)

For the year ended June 30, 2017

Finding 2017-002 – Significant Deficiency – Construction in Progress (Continued)

City's Response

Fiscal Services follows an established capitalization practice where all Construction in Progress (CIP) projects are not capitalized or transferred into the appropriate capital asset category until the City Council approves the project closure. After discussion with the auditor, White Nelson Diehl Evans, staff will update the capital asset policy to include a section on the timing of the transfer of projects categorized as construction in progress to coincide with the requirements of generally accepted accounting principles.

Finding 2017-003 – Significant Deficiency – Contributed Capital Assets

We noted that two current year additions to the capital asset classification, Land, should have been recorded in prior years. These two additions represented the second and third installments relate to a long-term existing agreement whereby the third party was obligated to contribute land to the City for affordable housing. The Fiscal Services Division only identified the existence of this unrecorded land as a result of monitoring the minutes of recent council meetings in which discussions occurred about transferring this contributed land to the Irvine Community Land Trust. We recommend that the City departments responsible for monitoring activity related to multi-year agreements affecting City assets and obligations such as the one identified above, improve their communications with the Fiscal Services Division to ensure the timely and accurate recording of events involving the multi-year agreements.

City's Response

Fiscal Services has a standard procedure in place with Public Works to receive all donations of land, streets, parks, and other capital assets as a result of development. Staff will issue direction to guide the other departments on the proper procedure and processes for accepting and notifying Fiscal Services of the donation of capital assets.