MSRB
Municipal Securities Rulemaking Board

Submission ID:ER810401
02/15/2017 12:24:30

CONTINUING DISCLOSURE (SUBMISSION STATUS: PUBLISHED)

FINANCIAL/OPERATING FILING (CUSIP-9 BASED)

Rule 15c2-12 Disclosure

Annual Financial Information and Operating Data: 2016 Annual Report, for the year ended 06/30/2016

Documents

Financial Operating Filing
CFD2016-1AR2016_FINAL.pdf posted 02/15/2017

The following issuers are associated with this continuing disclosure submission:

CUSIP-6	State	Issuer Name
68423P	CA	ORANGE CNTY CALIF CMNTY FACS DIST SPL TAX

The following 25 securities have been published with this continuing disclosure submission:

CUSIP-9	Maturity Date
68423PWD8	08/15/2017
68423PWE6	08/15/2018
68423PWF3	08/15/2019
68423PWG1	08/15/2020
68423PWH9	08/15/2021
68423PWJ5	08/15/2022
68423PWK2	08/15/2023
68423PWL0	08/15/2024
68423PWM8	08/15/2025
68423PWN6	08/15/2026
68423PWP1	08/15/2027
68423PWQ9	08/15/2028
68423PWR7	08/15/2029

68423PWS5	08/15/2030
68423PWT3	08/15/2031
68423PWU0	08/15/2032
68423PWV8	08/15/2033
68423PWW6	08/15/2034
68423PWX4	08/15/2035
68423PWY2	08/15/2036
68423PWZ9	08/15/2041
68423PXA3	08/15/2046
68423PXB1	08/15/2033
68423PXC9	08/15/2034
68423PXD7	08/15/2035

Issuer's Contact Information

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Obligor's Contact Information

COMMUNITY FACILITIES DISTRICT NO. 2016-1 OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA) SERIES A OF 2016 SPECIAL TAX BONDS ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2016

Dated February 15, 2017

Series A of 2016 CUSIP Numbers

68423PWD8	68423PWJ5	68423PWP1	68423PWU0	68423PWX4
68423PWE6	68423PWK2	68423PWQ9	68423PWV8	68423PXD7
68423PWF3	68423PWL0	68423PWR7	68423PXB1	68423PWY2
68423PWG1	68423PWM8	68423PWS5	68423PWW6	68423PWZ9
68423PWH9	68423PWN6	68423PWT3	68423PXC9	68423PXA3

Prepared at the direction of and on behalf of:

County of Orange
333 West Santa Ana Boulevard, 3rd Floor
Santa Ana, CA 92701-4062

Prepared by:

David Taussig & Associates, Inc.
5000 Birch Street, Suite 6000
Newport Beach, CA 92660

Community Facilities District No. 2016-1
of the County of Orange
Special Tax Bonds
2016 Series A (Village of Esencia)
Annual Report
For Fiscal Year Ended June 30, 2016

Table of Contents

INTRODUCTION

The Community Facilities District No. 2016-1 of the County of Orange (Village of Esencia) (the "Issuer" or "District") hereby provides its annual report (the "Annual Report") for the fiscal year ended June 30, 2016 in connection with the following Bonds:

Bond Issue:

1. Community Facilities District No. 2016-1 of the County of Orange (Village of Esencia) Series A of 2016 Special Tax Bonds

Annual Report:

The Issuer's Annual Report required by the Continuing Disclosure Certificate (the "Disclosure Certificate") dated November 1, 2016 with respect to the Series A Bonds for the Fiscal Year ended June 30, 2016 is attached hereto.

The first Annual Report is due by March 1, 2017 and shall consist of the Official Statement and audited financial statements of the District, if any. Thereafter, the Annual Report shall contain or include by reference the items described in Section 4(b) of the Disclosure Certificate.

Other Matters:

This Annual Report is provided solely for purposes of the Disclosure Certificate. The filing of this Annual Report does not constitute or imply any representation (i) that all of the information provided is material to investors, (ii) regarding any other financial, operating or other information about the County, the Issuer or the Bonds, or (iii) that no changes, circumstances or events have occurred since the end of the Fiscal Year to which this Annual Report relates (other than as contained in this Annual Report), or that no other information exists, which may have a bearing on the Issuer's financial condition, the security for the Bonds, or an investor's decision to buy, sell, or hold the Bonds. The information contained in this report has been obtained from sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. No statement in this Annual Report should be construed as a prediction or representation about future financial performance of the Issuer.

While the financial statements of the County (which includes the District) for Fiscal Year ended June 30, 2016 have been incorporated herein by reference in order to comply with SEC Rule 15c2-12, the Bonds are a limited obligation of the District and neither the faith and credit nor the taxing power of the County is pledged to the payment of the Bonds. No income, receipts, funds (including the County general fund) or moneys of the County are pledged to the repayment of the Bonds.

SECTION A

a. **Audited Financial Statements for Fiscal Year Ended June 30, 2016.**

The County of Orange's Audited Financial Statements for Fiscal Year 2015-2016 were filed with the Municipal Securities Rulemaking Board Electronic Municipal Market Access on February 8, 2017 (Submission ID: ES792504) are included herein as Exhibit B.

While the financial statements of the County (which includes the District) for Fiscal Year ended June 30, 2016 have been incorporated herein by reference in order to comply with SEC Rule 15c2-12, the Bonds are a limited obligation of the District and neither the faith and credit nor the taxing power of the County is pledged to the payment of the Bonds. No income, receipts, funds (including the County general fund) or moneys of the County are pledged to the repayment of the Bonds.

b. **The Official Statement for the Series A of 2016 Special Tax Bonds.**

See Exhibit A attached.

CERTAIN DISCLAIMERS

The information contained in this Annual Report expresses only the views of the applicable party. An explanation of the significance of any such information may be obtained from the applicable party; provided, however, that no information provided by any party is incorporated in this Annual Report. The County and the District undertake no responsibility to oppose any revision or withdrawal of such information contained in this Annual Report.

To the extent the County or the District provides information in this Annual Report, the County and the District are not obligated to present or update information in future Annual Reports. Investors are advised to refer to the Official Statement for the Bonds for information concerning the initial delivery of and security for the Bonds.

By providing the information in this Annual Report, the County and the District do not imply or represent (a) that all information provided in this Annual Report is material to investors' decisions regarding investment in the Bonds, (b) the completeness or accuracy of any financial, operational or other information not included herein or in the Official Statement, (c) that no changes, circumstances or events have occurred since the date of this Annual Report (other than as contained herein), or (d) that no other information exists which may have a bearing on the County's financial condition, the security for the Bonds or an investor's decision to buy, sell or hold the Bonds.

The information set forth in this Annual Report or incorporated in this Annual Report has been furnished by the County and the District and is believed to be accurate and reliable but is not guaranteed as to accuracy or completeness. Statements contained in or incorporated by this Annual Report which involves estimates, forecasts or other matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. Further, expressions of opinion contained in this Annual Report or incorporated in this Annual Report are subject to change without notice and the delivery of this Annual Report will not, under any circumstances, create any implication that there has been no change in the affairs of the County and the District.

No statement contained in this Annual Report should be construed as a prediction or representation about future financial performance of the County and the District. Historical results presented herein may not be indicative of future operating results.

The information set forth herein, including information provided by others or incorporated by reference, is believed by the County and the District to be reliable but has not been independently verified by the County and the District and is not guaranteed as to accuracy by the County and the District.

EXHIBIT A

OFFICIAL STATEMENT

NEW ISSUE — BOOK-ENTRY ONLY **NO RATING**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, subject to certain qualifications described in the Official Statement, under existing statutes, regulations, rules and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in the Official Statement, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from State of California personal income taxes. See "TAX MATTERS" herein.

$93,110,000
COMMUNITY FACILITIES DISTRICT NO. 2016-1 OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA) SERIES A OF 2016 SPECIAL TAX BONDS

Dated: Delivery Date **Due: August 15, as shown on the inside cover page**

This Official Statement describes bonds that are being issued by Community Facilities District No. 2016-1 of the County of Orange (Village of Esencia) (the "District"). The Community Facilities District No. 2016-1 of the County of Orange (Village of Esencia) Series A of 2016 Special Tax Bonds (the "Bonds") are being issued by the District to (a) pay the costs of forming the District; (b) pay the cost and expense of acquisition and construction of certain public facilities required in connection with the development of the District; (c) fund a reserve account securing the Bonds; (d) pay costs of issuance of the Bonds and (e) make an initial deposit to the Administrative Expense Account.

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq*. of the Government Code of the State of California), and pursuant to Resolution No. 16-095 adopted by the Board of Supervisors of the County of Orange (the "County"), acting as the legislative body of the District and a Bond Indenture, dated as of November 1, 2016 (the "Indenture"), by and between the District and U.S. Bank National Association, as trustee (the "Trustee").

The Bonds are limited obligations of the District and are payable solely from revenues derived from certain annual Special Taxes (as defined herein) to be levied on and collected from the owners of parcels within the District subject to the Special Taxes and from certain other funds pledged under the Indenture, all as further described herein. The Special Taxes are to be levied according to the rate and method of apportionment approved by the Board of Supervisors of the County and the qualified electors within the District. See "SOURCES OF PAYMENT FOR THE BONDS — Special Taxes." The Board of Supervisors of the County is the legislative body of the District.

The Bonds are issuable in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases of the Bonds may be made in principal amounts of $5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of Bonds will not receive certificates representing their beneficial ownership of the Bonds but will receive credit balances on the books of their respective nominees. Interest on the Bonds will be payable semiannually on each February 15 and August 15, commencing February 15, 2017. The Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein. Principal of and interest on the Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. See "THE BONDS — General Provisions" and APPENDIX H — "BOOK-ENTRY ONLY SYSTEM" herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT, THE COUNTY OF ORANGE, THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE NET TAXES, NO OTHER REVENUES OR TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE COUNTY OR GENERAL OBLIGATIONS OF THE DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES TO BE LEVIED IN THE DISTRICT AND CERTAIN OTHER AMOUNTS HELD UNDER THE BOND INDENTURE AS MORE FULLY DESCRIBED HEREIN.

The Bonds are subject to optional redemption, extraordinary redemption from prepaid Special Taxes, and mandatory sinking fund redemption prior to maturity as set forth herein. See "THE BONDS — Redemption" herein.

THE BONDS ARE NOT RATED BY ANY RATING AGENCY, AND INVESTMENT IN THE BONDS INVOLVES SIGNIFICANT RISKS THAT ARE NOT APPROPRIATE FOR CERTAIN INVESTORS. CERTAIN EVENTS COULD AFFECT THE ABILITY OF THE DISTRICT TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS WHEN DUE. SEE THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED "SPECIAL RISK FACTORS" FOR A DISCUSSION OF CERTAIN RISK FACTORS THAT SHOULD BE CONSIDERED, IN ADDITION TO THE OTHER MATTERS SET FORTH HEREIN, IN EVALUATING THE INVESTMENT QUALITY OF THE BONDS.

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

MATURITY SCHEDULE

(See Inside Cover Page)

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and subject to certain other conditions. Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California is serving as Disclosure Counsel to the District with respect to the Bonds. Certain legal matters will be passed on for the County and the District by the Office of the County Counsel, and for the Underwriters by Best Best & Krieger LLP, Riverside, California, as counsel to the Underwriters. It is anticipated that the Bonds in book-entry form will be available for delivery through the facilities of DTC on or about November 9, 2016.

PiperJaffray. RAYMOND JAMES®

Dated: October 26, 2016

$93,110,000
COMMUNITY FACILITIES DISTRICT NO. 2016-1
OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA)
SERIES A OF 2016 SPECIAL TAX BONDS

MATURITY SCHEDULE

Base *CUSIP No.*† : 68423P

Serial Bonds

Maturity Date (August 15)	*Principal Amount*	*Interest Rate*	*Yield*	*Price*	*CUSIP No.*†
2017	$1,245,000	2.000%	0.900%	100.837	WD8
2018	315,000	4.000	1.200	104.878	WE6
2019	425,000	4.000	1.440	106.917	WF3
2020	540,000	4.000	1.730	108.241	WG1
2021	660,000	4.000	1.920	109.428	WH9
2022	790,000	5.000	2.060	115.905	WJ5
2023	930,000	5.000	2.230	117.305	WK2
2024	1,085,000	5.000	2.420	118.164	WL0
2025	1,245,000	5.000	2.600	118.702	WM8
2026	1,415,000	5.000	2.760	119.058	WN6
2027	1,600,000	5.000	2.870	118.025[C]	WP1
2028	1,795,000	5.000	2.960	117.188[C]	WQ9
2029	2,000,000	5.000	3.050	116.358[C]	WR7
2030	2,220,000	5.000	3.130	115.626[C]	WS5
2031	2,450,000	5.000	3.250	114.539[C]	WT3
2032	2,700,000	5.000	3.310	114.000[C]	WU0
2033	150,000	5.000	3.370	113.464[C]	WV8
2033	2,810,000	3.500	3.770	96.662	XB1
2034	350,000	5.000	3.420	113.019[C]	WW6
2034	2,845,000	3.625	3.820	97.497	XC9
2035	1,000,000	5.000	3.460	112.665[C]	WX4
2035	2,445,000	3.625	3.860	96.878	XD7
2036	3,720,000	5.000	3.490	112.401[C]	WY2

Term Bonds

$23,820,000 5.000% Term Bonds due August 15, 2041, Yield: 3.590% Price: 111.524 [C] CUSIP No. † 68423P WZ9
$34,555,000 5.000% Term Bonds due August 15, 2046, Yield: 3.640% Price: 111.088[C] CUSIP No. † 68423P XA3

C Priced to the optional call date of August 15, 2026, at par.

† *CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright © 2016 CUSIP Global Services. Copyright© 2016 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CGS. This data is not intended to create a database and does not serve in any way as a substitute for CGS. CUSIP® numbers are provided for convenience of reference only. None of the County, the District or the Underwriters take any responsibility for the accuracy of such numbers.*

COUNTY OF ORANGE
STATE OF CALIFORNIA

BOARD OF SUPERVISORS
Serving as the Legislative Body of
Community Facilities District No. 2016-1
of the County of Orange (Village of Esencia)

Lisa A. Bartlett (Fifth District), Chairwoman
Michelle Steel (Second District), Vice Chair
Andrew Do (First District)
Todd Spitzer (Third District)
Shawn Nelson (Fourth District)

COUNTY OFFICIALS

Frank Kim, County Executive Officer
Shari L. Freidenrich, Treasurer-Tax Collector
Eric H. Woolery, Auditor-Controller
Leon J. Page, County Counsel

BOND COUNSEL AND DISCLOSURE COUNSEL

Stradling Yocca Carlson & Rauth,
a Professional Corporation,
Newport Beach, California

MUNICIPAL ADVISOR

Fieldman, Rolapp & Associates, Inc.
Irvine, California

SPECIAL TAX CONSULTANT

David Taussig & Associates, Inc.
Newport Beach, California

REAL ESTATE APPRAISER

Harris Realty Appraisal
Newport Beach, California

MARKET ABSORPTION ANALYST

Empire Economics, Inc.
Capistrano Beach, California

TRUSTEE

U.S. Bank National Association
Los Angeles, California

Except where otherwise indicated, all information contained in this Official Statement has been provided by the County and the District. No dealer, broker, salesperson or other person has been authorized by the County, the District, the Trustee or the Underwriters to give any information or to make any representations in connection with the offer or sale of the Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the County, the District, the Trustee or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers or owners of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described in this Official Statement, are intended solely as such and are not to be construed as representations of fact. This Official Statement, including any supplement or amendment to this Official Statement, is intended to be deposited with the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board, which can be found at www.emma.msrb.org.

The information set forth in this Official Statement which has been obtained from third party sources is believed to be reliable, but such information is not guaranteed as to accuracy or completeness by the County or the District. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County or the District or any other parties described in this Official Statement since the date of this Official Statement. All summaries of the Indenture or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is made by this Official Statement to such documents on file with the County for further information. While the County maintains an internet website for various purposes, none of the information on that website is incorporated by reference herein or intended to assist investors in making any investment decision or to provide any continuing information with respect to the Bonds or any other bonds or obligations of the County. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded.

The Underwriters have provided the following sentence for inclusion in this Official Statement:

> The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption "THE COMMUNITY FACILITIES DISTRICT" and "PROPERTY OWNERSHIP AND THE DEVELOPMENT."

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE COUNTY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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Regional Map


County of Orange
Community Facilities District № 2016-1
Village of Esencia
La Pata Ave
Antonio Pkwy
Ortega Hwy
Cow Camp Rd
Esencia Dr
Boundaries Approximate
5389_073116

$93,110,000
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (VILLAGE OF ESENCIA)
OF THE COUNTY OF ORANGE
SERIES A OF 2016 SPECIAL TAX BONDS

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, the table of contents and the appendices (collectively, the "Official Statement"), is to provide certain information concerning the issuance by Community Facilities District No. 2016-1 of the County of Orange (Village of Esencia) (the "District") of its Series A of 2016 Special Tax Bonds (the "Bonds") in the aggregate principal amount of $93,110,000. The proceeds of the Bonds will be used to (a) pay the costs of forming the District; (b) pay the cost and expense of acquisition and construction of certain public facilities required in connection with the development of the District; (c) fund a reserve account securing the Bonds; (d) pay costs of issuance of the Bonds and (e) make an initial deposit to the Administrative Expense Account (as defined herein). See "ESTIMATED SOURCES AND USES OF FUNDS."

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq*. of the Government Code of the State of California) (the "Act"), and pursuant to Resolution No. 16-095 adopted by the Board of Supervisors of the County (the "Board of Supervisors"), acting as the legislative body of the District on October 11, 2016 and a Bond Indenture dated as of November 1, 2016 (the "Indenture"), by and between the District and U.S. Bank National Association, as trustee (the "Trustee").

The Bonds are secured under the Indenture by a pledge of and lien upon Net Taxes (as defined herein) levied on parcels within the District and all moneys in the Special Tax Fund (other than the Administrative Expense Account therein) as described in the Indenture. See "SOURCES OF PAYMENT FOR THE BONDS."

The Bonds are being issued and delivered pursuant to the provisions of the Act and the Indenture. The Bonds are being sold pursuant to a Bond Purchase Agreement between the Underwriters and the District. For more complete information, see "THE BONDS — General Provisions" and "UNDERWRITING" herein.

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of Bonds to potential investors is made only by means of the entire Official Statement. All capitalized terms used in this Official Statement and not defined shall have the meaning set forth in APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE — DEFINITIONS" herein.

The District

General. The District is located in the southern portion of the County of Orange (the "County"), in the vicinity of Ortega Highway (Route 74) and Antonio Parkway, south of Ladera Ranch and east of the City of San Juan Capistrano. The District consists of approximately 199 gross acres. Approximately 85 acres of property in the District are expected to be subject to the Special Tax (as defined herein) at build-out. The property within the District which is not subject to the levy of the Special Tax consists primarily of open space/conservation property and property owned by the owners association and public property. RMV PA2 Development, LLC, a Delaware limited liability company (the "Developer") is the master developer of property in the District. See "PROPERTY OWNERSHIP AND THE DEVELOPMENT."

Formation Proceedings. The District was formed by the County pursuant to the Act and constitutes a governmental entity separate and apart from the County.

The Act was enacted by the California legislature to provide an alternative method of financing certain public capital facilities and services, especially in developing areas of the State. Any local agency (as defined in the Act) may establish a community facilities district to provide for and finance the cost of eligible public facilities and services. Generally, the legislative body of the local agency which forms a community facilities district acts on behalf of such district as its legislative body. Subject to approval by two-thirds of the votes cast at an election and compliance with the other provisions of the Act, a legislative body of a local agency may issue bonds for a community facilities district and may levy and collect a special tax within such district to repay such indebtedness.

Pursuant to the Act, on February 9, 2016, the Board of Supervisors adopted Resolution No. 16-012 (the "Resolution of Intention"), stating its intention to form the District and to authorize the levy of a special tax on the taxable property within the District. On February 9, 2016 the Board of Supervisors also adopted Resolution No. 16-013, stating its intention to incur bonded indebtedness in an aggregate principal amount not to exceed $115,000,000 for the purpose of financing the acquisition, construction, expansion, improvement, or rehabilitation of certain public facilities to serve the area within the District and its neighboring areas. See "THE COMMUNITY FACILITIES DISTRICT — Description of Authorized Facilities."

Subsequent to a noticed public hearing, the Board of Supervisors adopted Resolution Nos. 16-023 and 16-024 on March 22, 2016 (the "Resolution of Formation" and the "Resolution to Incur Debt," respectively) which established the District, authorized the levy of a special tax within the District, determined the necessity to incur bonded indebtedness within the District, and called an election within the District on the proposition of incurring bonded indebtedness, levying a special tax and setting an appropriations limit within the District.

On March 22, 2016, an election was held within the District at which the landowners eligible to vote approved the issuance of bonds for the District in an amount not to exceed $115,000,000. A Notice of Special Tax Lien was recorded in the office of the County Recorder on April 26, 2016 as Document No. 2016000181253. On April 26, 2016, the Board, acting as the legislative body of the District, adopted Ordinance No. 16-003 (the "Ordinance") which authorizes the levy of a special tax pursuant to the Rate and Method of Apportionment of Special Tax within the District approved at the March 22, 2016 election and revised in accordance therewith as described below (as revised, the "Rate and Method"), a copy of which is attached hereto as APPENDIX A.

In accordance with Section H of the Rate and Method, the County caused a price point study dated July 26, 2016 (the "Price Point Study") to be prepared by Empire Economics, Inc. Capistrano Beach, California. Based on the Price Point Study, the Assigned Special Tax and Backup Special Tax rates for Zones 1 through 3 (as such terms are defined in the Rate and Method) will be reduced in accordance with the Rate and Method. In accordance with the Rate and Method, upon the issuance of the Bonds, an amended notice of special tax lien reflecting the revised Assigned Special Tax and Backup Special Tax rates will be recorded in the office of the County Recorder. The Assigned Special Tax and Backup Special Tax rates for each Zone (as revised for Zones 1 through 3) are set forth in the Rate and Method attached hereto as APPENDIX A.

Validation Proceedings. On May 2, 2016, the County, acting pursuant to the provisions of Sections 860 et seq. of the California Code of Civil Procedure and Government Code Section 53359, filed a complaint in the Superior Court of the State of California for the County of Orange seeking judicial validation of the formation of the District, the authorization of the issuance of bonds for the District and the levy of the special tax within the District. On July 22, 2016, the court entered a default judgment (the "Validation Judgment") to the effect, among other things, that the proceedings conducted by the Board of Supervisors in connection with the establishment of the District, the authorization to incur bonded indebtedness for the District through the issuance of bonds and the levy of the Special Tax within the District were valid and in conformity with the Constitution of the State and applicable laws of the State. The last day of the appeal period for the validation action was August 22, 2016. As of the date of this Official Statement, no appeal has been filed with respect to the Validation Judgment. See the section entitled "VALIDATION" herein for additional information regarding the legal effects of the Validation Judgment.

Property Ownership and Development Status

The District encompasses a portion of the Village of Esencia development ("Esencia"), which is a portion of the second phase of development of the Rancho Mission Viejo Ranch Plan Planned Community. The Rancho Mission Viejo Ranch Plan Planned Community is a 22,815-acre master planned community, which when complete will consist of the final build-out of Rancho Mission Viejo. Other Rancho Mission Viejo projects within the County have included the City of Rancho Santa Margarita, Ladera Ranch, Las Flores and Sendero. The first phase of Esencia is located within adjacent Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia) ("CFD No. 2015-1") and development within the District is the second phase of such development.

The development within the District is planned for twelve for-sale residential projects consisting of 878 residential units, of which 590 are expected to be market-rate units and 288 are expected to be age-qualified units. The balance of the property within the District is anticipated to be used for recreational facilities, parks and open space.

All property planned for residential development in the twelve for-sale projects has been conveyed to merchant builders. Four of the developments planned for for-sale residential units totaling 288 units are designated as age-qualified for residents age 55 or older. Property planned for the age-qualified developments has been sold to Shea Homes Limited Partnership, Pulte Home Corporation, and CalAtlantic Group, Inc. (or their homebuilding subsidiaries and divisions, as further described herein). The remaining property planned for for-sale residential developments are owned by William Lyon Homes, TRI Pointe Homes, Ryland Homes of California, Inc. ("Ryland Homes") (a wholly-owned subsidiary of CalAtlantic Group, Inc.), Warmington, Meritage Homes and MBK Homes (or their homebuilding subsidiaries and divisions, as further described herein). Certain of the age-qualified and market-rate projects within the District are extensions of the corresponding merchant builders' existing projects in CFD No. 2015-1, which is adjacent to the District. See "PROPERTY OWNERSHIP AND THE DEVELOPMENT — Merchant Builders in the Development." Special taxes levied within CFD No. 2015-1 are not pledged to and are not available to pay debt service on the Bonds.

The area included in the District has been graded and major infrastructure (sewer, water, storm drains, utilities, and arterial roads) to be installed by the Developer within the District has been substantially completed. Construction of the first phase of the centrally located recreational facilities such as the community hall with coffee house and farm and associated landscaping (which are located within adjacent CFD No. 2015-1, which amenities also serve the development within the District) is complete. The Developer has commenced construction on the second phase of recreational facilities which are located within the District. Residential lots are expected to be finished in phases by the merchant builders and the first phase of residential lots is in finished or near finished condition. As of August 1, 2016, six of the 12 merchant builders within the District had commenced vertical construction of their projects. The public grand opening for the portion of the Esencia development within the District occurred on September 25, 2016. As of August 1, 2016, merchant builders had pulled 115 building permits within the District, including building permits for 27 of the 30 planned model homes. See "PROPERTY OWNERSHIP AND THE DEVELOPMENT" herein.

In May 2015, the Developer started pre-opening marketing efforts for the Esencia development, including advertising and creating a website. The Developer has continued to market the Esencia development as new homes within the District are developed by the merchant builders. As of August 1, 2016, the Developer represents that more than 227,000 people have visited the website and signed up to receive more information on the new homes in Esencia. Of these, more than 4,500 have chosen to receive invitations to preview events.

Forward Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as a "plan," "expect," "estimate," "project," "budget" or similar words. Such forward-looking statements include, but are not limited to certain statements contained in the information under the captions "THE COMMUNITY FACILITIES DISTRICT," "PROPERTY OWNERSHIP AND THE DEVELOPMENT" and APPENDIX B — "APPRAISAL REPORT."

