

**ORANGE COUNTY GREAT PARK CORPORATION
(A COMPONENT UNIT OF THE CITY OF IRVINE, CALIFORNIA)**

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

ORANGE COUNTY GREAT PARK CORPORATION
(A COMPONENT UNIT OF THE CITY OF IRVINE, CALIFORNIA)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Orange County Great Park Corporation
(A Component Unit of the City of Irvine)
Irvine, California

We have audited the accompanying financial statements of the governmental activities and major fund of the Orange County Great Park Corporation, a component unit of the City of Irvine, California (the Corporation), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Corporation'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.

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 Corporation'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 Corporation'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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Orange County Great Park Corporation, a component unit of the City of Irvine, California, as of June 30, 2016, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance 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 discussion and analysis as presented in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 Corporation'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

ORANGE COUNTY GREAT PARK CORPORATION
(A COMPONENT UNIT OF THE CITY OF IRVINE, CALIFORNIA)

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

As management of the Orange County Great Park Corporation (Corporation), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Corporation for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the Corporation's financial statements and related notes, which follow this discussion.

Financial Highlights:

As a blended component unit of the City of Irvine (City), all revenues, expenses, assets, and liabilities are held and recorded by the City as part of its Comprehensive Annual Financial Report. Throughout the year, however, contributions from external organizations have been made directly to the Corporation in support of programs. These contributions are immediately contributed from the Corporation to the City for deposit in the Orange County Great Park Fund, a special revenue fund to offset expenses for programs.

During the fiscal year ended June 30, 2016, in the governmental fund, the Corporation received \$267,000 from a Department of Energy federal grant, \$5,000 in donations, and \$60,531 from parking fees, all in support of the Solar Decathlon.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the Corporation's financial statements. The Corporation's financial statements consist of three components: the government-wide financial statements, the fund financial statements, and notes to the financial statements.

Government-wide Financial Statements:

The *government-wide financial statements* provide readers with a broad overview of the Corporation's finances in a manner similar to a private sector business.

The *Statement of Net Position* presents information on the Corporation's assets and liabilities, with the difference between assets and liabilities reported as net position. Over time, changes in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The *Statement of Activities* presents information on how the Corporation's net position changed during the fiscal year. 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 may be reported in the current statement for some items that will result in cash flows in future fiscal periods.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Fund Financial Statements:

The fund financial statements provide detailed information about the Corporation's only fund. A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The Corporation's only fund is considered a *governmental fund*. 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 *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the 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. Such a comparison may give readers a better understanding of 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 Balance provide a reconciliation in the Notes to Financial Statements to facilitate a comparison between *governmental funds and governmental activities*.

Notes to the Financial Statements:

The notes to the 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 financial statements can be found immediately following the budgetary comparison statement.

Government-wide Financial Analysis:

The government-wide financial statements provide long-term and short-term information about the Corporation's overall financial condition. This analysis therefore does not address the financial condition of the Orange County Great Park Funds as a whole, but only those activities that flow through the Corporation to or from the City.

As of June 30, 2016, the Corporation had assets of \$136,410 comprised of \$52,177 in cash received from The Scotts Company for future Farm + Food Lab site enhancements and educational exhibits and an \$84,233 receivable from the Water Science Park funding agreement.

ORANGE COUNTY GREAT PARK CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Government-wide Financial Analysis (Continued):

The Corporation recorded an offsetting liability to the cash received from The Scotts Company in the amount of \$52,177 as unearned revenue. During the fiscal year, the net position of the Corporation remained unchanged at \$84,233.