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

Sources of Payment for the Bonds

General. The Bonds and any Parity Bonds (as defined herein) are limited obligations of the District, and the interest on and principal of and redemption premiums, if any, on the Bonds and any Parity Bonds are payable solely from the Special Taxes to be levied annually against the property in the District, or, to the extent necessary, from the moneys on deposit in the Reserve Account. As described herein, the Special Taxes are collected along with *ad valorem* property taxes on the tax bills mailed by the Treasurer-Tax Collector of the County. Although the Special Taxes will constitute a lien on the property subject to taxation in the District, they will not constitute a personal indebtedness of the owners of such property. There is no assurance that such owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if they are financially able to do so.

Limited Obligations. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds and any Parity Bonds. The Bonds and any Parity Bonds are not general or special obligations of the County nor general obligations of the District, but are special obligations of the District payable solely from Special Taxes and amounts held under the Indenture as more fully described herein.

Special Tax. As used in this Official Statement, the term "Special Tax" is that tax which has been authorized pursuant to the Act to be levied against certain land within the District pursuant to the Act and in accordance with the Rate and Method, but excluding penalties and interest imposed upon delinquent installments. See "SOURCES OF PAYMENT FOR THE BONDS — Special Taxes" and APPENDIX A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX." Under the Indenture, the District will pledge to repay the Bonds and any Parity Bonds from the Special Tax revenues remaining after the payment of certain annual Administrative Expenses of the District (the "Net Taxes") and from amounts on deposit in the Special Tax Fund (other than the Administrative Expense Account therein) established under the Indenture.

The Special Taxes are the primary security for the repayment of the Bonds and any Parity Bonds. In the event that the Special Taxes are not paid when due, the only sources of funds available to pay the debt service on the Bonds and any Parity Bonds are amounts held by the Trustee in the Special Tax Fund, including amounts held in the Reserve Account therein. See "SOURCES OF PAYMENT FOR THE BONDS — Reserve Account of the Special Tax Fund."

Foreclosure Proceeds. The District will covenant in the Indenture for the benefit of the owners of the Bonds and Parity Bonds that, except as set forth in the following paragraph, it will commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of $25,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due and will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Taxes levied, and diligently pursue to completion such foreclosure proceedings.

Notwithstanding the foregoing, the Indenture will provide that the District may elect to defer foreclosure proceedings on any parcel so long as the amount in the Reserve Account is at least equal to the Reserve Requirement. The District may, but shall not be obligated to, advance funds from any source of legally available funds in order to maintain the Reserve Account at the Reserve Requirement or to avoid a default in payment on the Bonds and any Parity Bonds. As the first installment of Special Tax payments will not be delinquent until December 11, 2016, there are no delinquent parcels within the District at this time. See "SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales*" herein and APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — COVENANTS AND WARRANTY — Covenants — Commence Foreclosure Proceedings." There is no assurance that the property within the District can be sold at foreclosure for the appraised value described herein, or for a price sufficient to pay the principal of and interest on the Bonds in the event of a default in payment of Special Taxes by the current landowner or future landowners within the District. See "SPECIAL RISK FACTORS — Land Values" and APPENDIX B — "APPRAISAL REPORT" herein.

The District participates in the County's Teeter Plan (as defined herein). See "SOURCES OF PAYMENT FOR THE BONDS — Teeter Plan" and "SPECIAL RISK FACTORS — Teeter Plan Termination."

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT, THE COUNTY, THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE COUNTY OR GENERAL OBLIGATIONS OF THE DISTRICT, BUT ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES AND CERTAIN AMOUNTS HELD UNDER THE BOND INDENTURE AS MORE FULLY DESCRIBED HEREIN.

Parity Bonds and Liens. Under the terms of the Indenture, the District may issue additional bonds secured by the Net Taxes on a parity with the Bonds ("Parity Bonds") if certain conditions are met. See "SOURCES OF PAYMENT FOR THE BONDS — Issuance of Parity Bonds." Parity Bonds may be issued by means of a supplemental indenture and without any requirement for the consent of any Bond owners. See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE — DEFEASANCE AND PARITY BONDS." Other taxes and/or special assessments with liens equal in priority to the continuing lien of the Special Taxes have been levied and may also be levied in the future on the property within the District which could adversely affect the willingness of the landowners to pay the Special Taxes when due. See "SPECIAL RISK FACTORS — Parity Taxes and Special Assessments" herein.

Appraisal Report

An MAI appraisal of the land and existing improvements within the District was prepared by Harris Realty Appraisal, Newport Beach, California (the "Appraiser"). The appraisal is dated August 8, 2016, and entitled "Appraisal Report Community Facilities District No. 2016-1 of the County of Orange (Village of Esencia)," (the "Appraisal Report"). See APPENDIX B — "APPRAISAL REPORT." The Appraisal Report provides an estimate of the approximate market value of the property in the District subject to the levy of Special Taxes, assuming development of the property as currently planned. As currently planned, development in the District will consist of 878 residential units (including 288 age-qualified units). As of August 1, 2016, the Appraiser estimates that the market value of all of the parcels within the District subject to the Special Tax was $283,400,000.

The Appraisal Report is based upon a variety of assumptions and limiting conditions that are described in APPENDIX B. The District makes no representation as to the accuracy of the Appraisal Report. See "THE COMMUNITY FACILITIES DISTRICT — Appraisal Report" and "— Appraised Value-to-Lien Ratios." There is no assurance that property within the District can be sold for the prices set forth in the Appraisal Report or that any parcel can be sold for a price sufficient to pay the Special Tax for that parcel in the event of a default in payment of Special Taxes by the land owner. See "THE COMMUNITY FACILITIES DISTRICT," "SPECIAL RISK FACTORS — Land Values" and APPENDIX B — "APPRAISAL REPORT" herein.

Description of the Bonds

The Bonds will be issued and delivered as fully registered Bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to actual purchasers of the Bonds (the "Beneficial Owners") in the denominations of $5,000 or any integral multiple thereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. In the event that the book-entry-only system described herein is no longer used with respect to the Bonds, the Bonds will be registered and transferred in accordance with the Indenture. See APPENDIX H — "BOOK-ENTRY ONLY SYSTEM."

Principal of, premium, if any, and interest on the Bonds is payable by the Trustee to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry only system is no longer used with respect to the Bonds, the Beneficial Owners will become the registered owners of the Bonds and will be paid principal and interest by the Trustee, all as described in the Indenture. See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE — GENERAL AUTHORIZATION AND BOND TERMS — Transfers Outside Book-Entry System" herein.

The Bonds are subject to optional redemption, extraordinary redemption, and mandatory sinking fund redemption as described herein. See "THE BONDS — Redemption." For a more complete descriptions of the Bonds and the basic documentation pursuant to which they are being sold and delivered, see "THE BONDS" and APPENDIX E —" SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE" herein.

Tax Exemption

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, the interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with certain covenants described in the Official Statement, is excluded from gross income for federal income tax purposes, and is not a specific preference item for purposes of the federal alternative minimum tax; however, it should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations. Set forth in APPENDIX C is the form of opinion of Bond Counsel expected to be delivered in connection with the issuance of the Bonds. For a more complete discussion of such opinion and certain other tax consequences incident to the ownership of the Bonds, including certain exceptions to the tax treatment of interest, see "TAX MATTERS."

Professionals Involved in the Offering

U.S. Bank National Association, Los Angeles, California, will act as Trustee under the Indenture. Piper Jaffray & Co. and Raymond James & Associates, Inc., are the underwriters (together, the "Underwriters") of the Bonds. Certain proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel and Disclosure Counsel to the District in connection with the issuance of the Bonds. Certain legal matters will be passed on for the District and the County by the Office of the County Counsel, for the Underwriters by Best Best & Krieger LLP, Riverside, California, as counsel to the Underwriters and for the Trustee by its counsel. Other professional services have been performed by Harris Realty Appraisal, Newport Beach, California, as the Appraiser, Empire Economics, Inc., Capistrano Beach, California as Market Absorption Consultant, Fieldman, Rolapp & Associates, Inc., Irvine, California as municipal advisor to the County and David Taussig & Associates, Inc., Newport Beach, California, as Special Tax Consultant, and initial dissemination agent under the Developer Continuing Disclosure Agreement, dated as of November 1, 2016, by and between the Special Tax Consultant and the Developer (the "Developer Continuing Disclosure Agreement").

For information concerning respects in which certain of the above-mentioned professionals, advisors, counsel and consultants may have a financial or other interest in the offering of the Bonds, see "FINANCIAL INTERESTS" herein.

Continuing Disclosure

The District has agreed to provide, or cause to be provided, pursuant to Rule 15c2-12 adopted by the Securities and Exchange Commission (the "Rule") certain financial information and operating data on an annual basis (the "District Reports"). The District has further agreed to provide, in a timely manner, notice of certain events with respect to the Bonds (the "Listed Events"). These covenants have been made in order to assist the Underwriters in complying with the Rule. The District Reports will be filed with the Electronic Municipal Market Access System ("EMMA") of the Municipal Securities Rulemaking Board (the "MSRB") available on the Internet at http://emma.msrb.org. Notices of Listed Events will also be filed with the MSRB. The District has not entered into any prior continuing disclosure obligations. The County will assist the District in preparing the District Reports. Within the last five years, the County and certain related entities have failed to comply in certain respects with prior continuing disclosure undertakings.

The Underwriters do not consider the Developer to be an "obligated person" with respect to the Bonds for purposes of the Rule. However, to assist in the marketing of the Bonds, the Developer has agreed to provide, or cause to be provided on EMMA, updated information with respect to the development within the District (the "Developer Reports"), on a semiannual basis and notices of certain events until such undertaking is terminated in accordance with the Developer Continuing Disclosure Agreement (as defined herein).

See "CONTINUING DISCLOSURE" herein and APPENDIX F and APPENDIX G hereto for a description of the specific nature of the annual reports to be filed by the District and the Developer and notices of Listed Events and a copy of the continuing disclosure undertakings pursuant to which such Reports are to be made.

Bond Owners' Risks

Certain events could affect the ability of the District to pay the principal of and interest on the Bonds when due. See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of certain factors which should be considered, in addition to other matters set forth herein, in evaluating an investment in the Bonds. The Bonds are not rated by any nationally recognized rating agency. The purchase of the Bonds involves significant risks, and the Bonds may not be appropriate investments for certain investors. See "SPECIAL RISK FACTORS" herein.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

Brief descriptions of the Bonds and the Indenture are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Indenture, the Bonds and the constitution and laws of the State as well as the proceedings of the Board, acting as the legislative body of the District, are qualified in their entirety by references to such documents, laws and proceedings, and with respect to the Bonds, by reference to the Indenture. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

Copies of the Indenture, the Appraisal Report and other documents and information are available for inspection and (upon request and payment to the District of a charge for copying, mailing and handling) for delivery from the Clerk of the Board of Supervisors' office at 333 West Santa Ana Boulevard, Santa Ana, California 92702.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the expected sources and uses of Bond proceeds.

Sources of Funds:	
Principal Amount of Bonds	$ 93,110,000.00
Plus Net Original Issue Premium	10,142,136.95
Total Sources	$ 103,252,136.95
Uses of Funds:	
Acquisition and Construction Fund[1]	$ 94,357,858.62
Administrative Expense Account	75,000.00
Costs of Issuance[2]	841,276.30
Reserve Account	7,978,002.03
Total Uses	$ 103,252,136.95

(1) Acquisition and Construction Fund includes the County Facilities Account, the Water Facilities Account, the Project Facilities Account and the School Facilities Account.
(2) Includes Underwriters' Discount, Bond Counsel fees, Disclosure Counsel Fees, Special Tax Consultant fees, Municipal Advisor fees, Trustee fees, printing costs and other issuance costs.
Source: The Underwriters.

THE BONDS

General Provisions

The Bonds will be dated as of their date of delivery and will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on each February 15 and August 15, commencing on February 15, 2017 (each, an "Interest Payment Date"), and will mature in the amounts and on the dates set forth on the inside cover page of this Official Statement.

Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on any Bond will be payable from the Interest Payment Date next preceding the date of authentication of that Bond, unless (i) such date of authentication is an Interest Payment Date, in which event interest will be payable from such date of authentication; (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest will be payable from the Interest Payment Date immediately succeeding the date of authentication; or (iii) the date of authentication is prior to the close of business on the first Record Date, in which event interest will be payable from the date of the

Bonds; provided, however, that if at the time of authentication of a Bond, interest is in default, interest on that Bond will be payable from the last Interest Payment Date to which the interest has been paid or made available for payment.

As used herein, Record Date means the first day of the month in which any Interest Payment Date occurs, regardless of whether such day is a Business Day.

Interest on any Bond will be paid to the person whose name appears in the Bond Register as the Owner of such Bond as of the close of business on the Record Date. In the event the Bonds are not held in book-entry form, such interest will be paid by check of the Trustee mailed by first class mail, postage prepaid, to the Bondowner at its address on the Bond Register. In addition, with respect to any Bonds owned by the District and upon a request in writing received by the Trustee on or before the applicable Record Date from an Owner of $1,000,000 or more in principal amount of the Bonds, payment will be made by wire transfer in immediately available funds to an account designated by such Owner.

Principal of the Bonds and any premium due upon redemption is payable upon presentation and surrender of the Bonds at the principal corporate trust office of the Trustee in Los Angeles, California.

The Bonds will be issued as fully registered bonds and will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only in denominations of $5,000 and any integral multiple thereof. So long as DTC is the securities depository all payments of principal and interest on the Bonds will be made to DTC and will be paid to the Beneficial Owners in accordance with DTC's procedures and the procedures of DTC's Participants. See APPENDIX H — "BOOK-ENTRY-ONLY SYSTEM."

Debt Service Schedule

The following table presents the annual debt service on the Bonds (including mandatory sinking fund redemption), assuming there are no optional or extraordinary redemptions. See "SOURCES OF PAYMENT FOR THE BONDS" and "THE BONDS — Redemption."

Date (August 15)	***Principal***	***Interest***	***Total***
2017	$ 1,245,000	$ 3,437,627.92	$4,682,627.92
2018	315,000	4,458,962.50	4,773,962.50
2019	425,000	4,446,362.50	4,871,362.50
2020	540,000	4,429,362.50	4,969,362.50
2021	660,000	4,407,762.50	5,067,762.50
2022	790,000	4,381,362.50	5,171,362.50
2023	930,000	4,341,862.50	5,271,862.50
2024	1,085,000	4,295,362.50	5,380,362.50
2025	1,245,000	4,241,112.50	5,486,112.50
2026	1,415,000	4,178,862.50	5,593,862.50
2027	1,600,000	4,108,112.50	5,708,112.50
2028	1,795,000	4,028,112.50	5,823,112.50
2029	2,000,000	3,938,362.50	5,938,362.50
2030	2,220,000	3,838,362.50	6,058,362.50
2031	2,450,000	3,727,362.50	6,177,362.50
2032	2,700,000	3,604,862.50	6,304,862.50
2033	2,960,000	3,469,862.50	6,429,862.50
2034	3,195,000	3,364,012.50	6,559,012.50
2035	3,445,000	3,243,381.26	6,688,381.26
2036	3,720,000	3,104,750.00	6,824,750.00
2037	4,040,000	2,918,750.00	6,958,750.00
2038	4,380,000	2,716,750.00	7,096,750.00
2039	4,745,000	2,497,750.00	7,242,750.00
2040	5,125,000	2,260,500.00	7,385,500.00
2041	5,530,000	2,004,250.00	7,534,250.00
2042	5,955,000	1,727,750.00	7,682,750.00
2043	6,405,000	1,430,000.00	7,835,000.00
2044	6,885,000	1,109,750.00	7,994,750.00
2045	7,390,000	765,500.00	8,155,500.00
2046	7,920,000	396,000.00	8,316,000.00
Total	$93,110,000	$96,872,821.68	$189,982,821.68

Source: The Underwriters.

Redemption

Optional Redemption. The Bonds maturing on or after August 15, 2027 may be redeemed, at the option of the District from any source of funds on any date on or after August 15, 2026, in whole, or in part from such maturities as are selected by the District and by lot within a maturity, at a redemption price equal to the principal amount to be redeemed, together with accrued interest to the date of redemption, without premium.

Extraordinary Redemption from Special Tax Prepayments. The Bonds are subject to extraordinary redemption as a whole or in part, on any Interest Payment Date on and after February 15, 2021, and shall be redeemed by the Trustee, from Prepayments deposited to the Redemption Account plus amounts transferred from the Reserve Account to the Redemption Account pursuant to the Indenture, at the following redemption prices, expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the redemption date:

Redemption Dates	*Redemption Price*
February 15, 2021 through and including February 15, 2024	103%
August 15, 2024 and February 15, 2025	102
August 15, 2025 and February 15, 2026	101
August 15, 2026 and each Interest Payment Date thereafter	100

Prepayments and amounts released from the Reserve Account in connection with Prepayments will be allocated to the payment at maturity and redemption of Bonds and any Parity Bonds as nearly as practicable on a proportionate basis based on the outstanding principal amount of the Bonds and any Parity Bonds. Amounts allocated to the redemption of the Bonds shall be applied to redeem Bonds maturing on and after August 15, 2021 and Parity Bonds as nearly as practicable on a pro rata basis among maturities in increments of $5,000; provided, however, that, for Prepayments of less than $50,000, the District may specify in a Certificate of an Authorized Representative that Prepayments be applied to one or more maturities of the Bonds or Parity Bonds so long as there is delivered to the Trustee a Certificate of the Special Tax Consultant that, following such application of the Prepayments, the maximum Special Taxes that may be levied in each Fiscal Year on Taxable Property is not less than 110% of Annual Debt Service in the Bond Year that begins in such Fiscal Year.

Mandatory Sinking Fund Redemption. The Term Bonds maturing on August 15, 2041 (the "2041 Term Bonds") shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Principal Account, on August 15, 2037, and on each August 15 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The 2041 Term Bonds so called for redemption shall be selected by the Trustee by lot and shall be redeemed at a redemption price for each redeemed Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

Sinking Fund Redemption Date (August 15)	***Sinking Fund Payments***
2037	$ 4,040,000
2038	4,380,000
2039	4,745,000
2040	5,125,000
2041 (maturity)	5,530,000

The Term Bonds maturing on August 15, 2046 (the "2046 Term Bonds" and together with the 2041 Term Bonds, the "Term Bonds") shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Principal Account, on August 15, 2042, and on each August 15 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The 2046 Term Bonds so called for redemption shall be selected by the Trustee by lot and shall be redeemed at a redemption price for each redeemed Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

Sinking Fund Redemption Date (August 15)	***Sinking Fund Payments***
2042	$ 5,955,000
2043	6,405,000
2044	6,885,000
2045	7,390,000
2046 (maturity)	7,920,000

In the event of a partial optional redemption or extraordinary redemption of Term Bonds, each of the remaining Sinking Fund Payments for such Term Bonds will be reduced, as nearly as practicable, on a pro rata basis, in integral multiples of $5,000.

Notice of Redemption. So long as the Bonds are held in book-entry form, the Beneficial Owners will not be mailed any notice of redemption by the Trustee. It is the responsibility of DTC Participants to provide such notice. See APPENDIX H — "BOOK-ENTRY ONLY SYSTEM." The Trustee is obligated to provide at least 30 days but not more than 45 days prior to the date of redemption, notice of intended redemption, by first-class mail, postage prepaid, to the respective registered owners of the Bonds at the addresses appearing on the Bond registration books; provided, however, so long as the Bonds are registered in the name of the Nominee, such notice shall be given in such manner as complies with the requirements of the Depository. The notice of redemption must: (i) specify the CUSIP numbers (if any), the bond numbers and the maturity date or dates of the Bonds selected for redemption, except that where all of the Bonds are subject to redemption, or all the Bonds or Parity Bonds of one maturity are to be redeemed, the bond numbers of such issue need not be specified; (ii) state the date fixed for redemption and surrender of the Bonds to be redeemed; (iii) state the redemption price; (iv) state the place or places where the Bonds are to be redeemed; (v) in the case of Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed; (vi) state the date of issue of the Bonds as originally issued; (vii) state the rate of interest borne by each Bond being redeemed; and (viii) state any other descriptive information needed to identify accurately the Bonds being redeemed as shall be specified by the Trustee. Such notice must further state that on the date fixed for redemption, there will become due and payable on each Bond or portion thereof called for redemption, the principal thereof, together with any premium, and interest accrued to the redemption date, and that from and after such date, interest thereon will cease to accrue and be payable.

So long as notice of redemption has been provided as set forth in the Indenture, the actual receipt by the owner of any Bond of notice of such redemption is not a condition precedent to redemption, and neither the failure to receive such notice nor any defect therein will affect the validity of the proceedings for redemption of such Bonds or the cessation of interest on the date fixed for redemption.

Any redemption notice for an optional redemption of the Bonds delivered in accordance with the Indenture may be conditional, and, if any condition stated in the redemption notice has not been satisfied on or prior to the redemption date: (i) the redemption notice will be of no force and effect, (ii) the District will not be required to redeem such Bonds, (iii) the redemption will not be made, and (iv) the Trustee will within a reasonable time thereafter give notice to the persons to whom such conditional redemption notice was given in the manner in which the conditional redemption notice was given that such condition or conditions were not met and that the redemption was canceled.

Effect of Redemption. When notice of redemption has been given, and when the amount necessary for redemption has been made available for that purpose and is available therefor on the date fixed for such redemption, the Bonds designated for redemption will become due and payable on the date fixed for redemption upon presentation and surrender of the Bonds at the place specified in the notice of redemption. Bonds or portions thereof so designated for redemption will be deemed to be no longer Outstanding and such Bonds, or portions thereof, will cease to bear further interest. As of the date fixed for redemption no Owner of any of the Bonds or portions thereof so designated for redemption will be entitled to any of the benefits of the Indenture, or to any other rights, except with respect to payment of the redemption price and interest accrued to the redemption date from the amounts so made available.

Purchase in lieu of Redemption. The Bonds may be purchased by the District in lieu or partially in lieu of redemption of Bonds. See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE — CREATION OF FUNDS AND APPLICATION OF PROCEEDS — Redemption Account of the Special Tax Fund."

Registration, Transfer and Exchange

Registration. The Trustee will keep sufficient books for the registration and transfer of the Bonds. The ownership of the Bonds will be established by the Bond registration books held by the Trustee.

Transfer or Exchange. Whenever any Bond is surrendered for registration of transfer or exchange, the Trustee will authenticate and deliver a new Bond or Bonds of the same maturity, for a like aggregate principal amount of authorized denominations; provided that the Trustee will not be required to register transfers or make exchanges of (i) Bonds for a period of 15 days next preceding the date of any selection of the Bonds to be redeemed, or (ii) any Bonds chosen for redemption.

SOURCES OF PAYMENT FOR THE BONDS

Limited Obligations

The Bonds are special, limited obligations of the District payable only from amounts pledged under the Indenture and from no other sources.

In the event that the Special Tax revenues are not received when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Trustee in the Special Tax Fund (other than the Administrative Expense Account therein), including amounts held in the Reserve Account therein, for the exclusive benefit of the owners of the Bonds, and foreclosure proceeds resulting from the sale of delinquent parcels if and when available.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT, THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE NET TAXES, NO OTHER REVENUES OR TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE COUNTY OR GENERAL OBLIGATIONS OF THE DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES TO BE LEVIED IN THE DISTRICT AND CERTAIN OTHER AMOUNTS HELD UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN.

Special Taxes

Authorization and Pledge. In accordance with the provisions of the Act, the County established the District on March 22, 2016 for the purpose of financing the various public improvements required in connection with the proposed development within the District. On March 22, 2016, an election was held within the District at which the landowners eligible to vote approved the issuance of bonds for the District in an amount not to exceed $115,000,000, secured by special taxes levied on property within the District to finance the Facilities. The landowners within the District also voted to approve the Rate and Method which authorized the Special Tax to be levied to repay indebtedness of the District, including the Bonds. In accordance with Section H of the Rate and Method and the Price Point Study, the Assigned Special Tax and Backup Special Tax rates for Zones 1 through 3 have been reduced. The Assigned Special Tax and Backup Special Tax rates (as revised for Zones 1 through 3) are included in the Rate and Method attached hereto as APPENDIX A.

The District will covenant in the Indenture that it will levy Special Taxes up to the maximum rates permitted under the Rate and Method in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay the principal of and interest on any Outstanding Bonds and any Parity Bonds, to maintain the Reserve Account at the Reserve Requirement and to pay the estimated Administrative Expenses.

The "Special Taxes" are the special taxes authorized to be levied and collected by the District in accordance with the Ordinance, the Resolution of Formation and the Act. The Special Taxes are collected in the manner and at the same time as *ad valorem* property taxes are collected and are subject to the same penalties and the same procedure, sale, and lien priority in case of delinquency as is provided for *ad valorem* property taxes. See APPENDIX A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX."

The "Net Taxes" pledged by the District to secure the repayment of the Bonds (and any Parity Bonds) is defined in the Indenture as the "Gross Taxes" minus amounts permitted to be set aside prior to the payment of the principal of and interest on the Bonds and Parity Bonds in order to pay Administrative Expenses.

"Gross Taxes" is defined in the Indenture as the amount of all Special Taxes received by the District from the Treasurer, together with all payments made with respect to tax-defaulted parcels (including all delinquent and redemption penalties, fees and costs) and the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Indenture, but excluding any payment of Special Taxes on tax-defaulted parcels, including all delinquent and redemption penalties, fees and costs and the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Indenture, so long as the County has paid to the District the Special Taxes levied for a tax defaulted parcel pursuant to the Teeter Plan (as defined herein).

Except for Prepayments which shall be deposited to the Interest Account, the Principal Account and/or the Redemption Account as specified in the Indenture, the Trustee will, on each date on which the Special Taxes are received from the District, deposit the Special Taxes in the Special Tax Fund. The Trustee will transfer the Special Taxes on deposit in the Special Tax Fund on the dates and in the amounts set forth in the Indenture, in the following order of priority, to:

(1) The Administrative Expense Account of the Special Tax Fund in an amount needed to pay Administrative Expenses when due (not to exceed the Administrative Expenses Cap);

(2) The Interest Account of the Special Tax Fund;

(3) The Principal Account of the Special Tax Fund;

(4) The Redemption Account of the Special Tax Fund;

(5) The Reserve Account of the Special Tax Fund;

(6) The Rebate Fund; and

(7) The Surplus Fund.

See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE."

The Special Taxes levied in any fiscal year may not exceed the maximum rates authorized pursuant to the Rate and Method. See APPENDIX A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX" hereto. There is no assurance that the Special Tax proceeds will, in all circumstances, be adequate to pay the principal of and interest on the Bonds when due. See the caption "*Limitation on Special Tax Levy and Potential Impact on Coverage*" below and "SPECIAL RISK FACTORS — Insufficiency of Special Taxes" herein.

Rate and Method of Apportionment of Special Tax. The District is legally authorized and will covenant to cause the levy of the Special Taxes in an amount determined according to a methodology, i.e., the Rate and Method which the Board of Supervisors and the electors within the District have approved. The Rate and Method apportions the total amount of Special Taxes to be collected among the taxable parcels in the District as more particularly described below.

The District is comprised of six tax zone areas (each a "Zone") (pursuant to the Rate and Method, no Special Tax shall be levied within Zone E). The Zones generally coincide with the different product types that are being developed within the District and the different merchant builders that have purchased properties in the District.

The following is a synopsis of the provisions of the Rate and Method for the District, which should be read in conjunction with the complete text of the Rate and Method which is attached as APPENDIX A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX." The meaning of the defined terms used in this section are as set forth in APPENDIX A. This section provides only a summary of the Rate and Method, and is qualified by more complete and detailed information contained in the entire Rate and Method attached as APPENDIX A.

Assignment to Land Use Categories. Each Fiscal Year, commencing Fiscal Year 2016-17, all Taxable Property within Zone 1 through 6 of the District shall be classified as Developed Property, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property or Undeveloped Property, and shall be subject to Special Taxes in accordance with the Rate and Method determined pursuant to Sections C and D of APPENDIX A. The Assigned Special Tax for Residential Property shall be based on the Zone in which the Assessor's Parcel is located, the number of dwelling units, and the Residential Floor Area of the dwelling units located on the Assessor's Parcel. The Assigned Special Tax for Non-Residential Property shall be based on the Zone in which the Assessor's Parcel is located and the Acreage of the Assessor's Parcel.

Exemptions. No Special Tax shall be levied on property that is located in Zone E. No Special Tax shall be levied on Assessor's Parcels of Conservation Property, Property Owner Association Property, Public Property and/or Religious Property, that is within Zones 1 through 6; provided that an Assessor's Parcel shall not be exempt and shall be classified as Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property and/or Taxable Religious Property if exempting such property would increase the sum of all property exempt from the Special Tax within the applicable Zone to greater than the corresponding Acreage amount listed in Table 9 of the Rate and Method attached as APPENDIX A.

Maximum Special Tax, Assigned Annual Special Tax and Backup Special Tax.

Maximum Special Tax. The Maximum Special Tax for each Assessor's Parcel classified as Developed Property within a particular Zone shall be the greater of (i) the amount derived by application of the Assigned Special Tax for such Zone or (ii) the amount derived by application of the Backup Special Tax for such Zone. The Maximum Special Tax for an Assessor's Parcel of Undeveloped Property, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property within each Zone is shown in Table 8 of the Rate and Method attached as APPENDIX A and ranges from $47,436 to $99,885 per acre for Fiscal Year 2016-17.

Assigned Special Tax. The Fiscal Year 2016-17 Assigned Special Tax for each Land Use Class within each Zone is shown in Tables 1 through 6 of the Rate and Method attached as APPENDIX A. Assigned Special Tax rates have been established for Residential Property and Non-Residential Property in the six taxable Zones. The number of units projected in each of the foregoing land use classes within each Zone are as follows:

Zone	*Projected Residential Development*
1	211
2	272
3	107
4	94
5	143
6	51
Total Residential Units	**878**

The Assigned Special Tax levied against Developed Property that is Residential Property will generally correlate with the residential square footage of the unit in question. For a detailed description of Assigned Special Taxes for Residential Property in the Zones, see the Rate and Method attached as APPENDIX A.

The Assigned Special Tax levied against Non-Residential parcels of Developed Property within each Zone will generally be determined on a per acre basis. For a detailed description of Assigned Special Taxes for Non-Residential Property that is Developed Property, see the Rate and Method attached as APPENDIX A.

Multiple Land Use Classes. In some instances an Assessor's Parcel may contain both Undeveloped Property and Developed Property. Furthermore, Developed Property may contain more than one Land Use Class. In such cases, the Acreage of the Assessor's Parcel will be allocated between Developed Property and Undeveloped Property based on the portion of the Assessor's Parcel for which building permits had been issued prior to January 1 of the prior Fiscal Year and the portion of the Assessor's Parcel for which building permits had not been issued prior to January 1 of the prior Fiscal Year. The Acreage that is considered Developed Property will be allocated between Residential Property and Non-Residential Property based on the site plan. The Maximum Special Tax that can be levied on such Assessor's Parcel will be the sum of the Maximum Special Tax that can be levied on each type of property located on that Assessor's Parcel.

Backup Special Tax. The Fiscal Year 2016-17 Backup Special Taxes are detailed in Table 7 of the Rate and Method attached as APPENDIX A and range from $47,436 to $96,684 per acre.

Annual Increases. On each July 1, commencing on July 1, 2017, the Assigned Special Tax and the Backup Special Tax for Developed Property will be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year. On each July 1, commencing July 1, 2017, the Maximum Special Tax for Undeveloped Property, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property and Taxable Religious Property will be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

Method of Apportionment of Special Tax. Commencing with Fiscal Year 2016-17 and for each following Fiscal Year, the Board of Supervisors shall levy the Special Tax until the amount of Special Taxes levied equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

First: The Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property at up to 100% of the applicable Assigned Special Tax;

Second: If additional monies are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property at up to 100% of the Maximum Special Tax for Undeveloped Property;

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the levy of the Special Tax on each Assessor's Parcel of Developed Property for which the Maximum Special Tax is determined through the application of the Backup

Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel;

Fourth: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Conservation Property, Taxable Property Owner Association Property or Taxable Religious Property at up to the Maximum Special Tax for Taxable Conservation Property, Taxable Property Owner Association Property or Taxable Religious Property; and

Fifth: If additional monies are needed to satisfy the Special Tax Requirement after the first four steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Public Property at up to the Maximum Special Tax for Taxable Public Property.

Notwithstanding the above, under no circumstances will the Special Tax levied in a Fiscal Year against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent (10%) above the amount that would have been levied in that Fiscal Year as a consequence of delinquency or default by the owner of any other Assessor's Parcel within the District. To the extent that the levy of the Special Tax on Residential Property is limited by the provision in the previous sentence, the levy of the Special Tax on all other Assessor's Parcels shall continue in equal percentages at up to 100% of the Maximum Special Tax.

Prepayment of Annual Special Taxes. The Annual Special Tax obligation for an Assessor's Parcel may be prepaid in full, or in part, provided that the terms set forth under the Rate and Method are satisfied. The Prepayment Amount is calculated based on the sum of the Bond Redemption Amount, the Redemption Premium, the Future Facilities Amount, the Defeasance Amount, Administrative Fees and Expenses and less a credit for the resulting reduction in the Reserve Requirement for the Bonds (if any) and less capitalized interest (if any), all as specified in Section G of the Rate and Method attached as APPENDIX A. Prepayments of Special Taxes will be applied to effect an extraordinary redemption of Bonds and Parity Bonds. See "THE BONDS — Redemption — *Extraordinary Redemption from Special Tax Prepayments*."

Estimated Debt Service Coverage. The following table sets forth the estimated debt service coverage based on the actual Special Tax levy in Fiscal Year 2016-17 for the Bond Year ending August 15, 2017 and based on the Assigned Special Taxes at projected build-out of the District for each Bond Year thereafter. Pursuant to the Rate and Method, and subject to the Maximum Special Taxes prescribed therein and permitted by the Act, the District will only levy Special Taxes in an amount sufficient to achieve the Special Tax Requirement.

TABLE 1
COMMUNITY FACILITIES DISTRICT NO. 2016-1 OF THE COUNTY OF ORANGE
(VILLAGE OF ESENCIA)
ESTIMATED BOND DEBT SERVICE COVERAGE AT BUILD-OUT

Bond Year Ending August 15	*Developed Special Tax Revenues*	*Undeveloped Special Tax Revenues*	*Total Special Tax Revenues*	*Annual Administrative Expenses*[3]	*Net Special Tax Revenues*	*Series 2016 Special Tax Bonds Debt Service*	*Coverage on Series 2016 Bonds*[4]
2017	$ 0	$5,318,577[1]	$5,318,577	$75,000	$5,243,577	$4,682,628	111.98%
2018	5,424,949[2]	0[2]	5,424,949	76,500	5,348,449	4,773,963	112.03
2019	5,533,448	0	5,533,448	78,030	5,455,418	4,871,363	111.99
2020	5,644,116	0	5,644,116	79,591	5,564,526	4,969,363	111.98
2021	5,756,999	0	5,756,999	81,182	5,675,816	5,067,763	112.00
2022	5,872,139	0	5,872,139	82,806	5,789,333	5,171,363	111.95
2023	5,989,582	0	5,989,582	84,462	5,905,119	5,271,863	112.01
2024	6,109,373	0	6,109,373	86,151	6,023,222	5,380,363	111.95
2025	6,231,561	0	6,231,561	87,874	6,143,686	5,486,113	111.99
2026	6,356,192	0	6,356,192	89,632	6,266,560	5,593,863	112.03
2027	6,483,316	0	6,483,316	91,425	6,391,891	5,708,113	111.98
2028	6,612,982	0	6,612,982	93,253	6,519,729	5,823,113	111.96
2029	6,745,242	0	6,745,242	95,118	6,650,124	5,938,363	111.99
2030	6,880,146	0	6,880,146	97,020	6,783,126	6,058,363	111.96
2031	7,017,749	0	7,017,749	98,961	6,918,788	6,177,363	112.00
2032	7,158,104	0	7,158,104	100,940	7,057,164	6,304,863	111.93
2033	7,301,266	0	7,301,266	102,959	7,198,308	6,429,863	111.95
2034	7,447,292	0	7,447,292	105,018	7,342,274	6,559,013	111.94
2035	7,596,238	0	7,596,238	107,118	7,489,119	6,688,381	111.97
2036	7,748,162	0	7,748,162	109,261	7,638,902	6,824,750	111.93
2037	7,903,126	0	7,903,126	111,446	7,791,680	6,958,750	111.97
2038	8,061,188	0	8,061,188	113,675	7,947,513	7,096,750	111.99
2039	8,222,412	0	8,222,412	115,948	8,106,463	7,242,750	111.93
2040	8,386,860	0	8,386,860	118,267	8,268,593	7,385,500	111.96
2041	8,554,597	0	8,554,597	120,633	8,433,965	7,534,250	111.94
2042	8,725,689	0	8,725,689	123,045	8,602,644	7,682,750	111.97
2043	8,900,203	0	8,900,203	125,506	8,774,697	7,835,000	111.99
2044	9,078,207	0	9,078,207	128,016	8,950,191	7,994,750	111.95
2045	9,259,771	0	9,259,771	130,577	9,129,194	8,155,500	111.94
2046	9,444,967	0	9,444,967	133,188	9,311,778	8,316,000	111.97

(1) Special Tax Revenues for Fiscal Year 2016-17 based on actual levy on Undeveloped Property.
(2) Special Tax Revenues for Fiscal Year 2017-18 and each year thereafter are based on 100% of the Assigned Special Tax rates and development at build-out as indicated in the Price Point Study. Until the District is substantially built-out, the actual Special Tax levy will be made on Developed Property and Undeveloped Property in accordance with the Rate and Method. The Assigned Special Tax rates escalate by 2.00% per year. Assigned Special Tax rates are based on the tax rates set forth in Section C of the Rate and Method attached as APPENDIX A.
(3) The Administrative Expenses Cap is equal to $75,000, escalating at 2.00% per Fiscal Year, commencing July 1, 2017.
(4) Calculated by dividing the Net Special Tax Revenues column by the Series 2016 Special Tax Bonds Debt Service column.
Source: David Taussig & Associates, except for debt service on the Bonds, which was provided by the Underwriters.

Limitation on Special Tax Levy and Potential Impact on Coverage. Pursuant to Section 53321(d) of the Government Code, the special tax levied against any Assessor's parcel for which an occupancy permit for private residential use has been issued shall not be increased as a consequence of delinquency or default by the owner of any other Assessor's parcel within the District by more than 10% above the amount that would have been levied in that fiscal year had there never been any such delinquencies or defaults. As a result, it is possible that the District may not be able to increase the tax levy to the Assigned Special Tax in all years. However, subject to the limitations on the District's ability to levy the necessary amount of Special Taxes as imposed by Section 53321(d) of the Government Code, the District can levy Special Taxes on Undeveloped Property to make-up all or a portion of any shortfall in the Special Tax levy.

Collection of Special Taxes. The Special Taxes are levied and collected by the Treasurer-Tax Collector of the County in the same manner and at the same time as *ad valorem* property taxes. The District may, however, collect the Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

The County assesses and collects secured and unsecured property taxes for the cities, school districts, and special districts within the County, including the Special Taxes for the District. The delinquency dates for property tax payment are December 10 for the first installment and April 10 for the second installment. Once the property taxes are collected, the County conducts its internal reconciliation for accounting purposes and distributes the County's share of such taxes (including the Special Taxes) to the County, periodically and typically pursuant to a published schedule. Prior to distribution, the moneys are deposited in an account established on behalf of the County in the Orange County Investment Pool (the "Pool") which is invested by the County Treasurer. If the County or the Pool were at any time to become subject to bankruptcy proceedings, it is possible that District property taxes held in the Pool (including the Special Taxes), if any, could be temporarily unavailable to the County. The District participates in the County's Teeter Plan, which is an alternate method for allocating property taxes by counties. A Teeter Plan allows counties to allocate 100 percent of property taxes billed to participating taxing entities in exchange for retaining future delinquent tax payments, penalties and interest.

The District will make certain covenants in the Indenture for the purpose of ensuring that the current maximum Special Tax rates and method of collection of the Special Taxes are not altered in a manner that would impair the District's ability to collect sufficient Special Taxes to pay debt service on the Bonds and Administrative Expenses when due. First, the District will covenant that, to the extent it is legally permitted to do so, it will not reduce the maximum Special Tax rates and will oppose the reduction of maximum Special Tax rates by initiative where such reduction would reduce the maximum Special Taxes below current levels unless, in connection therewith, (i) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, among other things, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property (as defined in the Rate and Method then in effect in the District) in each Bond Year for any Bonds and Parity Bonds Outstanding will equal at least the sum of the estimated Administrative Expenses and 110% of gross debt service in each Bond Year on all Bonds and Parity Bonds to remain Outstanding after the reduction is approved, (ii) the District finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds and Parity Bonds, and (iii) the District is not delinquent in the payment of the principal of or interest on the Bonds or any Parity Bonds. For purposes of estimating Administrative Expenses for the foregoing calculation, the Independent Financial Consultant will compute the Administrative Expenses for the current Fiscal Year and escalate that amount by two percent (2%) in each subsequent Fiscal Year.

Second, the District will covenant not to permit the tender of Bonds or Parity Bonds in payment of any Special Taxes unless the District shall have first received a certificate from an Independent Financial Consultant that the acceptance of such a tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds and Parity Bonds when due. See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE."

Although the Special Taxes constitute liens on taxed parcels within the District, they do not constitute a personal indebtedness of the owners of property within the District. In addition to the obligation to pay Special Taxes, properties in the District are subject to other assessments and special taxes as set forth in Table 3 herein. These other special taxes and assessments are co-equal to the lien for the Special Taxes. Moreover, other liens for taxes and assessments could come into existence in the future in certain situations without the consent or knowledge of the County or the landowners in the District. See "SPECIAL RISK FACTORS — Parity Taxes and Special Assessments" herein. There is no assurance that property owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so, all as more fully described in the section of this Official Statement entitled "SPECIAL RISK FACTORS."

Proceeds of Foreclosure Sales. The proceeds of delinquent Special Taxes received following a judicial foreclosure sale of parcels within the District resulting from a landowner's failure to pay the Special Taxes when due, up to the amount of the delinquent Special Tax lien, are included within the Special Tax revenues pledged to the payment of principal and interest on the Bonds under the Indenture, except any payment of Special Taxes on tax-defaulted parcels, including all delinquent and redemption penalties, fees and costs and the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Indenture, so long as the County has paid to the District the Special Taxes levied for a tax-defaulted parcel pursuant to the Teeter Plan established by the County.

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax or receipt by the District of Special Taxes in an amount which is less than the Special Tax levied, the Board of Supervisors of the County, as the legislative body of the District, may order that Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at a judicial foreclosure sale. Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, the District will covenant for the benefit of the Owners of the Bonds that it will commence and diligently pursue until the delinquent Special Taxes are paid, judicial foreclosure proceedings against (i) parcels with delinquent Special Taxes in excess of $25,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due; and (ii) all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied. Notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel so long as the amount in the Reserve Account is at least equal to the Reserve Requirement.

See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE — COVENANTS AND WARRANTY" herein.

If foreclosure is necessary and other funds (including amounts in the Reserve Account) have been exhausted, debt service payments on the Bonds could be delayed until the foreclosure proceedings have ended with the receipt of any foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the County and the District. See "SPECIAL RISK FACTORS — Bankruptcy and Foreclosure" herein. Moreover, no assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. See "SPECIAL RISK FACTORS — Land Values" herein. Although the Act authorizes the District to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on the District or the County any obligation to purchase or acquire any lot or parcel of property sold at a foreclosure sale if there is no other purchaser at such sale. The Act provides that, in the case of a delinquency, the Special Tax will have the same lien priority as is provided for *ad valorem* taxes.

Reserve Account of the Special Tax Fund

In order to secure further the payment of principal of and interest on the Bonds, the District is required, upon delivery of the Bonds, to deposit in the Reserve Account an amount equal to the Reserve Requirement and thereafter to maintain in the Reserve Account an amount equal to the Reserve Requirement. The Indenture provides that the amount to be maintained in the Reserve Account as the Reserve Requirement shall, as of any date of calculation, equal the lesser of (i) 10% of the initial principal amount of the Bonds and any Parity Bonds; (ii) the Maximum Annual Debt Service on the then Outstanding Bonds and any Parity Bonds; or (iii) one hundred twenty-five percent (125%) of average annual debt service on the then Outstanding

Bonds and any Parity Bonds. As of the date of issuance of the Bonds the Reserve Requirement will be fully funded in the amount of $7,978,002.03.

Subject to the limits on the maximum annual Special Tax which may be levied within the District in accordance with the Rate and Method set forth in APPENDIX A, the District will covenant to levy Special Taxes in an amount that is anticipated to be sufficient, in light of the other intended uses of the Special Tax proceeds, to maintain the balance in the Reserve Account at the Reserve Requirement. Amounts in the Reserve Account are to be applied to (i) pay debt service on the Bonds and any Parity Bonds, to the extent other moneys in the Interest Account and the Principal Account are insufficient therefor; (ii) make any required transfer to the Rebate Fund pursuant to the Indenture; (iii) redeem the Bonds and any Parity Bonds in whole or in part; and (iv) pay the principal and interest due in the final year of maturity of a series of the Bonds and any Parity Bonds. See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE — CREATION OF FUNDS AND APPLICATION OF PROCEEDS — Reserve Account of the Special Tax Fund" herein.

Surplus Fund

After the deposit to the Administrative Expense Account, the payment of principal of and interest on the Bonds when due, transfers to the Redemption Account to pay principal and premium, if any, on Bonds called for redemption, transfers to replenish the Reserve Account to the Reserve Requirement and any required transfers to the Rebate Fund, as soon as practicable after each August 15, and in any event prior to each September 1, the Trustee will transfer all remaining amounts in the Special Tax Fund to the Surplus Fund, other than amounts in the Special Tax Fund which (i) the District has included as being available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to the Indenture or (ii) amounts to be transferred to the Acquisition and Construction Fund because such amounts were included in the levy of Special Taxes for the previous Fiscal Year to pay for the acquisition or construction of the Project. Moneys deposited in the Surplus Fund may be applied to pay the principal of, including Sinking Fund Payments, premium, if any, and interest on the Bonds and any Parity Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account of the Special Tax Fund are insufficient therefor, to replenish the Reserve Account to the Reserve Requirement, to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Account of the Special Tax Fund are insufficient to pay Administrative Expenses, to pay Project Costs, or for any other lawful purpose of the District.

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds or any Parity Bonds and may be used by the District for any lawful purpose.

Issuance of Parity Bonds

The District may issue Parity Bonds, in addition to the Bonds, which shall be secured by a lien on the Special Taxes and amounts deposited in the Special Tax Fund (other than the Administrative Expense Account) on a parity with the Outstanding Bonds as provided in the Indenture. The Parity Bonds shall be issued by means of a Supplemental Indenture and without the consent of any Bondowners, upon compliance with the provisions of the Indenture. The District may issue such Parity Bonds subject to, among others, the following specific conditions:

(A) The District shall be in compliance with all covenants set forth in the Indenture and all Supplemental Indentures then in effect; provided, however, that Parity Bonds may be issued notwithstanding that the District is not in compliance with all such covenants so long as immediately following the issuance of such Parity Bonds the District will be in compliance with all such covenants.

(B) The Supplemental Indenture providing for the issuance of such Parity Bonds shall provide that each maturity date shall fall on an August 15, (ii) all such Parity Bonds of like maturity shall be identical in all respects, except as to number, and (iii) fixed serial maturities or Sinking Fund Payments, or any combination thereof, shall be established to provide for the retirement of all such Parity Bonds on or before their respective maturity dates (provided that there shall be no requirement that any Parity Bonds pay interest on a current basis).

(C) The District shall have received the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Parity Bonds by the Trustee (unless the Trustee shall accept any of such documents bearing a prior date):

(1) An executed copy of the Supplemental Indenture pursuant to which such Parity Bonds are issued;

(2) A written request of the District as to the delivery of such Parity Bonds;

(3) An opinion of Bond Counsel and/or general counsel to the District to the effect that (a) the District has the right and power under the Act to adopt the Indenture and the Supplemental Indentures relating to such Parity Bonds, and the Indenture and all such Supplemental Indentures have been duly and lawfully adopted by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (b) the Indenture creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; and (iii) such Parity Bonds are valid and binding limited obligations of the District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of the Indenture and all Supplemental Indentures thereto and entitled to the benefits of the Indenture and all such Supplemental Indentures, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Indenture and all such Supplemental Indentures; and a further opinion of Bond Counsel to the effect that, assuming compliance by the District with certain tax covenants, the issuance of the Parity Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds theretofore issued on a tax-exempt basis, or the exemption from State of California personal income taxation of interest on any Outstanding Bonds and Parity Bonds theretofore issued;

(4) A certificate of the District containing such statements as may be reasonably necessary to show compliance with the requirements of the Indenture;

(5) a certificate of an Independent Financial Consultant certifying that: (i) the Maximum Special Tax that may be levied in each Fiscal Year on property that, as of the date of such certificate, is not known by the District to be delinquent in the payment of any *ad valorem* taxes or any Special Taxes is not less than the sum of the Administrative Expenses Cap plus 110% of the Annual Debt Service in the Bond Year that begins in such Fiscal Year; (ii) the aggregate Value of all Assessors Parcels of Taxable Property that, as of the date of such certificate, are not known by the District to be delinquent in the payment of any *ad valorem* taxes or any Special Taxes is not less than five (5) times the sum of the principal amount of the Outstanding Bonds, the Outstanding Parity Bonds, the Parity Bonds proposed to be issued and the Overlapping Debt for all Parcels of Taxable Property; (iii) the aggregate amount of the Maximum Special Tax that may be levied in each Fiscal Year on all Assessor's Parcels of Developed Property at projected build-out is not less than the sum of the estimated Administrative Expenses plus 110% of gross debt service in each Bond Year on all Outstanding Bonds and Parity Bonds and the Parity Bonds proposed to be issued; and (iv) no Assessor's Parcel that is owned in whole or in part by any developer or any affiliate of a developer developing the property within the District is delinquent in the payment of any *ad valorem* taxes or any Special Taxes.

For purposes of the foregoing certificate, all calculations shall (i) include the Parity Bonds proposed to be issued and the debt service thereon except to the extent that payment of any such proposed Parity Bonds is provided for through amounts on deposit in a fund or account held by the Trustee, and

(ii) escalate Administrative Expenses for the then-current Fiscal Year by two percent (2%) in each subsequent Fiscal Year.

The provisions of paragraph (5) above shall not apply to Parity Bonds issued for the purpose of refunding Outstanding Bonds and/or Parity Bonds if the District shall have received a certificate from an Independent Financial Consultant to the effect that in each Bond Year the Annual Debt Service on the Bonds and Parity Bonds to remain Outstanding following the issuance of the Parity Bonds proposed to be issued is less than the Annual Debt Service on the Bonds and Parity Bonds Outstanding prior to the issuance of such Parity Bonds.

See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE — DEFEASANCE AND PARITY BONDS — Conditions for the Issuance of Parity Bonds and Other Additional Indebtedness."

Teeter Plan

The District is included in the County's Teeter Plan and, as described below, so long as the Teeter Plan remains in effect with respect to the District, the District will be paid 100% of the amount of Special Taxes levied regardless of whether the County has actually collected the levies. To the extent that the County's Teeter Plan continues in existence and is carried out as adopted, the County's Teeter Plan may help to protect the Owners of the Bonds from the risk of delinquencies in Special Taxes.

In 1949, the California Legislature enacted an alternative method for the distribution of secured property taxes to local agencies. This method, known as the Teeter Plan, is now set forth in Section 4701-4717 of the California Revenue and Taxation Code. Upon adoption and implementation of this method by a county board of supervisors, local agencies for which the county acts as "bank" and certain other public agencies and taxing areas located in the county receive annually the full amount of their share of property taxes on the secured roll, including delinquent property taxes which have yet to be collected. A county benefits from the Teeter Plan by retaining penalties associated with these delinquent taxes when they are paid and the Teeter Plan provides participating local agencies with stable cash flow and the elimination of collection risk.

To implement a Teeter Plan, the board of supervisors of the county generally must elect to do so by July 15 of the fiscal year in which it is to apply. The Board of Supervisors adopted the Teeter Plan on June 29, 1993 and has elected to include in its Teeter Plan special taxes levied in certain community facilities districts, including the District, on the secured roll.