Summary of Net Position
June 30, 2016 and 2015

	<u>Governmental Activities</u>	
	<u>2016</u>	Unaudited <u>2015</u>
Assets:		
Cash	\$ 52,177	\$ 52,177
Accounts Receivable	84,233	84,233
Total Assets	136,410	136,410
Liabilities:		
Unearned Revenue	52,177	52,177
Total Liabilities	52,177	52,177
Net Position		
Unrestricted	84,233	84,233
Total Net Position	\$ 84,233	\$ 84,233

The Corporation's revenues for the fiscal year ended June 30, 2016, were \$332,531 or a 100% increase over the prior year in which there was no activity. The revenues were attributed to contributions and grants received for the Solar Decathlon event that took place during the fiscal year. Similarly, total expenses also increased by \$332,531 due to the Solar Decathlon. No financial statements were issued for fiscal 2014-15, as the Corporation had no income or expense in the fiscal year.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Government-wide Financial Analysis (Continued):

Summary of Changes in Net Position
For the Years Ended June 30, 2016 and 2015

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>Unaudited 2015</u>
Revenues:		
Program Revenues:		
Contributions from others	\$ 5,000	\$ -
Charges for Service	60,531	-
Intergovernmental	267,000	-
Total Revenues	<u>332,531</u>	<u>-</u>
Expenses:		
Contributions to the City of Irvine	14,835	-
Solar Decathlon	317,696	-
Total Expenses	<u>332,531</u>	<u>-</u>
Change in Net Position	-	-
Beginning Net Position	<u>84,233</u>	<u>84,233</u>
Ending Net Position	<u>\$ 84,233</u>	<u>\$ 84,233</u>

Governmental Fund Financial Analysis:

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

As of June 30, 2016, the Corporation had no change in fund balance to report. Revenues and contributions received by the Corporation are immediately contributed from the Corporation to the City for deposit in the City's Orange County Great Park Special Revenue Fund to offset expenditures for the appropriate programs. As such, the Corporation's change in fund balance at the end of the fiscal year is zero.

ORANGE COUNTY GREAT PARK CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Governmental Fund Financial Analysis (Continued):

Summary of Changes in Fund Balances
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>Unaudited 2015</u>
Revenues:		
Program Revenues:		
Contributions from others	\$ 5,000	\$ -
Charges for Service	60,531	-
Intergovernmental	267,000	-
Total Revenues	332,531	-
Expenses:		
Contributions to the City of Irvine	14,835	-
Solar Decathlon	317,696	-
Total Expenses	332,531	-
Net Change in Fund Balance	\$ -	\$ -

Budgetary Highlights:

Differences between the Corporation's final adjusted budget and the actual revenues and expenditures are summarized as follows:

- Contributions to and from the City were not budgeted by the Corporation but are budgeted within the City's Orange County Great Park Operations Special Revenue Fund.
- Solar Decathlon revenues were \$139,339 less than budgeted due to lower parking revenues from less than expected attendance of the event.
- Solar Decathlon expenditures were \$139,339 less than budgeted due to lower than expected attendance of the event.

Requests for Information:

This financial report is designed to provide a general overview of the Corporation's finances for all those with an interest in the Corporation's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrative Services Department at the City of Irvine, One Civic Center Plaza, Irvine, CA 92623-9575.

ORANGE COUNTY GREAT PARK CORPORATION
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GOVERNMENTAL FUND BALANCE SHEET
AND STATEMENT OF NET POSITION

June 30, 2016

	General Fund	Adjustments	Statement of Net Position
ASSETS:			
Cash and investments	\$ 52,177	\$ -	\$ 52,177
Accounts receivable	84,233	-	84,233
TOTAL ASSETS	136,410	-	136,410
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:			
LIABILITIES			
Unearned revenue	52,177	-	52,177
TOTAL LIABILITIES	52,177	-	52,177
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenue	84,233	(84,233)	-
TOTAL DEFERRED INFLOWS OF RESOURCES	84,233	(84,233)	-
FUND BALANCE:			
Unrestricted	-	-	
TOTAL FUND BALANCE	-	-	
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 136,410	\$ (84,233)	
NET POSITION:			
Unrestricted			84,233
TOTAL NET POSITION			\$ 84,233

See accompanying notes to basic financial statements.