Once adopted, a county's Teeter Plan will remain in effect in perpetuity unless the board of supervisors orders its discontinuance or unless prior to the commencement of a fiscal year a petition for discontinuance is received and joined in by resolutions of the governing bodies of not less than two-thirds of the participating districts in the county. An electing county may, however, opt to discontinue the Teeter Plan with respect to any levying agency in the county if the board of supervisors, by action taken not later than July 15 of a fiscal year, elects to discontinue the procedure with respect to such levying agency and the rate of secured tax delinquencies in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll by that agency. See "SPECIAL RISK FACTORS – Teeter Plan Termination." The County has never discontinued the Teeter Plan with respect to any levying agency.

Upon making a Teeter Plan election, a county must initially provide a participating local agency with 95% of the estimated amount of the then accumulated tax delinquencies (excluding penalties) for that agency. In the case of the initial year distribution of special taxes and assessments (if a county has elected to include assessments), 100% of the special tax delinquencies (excluding penalties) are to be apportioned to the participating local agency which levied the special tax. After the initial distribution, each participating local agency receives annually 100% of the secured property tax levies to which it is otherwise entitled, regardless of whether the county has actually collected the levies.

If any tax or assessment which was distributed to a Teeter Plan participant is subsequently changed by correction, cancellation or refund, a pro rata adjustment for the amount of the change is made on the records of the treasurer and auditor of the county. Such adjustment for a decrease in the tax or assessment is treated by the County as an interest-free offset against future advances of tax levies under the Teeter Plan.

THE COMMUNITY FACILITIES DISTRICT

General Description of the District

The District is located in the southern portion of Orange County, in the vicinity of Ortega Highway (Route 74) and Antonio Parkway, south of the community of Ladera Ranch and east of the City of San Juan Capistrano. The District consists of approximately 199 gross acres. The land within which the District sits is part of a larger area acquired through a series of Mexican land grants from 1843-1845. The areas conveyed by these land grants included the areas of the County known as the Rancho La Paz, Mission San Juan Capistrano, Rancho Trabuco, Rancho Santa Margarita, and Las Flores (collectively, this property is referred to as the "Ranch"). In 1939, the Ranch was split in two, with representatives of the O'Neill family retaining the portion located in Orange County, and representatives of the Flood family retaining the southern portion located in San Diego County. In 1942, the United States Marine Corps acquired the entire southern portion to expand Camp Pendleton. After World War II, what remained of the historic Ranch encompassed two Orange County parcels, united under the name of Rancho Mission Viejo. These two parcels totaled 52,000 acres.

In 1966, the O'Neill family and its partners established The Mission Viejo Company and embarked on residential development of a 10,000 acre master planned community now known as the City of Mission Viejo. In 1972, The Mission Viejo Company was sold to Philip Morris Inc., which completed the master planned community. Rancho Mission Viejo, the entity established by the O'Neill family and its partners to develop the remaining Ranch land, is responsible for the creation and development of the master planned communities of Rancho Santa Margarita, Las Flores, and Ladera Ranch. Between the years 2001 and 2009, Rancho Mission Viejo secured all approvals for a comprehensive land use management/operation and open space preservation plan for the remaining 22,815 acres of the family ranch. With these approvals secured, approximately 25% of the Ranch is anticipated to be developed over the next few decades into a new community and the remaining 75% is planned to be set-aside in perpetuity as a permanent habitat reserve covered by a conservation easement to a 501c(3) non-profit corporation known as "The Reserve at Rancho Mission Viejo." The property within the District is a portion of the Village of Esencia project, which is the second phase of the final development within the Ranch. See "PROPERTY OWNERSHIP AND THE DEVELOPMENT — The Development" herein.

The District was formed in 2016 by the Board under the Act to provide for the financing of public improvements to meet the needs of new development. The Developer and the other owners of the property within the District, as the qualified electors of the District, authorized the District to incur bonded indebtedness to finance certain public facilities to meet the needs of new development within the District and approved the Rate and Method for the District and authorized the levy of the Special Tax.

Approximately 85 acres of property in the District are expected to be subject to the Special Tax at build-out. The remaining property within the District consists generally of open space/conservation property, property owned by an owner association, and public property. The development within the District is planned for twelve residential projects consisting of 878 for-sale residential units, with 590 market-rate residential units and 288 age-qualified residential units. The remaining nonresidential property within the District is owned by the Developer and is anticipated to be used for recreation facilities, parks and open space.

The Developer has completed construction of the community hall with coffee house and farm and associated landscaping located within adjacent CFD No. 2015-1, which amenities also serve the development within the District. Merchant homebuilders have purchased all of the land available in the District for residential development, and as of August 1, 2016, six of the 12 merchant builders had commenced construction of model homes. Certain of the merchant builders have also commenced construction of production homes.

The area included in the District has been graded and major infrastructure (sewer, water, storm drains, utilities, and arterial roads) to be installed by the Developer within the District has been substantially completed. The merchant builders are responsible for completing all in-tract improvements within their respective projects. See "PROPERTY OWNERSHIP AND THE DEVELOPMENT." A detailed description of the status of the construction and ownership as of the date of the Appraisal Report is included in APPENDIX B — "APPRAISAL REPORT."

Water and sewer service to the property is provided by the Santa Margarita Water District. Electricity is supplied by San Diego Gas and Electric, natural gas is supplied by The Gas Company, police services are provided by the Orange County Sheriff's Department, and fire services are provided by the Orange County Fire Authority.

Description of Authorized Facilities

The expected total cost of the Facilities eligible to be financed with the proceeds of the Bonds, based on the current estimated cost of the Facilities, is approximately $100,718,700. The facilities authorized to be constructed and acquired by the District with the proceeds of the Bonds, consist of roadway improvements, tunnels, regional hiking and biking trails, storm drains, water and wastewater facilities (including, without limitation, domestic and non-domestic water facilities, wells, reservoirs, pipelines, storm and sewer drains and related infrastructure and improvements), wet and dry utilities, bridges and pedestrian bridges, parks, traffic signals, school facilities and equipment, sheriff's substations and equipment and library facilities and equipment, and related infrastructure improvements, both onsite and offsite appurtenances and appurtenant work in connection with the foregoing (collectively, the "Facilities").

The estimated cost of the Facilities eligible to be financed with proceeds of the Bonds, based on the current estimated cost of the Facilities, is set forth in Table 2 below. However, the actual cost of the Facilities will depend on various factors, including product mix and the timing of construction within the undeveloped portion of the District, and such costs could be significantly higher. Given that the cost of the Facilities exceeds available proceeds of the Bonds, the costs in excess of available Bond proceeds are expected to be paid for by the Developer.

TABLE 2
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (VILLAGE OF ESENCIA)
OF THE COUNTY OF ORANGE
FACILITIES ELIGIBLE TO BE FINANCED
WITH BOND PROCEEDS

Facility Description	***Estimated Amount***[(1)]	***Amount Expended as of August 1, 2016***
Santa Margarita Water District Facilities	$8,727,000	$6,727,000
Capistrano Unified School District Facilities	26,350,000	1,393,000
County Roadway Facility	10,000,000	0
Onsite and Offsite Facilities and Dry Utilities	55,641,700	35,566,000
Total Facilities	**$100,718,700**	**$43,686,000**

(1) Based on the current estimated cost of the Facilities.
Source: The Developer.

Direct and Overlapping Indebtedness

The ability of an owner of land within the District to pay the Special Taxes could be affected by the existence of other taxes and assessments imposed upon the property. These other taxes and assessments consist of the direct and overlapping debt in the District and are set forth in Table 3 below, (the "Debt Report"). The Debt Report sets forth those entities which have issued debt and does not include entities which only levy or assess fees, charges, *ad valorem* taxes or special taxes. See "SAMPLE PROPERTY TAX BILLS" in APPENDIX I for information regarding other entities levying taxes, assessments or other charges on property in the District. The Debt Report includes the principal amount of the Bonds. The Debt Report has been derived from data assembled and reported to the District by David Taussig & Associates, Inc. as of September 2, 2016. None of the District, the County, or the Underwriters have independently verified the information in the Debt Report and do not guarantee its completeness or accuracy.

TABLE 3
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (VILLAGE OF ESENCIA)
OF THE COUNTY OF ORANGE
OVERLAPPING DEBT SUMMARY

Overlapping District	***Total Levy***	***Amount of Levy on Parcels in District***[(1)]	***Percent of Levy on Parcels in District***	***Total Debt Outstanding***[(2)]	***District Share of Total Debt Outstanding***[(3)]
Metropolitan Water District	$112,727,311	$ 7,552	0.0067%	$92,865,000	$ 6,222
Capistrano Unified SFID No. 1 Series 2001B	2,354,403	9,473	0.4023	8,512,966	34,251
Capistrano Unified SFID No. 1 Series 2012 Refunding	2,166,693	8,717	0.4023	18,700,000	75,237
Santa Margarita Water District ID No. 4/4C	790,502	281,373	35.5942	3,454,330[(4)]	1,229,542
Estimated Share of Overlapping Debt Allocable to the District					$ 1,345,252
Plus the Series 2016 Bonds					$ 93,110,000
Estimated Share of Direct and Overlapping Debt Allocable to the District					$ 94,455,252

(1) Based on actual Fiscal Year 2016-17 levy.
(2) As of September 2, 2016.
(3) Calculated by multiplying Percent of Levy on Parcels in District column by Total Debt Outstanding column.
(4) Allocated based on ID No. 4C share of ID No. 4 debt service, as shown in Table I of the Fiscal Year 2016-17 SMWD Benefit Analysis Study. The share allocated to the District is expected to decrease as development within the portion of the Rancho Mission Viejo Ranch Plan Planned Community in ID No. 4C continues.

Source: David Taussig & Associates, Inc.

Expected Tax Burden

For Fiscal Year 2016-17, the projected total effective tax rates for all categories of residential units are approximately 2.00% and 1.81% of total projected base sales prices (based on the Price Point Study) for market-rate units and age-qualified units, respectively. See APPENDIX I — "SAMPLE PROPERTY TAX BILLS" attached hereto for sample property tax bills for the average residential unit sizes of each type in the various tax Zones of the District. The actual amounts charged and the effective tax rates may vary and may increase or decrease in future years.

Market Absorption Study

In order to determine the projected absorption of the residential and nonresidential property within the District, the County engaged Empire Economics, Inc. (the "Market Absorption Consultant") to perform a comprehensive analysis of the product mix characteristics as well as the macroeconomic and microeconomic factors that are expected to influence the absorption of the forthcoming products within the District. In connection therewith, the Market Absorption Consultant delivered its Market Absorption Study dated May 12, 2016 as revised on July 27, 2016 and on October 6, 2016 (the "Market Absorption Study") in which the Market Absorption Consultant has concluded based on statistical comparison of the currently active comparable projects to the forthcoming projects in the District using their total housing prices (base price plus Special Tax liens) and their sizes of living area, that the projects in the District are competitive in the market for all five segments (all ages attached, all ages detached – smaller, all ages detached – larger, and age-qualified attached and detached). Based on the assumptions and limiting conditions set forth in the Market Absorption Study, the Market Absorption Consultant has estimated the calendar year absorption schedules for the residential projects as follows:

Year	***Projected Absorption Schedule***
2017	267
2018	378
2019	220
2020	13
Total	**878**

Source: The Market Absorption Consultant.

Based on the assumptions and subject to the limiting conditions set forth in the Market Absorption Study, the Market Absorption Consultant expects 267 home closings in calendar year 2017, including 35 age-qualified attached homes, 41 age-qualified detached homes and 191 homes in the all-ages segment. In calendar year 2018, the Market Absorption Consultant expects 378 home closings (with expected close-out of the age-qualified attached product), based upon projected stronger economic conditions and the fact that most of such units will have been on the market for the entire calendar year. The Market Absorption Consultant expects 220 home closings to occur in 2019, and the final 13 home closing in 2020 (which include the larger all-ages detached products). The Market Absorption Consultant identifies potential risks that could affect the estimated absorption, including a sudden spike in mortgage rates, unforeseen delays in completing the necessary infrastructure to develop the property within the District, the substantially larger sizes and prices of certain homes within the District relative to neighboring developments and the relatively high tax burden on the age-qualified units. See APPENDIX I — "SAMPLE PROPERTY TAX BILLS." The absorption schedules for the for-sale property assumes a grand opening in September 2016, which occurred on September 25, 2016. A complete copy of the Market Absorption Study is attached hereto as APPENDIX J.

Appraisal Report

The estimated assessed value of the property within the District, as shown on the County's assessment roll for Fiscal Year 2016-17, is approximately $215,776,940. However, as a result of the requirements of Article XIIIA of the California Constitution, a property's assessed value is not necessarily indicative of its market value. In order to provide information with respect to the value of the property within the District, the County engaged Harris Realty Appraisal, the Appraiser, to prepare the Appraisal Report. The Appraiser has an "MAI" designation from the Appraisal Institute and has prepared numerous appraisals for the sale of land-secured municipal bonds. The Appraiser was selected by the County and has no material relationships with the County, the District, or the owners of the land within the District other than the relationship represented by the engagement to prepare the Appraisal Report. The County instructed the Appraiser to prepare its analysis and report in conformity with County-approved guidelines and the Appraisal Standards for Land Secured Financings published in 1994 and revised in 2004 by the California Debt and Investment Advisory Commission. A copy of the Appraisal Report is included as APPENDIX B — "APPRAISAL REPORT" to this Official Statement.

The purpose of the Appraisal Report was to estimate the aggregate market value of the "as is" condition of the property within the District subject to the Special Taxes. The estimate of market value takes into consideration and assumes the improvements to be funded with the proceeds of the Bonds have been installed and that the development costs provided to the Appraiser by the Developer include all of the costs necessary to bring the subject properties to a finished lot condition. As a result, the value conclusions are based upon a hypothetical condition that the Bonds have been sold with proceeds available for construction of improvements of approximately $96,230,700. Subject to the contingencies, assumptions and limiting conditions set forth in the Appraisal Report, the Appraiser concluded that, as of August 1, 2016 (the "Date of Value"), the market value of the Taxable Property within the District was $283,400,000. Table 4 below shows the market value of the various parcels owned by the Developer and each of the merchant builders as set forth in the Appraisal Report as of the Date of Value.

TABLE 4
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (VILLAGE OF ESENCIA)
OF THE COUNTY OF ORANGE
SUMMARY OF APPRAISED VALUES

Owner	***Development Area***	***No. of Units***	***Market Value***[(3)]
Meritage Homes of California	MR-2	125	$23,493,370
Esencia MR3, LLC (MBK Homes)	MR-3	86	23,100,160
LT-MR23, LLC (Lyon Homes)	MR-23	50	24,622,636
TRI Pointe Homes, Inc.	MR-15	64	20,125,000
TRI Pointe Homes, Inc.	MR-24	57	25,396,000
Ryland Homes of California, Inc.[(1)]	MR-17	70	24,278,000
Ryland Homes of California, Inc.[(1)]	MR-19	41	16,409,000
Warmington MR 18 Associates, LLC	MR-18	97	26,378,200
CalAtlantic Group, Inc.	AQ-2	94	27,370,480
Pulte Home Corporation	AQ-11	71	22,897,614
Shea Homes Limited Partnership	AQ-13	72	25,848,000
Shea Homes Limited Partnership	AQ-21	51	23,511,000
RMV PA2 Development, LLC[(2)]	--	--	--
TOTAL		**878**	**$283,400,000**

(1) Ryland Homes of California, Inc., is a direct, wholly-owned subsidiary of CalAtlantic Group, Inc., a Delaware corporation.
(2) Consists of property to be developed into a 1.5 acre community park, recreational facilities and other open space/public property. Such property owned by the Developer is not expected to be subject to the Special Tax levy and was not appraised.
(3) Total represents a rounded amount of the appraised values of each owner's property.
Source: The Appraiser.

In estimating the market value, the Appraiser utilized a direct comparison approach and static residual analysis for all of the property owned by the merchant builders to derive a value indication for the finalized lots within each tract adjusted by any costs to complete such finished lots. To arrive at the absorption schedule for the proposed residential developments within the District, the Appraiser used the absorption set forth in the Market Absorption Study.

Reference is made to APPENDIX B for a complete list of the assumptions and limiting conditions and a full discussion of the appraisal methodology and the basis for the Appraiser's opinions. In the event that any of the contingencies, assumptions and limiting conditions are not actually realized, the value of the property within the District may be less than the amount reported in the Appraisal Report. In any case, there can be no assurance that any portion of the property within the District would actually sell for the amount indicated by the Appraisal Report.

The Appraisal Report merely indicates the Appraiser's opinion as to the market value of the property referred to therein as of the date and under the conditions specified therein. The Appraiser's opinion reflects conditions prevailing in the applicable market as of the Date of Value. The Appraiser's opinion does not predict the future value of the subject property, and there can be no assurance that market conditions will not change adversely in the future. See "SPECIAL RISK FACTORS — Land Values."

It is a condition precedent to the issuance of the Bonds that the Appraiser deliver to the District a certification to the effect that, while the Appraiser has not updated the Appraisal Report since the date of the Appraisal Report and has not undertaken any obligation to do so, nothing has come to the attention of the Appraiser subsequent to the date of the Appraisal Report that would cause the Appraiser to believe that the value of the property in the District is less than the value of the District reported in the Appraisal Report. However, the Appraiser notes that acts and events may have occurred since the date of the Appraisal Report which could result in both positive and negative effects on market value within the District. The Appraiser has reviewed the merchant builder base prices as of Esencia's September 25, 2016 public grand opening and concluded that those base prices do not cause it to believe that the value of property listed for any owner in Table 4 above would be reduced.

Appraised Value-To-Lien Ratios

Table 5 below incorporates the values assigned to parcels in the Appraisal Report, the estimated principal amount of the Bonds allocable to each category of parcels and the estimated appraised value-to-lien ratios for various categories of parcels based upon land values and property ownership in the District as of August 1, 2016 as set forth in the Appraisal Report. Based on the principal amount of the Bonds, the estimated appraised District-wide value-to-lien ratio including all Taxable Property as of the Date of Value is 3.04-to-1. This ratio does not include other overlapping debt within the District. See "— Direct and Overlapping Indebtedness" above. Taking that direct and overlapping debt into account, the ratio of the aggregate appraised value of the Taxable Property within the District to the total principal amount of all direct and overlapping general obligation debt for the District is approximately 3.00-to-1; however, based on individual ownerships, the appraised value-to-lien ratios vary from a low of 2.10-to-1 to a high of 3.71-to-1.

The share of Bonds set forth in Table 5 below is allocated based on each property's share of the Fiscal Year 2016-17 Special Tax levy. In the Annual Reports provided pursuant to the District Continuing Disclosure Certificate, Table 5 will not be updated based on appraised value, but similar information will be provided based on current assessed value. Based on the Fiscal Year 2016-17 assessed value of $215,776,940, the assessed value-to-lien ratio, taking the total direct and overlapping debt in Table 5 into account, is approximately 2.28 to 1.

TABLE 5
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (VILLAGE OF ESENCIA)
OF THE COUNTY OF ORANGE
APPRAISED VALUE-TO-LIEN RATIOS

Property Classification / Owner[1]	*County of Orange CFD No. 2016-1 Fiscal Year 2016-17 Levy[2]*	*County of Orange CFD No. 2016-1 Bonds Outstanding[3]*	*Metropolitan Water District Bonds Outstanding[4]*	*Capistrano Unified School District SFID Bonds Outstanding[4][8]*	*Santa Margarita Water District ID 4/4C Bonds Outstanding[4][8]*	*Total Direct and Overlapping Debt*	*Appraised Value[5]*	*Estimated Appraised Value-to-Lien Ratios*
Undeveloped Property[6]								
Meritage Homes	$ 416,256	$ 7,287,209	$ 132	$ 2,324	$ 26,100	$ 7,315,766	$ 23,493,370	3.21
MBK Homes	399,448	6,992,968	134	2,351	26,399	7,021,851	23,100,160	3.29
TRI Pointe Homes	903,209	15,812,078	937	16,498	185,274	16,014,788	45,521,000	2.84
Ryland Homes[7]	831,910	14,563,882	974	17,132	192,393	14,774,380	40,687,000	2.75
Warmington Residential	705,969	12,359,083	819	14,421	161,949	12,536,273	26,378,200	2.10
William Lyon Homes	432,744	7,575,867	632	11,127	124,958	7,712,584	24,622,636	3.19
CalAtlantic Group, Inc.	516,625	9,044,323	683	12,028	135,077	9,192,112	27,370,480	2.98
Pulte Homes	369,157	6,462,672	581	10,231	114,899	6,588,384	22,897,614	3.48
Shea Homes	743,259	13,011,918	1,328	23,374	262,494	13,299,114	49,359,000	3.71
TOTAL	**$5,318,577**	**$ 93,110,000**	**$ 6,220**	**$ 109,488**	**$ 1,229,542**	**$ 94,455,252**	**$ 283,429,460**	**3.00**

(1) Based on Appraisal Report as of the Date of Value.
(2) Based on actual Fiscal Year 2016-17 levy.
(3) Allocated based on share of Fiscal Year 2016-17 levy on Undeveloped Property.
(4) As of September 2, 2016. Allocated based on actual Fiscal Year 2016-17 levy.
(5) Represents the Appraiser's opinion of individual values as of August 1, 2016.
(6) Pursuant to the Rate and Method, Undeveloped Property is any property that did not have a building permit as of January 1, 2016 for Fiscal Year 2016-17.
(7) Ryland Homes of California, Inc., a direct, wholly-owned subsidiary of CalAtlantic Group, Inc., a Delaware corporation.
(8) May not total due to rounding.
Source: David Taussig & Associates, Inc.

Largest Taxpayers

Table 6 below lists the largest taxpayers within the District within each Zone, measured by the percentage of Fiscal Year 2016-17 Special Tax levy. Based on the ownership status as of August 1, 2016 provided in the Appraisal Report, assuming no additional sales, for Fiscal Year 2016-17, the largest taxpayer within the District will be TRI Pointe Homes, which is responsible for approximately 16.99% of the Fiscal Year 2016-17 Special Tax levy. CalAtlantic Group, Inc. and its wholly owned subsidiary, Ryland Homes of California, Inc., are responsible for approximately 25.35% of the Fiscal Year 2016-17 Special Tax levy. See "SPECIAL RISK FACTORS — Concentration of Ownership."

TABLE 6
COMMUNITY FACILITIES DISTRICT NO. 2016-1
OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA)
ESTIMATED FISCAL YEAR 2016-17 LARGEST TAXPAYERS

Zone	*Owner* [1]	*Planning Area*	*Fiscal Year 2016-17 Taxable Acreage*[2]	*Fiscal Year 2016-17 Tax Class*	*Fiscal Year 2016-17 Special Tax Levy*	*Percent of Total Levy*
1	Meritage Homes	MR-2	8.47	Undeveloped	$ 416,256	7.83%
1	MBK Homes	MR-3	8.13	Undeveloped	399,448	7.51
1	Subtotal		16.60		$ 815,704	15.34%
2	TRI Pointe Homes	MR-15	5.97	Undeveloped	358,758	6.75%
2	Ryland Homes[3]	MR-17	7.67	Undeveloped	461,303	8.67
2	Warmington Residential	MR-18	11.74	Undeveloped	705,969	13.27
2	Ryland Homes[3]	MR-19	6.16	Undeveloped	370,606	6.97
2	Subtotal		31.54		$ 1,896,637	35.66%
3	William Lyon Homes	MR-23	10.20	Undeveloped	$ 432,744	8.14%
3	TRI Pointe Homes	MR-24	12.84	Undeveloped	544,450	10.24
3	Subtotal		23.04		$ 977,195	18.37%
4	Cal Atlantic Homes	AQ-2	12.57	Undeveloped	$ 516,625	9.71%
5	Pulte Homes	AQ-11	11.92	Undeveloped	$ 369,157	6.94%
5	Shea Homes	AQ-13	13.40	Undeveloped	414,760	7.80
5	Subtotal		25.32		$ 783,917	14.74%
6	Shea Homes	AQ-21	11.50	Undeveloped	$ 328,499	6.18%
Total			**120.56**		**$ 5,318,577**	**100.00%**

(1) Based on Appraisal Report as of the Date of Value.
(2) Approximately 85 acres within the District are expected to be subject to the Special Tax levy at build-out.
(3) Ryland Homes of California, Inc., is a direct, wholly-owned subsidiary of CalAtlantic Group, Inc., a Delaware corporation.
Source: David Taussig & Associates, Inc.

Delinquency History

Fiscal Year 2016-17 is the first fiscal year in which Special Taxes are being levied within the District. The first installment of the Fiscal Year 2016-17 Special Taxes will become delinquent if not paid on or before December 10, 2016.

PROPERTY OWNERSHIP AND THE DEVELOPMENT

The following information about RMV PA2 Development, LLC and the merchant builders and their respective developments within the District has been provided by RMV PA2 Development, LLC (except information regarding estimated base sales prices of homes within the District, which has been provided by the Market Absorption Consultant. No information has been provided directly by the merchant builders to the District or the County. No assurance can be given that the proposed developments will occur as described in this Official Statement or that they will be completed in a timely manner, if at all, or that the current major property owners will continue to own the property. Neither the Bonds nor the Special Taxes securing the Bonds are personal obligations of the property owners or any affiliate thereof and, in the event that a property owner defaults in the payment of its Special Taxes, the District may proceed with judicial foreclosure but has no direct recourse to the assets of such property owner or any affiliate thereof. None of the information with respect to the merchant builders (other than the building permits issued in Table 7) will be subject to future update in the Developer Continuing Disclosure Agreement. See "SPECIAL RISK FACTORS" herein and APPENDIX G—"FORM OF CONTINUING DISCLOSURE AGREEMENT OF RMV PA2 DEVELOPMENT, LLC."

General Description of the Development

The District is located in the southern portion of Orange County, in the vicinity of Ortega Highway (Route 74) and Antonio Parkway, south of Ladera Ranch and east of the City of San Juan Capistrano. The property in the District is a portion of Planning Area 2, which is the second phase of one of six planning areas of the Rancho Mission Viejo Ranch Plan Planned Community, a proposed 22,815-acre master planned community which is anticipated to be the final master planned community within the Ranch. The District consists of approximately 199 gross acres, of which approximately 85 acres are expected to be subject to the Special Tax at build-out. Development within the District is expected to include 878 residential units (consisting of 590 market-rate residential units and 288 age-qualified residential units). In addition, there are expected to be several neighborhood recreation centers and parks and a county regional hiking and biking trails network. A completed community hall with a coffee house, a farm and a future joint-use multi-purpose building are located adjacent to the District within CFD No. 2015-1 and serve or will serve the Esencia development as a whole. Additional recreational facilities are currently under construction within the District. Merchant homebuilders have purchased all of the land available that is currently planned for development of for-sale residential projects in the District and are in various stages of model and first phase construction. See "—Merchant Builders in the Development" herein.

The District is the second phase of the Esencia development. The first phase, which is located within CFD No. 2015-1 consists of 522 market-rate residential units and 318 age-qualified residential units and opened for sale in September 2015. As of August 1, 2016, 423 of the 840 residential units within CFD No. 2015-1 had been sold to individual homeowners. Special taxes levied within CFD No. 2015-1 are not pledged to and are not available to pay debt service on the Bonds.

The area included in the District has been graded and major infrastructure (sewer, water, storm drains, utilities, and arterial roads) to be installed by the Developer within the District has been substantially completed. Residential lots are expected to be finished in phases by the merchant builders and the models are expected to be complete or substantially complete prior to the grand opening for the phase two of Esencia development in September 2016. As of August 1, 2016, 115 building permits had been issued within the District, including building permits for 27 of the 30 planned model homes.

In May 2015, the Developer started pre-opening marketing efforts for the Esencia development, including advertising and creating a website. The Developer has continued to market the Esencia development as new homes within the District are developed by the merchant builders. As of August 1, 2016, the Developer represents that more than 227,000 people have visited the website and signed up to receive more information on the new homes in Esencia. Of these, more than 4,500 have chosen to receive invitations to preview events.

The grand opening weekend for phase two of Esencia within the District occurred on September 25, 2016. The public grand opening event within the District was preceded by invitation-only appointments for potential homebuyers who were on the merchant builders' priority lists.

The Developer

RMV PA2 Development, LLC is the master developer of Esencia. The Developer is a limited liability company created under the laws of the State of Delaware, was formed on April 17, 2013 and is governed by that certain Amended and Restated Limited Liability Company Operating Agreement, dated as of June 30, 2015. The sole member of the Developer is RMV Community Development, LLC, a California limited liability company ("RMV CD"). RMV CD is the managing member of the Developer. Excerpts from the Developer's unaudited financial statements for the period ended July 31, 2016 and the fiscal year ended December 31, 2015, are attached hereto as Appendix K. The excerpts from the financial statements of the Developer are included for informational purposes only and the inclusion of such information does not mean that the Bonds are secured by any resources of the Developer.

RMV CD was formed on April 5, 2006 and is governed by that certain Limited Liability Company Operating Agreement, dated as of April 25, 2006, as amended on April 14, 2009 (the "RMV Community Development Operating Agreement"). The members of RMV CD are DMB Ladera, L.L.C., a Delaware corporation ("DMB Ladera"), and RMV Community Development Company, Inc., a California corporation ("RMV CDCI"), as the managing member of RMV CD. RMV CD is the developer of Sendero, a community that represents the first phase of the RMV Ranch Plan Planned Community. DMB Ladera is the developer of Ladera Ranch.

The members of DMB Ladera are DMB Consolidated Holdings, L.L.C., an Arizona limited liability company ("DMB"), and Ladera Development Company, L.L.C., a Delaware limited liability company ("Ladera").

DMB is a privately-held, diversified real estate investment and development firm with real estate holdings through affiliated companies that include residential communities, commercial developments and golf course properties located in Arizona, California, Hawaii, and Utah. DMB was formed in 1984 by Drew Brown, Mark Sklar and Bennett Dorrance. Since its inception, DMB has pursued large-scale real estate development. Early activities focused on commercial development, including the 1.2 million square-foot Centerpoint project in Tempe, Arizona. In the late 1980s and early 1990s, DMB focused on acquisition of both commercial properties and forming joint ventures to develop master planned communities.

Starting in 1994, DMB focused primarily on master planned community development. In most cases, a DMB managed entity partners with a landowner. Master planned communities developed or in development by DMB affiliated entities include Verrado in Buckeye, Arizona (8,800 acres), DC Ranch in Scottsdale, Arizona (8,000 acres); Marley Park in Surprise, Arizona (956 acres); One Scottsdale in Scottsdale, Arizona (120 acres); Power Ranch in Gilbert, Arizona (2,000 acres); Forest Highlands in Flagstaff, Arizona (500 acres); Ladera Ranch in Orange County, California (4,000 acres); Lahontan in North Lake Tahoe, California (720 acres), Martis Camp in North Lake Tahoe, California (2,200 acres); Santaluz in San Diego, California (4,000 acres); Kukui'ula, on Kauai, Hawaii (1,010 acres); Glenwild in Park City, Utah (950 acres) and Eastmark in Mesa, Arizona (3,200 acres).

The members of Ladera are members of the O'Neill family and key employees of Rancho Mission Viejo, L.L.C. ("RMV"), a Delaware limited liability company which is controlled and majority owned by members of the O'Neill family (with the remaining ownership held by key employees of RMV). Ladera was formed in February 1995 to acquire an option to purchase the property comprising Ladera Ranch from Santa Margarita Company ("Santa Margarita"), an affiliate of RMV, and to develop the property in Ladera Ranch.

The members of RMV CDCI are the principals of DMB and their family trusts, members of the O'Neill family and key employees of RMV. RMV CDCI was formed in September 2004 to acquire an option to purchase the property comprising the residential portions of Esencia from DMB San Juan Investment North, LLC ("DMB SJIN"), an affiliate of RMV, and to develop the properties in Sendero and Esencia.

History of Property Tax Payments; Loan Defaults; Litigation; Bankruptcy. The Developer has represented to the District as follows: a) neither the Developer, nor any individual or entity which has an ownership interest in the Developer, has ever defaulted in the payment of a special tax or an assessment on property owned by it; b) neither the Developer, nor any individual or entity which has an ownership interest in the Developer, is now in default on any loans, lines of credit or other obligation, or has been in default on any loans, lines of credit or other obligation in the past two years; c) neither the Developer, nor any individual or entity which has an ownership interest in the Developer, has ever filed for bankruptcy or been declared a bankrupt; and d) the Developer has not been served with notice of any claim or suit, nor to the best of the Developer's knowledge is any claim or suit now threatened against the Developer, with respect to the development within the District.

The Development

General. The area included in the District has been graded and major infrastructure (sewer, water, storm drains, utilities, and arterial roads) to be installed by the Developer within the District has been substantially completed. Homebuilders have purchased all of the land available that is currently planned for development of residential projects, and are in various stages of construction. As of August 1, 2016, six of the 12 merchant builders are completing construction of model homes and certain merchant builders have commenced vertical construction of production homes. The Developer owns all of the land intended for nonresidential use which is planned for a community park and recreational facilities, open space and public property.

Infrastructure Requirements and Financing Plan. The Developer estimates that total project cost for the infrastructure improvements to be installed by the Developer, Capistrano Unified School District, Santa Margarita Water District and the County within the District will total approximately $216 million, of which approximately $137 million has been spent as of August 1, 2016. Of this amount, approximately $100 million is identified as being eligible for reimbursement from Bond proceeds. The Developer estimates that approximately $32 million remains to be spent as of August 1, 2016 on improvements to be installed by the Developer on the Project, including: a) $4 million for streets and utilities; b) $6 million for landscaping, hardscape and parks; c) $4 million for mitigation payments (sheriff, library, Transportation Corridor Agency, and school fees, each of which are paid by the Developer on behalf of the merchant builders upon submission of building permits); d) $15 million for amenities; and e) $3 million for engineering, miscellaneous processing and legal fees, and marketing. In addition, approximately $10 million is anticipated to be spent on Avenida La Pata in satisfaction of a portion of the Developer's roadway obligation fee and approximately $25 million remains to be spent by Capistrano Unified School District for school facilities. All remaining infrastructure improvements to be installed by the Developer are anticipated to be completed by September 2017 and are planned to be funded by the Developer with cash on hand, and available Bond proceeds.

Notwithstanding the Developer's belief that the funding sources described above are expected to be sufficient to complete the remaining backbone infrastructure to be completed by the Developer in the District, there is no assurance that amounts necessary to finance the construction of such remaining backbone infrastructure to be completed within the District will be available from the Developer or any other funding source when needed. If and to the extent the sources of financing described above are inadequate to complete the remaining backbone infrastructure to be completed by the Developer, the planned development of the property may not proceed as planned. Neither the Developer nor any of the merchant builders have any legal obligation to the Bondowners to expend funds for the development of the property within the District or the payment of *ad valorem* property taxes or the Special Taxes, though the Developer and the merchant builders have legal obligations to each other to expend certain funds relating to the development. The Developer has posted improvement bonds to guarantee completion of the backbone infrastructure. Additionally, each of the merchant builders has posted improvement bonds to guarantee completion of its in-tract improvements.

Entitlements for the Overall Rancho Mission Viejo Ranch Plan Planned Community. The Rancho Mission Viejo Ranch Plan Planned Community application was approved by the Board of Supervisors with a General Plan Amendment, zone change, and development agreement on November 8, 2004. There were subsequently a number of entitlements and lawsuits that were settled, as noted below. A requirement by the County for the Rancho Mission Viejo Ranch Plan Planned Community, Condition of Approval No. 1, is that a Master Area Plan is required for each of the planning areas. As a result, a Master Area Plan for Planning Area 2.2, which includes the property in the District, was prepared and approved by the County on March 27, 2013.

On November 8, 2004, the County approved a Development Agreement with the owners of the property (the "Original Property Owners") within the Rancho Mission Viejo Ranch Plan Planned Community (the "Development Agreement"). The Development Agreement includes requirements of the County that would need to be accomplished by the Original Property Owners in return for vesting of project approvals to allow build-out of the Rancho Mission Viejo Ranch Plan Planned Community under the development standards and requirements in place at the time of the approval. The Development Agreement has a term of 30 years.

On June 22, 2012, the Original Property Owners entered into an Assignment and Assumption Agreement with the Developer (the "Assignment Agreement"). Prior to execution of the Assignment Agreement, DMB San Juan Investment North, LLC, transferred land within Planning Area 2, including land within the District, to the Developer. Pursuant to the Assignment Agreement, the Original Property Owners assigned to the Developer certain of their rights and obligations under the Development Agreement which were appurtenant and pertained to the lands transferred to the Developer, including the land within the District. These obligations included dedication of certain rights of way, funds for local improvements, funding of certain studies relating to traffic projects, and funding of certain street improvements. Each of these obligations has been fulfilled with respect to the land within the District. The assigned rights included allocation of certain development rights and associated milestones permitted under the Development Agreement, which include a number of permitted dwellings sufficient to complete build-out of properties in the District.

Environmental Impact Report and Litigation. On November 8, 2004, the Board of Supervisors certified the environmental impact report for the project and granted a number of approvals that would allow the implementation of the Rancho Mission Viejo Ranch Plan Planned Community. On December 8, 2004, the Endangered Habitats League, Natural Resources Defense Council, Sea and Sage Audubon Society, Laguna Greenbelt, Inc., and Sierra Club filed suit challenging the County's approval of the Rancho Mission Viejo Ranch Plan Planned Community and related environmental impact report.

On August 16, 2005, RMV, the County, the Endangered Habitats League, Natural Resources Defense Council, Sea and Sage Audubon Society, Laguna Greenbelt, Inc., and Sierra Club reached an agreement to settle the lawsuit challenging the County's approval of the Rancho Mission Viejo Ranch Plan Planned Community and the comprehensive open space and land use management plan for the remaining 22,815 acres of Rancho Mission Viejo, including the area comprising the District. The settlement resolved all outstanding litigation of the parties regarding the Rancho Mission Viejo Ranch Plan Planned Community and expanded the protection of open space and species found in the area covered by the Ranch Plan.

As a result of the litigation settlements, the Ranch Plan and the Development Agreement, the remaining undeveloped portions of the Ranch consisting of the Rancho Mission Viejo Ranch Plan Planned Community is entitled for the development of up to 14,000 dwelling units and 5.2 million square feet of commercial, business and urban centers located on 5,873 acres within six planning areas. The remaining 16,942 acres will remain open space.

Other Settlement Agreements. On December 8, 2004, RMV entered into an agreement with the City of San Clemente. RMV agreed not to enter into any agreements with any third party to transfer residential density in the Rancho Mission Viejo Ranch Plan Planned Community from the San Juan Watershed to the San Mateo Creek Watershed over that residential density currently allocated pursuant to the Rancho Mission Viejo Ranch Plan Planned Community entitlements. The City of San Clemente agreed not to challenge any transfer of residential density from the San Juan Creek to any one or more of the planning areas in the San Mateo Watershed that is ten percent or less of the San Mateo Watershed density. The agreement also requires RMV to complete a recreational facilities study and restricts the ability of the City of San Clemente to challenge the Rancho Mission Viejo Ranch Plan Planned Community approvals.

On June 9, 2005, RMV entered into an agreement with the City of Mission Viejo in order to resolve such city's challenge to the County's approval of the Rancho Mission Viejo Ranch Plan Planned Community and related environmental impact report. The settlement agreement resolved the City's litigation and, in relevant part, provided for the reallocation of certain funds to be provided by RMV pursuant to the South County Roadway Improvement Program (the "SCRIP") so as to better address local and regional roadway improvements benefiting the City of Mission Viejo.

At this time, the Developer believes that all fees and obligations required by the Development Agreement, related litigation settlements, and the Assignment Agreement for the development of property in the District have been paid or fulfilled, with the exception of fees owed at the time of issuance of building permits. Such fees include fire, sheriff and school mitigation fees, and Transportation Corridor Agency fees, which are approximately \$8,500 per apartment unit, \$13,000 per single family attached unit, \$20,000 per single family detached unit, and \$4.75 to \$5.00 per commercial or community-benefit use square foot. The Developer is responsible for such fees and intends to pay them as building permits are issued.

Merchant Builders in the Development

The property in the District consists of 12 for-sale residential developments and other lands retained by the Developer for nonresidential use, recreation and park space. The following table summarizes the residential developments within the District.

TABLE 7
COMMUNITY FACILITIES DISTRICT NO. 2016-1
OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA)
SUMMARY OF MERCHANT BUILDER DEVELOPMENTS

Merchant Builder	*Project*	*Product Type*[(1)]	*Average Living Area Sq.Ft.*[(2)]	*Number of Units*	*Number of Models Under Construction*[(3)]	*Number of Building Permits Pulled*[(3)]	*Estimated Average Base Sales Price*[(2)]
Market-Rate							
Meritage Homes of California, Inc.	Sage	Attached	1,470	125	5	25	$470,990
Esencia MR3, LLC (MBK Homes)	Veranda	Attached	1,950	86	8	21	616,700
LT-MR23, LLC (Lyon Homes)	Briosa	Detached – Large	3,260	50	3	11	984,667
TRI Pointe Homes, Inc.[(4)]	Aubergine	Detached – Large	3,391	57	--	32	1,072,000
TRI Pointe Homes, Inc.[(4)]	Aria	Detached – Small	1,857	64	--	--	637,333
Ryland Homes of California, Inc.[(4)(5)]	Citron	Detached – Small	1,928	70	--	6	683,900
Ryland Homes of California, Inc.[(4)(5)]	Heirloom	Detached – Large	2,830	41	--	--	877,400
Warmington MR 18 Associates, LLC	Canopy	Detached – Large	2,449	97	4	14	776,750
Age-Qualified							
CalAtlantic Group, Inc.	Iris	Attached	1,893	94	4	3	668,400
Pulte Home Corporation	Arista	Detached	1,699	71	3	3	658,177
Shea Homes Limited Partnership[(4)]	Cortesa	Detached	2,031	72	--	--	772,150
Shea Homes Limited Partnership[(4)]	Alondra	Detached	2,415	51	--	0	928,233
TOTAL				**878**	**27**	**115**	

(1) "Detached - Small" refers to units with floor plans of 2,200 square feet or less and "Detached - Large" refers to units with floor plans greater than 2,200 square feet.

(2) Averages as set forth in the Appraisal Report. Amounts differ from those set forth in the Market Absorption Study, which includes a weighted average taking into account the number of units per floor plan within each project.

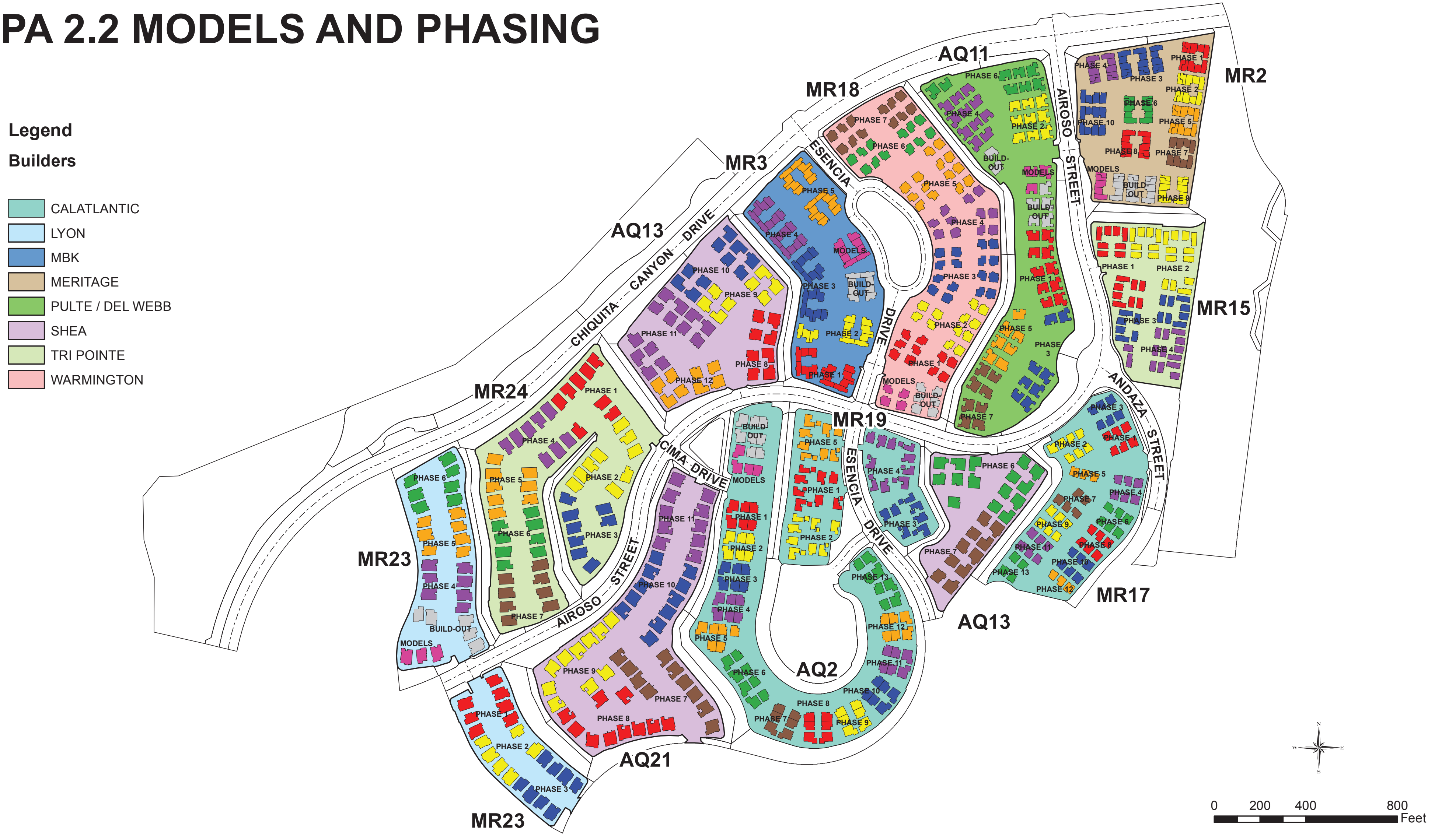
(3) As of August 1, 2016.

(4) Projects by Tri Pointe Homes, Inc., Ryland Homes of California, Inc. and Shea Homes Limited Partnership are extensions of existing projects of the same marketing names located within adjacent CFD No. 2015-1. With the exception of the Alondra project by Shea Homes Limited Partnership, which has model homes within the District, model homes for such projects are located within CFD No. 2015-1.

(5) Ryland Homes of California, Inc. is a direct, wholly-owned subsidiary of CalAtlantic Group, Inc., a Delaware corporation.

Source: The Developer, the Appraiser and the Market Absorption Consultant.

TRACT MAP NO. 17562
PA 2.2 MODELS AND PHASING



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The projects listed in Table 7 are in various stages of development. A general overview of each merchant builder and its development is set forth below.

The following information about the merchant builders and their respective developments within the District has been provided by RMV PA2 Development, LLC (except information regarding estimated base sales prices of homes within the District, which has been provided by the Market Absorption Consultant). No information has been provided directly by the merchant builders to the District or the County. The development and financing plans discussed for each of the merchant builders below are solely projections as of the date of this Official Statement. Such plans are subject to change. No assurance can be given that such plans will remain in their current state or that the plans will ultimately be carried out according to the discussion set forth below. The projected dates of occupancy and sellout of the merchant builders' projects described below may differ from those set forth in the Market Absorption Study. The websites referenced in this section are included for reference only and the information on such websites is not a part of this Official Statement and is not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on such websites.

Proposed Development by Meritage Homes – MR-2. Meritage Homes of California, Inc. ("Meritage Homes") is a subsidiary of Meritage Homes Corporation. Meritage Homes' parent company builds and sells single-family homes for various market segments across the Western, Southern and Southeastern United States. Meritage Homes' parent company is publicly traded on the NYSE and its SEC filings are available to the public at the SEC's website at www.sec.gov.

On December 3, 2015, Meritage Homes, purchased approximately 8.5 acres of property in the District, where it plans to build Sage, a project consisting of 125 single-family attached homes. Tract map 17593 was recorded for this property on April 25, 2016. Construction of the project commenced in January 2016, first occupancy is expected in October 2016 and sellout by August 2019. As of August 1, 2016, there were 5 model homes and 12 production homes under construction and 108 blue top lots within the Sage project. Meritage Homes provided estimates to the Developer that its construction costs will be between \$35 million and \$36 million and that it plans to finance that cost using a combination of the loans on the property and its available equity. The estimated base sales prices in the Sage project range from \$365,990 to \$525,990 with units ranging from approximately 931 square feet to 1,791 square feet.

Proposed Development by Esencia MR3, LLC – MR-3. Esencia MR3, LLC ("Esencia MR3") is a wholly-owned subsidiary of MBK Homes Southern California Ltd., a California limited partnership ("MBK Homes"). MBK Homes is a California homebuilder founded in 1991 that builds for sale housing product and for rent apartments throughout California. MBK Homes is the residential homebuilding division of MBK Real Estate LLC ("MBK Real Estate"). MBK Real Estate is the U.S. real estate development arm of, Mitsui & Co. Ltd., one of the world's largest multinational corporations.

On November 24, 2015, Esencia MR3, purchased approximately 8.1 acres of property in the District, where it plans to build Veranda, a project consisting of 86 single-family attached homes. Tract map 17585 was recorded for this property on July 8, 2016. Construction of the project commenced in May 2016, first occupancy is expected in January 2017 and sellout by April 2018. As of August 1, 2016, there were 8 model homes under construction and 78 blue top lots within the Veranda project. Esencia MR3 provided estimates to the Developer that its construction costs will be between \$31 million and \$32 million and that it plans to finance that cost using a combination of the loans on the property and its available equity. The estimated base sales prices in the Veranda project range from \$554,800 to \$684,000 with units ranging from approximately 1,681 square feet to 2,320 square feet.

Proposed Development by TRI Pointe Homes – MR-15. TRI Pointe Homes, Inc. ("TRI Pointe Homes") is engaged in the design, construction and sale of single-family homes in master planned communities in major metropolitan areas located throughout Southern and Northern California and in

Colorado. TRI Pointe Homes is a publicly-traded on the NYSE under the symbol "TPH." TRI Pointe Homes SEC filings are available to the public at the SEC's website at www.sec.gov.

On February 29, 2016, TRI Pointe Homes purchased approximately 6.0 acres of property in the District, where it plans to build Aria, a project consisting of 64 single-family detached homes. Tract map 17592 was recorded for this property on August 31, 2016. Construction of the project commenced in June 2016, first occupancy is expected in September 2017 and sellout in January 2019. As of August 1, 2016, there were 64 blue top lots within the Aria project. TRI Pointe Homes has provided estimates to the Developer that its construction costs will be between $20 million and $21 million and that it plans to finance that cost using a combination of the loans on the property and its available equity. The estimated base sales prices in the Aria project range from $615,000 to $658,000 with units ranging from approximately 1,779 square feet to 1,937 square feet. The Aria project within the District is a continuation of TRI Pointe Homes' project of the same marketing name within CFD No. 2015-1, which consists of 87 single-family detached homes.

Proposed Development by Ryland Homes – MR-17. The Ryland Group started homebuilding operations in 1967 and its operations were diversified throughout the United States. Prior to the merger with Standard Pacific Corp., the company was publicly-owned and listed on the NYSE. On October 1, 2015, the Ryland Group was merged into Standard Pacific Corp. which then changed its name to CalAtlantic Group, Inc. Pursuant to such merger, Ryland Homes remains a separate legal entity operating as a wholly-owned subsidiary of CalAtlantic, and continues to operate under the name of Ryland Homes.

On November 20, 2015, Ryland Homes, then a subsidiary of the Ryland Group, purchased approximately 7.7 acres of property in the District, with plans to build Citron, a project consisting of 70 single-family detached units. Tract map 17590 was recorded for this property on July 8, 2016. Construction of the project commenced in March 2016, first occupancy is expected in December 2016 and sellout in April 2018. As of August 1, 2016, there were 70 blue top lots within the Citron project. Ryland Homes has provided estimates to the Developer that construction costs for the Citron project will be between $26 million and $27 million which Ryland Homes plans to finance using credit facilities and available equity. The estimated base sales prices in the Citron project range from $652,900 to $743,900 with units ranging from approximately 1,775 square feet to 2,205 square feet. The Citron project within the District is a continuation of Ryland's project of the same marketing name within CFD No. 2015-1, which consists of 50 single-family detached homes.

Proposed Development by Warmington – MR-18. The Warmington group of companies is a privately held residential home building and property management group operating in approximately nine markets within California, Nevada and Arizona. Warmington MR 18 Associates, LLC is an affiliate of The Warmington group of companies. Additional information regarding The Warmington group of companies is available on its website.

On November 24, 2015, Warmington purchased approximately 11.7 acres of property in the District, where it plans to build Canopy, a project consisting of 97 single family detached homes. Tract map 17586 was recorded for this property on July 19, 2016. Construction of the project commenced in February 2016, first occupancy is expected in December 2016 and sellout in October 2018. As of August 1, 2016, there were 4 model homes under construction and 93 blue top lots within the Canopy project. Warmington has provided estimates to the Developer that its construction costs will be between $39 million and $40 million and that it plans to finance that cost using a combination of the loans on the property and its available equity. The estimated base sales prices in the Canopy project range from $715,000 to $855,000 with units ranging from approximately 2,153 square feet to 2,798 square feet.