ORANGE COUNTY GREAT PARK CORPORATION
(A COMPONENT UNIT OF THE CITY OF IRVINE, CALIFORNIA)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE AND STATEMENT OF ACTIVITIES

For the year ended June 30, 2016

	General Fund	Adjustments	Statement of Activities
PROGRAM REVENUES:			
Contributions from others	\$ 5,000	\$ -	\$ 5,000
Charges for services	60,531	-	60,531
Intergovernmental	267,000	-	267,000
TOTAL PROGRAM REVENUES	332,531	-	332,531
PROGRAM EXPENDITURES:			
Contributions to the City of Irvine	14,835	-	14,835
Solar Decathlon	317,696	-	317,696
TOTAL PROGRAM EXPENDITURES	332,531	-	332,531
CHANGE IN FUND BALANCE/ NET POSITION	-	\$ -	-
FUND BALANCES, BEGINNING OF YEAR	-		
FUND BALANCES, END OF YEAR	\$ -		
NET POSITION, BEGINNING OF YEAR			84,233
NET POSITION, END OF YEAR			\$ 84,233

See accompanying notes to basic financial statements.

ORANGE COUNTY GREAT PARK CORPORATION
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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL

For the year ended June 30, 2016

	Budgeted Amount		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Contributions from others	\$ -	\$ 5,000	\$ 5,000	\$ -
Charges for services	200,000	200,000	60,531	(139,469)
Intergovernmental	200,000	266,870	267,000	130
TOTAL REVENUES	400,000	471,870	332,531	(139,339)
EXPENDITURES:				
Contributions to the City of Irvine	-	-	14,835	(14,835)
Solar Decathlon	400,000	471,870	317,696	154,174
TOTAL EXPENDITURES	400,000	471,870	332,531	139,339
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCES, BEGINNING OF YEAR	-	-	-	-
FUND BALANCES, END OF YEAR	\$ -	\$ -	\$ -	\$ -

See accompanying notes to basic financial statements.

ORANGE COUNTY GREAT PARK CORPORATION
(A COMPONENT UNIT OF THE CITY OF IRVINE, CALIFORNIA)

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Financial Statement Presentation:

Government entities are required to report information on a government-wide basis and on a fund basis (with emphasis placed on major funds of the entity). The government-wide financial statements (i.e., Statement of Net Position and Statement of Activities) report information on all of the activities of the primary government and its component units. The governmental fund financial statements (i.e., Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance) report information on individual funds of the government. A fund is considered to be separate accounting entity with a self-balancing set of accounts. Since the Orange County Great Park Corporation (the Corporation), a component unit of the City of Irvine, California (the City), is engaged in a single governmental activity, and it has no component units, the government-wide and governmental fund financial statements have been combined with a reconciliation of the individual line items in a separate column entitled "Adjustments" on the financial statements. The government-wide financial statements are reported in the "Statement of Net Position" and "Statement of Activities" columns. The governmental fund financial statements are reported in the "General Fund" column.

b. Measurement Focus:

"Measurement focus" is a term used to describe which transactions are recorded within the various financial statements.

On the government-wide Statement of Net Position and Statement of Activities, activities are presented using the economic resources measurement focus. Under the economic resources measurement focus, all (both current and long term) economic resources and obligations of the government are reported.

In the governmental fund financial statements, all funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances (net current assets) are considered a measure of "available spendable resources." Governmental fund statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transaction are recognized in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 33.

ORANGE COUNTY GREAT PARK CORPORATION
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NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. Basis of Accounting:

“Basis of accounting” refers to when transactions are recorded, regardless of the measurement focus applied.

In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the governmental fund financial statements, funds are presented using the modified-accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. “Measurable” means that the amounts can be estimated or otherwise determined. “Available” means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. The Corporation considers sponsorship, advertising, and investment income to be available if it is collected within 60 days of the end of the current fiscal period. 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.

When both restricted and unrestricted resources are available for use, it is the Corporation’s policy to use restricted resources first, then unrestricted resources as they are needed.

d. Net Position Flow Assumptions:

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary 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 - net position to have been depleted before unrestricted - net position is applied.