Proposed Development by Ryland Homes – MR-19. On November 20, 2015, Ryland Homes purchased approximately 6.2 acres of property in the District, with plans to build the Heirloom project, consisting of 41 single-family detached units. Tract map 17584 was recorded for this property on July 28, 2016. Construction of the project commenced in April 2016, first occupancy is expected in April 2017 and sellout by January 2018. As of August 1, 2016, there were 41 blue top lots within the Heirloom project that is within Tract map 17584. Ryland Homes has provided estimates to the Developer that construction costs for the Heirloom project will be between $21 million and $22 million which Ryland Homes, plans to finance using credit facilities and available equity. The estimated base sales prices in the Heirloom project range from $781,900 to $975,900 with units ranging from approximately 2,345 square feet to 3,235 square feet. The Heirloom project within the District is a continuation of Ryland's project of the same marketing name within CFD No. 2015-1, which consists of 45 single-family detached homes.

Proposed Development by Lyon Homes – MR-23. William Lyon Homes, Inc. ("Lyon Homes") is engaged in the design, construction, and sale of single family detached and attached homes in California, Arizona and Nevada. Lyon Homes is publicly-traded on the New York Stock Exchange ("NYSE"). Lyon Homes' SEC filings are available to the public at the SEC's website at www.sec.gov. On November 18, 2015, LT-MR23, LLC, an affiliate of Lyon Homes, purchased approximately 12 acres of property in the District, where it plans to build Briosa, a project consisting of 50 single-family detached homes. Tract map 17579 was recorded for this property on May 20, 2016. Construction of the project commenced in March 2016, first occupancy is expected in December 2016 and sellout by June 2018. As of August 1, 2016, there were 3 model homes and 8 production homes under construction and 39 physically finished lots within the Briosa project. Lyon Homes provided estimates to the Developer that its construction costs will be between $27 million and $28 million and that it plans to finance that cost using a combination of the loans on the property and its available equity. The estimated base sales prices in the Briosa project range from $950,000 to $1,026,500 with units ranging from approximately 3,069 square feet to 3,486 square feet.

Proposed Development by TRI Pointe Homes – MR-24. On November 19, 2015, TRI Pointe Homes purchased approximately 12.8 acres of property in the District, where it plans to build Aubergine, a project consisting of 57 single-family detached homes. Tract map 17581 was recorded for this property on August 31, 2016. Construction of the project is expected to commence in October 2016, first occupancy is expected in October 2017 and sellout in December 2018. As of August 1, 2016, there were 57 blue top lots within the Aubergine project. TRI Pointe Homes has provided estimates to the Developer that its construction costs will be between $33 million and $34 million and that it plans to finance that cost using a combination of the loans on the property and its available equity. The estimated base sales prices in the Aubergine project range from $1,023,000 to $1,135,000 with units ranging from approximately 3,097 square feet to 3,761 square feet. The Aubergine project within the District is a continuation of TRI Pointe Homes' project of the same marketing name within CFD No. 2015-1, which consists of 66 single-family detached homes.

Proposed Development by CalAtlantic Group – AQ-2. CalAtlantic Group, Inc., a Delaware corporation ("CalAtlantic"), is a homebuilder incorporated in Delaware in 1991 with principal executive offices located in Irvine, California. CalAtlantic is a publicly traded company with its stock listed on the New York Stock Exchange. CalAtlantic's SEC filings are available to the public at the SEC's website at www.sec.gov.

On November 19, 2015, CalAtlantic, purchased approximately 12.6 acres of property in the District, where it plans to build Iris, a project consisting of 94 single-family attached age-qualified homes. Tract map 17580 was recorded for this property on July 8, 2016. Construction of the project commenced in March 2016, first occupancy is expected in February 2017 and sellout by July 2018. As of August 1, 2016, there were 4 model homes under construction and 90 blue top lots within the Iris project. CalAtlantic provided estimates to the Developer that its construction costs will be between $37 million and $38 million and that it plans to finance that cost using a combination of the loans on the property and its available equity. The estimated base sales prices in the Iris project range from $639,000 to $736,000 with units ranging from approximately 1,729 square feet to 2,336 square feet.

Proposed Development by Pulte Home Corporation – AQ-11. Pulte Home Corporation, a Michigan corporation ("Pulte"), is a subsidiary of PulteGroup, Inc. ("PulteGroup"), a publicly-held holding company whose subsidiaries engage primarily in the homebuilding business. The company also has mortgage banking operations, conducted principally through Pulte Mortgage LLC and title operations. PulteGroup is a Michigan corporation organized in 1956 whose common stock trades on the New York Stock Exchange under the symbol "PHM." PulteGroup's SEC filings are available to the public at the SEC's website at www.sec.gov.

On December 3, 2015, Pulte, purchased approximately 11.9 acres of property in the District, where it plans to build Arista, a project consisting of 71 single-family detached age-qualified homes. Tract map 17589 was recorded for this property on July 8, 2016. Construction of the project commenced in December 2015, first occupancy is expected in November 2016 and sellout by December 2017. As of August 1, 2016, there were 3 model homes and 4 production homes under construction and 64 blue top lots within the Arista project. Pulte provided estimates to the Developer that its construction costs will be between $31 million and $32 million and that it plans to finance that cost using a combination of the loans on the property and its available equity. The estimated base sales prices in the Arista project range from $570,532 to $726,527 with units ranging from approximately 1,472 square feet to 1,875 square feet.

Proposed Development by Shea Homes – AQ-13. Shea Homes Limited Partnership. ("Shea Homes") was founded in 1968 (as part of the Shea family of companies) and has built homes since then in California, Arizona, Colorado, Florida, Nevada, North Carolina, South Carolina and Washington, including active adult communities known as Trilogy. Although Shea Homes is a privately held company, it produces quarterly disclosures similar to a publicly held company for its bondholders and other interested parties which are available at Shea Homes' website.

On November 30, 2015, Shea Homes purchased approximately 13.4 acres of property in the District, where it plans to build Cortesa, a project consisting of 72 age-qualified detached homes. Tract maps 17583 and 17588 were recorded for this property on July 8, 2016. Construction of the Cortesa project commenced in April 2016, first occupancy is expected in May 2017 and sellout by December 2018. As of August 1, 2016, there were 72 blue top lots within the Cortesa project. Shea Homes has provided estimates to the Developer that its construction costs will be between $34 million and $35 million and that it plans to finance that cost using a combination of loans on the property and its available equity. The estimated base sales prices in the Cortesa project range from $727,900 to $807,900 with units ranging from approximately 1,816 square feet to 2,362 square feet. The Cortesa project within the District is a continuation of Shea Homes' project of the same marketing name within CFD No. 2015-1, which consists of 63 age-qualified homes.

Proposed Development by Shea Homes – AQ-21. On November 30, 2015, Shea Homes purchased approximately 11.5 acres of property in the District, where it plans to build Alondra, a project consisting of 51 age-qualified detached homes. Tract map 17582 was recorded for this property on July 8, 2016. Construction of the project commenced in May 2016, first occupancy is expected in May 2017 and sellout by June 2019. As of August 1, 2016, there were 51 blue top lots within the Alondra project. Shea Homes has provided estimates to the Developer that its construction costs will be between $29 million and $30 million and that it plans to finance that cost using a combination of loans on the property and its available equity. The estimated base sales prices in the Alondra project range from $904,900 to $959,900 with units ranging from approximately 2,325 square feet to 2,589 square feet. The Alondra project within the District is a continuation of Shea's project of the same marketing name within CFD No. 2015-1, which consists of 70 age-qualified homes.

Remaining Developer Properties. The Developer currently owns the remaining land within the District, consisting of the portion planned for nonresidential projects (consisting of a 1.5 acre community park, recreational facilities and other open space and public property). The park is expected to be complete in January 2017 and the recreational facilities are expected to be complete in August 2017.

SPECIAL RISK FACTORS

The purchase of the Bonds involves significant risks that are not appropriate investments for certain investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. The Bonds have not been rated by a rating agency. This discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the Bonds. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the District to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the District to make full and punctual payments of debt service on the Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the District. See "— Land Values" and "— Limited Secondary Market."

Risks of Real Estate Secured Investments Generally

The Bond owners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the District, the supply of or demand for competitive properties in such area, and the market value of residential property or buildings and/or sites in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; and (iii) natural disasters (including, without limitation, earthquakes, fires and floods), which may result in uninsured losses.

No assurance can be given that the Developer, the merchant builders or any future homeowners within the District will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See "— Bankruptcy and Foreclosure" below, for a discussion of certain limitations on the County's ability to pursue judicial proceedings with respect to delinquent parcels.

Concentration of Ownership

Based on the ownership status of the property within the District as of August 1, 2016, assuming no additional sales within the District, approximately of 16.99% the Special Taxes levied in Fiscal Year 2016-17 would be payable by TRI Pointe Homes and approximately 25.35% would be payable by CalAtlantic and its wholly-owned subsidiary, Ryland Homes (consisting of 9.71% payable by CalAtlantic and 15.64% payable by Ryland Homes). Based on the same assumptions, approximately 6.94% to 13.97% of the Special Taxes levied in Fiscal Year 2016-17 would be payable by each of the merchant builders, other than TRI Pointe Homes, CalAtlantic and Ryland Homes. Failure of the merchant builders, or any successors, to pay the annual Special Taxes when due could result in a draw on the Reserve Account of the Special Tax Fund, and ultimately a default in payments of the principal of, and interest on, the Bonds, when due. No assurance can be given that the Developer, the merchant builders or their successors, will complete the remaining intended construction and development in the District. See "— Failure to Develop Properties."

The District has levied Special Taxes on property within the District classified as Undeveloped Property which is owned by the merchant builders. Undeveloped Property is defined in the Rate and Method as property not classified as Developed Property, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property. In the event that the Developer, entities affiliated with the Developer, or any of the merchant builders fail to complete the remaining intended construction and development in the District, Special Taxes will continue to be levied on Undeveloped Property owned by such entities. No assurance can be given that the merchant builders, or any successors, will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See "— Bankruptcy and Foreclosure" for a discussion of certain limitations on the District's ability to pursue judicial proceedings with respect to delinquent parcels.

Limited Obligations

The Bonds and interest thereon are not payable from the general funds of the County. Except with respect to the Special Taxes, neither the faith and credit nor the taxing power of the District or the County is pledged for the payment of the Bonds or the interest thereon, and, except as provided in the Indenture, no owner of the Bonds may compel the exercise of any taxing power by the District or the County or force the forfeiture of any County or District property. The principal of, premium, if any, and interest on the Bonds are not a debt of the County or a legal or equitable pledge, charge, lien or encumbrance upon any of the County's or the District's property or upon any of the County's or the District's income, receipts or revenues, except the Net Taxes and other amounts pledged under the Indenture.

Insufficiency of Special Taxes

Under the Rate and Method, the annual amount of Special Tax to be levied on each taxable parcel in the District will generally be based on the land use class to which a parcel of Developed Property is assigned. See APPENDIX A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX" and "SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Rate and Method of Apportionment of Special Tax.*"

In order to pay debt service on the Bonds, it is necessary that the Special Taxes be paid in a timely manner. Should the Special Taxes not be paid on time, the District will establish and fund upon the issuance of the Bonds a Reserve Account of the Special Tax Fund in an amount equal to the Reserve Requirement to pay debt service on the Bonds to the extent other funds are not available. See "SOURCES OF PAYMENT FOR THE BONDS — Reserve Account of the Special Tax Fund." The District will covenant to maintain in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement subject, however, to the limitation that the District may not levy the Special Tax in the District in any fiscal year at a rate in excess of the maximum amounts permitted under the Rate and Method. As a result, if a significant number of delinquencies occurs, the District could be unable to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement due to the limitations on the maximum Special Tax. If such defaults were to continue in successive years, the Reserve Account of the Special Tax Fund could be depleted and a default on the Bonds could occur.

The District will covenant in the Indenture that, under certain conditions, it will institute foreclosure proceedings to sell any property with delinquent Special Taxes in order to obtain funds to pay debt service on the Bonds. If foreclosure proceedings were ever instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of the delinquent Special Tax to protect its security interest. See "SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales*" for provisions which apply in the event of such foreclosure and which the District is required to follow in the event of delinquencies in the payment of the Special Tax.

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to owners of the Bonds (if the Reserve Account of the Special Tax Fund has been depleted) pending such sales or the prosecution of such foreclosure proceedings and receipt by the District of the proceeds of sale. The District may adjust the future Special Tax levied on taxable parcels in the District, subject to the limitation on the maximum Special Tax, to provide an amount required to pay interest on, principal of, and redemption premiums, if any, on the Bonds, and the amount, if any, necessary to replenish the Reserve Account of the Special Tax Fund to an amount equal to the Reserve Requirement and to pay all current expenses; provided, however, that the Act and the Rate and Method provide that under no circumstances will the Special Tax levied in a Fiscal Year against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent (10%) above the amount that would have been levied in that Fiscal Year as a consequence of delinquency or default by the owner of any other Assessor's Parcel within the District. There is, however, no assurance that the total amount of the Special Tax that could be levied and collected against taxable parcels in the District will be at all times sufficient to pay the amounts required to be paid by the Indenture, even if the Special Tax is levied at the maximum Special Tax rates. See "—Bankruptcy and Foreclosure" for a discussion of potential delays in foreclosure actions.

The Rate and Method governing the levy of the Special Tax provides that no Special Tax shall be levied on property that is not located in a Zone. No Special Tax shall be levied on any property in Zone E or on Assessor's Parcels of Conservation Property, Property Owner Association Property, Public Property and/or Religious Property that is within a Zone; provided that an Assessor's Parcel shall not be exempt and shall be classified as Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property and/or Taxable Religious Property if exempting such property would increase the sum of all property exempt from the Special Tax within the applicable Zone to greater than the corresponding Acreage amount listed Table 9 in Appendix A. See Section E of APPENDIX A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX." If for any reason property within the District becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government or another public agency, subject to the limitations of the maximum authorized rates, the Special Tax will be reallocated to the remaining taxable properties within the District. This would result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon the ability and willingness of the owners of such property to pay the Special Tax when due.

The Rate and Method governing the levy of the Special Tax provides that, once a parcel is classified as Taxable Property, it will remain subject to a Special Tax levy even if it is subsequently acquired by a public agency. The Act provides that, if any property within the District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts. Due to problems of collecting taxes from public agencies, if a substantial portion of land within the District was to become owned by public agencies, collection of the Special Tax might become more difficult and could result in collections of the Special Tax which might not be sufficient to pay principal of and interest on the Bonds when due and a default could occur with respect to the payment of such principal and interest.

Teeter Plan Termination

In 1993, the County implemented its Teeter Plan as an alternate procedure for the distribution of certain property tax and assessment levies on the secured roll. Pursuant to its Teeter Plan, the County has elected to provide local agencies and taxing areas, including the District, with full tax and assessment levies instead of actual tax and assessment collections. In return, the County is entitled to retain all delinquent tax and assessment payments, penalties and interest. Thus, the County's Teeter Plan may protect the Owners of the Bonds from the risk of delinquencies in the payment of Special Taxes. However, the County is entitled, and under certain circumstances could be required, to terminate its Teeter Plan with respect to all or part of the local agencies and taxing areas covered thereby. A termination of the Teeter Plan with respect to the District would eliminate such protection from delinquent Special Taxes. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Teeter Plan."

Failure to Develop Properties

Development of property within the District may be subject to unexpected delays, disruptions and changes which may affect the willingness and ability of the merchant builders, or any property owner to pay the Special Taxes when due. Land development is subject to comprehensive federal, State and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. There is always the possibility that such approvals will not be obtained or, if obtained, will not be obtained on a timely basis. Failure to obtain any such agency approval or satisfy such governmental requirements would adversely affect planned land development.

Development of land in the District is also subject to the availability of water. Finally, development of land is subject to economic considerations.

The Developer reports that the area included in the District has been graded and major infrastructure (sewer, water, storm drains, utilities, and arterial roads) to be installed by the Developer within the District has been substantially completed. The Developer has completed construction of the community hall with coffee house and farm and associated landscaping located within adjacent CFD No. 2015-1, which amenities also serve the development within the District. The Developer expects to complete a 1.5 acre park within the District in January 2017.

Merchant builders have purchased all of the land planned for residential development of homes. A majority of the residential lots owned by the merchant builders are in a finished lot condition and certain of the merchant builders have commenced construction of model and production homes. No assurance can be given that the remaining proposed development will be partially or fully completed; and for purposes of evaluating the investment quality of the Bonds, prospective purchasers should consider the possibility that such parcels will remain unimproved.

Undeveloped or partially developed land is inherently less valuable than developed land and provides less security to the Bondowners should it be necessary for the District to foreclose on the property due to the nonpayment of Special Taxes. The failure to complete development of the required infrastructure for development in the District as planned, or substantial delays in the completion of the development or the required infrastructure for the development due to litigation or other causes may reduce the value of the property within the District and increase the length of time during which Special Taxes will be payable from undeveloped property, and may affect the willingness and ability of the owners of property within the District to pay the Special Taxes when due.

There can be no assurance that land development operations within the District will not be adversely affected by future deterioration of the real estate market and economic conditions or future local, State and federal governmental policies relating to real estate development, an increase in mortgage interest rates, the income tax treatment of real property ownership, or the national economy. A slowdown of the development process and the absorption rate could adversely affect land values and reduce the ability or desire of the property owners to pay the annual Special Taxes. In that event, there could be a default in the payment of principal of, and interest on, the Bonds when due.

Bondowners should assume that any event that significantly impacts the ability to develop land in the District would cause the property values within the District to decrease substantially from those estimated by the Appraiser and could affect the willingness and ability of the owners of land within the District to pay the Special Taxes when due.

The District has levied Special Taxes on Undeveloped Property for Fiscal Year 2016-17 and expects to levy Special Taxes on Undeveloped Property in future fiscal years until the Special Taxes levied on Developed Property are sufficient to fund the Special Tax Requirement. Undeveloped Property is less valuable per unit of area than Developed Property, especially if there are no plans to develop such land or if there are severe restrictions on the development of such land. The Undeveloped Property also provides less security to the Bondowners should it be necessary for the District to foreclose on Undeveloped Property due to the nonpayment of the Special Taxes. Furthermore, an inability to develop the land within the District as currently proposed will make the Bondowners dependent upon timely payment of the Special Taxes levied on Undeveloped Property. A slowdown or stoppage in the continued development of the District could reduce the willingness and ability of the merchant builders, or any successors, to make Special Tax payments on Undeveloped Property and could greatly reduce the value of such property in the event it has to be foreclosed upon. See "— Land Values."

No Representation as to Merchant Builders

No representation is made as to the experience, abilities or financial resources of the merchant builders who currently own property in the District or of any other purchaser or potential purchaser of property in the District or the likelihood that such merchant builders, purchasers or potential purchasers will be successful in developing such purchased properties within the District beyond the stage of development reached by the Developer. See “PROPERTY OWNERSHIP AND THE DEVELOPMENT — The Development.” The description of expected development by merchant builders in this Official Statement is based on information provided to the District by the Developer and the Appraiser, and none of the merchant builders have provided any information to the District or the County in connection with the preparation of this Official Statement. In making an investment decision, purchasers of the Bonds should not assume that such merchant builders or such other persons or entities that purchase property within the District will develop such properties beyond the current stage of development reached by the Developer and the merchant builders.

Natural Disasters

The District, like all California communities, may be subject to unpredictable seismic activity, fires, floods, or other natural disasters. Southern California is a seismically active area. Seismic activity represents a potential risk for damage to buildings, roads, and property within the District. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such event. According to the County, the property within the District is not located in an Alquist Priolo Earthquake Study Zone. The land within the District is adjacent to open space areas including the Cleveland National Forest which present the risk of wildfires. The District is not located in a flood plain area.

In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in the District. As a result, a substantial portion of the property owners may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in the District could be diminished in the aftermath of such a natural disaster, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

Endangered/Threatened Species

During the 1990s, there was an increase in activity at the State and federal level related to the possible listing of certain plant and animal species found in the Southern California area as endangered or threatened species. In response to this activity, several large landowners began an effort to move away from “species by species” entitlement to multiple species entitlement, in order to minimize the risk of future species listings and maximize the certainty of development. The Original Property Owners are some of such landowners. The Original Property Owners are permittees under the Southern Subregion Habitat Conservation Plan (“SSHCP”) which addresses seven (7) federally listed species and twenty-five (25) sensitive species. The Rancho Mission Viejo Ranch Plan Planned Community is permitted by the SSHCP. Accordingly, such development within the District is in compliance with this habitat conservation plan and is not anticipated to be impeded as a result of endangered or threatened species.

Hazardous Substances

The presence of hazardous substances on a parcel may result in a reduction in the value of a parcel. In general, the owners and operators of a parcel may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the taxed parcels be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming the owner, will become obligated to remedy the condition just as is the seller.

Further, it is possible that liabilities may arise in the future with respect to any of the parcels resulting from the existence, currently, on the parcel of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently, on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling such substance. All of these possibilities could significantly affect the value of a parcel that is realizable upon a delinquency and the willingness or ability of the owner of any parcel to pay the Special Tax installments.

The value of the taxable property within the District, as set forth in the various tables in this Official Statement, does not reflect the presence of any hazardous substance or the possible liability of the owner (or operator) for the remedy of a hazardous substance condition of the property. The Developer has represented to the District that it is not aware of any hazardous substance condition of the property within the District. The District has not independently verified, but is not aware, that any owner (or operator) of any of the parcels within the District has such a current liability with respect to any such parcel. However, it is possible that such liabilities do currently exist and that the District is not aware of them.

Payment of the Special Tax is not a Personal Obligation of the Property Owners

An owner of a taxable parcel is not personally obligated to pay the Special Tax. Rather, the Special Tax is an obligation which is secured only by a lien against the taxable parcel. If the value of a taxable parcel is not sufficient, taking into account other liens imposed by public agencies, to secure fully the Special Tax, the District has no recourse against the property owner.

Land Values

The value of the property within the District is a critical factor in determining the investment quality of the Bonds. If a property owner is delinquent in the payment of Special Taxes, the District's only remedy is to commence foreclosure proceedings against the delinquent parcel in an attempt to obtain funds to pay the Special Taxes. Reductions in property values due to a downturn in the economy, physical events such as earthquakes, fires or floods, stricter land use regulations, delays in development or other events will adversely impact the security underlying the Special Taxes. See "THE COMMUNITY FACILITIES DISTRICT — Appraised Value-to-Lien Ratios."

The Appraiser has estimated, on the basis of certain definitions, assumptions and limiting conditions contained in the Appraisal Report that as of August 1, 2016, the market value of the land and improvements within the District was approximately $283,400,000. The Appraisal Report is based on a number of assumptions and limiting conditions as stated in APPENDIX B — "APPRAISAL REPORT." The Appraisal Report does not reflect any possible negative impact which could occur by reason of future slow or no growth voter initiatives, an economic downturn, any potential limitations on development occurring due to time delays, an inability of any landowner to obtain any needed development approval or permit, the presence of hazardous substances or other adverse soil conditions within the District, the listing of endangered species or the determination that habitat for endangered or threatened species exists within the District, or other similar situations.

Prospective purchasers of the Bonds should not assume that the land and improvements within the District could be sold for the amount stated in the Appraisal Report at a foreclosure sale for delinquent Special Taxes. In arriving at the estimate of market value, the Appraiser assumes that any property will be sold in a competitive market after a reasonable exposure time, and assuming that neither the buyer or seller is under duress, which is not always present in a foreclosure sale. See APPENDIX B — "APPRAISAL REPORT" for a description of other assumptions made by the Appraiser and for the definitions and limiting conditions used by the Appraiser. Any event which causes one of the Appraiser's assumptions to be untrue could result in a reduction of the value of the land within the District from that estimated by the Appraiser.

The assessed values set forth in this Official Statement do not represent market values arrived at through an appraisal process and generally reflect only the sales price of a parcel when acquired by its current owner, adjusted annually by an amount determined by the County Assessor, generally not to exceed an increase of more than 2% per fiscal year. No assurance can be given that a parcel could actually be sold for its assessed value.

No assurance can be given that any bid will be received for a parcel with delinquent Special Taxes offered for sale at foreclosure or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes. See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE — COVENANTS AND WARRANTY — Covenants — Commence Foreclosure Proceedings."

Parity Taxes and Special Assessments

Property within the District is subject to taxes and assessments imposed by other public agencies also having jurisdiction over the land within the District. See "THE COMMUNITY FACILITIES DISTRICT — Direct and Overlapping Indebtedness."

The Special Taxes and any penalties thereon will constitute a lien against the lots and parcels of land on which they will be annually imposed until they are paid. Such lien is on a parity with all special taxes and special assessments levied by other agencies and is co-equal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on the property except, possibly, for liens or security interests held by the Federal Deposit Insurance Corporation or other federal agencies. See "— FDIC/Federal Government Interest in Properties" and "— Bankruptcy and Foreclosure."

Neither the District nor the County has control over the ability of other entities and districts to issue indebtedness secured by special taxes, *ad valorem* taxes or assessments payable from all or a portion of the property within the District. In addition, the landowners within the District may, without the consent or knowledge of the District, petition other public agencies to issue public indebtedness secured by special taxes and *ad valorem* taxes or assessments. Any such special taxes or assessments may have a lien on such property on a parity with the Special Taxes and could reduce the estimated value-to-lien ratios for the property within the District described herein. See "SOURCES OF PAYMENT FOR THE BONDS" and "THE COMMUNITY FACILITIES DISTRICT — Direct and Overlapping Indebtedness" and "— Appraised Value to Lien Ratios."

Disclosures to Future Purchasers

The willingness or ability of an owner of a parcel to pay the Special Tax even if the value is sufficient may be affected by whether or not the owner was given due notice of the Special Tax authorization at the time the owner purchased the parcel, was informed of the amount of the Special Tax on the parcel should the Special Tax be levied at the maximum tax rate and the risk of such a levy and, at the time of such a levy, has the ability to pay it as well as pay other expenses and obligations. The County has caused a notice of the Special Tax to be recorded in the Office of the Recorder for the County against each parcel. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a property within the District or lending of money thereon.

The Act requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a special tax under the Act of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

Special Tax Delinquencies

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, will be billed to the properties within the District on the regular *ad valorem* property tax bills sent to owners of such properties by the County Tax Collector. The Act currently provides that such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do *ad valorem* property tax installments.

See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE — COVENANTS AND WARRANTY — Covenants — Commence Foreclosure Proceedings" for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Indenture, in the event of delinquencies in the payment of Special Taxes. See "— Bankruptcy and Foreclosure" for a discussion of the policy of the Federal Deposit Insurance Corporation regarding the payment of special taxes and assessment and limitations on the District's ability to foreclosure on the lien of the Special Taxes in certain circumstances.

FDIC/Federal Government Interests in Properties

General. The ability of the District to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to properties in which the Federal Deposit Insurance Corporation (the "FDIC"), the Drug Enforcement Agency, the Internal Revenue Service, or other federal agency has or obtains an interest.

The supremacy clause of the United States Constitution reads as follows: "This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the contrary notwithstanding."

This means that, unless Congress has otherwise provided, if a federal governmental entity owns a parcel that is subject to Special Taxes within the District but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable state and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments.

Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government's mortgage interest. In *Rust v. Johnson* (9th Circuit; 1979) 597 F.2d 174, the United States Court of Appeal, Ninth Circuit held that the Federal National Mortgage Association ("FNMA") is a federal instrumentality for purposes of this doctrine, and not a private entity, and that, as a result, an exercise of state power over a mortgage interest held by FNMA constitutes an exercise of state power over property of the United States.

The District has not undertaken to determine whether any federal governmental entity currently has, or is likely to acquire, any interest (including a mortgage interest) in any of the parcels subject to the Special

Taxes within the District, and therefore expresses no view concerning the likelihood that the risks described above will materialize while the Bonds are outstanding.

FDIC. In the event that any financial institution making any loan which is secured by real property within the District is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, resulting in ownership of the property by the FDIC, then the ability of the District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited. The FDIC's policy statement regarding the payment of state and local real property taxes (the "Policy Statement") provides that property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement states that the FDIC generally will not pay non-*ad valorem* taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Act and a special tax formula which determines the special tax due each year are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity. The Ninth Circuit has issued a ruling on August 28, 2001 in which it determined that the FDIC, as a federal agency, is exempt from special taxes under the Act.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within the District in which the FDIC has or obtains an interest, although prohibiting the lien of the Special Taxes to be foreclosed out at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Such an outcome could cause a draw on the Reserve Account and perhaps, ultimately, if enough property were to become owned by the FDIC, a default in payment on the Bonds.

Bankruptcy and Foreclosure

Bankruptcy, insolvency and other laws generally affecting creditors' rights could adversely impact the interests of owners of the Bonds in at least two ways. First, the payment of property owners' taxes and the ability of the District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. See "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—*Proceeds of Foreclosure Sales*." In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

Second, the Bankruptcy Code might prevent moneys on deposit in the Acquisition and Construction Fund from being applied to pay interest on the Bonds and/or to redeem Bonds if bankruptcy proceedings were brought by or against a landowner or other party and if the court found that the landowner or other party had an interest in such moneys within the meaning of Section 541(a)(1) of the Bankruptcy Code.

Although a bankruptcy proceeding would not cause the Special Taxes to become extinguished, the amount of any Special Tax lien could be modified if the value of the property falls below the value of the lien. If the value of the property is less than the lien, such excess amount could be treated as an unsecured claim by the bankruptcy court. In addition, bankruptcy of a property owner could result in a delay in prosecuting Superior Court foreclosure proceedings. Such delay would increase the likelihood of a delay or default in payment of delinquent Special Tax installments and the possibility of delinquent Special Tax installments not being paid in full.

On July 30, 1992, the United States Court of Appeals for the Ninth Circuit issued its opinion in a bankruptcy case entitled *In re Glasply Marine Industries*. In that case, the court held that *ad valorem* property taxes levied by Snohomish County in the State of Washington after the date that the property owner filed a petition for bankruptcy were not entitled to priority over a secured creditor with a prior lien on the property. Although the court upheld the priority of unpaid taxes imposed before the bankruptcy petition, unpaid taxes imposed after the filing of the bankruptcy petition were declared to be “administrative expenses” of the bankruptcy estate, payable after all secured creditors. As a result, the secured creditor was able to foreclose on the property and retain all the proceeds of the sale except the amount of the pre-petition taxes.

The Bankruptcy Reform Act of 1994 (the “Bankruptcy Reform Act”) included a provision which excepts from the Bankruptcy Code’s automatic stay provisions, “the creation of a statutory lien for an *ad valorem* property tax imposed by . . . a political subdivision of a state if such tax comes due after the filing of the petition [by a debtor in bankruptcy court].” This amendment effectively makes the *Glasply* holding inoperative as it relates to *ad valorem* real property taxes. However, it is possible that the original rationale of the *Glasply* ruling could still result in the treatment of post-petition special taxes as “administrative expenses,” rather than as tax liens secured by real property, at least during the pendency of bankruptcy proceedings.

According to the court’s ruling, as administrative expenses, post-petition taxes would be paid, assuming that the debtor had sufficient assets to do so. In certain circumstances, payment of such administrative expenses may be allowed to be deferred. Once the property is transferred out of the bankruptcy estate (through foreclosure or otherwise), it would at that time become subject to current *ad valorem* taxes.

The Act provides that the Special Taxes are secured by a continuing lien which is subject to the same lien priority in the case of delinquency as *ad valorem* taxes. No case law exists with respect to how a bankruptcy court would treat the lien for Special Taxes levied after the filing of a petition in bankruptcy court. *Glasply* is controlling precedent on bankruptcy courts in the State. If the *Glasply* precedent was applied to the levy of the Special Taxes, the amount of Special Taxes received from parcels whose owners declare bankruptcy could be reduced.

The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel’s approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

No Acceleration Provision

The Bonds do not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the terms of the Bonds or the Indenture or in the event interest on the Bonds becomes included in gross income for federal income tax purposes. Pursuant to the Indenture, an owner is given the right for the equal benefit and protection of all owners of the Bonds similarly situated to pursue certain remedies described in APPENDIX E — “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE — EVENTS OF DEFAULT; REMEDIES” and “— Limitations on Rights and Remedies of Owners.”

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS" herein, interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued as a result of future acts or omissions of the District in violation of its covenants in the Indenture with respect to compliance with certain provisions of the Internal Revenue Code of 1986. Should such an event of taxability occur, the Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed under the redemption provisions contained in the Indenture.

Limited Secondary Market

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Although the District has committed to provide certain statutorily required financial and operating information, there can be no assurance that such information will be available to Bondowners on a timely basis. See "CONTINUING DISCLOSURE." Any failure to provide annual financial information, if required, does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, the absence of a credit rating for the Bonds or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Proposition 218

An initiative measure commonly referred to as the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State at the November 5, 1996 general election. The Initiative added Article XIIIC and Article XIIID to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." The provisions of the Initiative as they may relate to community facilities district are subject to interpretation by the courts. The Initiative could potentially impact the Special Taxes available to the District to pay the principal of and interest on the Bonds as described below.

Among other things, Section 3 of Article XIIIC states that ". . . the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge." The Act provides for a procedure which includes notice, hearing, protest and voting requirements to alter the rate and method of apportionment of an existing special tax. However, the Act prohibits a legislative body from adopting any resolution to reduce the rate of any special tax or terminate the levy of any special tax pledged to repay any debt incurred pursuant to the Act unless such legislative body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. On July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code Section 5854, which states that:

> "Section 3 of Article XIIIC of the California Constitution, as adopted at the November 5, 1996, general election, shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after that date, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights protected by Section 10 of Article I of the United States Constitution."

Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the Bonds.

It may be possible, however, for voters or the Board of Supervisors acting as the legislative body of the District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Bonds. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Nevertheless, to the maximum extent that the law permits it to do so, the District will covenant that it will not initiate proceedings under the Act to reduce the maximum Special Tax rates on parcels within the District. In connection with the foregoing covenant, the District will make an express determination that any elimination or reduction of Special Taxes below the foregoing level would interfere with the timely retirement of the Bonds. The District will also covenant that, in the event an initiative is adopted which purports to alter the Rate and Method, it will commence and pursue legal action in order to preserve its ability to comply with the foregoing covenant. However, no assurance can be given as to the enforceability of the foregoing covenants.

The California Court of Appeal, Fourth Appellate District, Division One, issued its opinion in *City of San Diego v. Melvin Shapiro, et al.* (D063997) (the "San Diego Decision"). The case involved a Convention Center Facilities District (the "CCFD") established by the City of San Diego ("San Diego"). The CCFD is a financing district much like a community facilities district established under the provisions of the Act. The CCFD is comprised of all of the real property in San Diego. However, the special tax to be levied within the CCFD was to be levied only on hotel properties located within the CCFD.

The election authorizing the special tax was limited to owners of hotel properties and lessees of real property owned by a governmental entity on which a hotel is located. Thus, the election was not a registered voter election. Such approach to determining who would constitute the qualified electors of the CCFD was modeled after Section 53326(c) of the Act, which generally provides that, if a special tax will not be apportioned in any tax year on residential property, the legislative body may provide that the vote shall be by the landowners of the proposed district whose property would be subject to the special tax. The Court held that the CCFD special tax election was invalid under the California Constitution because Article XIIIA, Section 4 thereof and Article XIIIC, Section 2 thereof require that the electors in such an election be the registered voters within the district.

The facts of the San Diego Decision show that there were thousands of registered voters within the CCFD (*viz.*, all of the registered voters in San Diego). The elections held in the District had less than 12 registered voters at the time of the election to authorize the Special Tax. In the San Diego Decision, the Court expressly stated that it was not addressing the validity of landowner voting to impose special taxes pursuant to the Act in situations where there are fewer than 12 registered voters. Thus, by its terms, the Court's holding does not apply to the Special Tax election in the District. Moreover, Section 53341 of the Act provides that any "action or proceeding to attack, review, set aside, void or annul the levy of a special tax…shall be commenced within 30 days after the special tax is approved by the voters." Similarly, Section 53359 of the Act provides that any action to determine the validity of bonds issued pursuant to the Act be brought within 30 days of the voters approving the issuance of such bonds.

The County, acting pursuant to the provisions of Sections 860 et seq. of the California Code of Civil Procedure and Government Code Section 53359, filed a complaint in the Superior Court of the State of California for the County of Orange seeking judicial validation of the formation of the District, the authorization of the issuance of bonds for the District and the levy of the special tax within the District. The Validation Judgment was entered by the court, to the effect, among other things, that the proceedings conducted by the Board of Supervisors in connection with the establishment of the District, the authorization to incur bonded indebtedness for the District through the issuance of bonds and the levy of the special tax within the District were valid and in conformity with the Constitution of the State and applicable laws of the State. Based on the Validation Judgment, Sections 53341 and 53359 of the Act and analysis of existing laws, regulations, rulings and court decisions, Bond Counsel is of the opinion that no successful challenge to the Special Tax being levied in accordance with the Rate and Method may now be brought.

The interpretation and application of Article XIII C and Article XIII D will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination or the timeliness of any remedy afforded by the courts. See "SPECIAL RISK FACTORS — Limitations on Remedies."

Ballot Initiatives

Articles XIII A, XIII B, XIII C and XIII D were adopted pursuant to measures qualified for the ballot pursuant to California's constitutional initiative process and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. On March 6, 1995, in the case of *Rossi v. Brown*, the State Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by California voters or legislation enacted by the legislature. The adoption of any such initiative or legislation might place limitations on the ability of the State, the County, or local districts to increase revenues or to increase appropriations or on the ability of the Developer or the merchant builders within the District to complete the remaining proposed development within the District.

Limitations on Remedies

Remedies available to the owners of the Bonds may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Bonds or to preserve the tax-exempt status of interest on the Bonds.

Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditor's rights, by equitable principles and by the exercise of judicial discretion and by limitations on remedies against public agencies in the State of California. The Bonds are not subject to acceleration. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the owners.

CONTINUING DISCLOSURE

District Continuing Disclosure

Pursuant to a Continuing Disclosure Certificate (the "District Continuing Disclosure Certificate"), the District will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) website, or other repository authorized under Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission, certain annual financial information and operating data concerning the District. The District Reports are to be filed not later than March 1 of each year, beginning March 1, 2017. The District Reports will include the audited financial statements of the District, if any are prepared. The District does not currently prepare audited financial statements and does not anticipate doing so in the future. The full text of the District Continuing Disclosure Certificate is set forth in APPENDIX F — "FORM OF CONTINUING DISCLOSURE CERTIFICATE OF THE DISTRICT."

Notwithstanding any provision of the Indenture, failure of the District to comply with the District Continuing Disclosure Certificate shall not be an event of default under the Indenture. However, any Owner or Beneficial Owner of the Bonds may take such action as is necessary and appropriate, including seeking mandate or a judgment for specific performance, to cause the District to comply with its obligations with respect to the District Continuing Disclosure Certificate.

The District has not entered into any prior continuing disclosure obligations. During the last five years, the County and certain of its related entities, have failed to comply in certain respects described below with continuing disclosure undertakings related to outstanding bonded indebtedness.

With respect to the County and its related entities, other than the District, the failure to comply fell into four general categories: (i) failure to provide event notices with respect to changes in the ratings of outstanding bonds, primarily related to changes in the ratings of various bond insurers insuring the bonds of the County or its related entities; (ii) omission of required financial and operating data required to be included in certain annual reports and late filing of annual reports with respect to a number of the bond issues, in some cases by only a day and in other cases by a longer period of time; (iii) failure to file audited financial statements as a part of certain annual reports; and (iv) failure to file annual reports with respect to certain bonds after they were economically (but not legally) defeased.

The County and various related entities have made additional filings to provide certain of the previously omitted information; provided that with respect to ratings changes, notice has been provided only of the existing rating or ratings applicable to each outstanding series of bonds. Each of these filings may be accessed through EMMA.

The County will assist the District in preparing the District Reports. In order to ensure ongoing compliance by the District with its continuing disclosure undertaking, (i) County staff will take steps to ensure that the filing due date is correctly documented in policies and procedures and a single County staff member has been assigned primary responsibility to monitor compliance; and (ii) the County has contracted with a consultant to assist in filing accurate, complete and timely disclosure reports on behalf of the District.

Developer Continuing Disclosure

To provide updated information with respect to the development within the District, the Developer will enter into a Continuing Disclosure Agreement of the Developer (the “Developer Continuing Disclosure Agreement”) by and between the Developer and David Taussig & Associates, Inc., as dissemination agent, and will covenant to provide an Annual Report not later than June 15 of each year beginning June 15, 2017, and a Semiannual Report on each December 15, beginning December 15, 2017, until satisfaction of certain conditions set forth in the Developer Continuing Disclosure Agreement. The Annual Report provided by the Developer and the Semiannual Report will contain updates regarding the development within the District as outlined in Section 4 of the Developer Continuing Disclosure Agreement attached as Appendix G. In addition to its Annual Reports and Semiannual Reports, the Developer will agree to provide notices of certain events set forth in the Developer Continuing Disclosure Agreement.

The Developer’s obligations under the Developer Continuing Disclosure Agreement will terminate upon the earliest to occur of: (a) the legal defeasance, prior redemption or payment in full of all the Bonds; or (b) (1) with respect to updates of the number building permits issued, at such time that 75% of the building permits for the planned residential development within the District have been issued, and (2) with respect to the updates of information described in Section 4 of the Developer Continuing Disclosure Agreement other than the number of building permits issued, at such time that ninety percent (90%) of the public improvements to be constructed by the Developer as described under the caption “PROPERTY OWNERSHIP AND THE DEVELOPMENT—The Development” have been completed, based on costs expended.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of the same maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Bond Owner will increase the Bond Owner's basis in the Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of a Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income of interest (and original issue discount) on the Bonds is based upon certain representations of fact and certifications made by the District, the County and others and is subject to the condition that the District, the County and others making such representations comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District and the County will covenant to comply with all such requirements.

The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of other similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Bonds or their market value.

SUBSEQUENT TO THE EXECUTION AND DELIVERY OF THE BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE INTEREST ON THE BONDS OR THE MARKET VALUE OF THE BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE EXECUTION AND DELIVERY OF THE BONDS, SUCH CHANGES (OR

OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE BONDS.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the exclusion from gross income of interest (and original issue discount) on the Bonds for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel will render an opinion that interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes provided that the District and the County continue to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

Should interest on the Bonds (including any original issue discount) become includable in gross income for federal income tax purposes, the Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Indenture.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix C.

LEGAL MATTERS

The legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, approving the validity of the Bonds in substantially the form set forth as APPENDIX C hereto, will be made available to purchasers at the time of original delivery. Certain legal matters will be passed upon for the District and the County by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel and for the Underwriters by Best Best & Krieger LLP, Riverside California, as counsel to the Underwriters. Bond Counsel expresses no opinion to the Owners of the Bonds as to the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the Bonds and expressly disclaims any duty to do so.

VALIDATION

On May 2, 2016, the County, acting pursuant to the provisions of Sections 860 et seq. of the California Code of Civil Procedure and Government Code Section 53359, filed a complaint in the Superior Court of the State of California for the County of Orange seeking judicial validation of the formation of the District, the authorization of the issuance of bonds for the District and the levy of the special tax within the District. On July 22, 2016, the court entered the Validation Judgment to the effect, among other things, that the proceedings conducted by the Board of Supervisors in connection with the establishment of the District, the authorization to incur bonded indebtedness for the District through the issuance of bonds and the levy of the special tax within the District were valid and in conformity with the Constitution of the State and applicable laws of the State. The last day of the appeal period for the validation action was August 22, 2016. As of the date of this Official Statement, no appeal has been filed with respect to the Validation Judgment. In issuing the opinion as to the validity of the Bonds and as a condition thereof, Bond Counsel will rely upon the entry of the Validation Judgment and the absence of a timely appeal therefrom. See APPENDIX C—”PROPOSED FORM OF BOND COUNSEL OPINION.”

ABSENCE OF LITIGATION

No litigation is pending or threatened concerning the validity of the Bonds and a certificate of the District to that effect will be furnished to the Underwriters at the time of the original delivery of the Bonds. Neither the County nor the District is aware of any litigation pending or threatened which questions the existence of the District or the County or contests the authority of the District to levy and collect the Special Taxes or to issue and retire the Bonds.

NO RATING

The District has not made and does not contemplate making application to any rating agency for the assignment of a rating to the Bonds.

UNDERWRITING

The Bonds are being purchased by Piper Jaffray & Co., as representative of itself and Raymond James & Associates, Inc. (the “Underwriters”). The Underwriters have agreed to purchase the Bonds at a price of $102,755,860.65 (being $93,110,000.00 aggregate principal amount thereof, plus net original issue premium of $10,142,136.95 and less Underwriters’ discount of $496,276.30). The purchase contract relating to the Bonds provides that the Underwriters will purchase all of the Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in the purchase contract, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell the Bonds to certain dealers and others at prices lower than the offering price stated on the cover page thereof. The offering price may be changed from time to time by the Underwriters.

FINANCIAL INTERESTS

The fees being paid to the Underwriters, Bond Counsel, Disclosure Counsel, Municipal Advisor to the County, the Trustee and Underwriters’ Counsel are contingent upon the issuance and delivery of the Bonds. The fees being paid to the Appraiser, to the Market Absorption Consultant and to the Special Tax Consultant are not contingent upon the issuance and delivery of the Bonds. From time to time, Bond Counsel represents the Underwriters on matters unrelated to the Bonds.

PENDING LEGISLATION

The District is not aware of any significant pending legislation which would have material adverse consequences on the Bonds or the ability of the District to pay the principal of and interest on the Bonds when due.

ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations and summaries and explanations of the Bonds and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents for full and complete statements and their provisions. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

The execution and delivery of this Official Statement by the County Executive Officer has been duly authorized by the Board of Supervisors of the County of Orange acting in its capacity as the legislative body of the District.

COMMUNITY FACILITIES DISTRICT NO. 2016–1 OF
THE COUNTY OF ORANGE (VILLAGE OF ESENCIA)

By: /s/ Frank Kim
County Executive Officer

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APPENDIX A

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

The following sets forth the Rate and Method of Apportionment for the levy and collection of Special Taxes of Community Facilities District No. 2016-1 of the County of Orange (Village of Esencia) (the "District"). An Annual Special Tax shall be levied on and collected in the District each Fiscal Year, in an amount determined through the application of the Rate and Method of Apportionment described below. All of the real property in the District, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent, and in the manner herein provided. The Special Taxes shown herein reflect the reduction in Special Taxes that occurred in 2016 pursuant to Section H below.

RATE AND METHOD OF APPORTIONMENT FOR COMMUNITY FACILITIES DISTRICT NO. 2016-1 OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA)

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Community Facilities District No. 2016-1 of the County of Orange (Village of Esencia) ("CFD No. 2016-1") and collected each Fiscal Year commencing in Fiscal Year 2016-17, in an amount determined by the Board through the application of the Rate and Method of Apportionment as described below. All of the real property in CFD No. 2016-1, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

"Acre" or **"Acreage"** means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map.

"Act" means the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Division 2 of Title 5 of the Government Code of the State of California.

"Administrative Expenses" means the following actual or reasonably estimated costs directly related to the administration of CFD No. 2016-1: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the County or designee thereof or both); the costs of collecting the Special Taxes (whether by the County or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the County, CFD No. 2016-1 or any designee thereof of complying with arbitrage rebate requirements; the costs to the County, CFD No. 2016-1 or any designee thereof of complying with disclosure requirements of the County, CFD No. 2016-1 or obligated persons associated with applicable federal and state securities laws and the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the County, CFD No. 2016-1 or any designee thereof related to an appeal of any Special Tax levy; the costs associated with the release of funds from an escrow account; and the County's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated by the CFD Administrator or advanced by the County or CFD No. 2016-1 for any other administrative purposes of CFD No. 2016-1, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure action to collect delinquent Special Taxes.

"Assessor's Parcel" means a lot or parcel shown in an Assessor's Parcel Map with an assigned Assessor's parcel number.

"Assessor's Parcel Map" means an official map of the Assessor of the County designating parcels by Assessor's Parcel number.

"Assigned Special Tax" means the Special Tax for each Land Use Class of Developed Property, as determined in accordance with Section C.1.(b) and Section C.1.(e) below.

"Backup Special Tax" means the Special Tax applicable to each Assessor's Parcel of Developed Property, as determined in accordance with Section C.1.(d) and Section C.1.(e) below.

"Board" means the Board of Supervisors of the County of Orange, acting as the legislative body of CFD No. 2016-1.

"Bonds" means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 2016-1 under the Act.

"CFD Administrator" means the County Executive Officer, or designee thereof, responsible for determining the Special Tax Requirement and providing for the levy and collection of the Special Taxes.

"CFD No. 2016-1" means Community Facilities District No. 2016-1 of the County of Orange (Village of Esencia).

"Conservation Property" means, for each Fiscal Year, any property within the boundaries of CFD No. 2016-1, excluding Property Owner Association Property, Public Property and Religious Property, that is subject to a declaration of irrevocable covenant, conservation easement deed, or similar document that was recorded restricting the use of such property to open space, habitat preservation, or other conservation purposes as of January 1 of the prior Fiscal Year. In order to ensure that such property is correctly classified as Conservation Property, the owner of such property shall provide the CFD Administrator with a copy of a declaration of irrevocable covenant, conservation easement deed, or similar document.

"County" means the County of Orange.

"Developed Property" means, for each Fiscal Year, all Taxable Property, exclusive of Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property, for which a building permit for new construction was issued prior to January 1 of the prior Fiscal Year. Notwithstanding the foregoing, (a) if a building permit is revoked, expired or otherwise cancelled and a new building permit is issued for the same property prior to the issuance of Bonds, then, the building square footage and building type as indicated on the new building permit shall thereafter be used for purposes of determining the Land Use Class, (b) if a building permit is revoked, expired or otherwise cancelled and a new building permit is issued for the same property after the issuance of Bonds, and the amount of Assigned Special Taxes which may be levied pursuant to the new building permit is greater than the Assigned Special Taxes which may be levied pursuant to the original building permit, then the building square footage and building type as indicated on the new building permit shall thereafter be used for purposes of determining the Land Use Class, otherwise the Land Use Class pursuant to the original building permit shall continue to be used, and (c) if a building permit is revoked, expired or otherwise cancelled and no new building permit is issued for the same property, then the property will continue to be considered Developed Property and taxed based on the original building permit.

"Fiscal Year" means the period starting July 1 and ending on the following June 30.

"Indenture" means the indenture, fiscal agent agreement, resolution or other instrument pursuant to which Bonds are issued, as modified, amended and/or supplemented from time to time, and any instrument replacing or supplementing the same.

"Land Use Class" means any of the classes within each Zone listed in Tables 1 through 6 below.

Maximum Special Tax" means for each Fiscal Year for each Assessor's Parcel, the maximum Special Tax, determined in accordance with Section C below, that can be levied on such Assessor's Parcel in such Fiscal Year.

"Non-Residential Property" means all Assessor's Parcels of Developed Property for which a building permit(s) was issued for a non-residential use.

"Outstanding Bonds" means all Bonds which are deemed to be outstanding under the Indenture.

"Property Owner Association Property" means, for each Fiscal Year, any property within the boundaries of CFD No. 2016-1 that is owned in fee or by easement, or dedicated to, a property owner association, including any master or sub-association as of January 1 of the prior Fiscal Year. Notwithstanding the foregoing, any property previously classified as Developed Property and subsequently owned in fee or by easement, or dedicated to, a property owner association, including any master or sub-association, shall remain classified as Developed Property.

"Proportionately" means for Developed Property that the ratio of the actual Special Tax levy to the Assigned Special Tax is equal for all Assessor's Parcels of Developed Property within CFD No. 2016-1. For Undeveloped Property, "Proportionately" means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor's Parcels of Undeveloped Property in CFD No. 2016-1. For Taxable Conservation Property, Taxable Public Property, Taxable Property Owner Association Property and Taxable Religious Property, "Proportionately" means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor's Parcels of Taxable Conservation Property, Taxable Public Property, Taxable Property Owner Association Property or Taxable Religious Property, as applicable.

"Public Property" means, for each Fiscal Year, any property within the boundaries of CFD No. 2016-1 that is used for rights-of-way or any other purpose and is owned by, dedicated to, or irrevocably offered for dedication to the federal government, the State of California, the County or any other public agency as of January 1 of the prior Fiscal Year; provided however that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified in accordance with its use. In order to ensure that such property is correctly classified as Public Property, the owner of such property shall provide the CFD Administrator with a copy of any applicable documents.