ORANGE COUNTY GREAT PARK CORPORATION
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NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

e. 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.

f. Reconciliation of Fund Financial Statements to the Government-wide Financial Statements:

In order to reconcile the Corporation's governmental fund financial statements to the government-wide statements, certain adjustments may be needed to account for the differences in each of the statement's measurement focus and basis of accounting. For the year ended June 30, 2016, the governmental fund balance sheet includes unavailable revenue that is reported as intergovernmental revenue on the Statement of Activities. The detail of the \$84,233 unavailable revenue difference is as follows:

Unavailable revenue:

Clearwater Funding	<u>\$ 84,233</u>
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Net adjustment to increase fund balance of total governmental funds to arrive at net position of governmental activities	<u>\$ 84,233</u>
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g. Tax-Exempt Status:

The Corporation is a nonprofit corporation that is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). In addition, the Corporation is exempt from California income or franchise taxes under California Revenue and Taxation Code Section 23701d. Therefore, no provision for income taxes has been made in the accompanying financial statements.

ORANGE COUNTY GREAT PARK CORPORATION
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NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

h. Cash and Investments:

The Corporation's cash and investments are pooled with the City's cash and investments for investment purposes. The Corporation's share of the pooled cash and investments is stated at fair value, as determined by the City.

i. Capital Assets:

The Corporation capitalizes assets with an initial individual cost of at least \$5,000 and an estimated useful life in excess of two years. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. As of June 30, 2016, the Corporation does not have any capital assets.

j. Deferred Inflows of Resources:

In addition to liabilities, the statement of financial position 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 a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental fund balance sheet. The governmental funds report unavailable revenues from grant sources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

k. 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.

ORANGE COUNTY GREAT PARK CORPORATION
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NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

1. Budgetary Basis of Accounting:

Budgets for the Corporation are adopted at a fund legal level of control and 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 this report are the original and final amended amounts as approved by the Board of Directors.

2. REPORTING ENTITY:

The Corporation was formed by the City of Irvine as a support entity to assist in the development, operation, and maintenance of public parks, museums, and open space at the former United States Marine Corps Air Station, El Toro. The Corporation was incorporated on July 7, 2003, pursuant to the State of California Nonprofit Public Benefit Corporation Law. The Corporation has been accounted for as a “blended” component unit of the City of Irvine, California (the City). Despite being legally separate, the Corporation is so intertwined with the City that it is, in substance, part of the City’s operations. Previously, five of the nine directors on the Corporation’s board are required to be duly elected or appointed members of the City Council. In January 2013, the directors were reduced to five who were all council members. Also, the Corporation’s articles of incorporation may not be amended without the prior written consent of a majority of these five directors. Accordingly, the balances and transactions of the Corporation are included in the Orange County Great Park Special Revenue Fund of the City’s Comprehensive Annual Financial Report, a copy of which can be obtained at the City of Irvine, 1 Civic Center Plaza, Irvine, CA 92606.

3. CASH AND INVESTMENTS:

Investments Authorized by the California Government Code:

Any cash of the Corporation 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.

ORANGE COUNTY GREAT PARK CORPORATION
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NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

3. CASH AND INVESTMENTS (CONTINUED):

<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.

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.

Concentration of Credit Risk:

The City's investment policy has no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

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NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

3. 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 *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.

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.

ORANGE COUNTY GREAT PARK CORPORATION
(A COMPONENT UNIT OF THE CITY OF IRVINE, CALIFORNIA)

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

3. CASH AND INVESTMENTS (CONTINUED):

Fair Value Measurements (Continued):

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 that 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.

Additional Information:

Any cash of the Corporation 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.

4. 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.

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 Board of Directors of
Orange County Great Park Corporation
(A Component Unit 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 governmental activities and general fund of the Orange County Great Park Corporation (the Corporation), a component unit of the City of Irvine, California, 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 Corporation to determine 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 as it relates to the Corporation. Accordingly, we do not express an opinion on the effectiveness of the City's internal control as it relates to the Corporation.

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 Corporation'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. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying 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 Corporation's financial statements 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 of Irvine's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City of Irvine'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 as it relates to the Corporation. 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 as it relates to the Corporation. Accordingly, this communication is not suitable for any other purpose.

White Nelson Nick Evans LLP

Irvine, California
November 1, 2016

ORANGE COUNTY GREAT PARK CORPORATION
(A COMPONENT UNIT OF THE CITY OF IRVINE, CALIFORNIA)

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's 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.