"Religious Property" means, for each Fiscal Year, all property within the boundaries of CFD No. 2016-1 which (i) is either (a) used primarily as a place of worship or (b) vacant land or land under construction that is intended to be used primarily as a place of worship as determined by the CFD Administrator; and (ii) is exempt from *ad valorem* property taxes because it is owned by a religious organization as of January 1 of the prior Fiscal Year. Religious Property, without limitation, does not include any Assessor's Parcels used primarily for religious schools, day care centers, or congregate care facilities.

"Residential Floor Area" means all of the square footage of living area within the perimeter of a residential structure, not including any carport, walkway, garage, overhang, patio, enclosed patio, or similar area. The determination of Residential Floor Area shall be made by reference to the building permit(s) issued for such Assessor's Parcel.

"Residential Property" means all Assessor's Parcels of Developed Property for which a building permit has been issued for purposes of constructing one or more residential dwelling units.

"Special Tax" means the special tax to be levied in each Fiscal Year on each Assessor's Parcel of Taxable Property to fund the Special Tax Requirement.

"Special Tax Requirement" means for each Fiscal Year, that amount required for CFD No. 2016-1 to pay the sum of: (i) debt service on all Outstanding Bonds or Bonds expected to be issued in such Fiscal Year; (ii) periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) Administrative Expenses; (iv) any amounts required to establish or replenish any reserve funds for all Outstanding Bonds or Bonds expected to be issued in such Fiscal Year by CFD No. 2016-1; and (v) any amounts required for construction of facilities eligible to be constructed or acquired by CFD No. 2016-1 under the Act. In arriving at the Special Tax Requirement, the CFD Administrator shall take into account the reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year and shall give a credit for funds available to reduce the annual Special Tax levy.

"State" means the State of California.

"Taxable Conservation Property" means all Assessor's Parcels of Conservation Property that are not exempt pursuant to Section E below.

"Taxable Property" means all of the Assessor's Parcels within the boundaries of CFD No. 2016-1 which are not exempt from the Special Tax pursuant to law or Section E below.

"Taxable Property Owner Association Property" means all Assessor's Parcels of Property Owner Association Property that are not exempt pursuant to Section E below.

"Taxable Public Property" means all Assessor's Parcels of Public Property that are not exempt pursuant to Section E below.

"Taxable Religious Property" means all Assessor's Parcels of Religious Property that are not exempt pursuant to Section E below.

"Trustee" means the trustee, fiscal agent, or paying agent under the Indenture.

"Undeveloped Property" means, for each Fiscal Year, all Taxable Property not classified as Developed Property, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property.

"Zone" means any one of the separate geographic areas within CFD No. 2016-1 designated on Exhibit A herein as: Zone 1, Zone 2, Zone 3, Zone 4, Zone 5, Zone 6, or Zone E.

B. ASSIGNMENT TO LAND USE CATEGORIES

Each Fiscal Year, all Taxable Property within Zones 1 through 6 of CFD No. 2016-1 shall be classified as Developed Property, Taxable Conservation Property, Taxable Public Property, Taxable Property Owner Association Property, Taxable Religious Property, or Undeveloped Property, and shall be subject to Special Taxes in accordance with the rate and method of apportionment determined pursuant to Sections C and D below.

The Assigned Special Tax for Residential Property shall be based on the Zone in which the Assessor's Parcel is located, the number of dwelling units, and the Residential Floor Area of the dwelling units located on the Assessor's Parcel. The Assigned Special Tax for Non-Residential Property shall be based on the Zone in which the Assessor's Parcel is located and the Acreage of the Assessor's Parcel.

C. MAXIMUM SPECIAL TAX RATE

1. Developed Property

a. Maximum Special Tax

The Maximum Special Tax for each Assessor's Parcel classified as Developed Property within a particular Zone shall be the greater of (i) the amount derived by application of the Assigned Special Tax for such Zone or (ii) the amount derived by application of the Backup Special Tax for such Zone.

b. Assigned Special Tax

The Assigned Special Tax for each Land Use Class within each Zone for Fiscal Year 2016-17 is shown below in Tables 1 through 6.

TABLE 1
Zone 1
(All Ages - Traditional Single Family Attached)
For Fiscal Year 2016-17
Assigned Special Taxes for Developed Property

Land Use Class	Residential Floor Area	Description	Assigned Special Tax
1	> 2,200 SF	Residential Property	$5,974 per unit
2	2,001 – 2,200 SF	Residential Property	$5,588 per unit
3	1,801 – 2,000 SF	Residential Property	$5,533 per unit
4	1,601 – 1,800 SF	Residential Property	$4,654 per unit
5	1,401 – 1,600 SF	Residential Property	$4,195 per unit
6	1,201 – 1,400 SF	Residential Property	$4,104 per unit
7	< 1,201 SF	Residential Property	$3,324 per unit
8	N/A	Non-Residential Property	$88,618 per Acre

TABLE 2
Zone 2
(All Ages – Cluster Single Family Detached)
For Fiscal Year 2016-17
Assigned Special Taxes for Developed Property

Land Use Class	Residential Floor Area	Description	Assigned Special Tax
1	> 3,200 SF	Residential Property	$8,920 per unit
2	3,001 – 3,200 SF	Residential Property	$8,039 per unit
3	2,801 – 3,000 SF	Residential Property	$7,820 per unit
4	2,601 – 2,800 SF	Residential Property	$7,690 per unit
5	2,401 – 2,600 SF	Residential Property	$7,187 per unit
6	2,201 – 2,400 SF	Residential Property	$6,618 per unit
7	2,001 – 2,200 SF	Residential Property	$6,329 per unit
8	1,801 – 2,000 SF	Residential Property	$5,829 per unit
9	< 1,801 SF	Residential Property	$5,609 per unit
10	N/A	Non-Residential Property	$99,885 per Acre

TABLE 3
Zone 3
(All Ages – Traditional Single Family Detached)
For Fiscal Year 2016-17
Assigned Special Taxes for Developed Property

Land Use Class	Residential Floor Area	Description	Assigned Special Tax
1	> 3,700 SF	Residential Property	$10,380 per unit
2	3,501 – 3,700 SF	Residential Property	$9,425 per unit
3	3,301 – 3,500 SF	Residential Property	$9,384 per unit
4	3,101 – 3,300 SF	Residential Property	$8,935 per unit
5	< 3,101 SF	Residential Property	$8,682 per unit
6	N/A	Non-Residential Property	$70,432 per Acre

TABLE 4
Zone 4
(Age Qualified – Traditional Single Family Attached)
For Fiscal Year 2016-17
Assigned Special Taxes for Developed Property

Land Use Class	Residential Floor Area	Description	Assigned Special Tax
1	> 2,000 SF	Residential Property	$6,218 per unit
2	1,801 – 2,000 SF	Residential Property	$5,263 per unit
3	< 1,801 SF	Residential Property	$5,020 per unit
4	N/A	Non-Residential Property	$68,279 per Acre

TABLE 5
Zone 5
(Age Qualified – Cluster Single Family Detached)
For Fiscal Year 2016-17
Assigned Special Taxes for Developed Property

Land Use Class	Residential Floor Area	Description	Assigned Special Tax
1	> 2,200 SF	Residential Property	$5,919 per unit
2	2,001 – 2,200 SF	Residential Property	$5,770 per unit
3	1,801 – 2,000 SF	Residential Property	$5,256 per unit
4	1,601 – 1,800 SF	Residential Property	$5,002 per unit
5	< 1,601 SF	Residential Property	$4,483 per unit
6	N/A	Non-Residential Property	$51,416 per Acre

TABLE 6
Zone 6
(Age Qualified – Traditional Single Family Detached)
For Fiscal Year 2016-17
Assigned Special Taxes for Developed Property

Land Use Class	Residential Floor Area	Description	Assigned Special Tax
1	> 2,600 SF	Residential Property	$7,500 per unit
2	2,401 – 2,600 SF	Residential Property	$6,963 per unit
3	< 2,401 SF	Residential Property	$6,380 per unit
4	N/A	Non-Residential Property	$47,436 per Acre

c. Multiple Land Use Classes

In some instances an Assessor's Parcel may contain both Undeveloped Property and Developed Property. Furthermore, Developed Property may contain more than one Land Use Class.

In such cases, the Acreage of the Assessor's Parcel shall be allocated between Developed Property and Undeveloped Property based on the portion of the

Assessor's Parcel for which building permits had been issued prior to January 1 of the prior Fiscal Year and the portion of the Assessor's Parcel for which building permits had not been issued prior to January 1 of the prior Fiscal Year. The Acreage that is considered Developed Property shall be allocated between Residential Property and Non-Residential Property based on the site plan. The Maximum Special Tax that can be levied on such Assessor's Parcel shall be the sum of the Maximum Special Tax that can be levied on each type of property located on that Assessor's Parcel.

d. Backup Special Tax

The Backup Special Tax in CFD No. 2016-1 shall equal an amount per Acre for each Zone as shown below in Table 7.

TABLE 7
All Zones
Fiscal Year 2016-17
Backup Special Tax

Zone	FY 2016-17 Backup Special Tax
1	$70,899 per Acre
2	$96,684 per Acre
3	$66,139 per Acre
4	$68,279 per Acre
5	$51,416 per Acre
6	$47,436 per Acre

e. Increase in the Assigned Special Tax and Backup Special Tax

On each July 1, commencing on July 1, 2017, the Assigned Special Tax and the Backup Special Tax for Developed Property shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

2. Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, and Undeveloped Property

a. Maximum Special Tax

The Maximum Special Tax for Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, and Undeveloped Property within each Zone is shown below in Table 8.

TABLE 8
All Zones
Fiscal Year 2016-17
Maximum Special Taxes for Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, or Undeveloped Property

Zone	FY 2016-17 Maximum Special Tax
1	$81,618 per Acre
2	$99,885 per Acre
3	$70,432 per Acre
4	$68,279 per Acre
5	$51,416 per Acre
6	$47,436 per Acre

b. Increase in the Maximum Special Tax

On each July 1, commencing on July 1, 2017, the Maximum Special Tax for Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, and Undeveloped Property and shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 2016-17 and for each following Fiscal Year, the Board shall levy the Special Tax until the amount of Special Taxes levied equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

First: The Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property at up to 100% of the applicable Assigned Special Tax;

Second: If additional monies are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property at up to 100% of the Maximum Special Tax for Undeveloped Property;

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the levy of the Special Tax on each Assessor's Parcel of Developed Property for which the Maximum Special Tax is determined through the application of the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel;

Fourth: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Conservation Property, Taxable Property Owner Association Property or Taxable Religious Property at up to the Maximum Special Tax for Taxable Conservation Property, Taxable Property Owner Association Property or Taxable Religious Property.

Fifth: If additional monies are needed to satisfy the Special Tax Requirement after the first four steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Public Property at up to the Maximum Special Tax for Taxable Public Property.

Notwithstanding the above, under no circumstances will the Special Tax levied in a Fiscal Year against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent (10%) above the amount that would have been levied in that Fiscal Year as a consequence of delinquency or default by the owner of any other Assessor's Parcel within CFD No. 2016-1. To the extent that the levy of the Special Tax on Residential Property is limited by the provision in the previous sentence, the levy of the Special Tax on all other Assessor's Parcels shall continue in equal percentages at up to 100% of the Maximum Special Tax.

E. EXEMPTIONS

No Special Tax shall be levied on (1) any property in Zone E and (2) Conservation Property, Property Owner Association Property, Public Property, and/or Religious Property in Zones 1 through 6 at up to the Acreage amounts shown in Table 9 below:

TABLE 9

Zone	Exempt Acreage
1	4.4 Acres
2	17.4 Acres
3	13.5 Acres
4	10.3 Acres
5	17.1 Acres
6	6.8 Acres

Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property within each Zone becomes Conservation Property, Property Owner Association Property, Public Property, or Religious Property. However, should an Assessor's Parcel no longer be classified as Conservation Property, Property Owner Association Property, Public Property, or Religious Property its tax-exempt status will be revoked and it will thereafter be classified as Developed Property or Undeveloped Property in accordance with Section D above.

Conservation Property, Property Owner Association Property, Public Property, or Religious Property that is not exempt from Special Taxes under this section shall be subject to the levy of the Special Tax and shall be taxed Proportionately as part of the fourth or fifth steps, respectively, in Section D above, at up to 100% of the applicable Maximum Special Tax for Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property.

F. MANNER OF COLLECTION

The Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes; provided, however, that CFD No. 2016-1 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

Tenders of Bonds may be accepted for payment of Special Taxes upon the terms and conditions established by the Act and permitted by CFD No. 2016-1. The use of Bond tenders shall only be allowed on a case-by-case basis as specifically approved by the Board.

G. PREPAYMENT OF SPECIAL TAX

The following definitions apply to this Section G:

"CFD Public Facilities Cost" means either $104 million in 2016 dollars, which shall increase by the Construction Inflation Index on July 1, 2017, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to provide the public facilities to be provided by CFD No. 2016-1 under the authorized bonding program for CFD No. 2016-1, or (ii) shall be determined by the Board concurrently with a covenant that it will not issue any more Bonds to be supported by Special Taxes levied under this Rate and Method of Apportionment as described in Section D.

"Construction Fund" means an account specifically identified in the Indenture to hold funds which are currently available for expenditure to acquire or construct public facilities eligible under the Act.

"Construction Inflation Index" means, for a Fiscal Year, the greater of 0% and the annual percentage change in the Engineering News-Record Building Cost Index for the City of Los Angeles, measured as of the calendar year which ends in the previous Fiscal Year. In the event this index ceases to be published, the Construction Inflation Index shall be another index as determined by the CFD Administrator that is reasonably comparable to the Engineering News-Record Building Cost Index for the City of Los Angeles.

"Future Facilities Costs" means the CFD Public Facilities Cost minus (i) public facility costs previously paid from the Construction Fund, (ii) moneys currently on deposit in the Construction Fund, and (iii) moneys currently on deposit in an escrow fund that are expected to be available to finance facilities costs.

"Outstanding Bonds" means all Previously Issued Bonds which are deemed to be outstanding under the Indenture after the first interest and/or principal payment date following the current Fiscal Year.

"Previously Issued Bonds" means all Bonds that have been issued by CFD No. 2016-1 prior to the date of prepayment.

1. Prepayment in Full

The obligation to pay the Special Tax for an Assessor's Parcel of Taxable Property may be prepaid and permanently satisfied as described herein; provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to such Assessor's Parcel at the time of prepayment. An owner of an Assessor's Parcel intending to prepay the Special Tax obligation shall provide the CFD Administrator with written notice of intent to prepay. Within 30 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount for such Assessor's Parcel. The CFD Administrator may charge a reasonable fee for providing this figure.

The Prepayment Amount (defined below) shall be calculated as summarized below (capitalized terms as defined below):

	Bond Redemption Amount
plus	Redemption Premium
plus	Future Facilities Amount
plus	Defeasance Amount
plus	Administrative Fees and Expenses
less	Reserve Fund Credit
less	Capitalized Interest Credit
equals	Prepayment Amount

As of the proposed date of prepayment, the Prepayment Amount shall be calculated as follows:

Paragraph No.:

1. For Assessor's Parcels of Developed Property, compute the Assigned Special Tax and Backup Special Tax applicable for the Assessor's Parcel to be prepaid. For Assessor's Parcels of Undeveloped Property for which a building permit has been issued, compute the Assigned Special Tax and Backup Special Tax for that Assessor's Parcel as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Assessor's Parcel. For Assessor's Parcels of Undeveloped Property for which a building permit has not been issued, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property, compute the Maximum Special Tax for the Assessor's Parcel to be prepaid.

2. (a) For an Assessor's Parcel of Developed Property or Undeveloped Property for which a building permit has been issued (i) Divide the Assigned Special Tax computed pursuant to paragraph 1 by the total estimated Assigned Special Taxes for the entire CFD No. 2016-1 based on the Developed Property Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of CFD No. 2016-1, excluding any Assessor's Parcels for which the Special Taxes have been prepaid, and (ii) Divide the Backup Special Tax computed pursuant to paragraph 1 by the total estimated Backup Special Taxes for the entire CFD No. 2016-1 based on the Backup Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of CFD No. 2016-1, excluding any Assessor's Parcels for which the Special Taxes have been prepaid.

   (b) For Assessor's Parcels of Undeveloped Property for which a building permit has not been issued, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property, divide the Maximum Special Tax computed pursuant to paragraph 1 by the total estimated Maximum Special Tax for the entire CFD No. 2016-1 based on the Maximum Special Tax which could be charged in the current Fiscal Year on all expected development through buildout of CFD No. 2016-1, excluding any Assessor's Parcels for which the Special Taxes have been prepaid.

3. Multiply the larger of quotient (i) and (ii) computed pursuant to paragraph 2(a) for Assessor's Parcels of Developed Property or Undeveloped Property for which a building permit has been issued, or the quotient computed pursuant to paragraph 2(b) for Assessor's Parcels of Undeveloped Property for which a building permit has not been issued, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property, by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "Bond Redemption Amount").

4. Multiply the Bond Redemption Amount computed pursuant to paragraph 3 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "Redemption Premium").

5. Compute the current Future Facilities Costs.

6. Multiply the larger of quotient (i) and (ii) computed pursuant to paragraph 2(a) for Assessor's Parcels of Developed Property or Undeveloped Property for which a building permit has been issued, or the quotient computed pursuant to paragraph 2(b) for Assessor's Parcels of Undeveloped Property for which a building permit has not been issued, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property, by the amount determined pursuant to paragraph 5 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities Amount").

7. Compute the amount needed to pay interest on the Bond Redemption Amount from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds.

8. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.

9. Determine the Special Taxes levied on the Assessor's Parcel in the current Fiscal Year which have not yet been paid.

10. Compute the minimum amount the CFD Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Future Facilities Amount and the Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.

11. Add the amounts computed pursuant to paragraphs 7 and 9 and subtract the amount computed pursuant to paragraph 10 (the "Defeasance Amount").

12. Verify the administrative fees and expenses of CFD No. 2016-1, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").

13. The reserve fund credit (the "Reserve Fund Credit") shall equal the lesser of: (a) the expected reduction in the reserve requirement (as defined in the Indenture), if any, associated with the redemption of Outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement (as defined in the Indenture) in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the reserve fund on the prepayment date, but in no event shall such amount be less than zero.

14. If any capitalized interest for the Outstanding Bonds will not have been expended at the time of the first interest and/or principal payment following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the larger of quotient (i) and (ii) computed pursuant to paragraph 2(a) for Assessor's Parcels of Developed Property or Undeveloped Property for which a building permit has been issued, or the quotient computed pursuant to paragraph 2(b) for Assessor's Parcels of Undeveloped Property for which a building permit has not been issued, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property, by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the "Capitalized Interest Credit").

15. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 3, 4, 6, 11 and 12, less the amounts computed pursuant to paragraphs 13 and 14 (the "Prepayment Amount").

16. From the Prepayment Amount, the amounts computed pursuant to paragraphs 3, 4, 11, 13 and 14 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 6 shall be deposited into the Construction Fund. The amount computed pursuant to paragraph 12 shall be retained by CFD No. 2016-1.

The Prepayment Amount may be sufficient to redeem other than a $5,000 increment of Bonds. In such cases, the increment above $5,000 or integral multiple thereof will be retained in the appropriate fund established under the Indenture to be used with the next prepayment of Bonds or to make debt service payments.

As a result of the payment of the current Fiscal Year's Special Tax levy as determined under paragraph 9 (above), the CFD Administrator shall remove the current Fiscal Year's Special Tax levy for such Assessor's Parcel from the County tax rolls. With respect to any Assessor's Parcel for which the Special Tax is prepaid, the Board shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Special Taxes and the release of the Special Tax lien on such Assessor's Parcel, and the obligation to pay the Special Tax for such Assessor's Parcel shall cease.

Notwithstanding the foregoing, no prepayment will be allowed unless (i) the amount of Maximum Special Tax that may be levied on Taxable Property (based on expected development at build out), after the proposed prepayment, less expected Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all Outstanding Bonds (excluding Bonds to be redeemed by such prepayment and all prior prepayments) in each future Fiscal Year and (ii) the amount of Maximum Special Tax that may be levied on non-delinquent Taxable Property (based on expected development at build out) after the proposed prepayment, less expected Administrative Expenses, shall be at least equal to the regularly scheduled annual interest and principal payments on all Outstanding Bonds (excluding Bonds to be redeemed by such prepayment and all prior prepayments) in each future Fiscal Year.

2. Prepayment in Part

The Special Tax for an Assessor's Parcel of Developed Property and/or Undeveloped Property may be partially prepaid. The amount of the prepayment shall be calculated as in Section G.1; except that a partial prepayment shall be calculated according to the following formula:

$$PP = [(P_E\text{-}AE) \text{ x } F] + AE$$

These terms have the following meaning:

AE = the Administrative Fees and Expenses
PP = the partial prepayment amount
P_E = the Prepayment Amount calculated according to Section G.1
F = the percentage by which the owner of the Assessor's Parcel is partially prepaying the Special Tax.

The owner of any Assessor's Parcel who desires such prepayment shall notify the CFD Administrator of such owner's intent to partially prepay the Special Tax and the percentage by which the Special Tax shall be prepaid. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Special Tax for an Assessor's Parcel within thirty (30) days of the request and may charge a reasonable fee for providing this service. With respect to any Assessor's Parcel for which the Special Tax is partially prepaid, CFD No. 2016-1 shall (i) distribute the funds remitted to it according to Section G.1, and (ii) indicate in the records of CFD No. 2016-1 that there has been a partial prepayment of the Special Tax and that a portion of the Special Tax with respect to such Assessor's Parcel, equal to the outstanding percentage (1.00 - F) of the applicable Assigned Special Tax, Backup Special Tax, and Maximum Special Tax, shall continue to be levied on such Assessor's Parcel pursuant to Section D. Furthermore, for Undeveloped Property that has been partially prepaid, the outstanding percentage (1.00 - F) of the applicable Assigned Special Tax, Backup Special Tax, and Maximum Special Tax shall continue to apply to such Assessor's Parcel after such Assessor's Parcel is considered Developed Property.

Notwithstanding the foregoing, no partial prepayment will be allowed unless (i) the amount of Maximum Special Tax that may be levied on Taxable Property (based on expected development at build out), after the proposed partial prepayment, less expected Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all Outstanding Bonds (excluding Bonds to be redeemed by such prepayment and all prior prepayments) in each future Fiscal Year and (ii) the amount of Maximum Special Tax that may be levied on non-delinquent Taxable Property (based on expected development at build out) after the proposed partial prepayment, less expected Administrative Expenses, shall be at least equal to the regularly scheduled annual interest and principal payments on all Outstanding Bonds (excluding Bonds to be redeemed by such prepayment and all prior prepayments) in each future Fiscal Year.

H. SPECIAL TAX REDUCTION

The following definitions apply to this Section H:

"Issuance Date" means the date a bond purchase contract related to the sale of the Bonds is entered into between the underwriter of the Bonds and CFD No. 2016-1.

"Plan Type" means a discrete residential plan type (generally consisting of residential dwelling units that share a common product type (e.g., detached, attached, cluster) and that have nearly identical amounts of living area) that is constructed or expected to be constructed within CFD No. 2016-1 as identified in the Price Point Study.

"Price Point" means, with respect to the residential dwelling units in each Plan Type, as of the date of the applicable Price Point Study, the base price of such residential dwelling units, estimated by the Price Point Consultant as of such date, including any incentives and concessions, but excluding potential appreciation or premiums, options or upgrades, based upon their actual or expected characteristics, such as living area, view, or lot size.

"Price Point Consultant" means any consultant or firm of such consultants selected by CFD No. 2016-1 that (a) has substantial experience in performing price point studies for residential units within community facilities districts or otherwise estimating or confirming pricing for residential units in community facilities districts, (b) is well versed in analyzing economic and real estate data that relates to the pricing of residential units in community facilities districts, (c) is in fact independent and not under the control of CFD No. 2016-1 or the County, (d) does not have any substantial interest, direct or indirect, with or in (i) CFD No. 2016-1, (ii) the County, (iii) any owner of real property in CFD No. 2016-1, or (iv) any real property in CFD No. 2016-1, and (e) is not connected with CFD No. 2016-1 or the County as an officer or employee thereof, but who may be regularly retained to make reports to CFD No. 2016-1 or the County.

"Price Point Study" means a price point study or a letter updating a previous price point study, which (a) has been prepared by the Price Point Consultant, (b) sets forth the Plan Types constructed or expected to be constructed within Zones 1 through 6 in CFD No. 2016-1, (c) sets forth the estimated number of constructed and expected residential dwelling units for each Plan Type, (d) sets forth such Price Point Consultant's estimate of the Price Point for each Plan Type and (e) uses a date for establishing such Price Points that is no earlier than 30 days prior to the date the Price Point Study is delivered to the CFD Administrator pursuant to Step No. 1 of this Section H. The Price Point Study will only include the for-sale Residential Property in Zones 1 through 6.

"Total Effective Tax Rate" means, for a Plan Type, the quotient of (a) the Total Tax and Assessment Obligation for such Plan Type divided by (b) the Price Point for such Plan Type, converted to a percentage.

"Total Tax and Assessment Obligation" means, with respect to a Plan Type in a Zone, for the Fiscal Year for which the calculation is being performed, the quotient of (a) the sum of the Assigned Special Tax and estimated *ad valorem* property taxes, special assessments, special taxes for any overlapping community facilities districts, and any other governmental taxes, fees and charges levied or imposed on all residential dwelling units of such Plan Type in such Zone in such Fiscal Year or that would have been levied or imposed on all such residential dwelling units had such residential dwelling units been completed, sold and subject to such levies and impositions in such Fiscal Year divided by (b) the number of residential dwelling units in such Plan Type in such Zone. The Total Tax and Assessment Obligation for each Plan Type shall be calculated based on the applicable Residential Floor Area, Price Point, and number of constructed and expected residential dwelling units for such Plan Type in such Zone as identified in the Price Point Study.

Prior to the issuance of the first series of Bonds, the following steps shall be taken for each Land Use Class of for-sale Residential Property in Zones 1 through 6:

Step No.:

1. At least 30 days prior to the expected Issuance Date of the first series of Bonds, CFD No. 2016-1 shall cause a Price Point Study to be delivered to the CFD Administrator.

2. As soon as practicable after receipt of the Price Point Study, the CFD Administrator shall calculate the Total Tax and Assessment Obligation and Total Effective Tax Rate for each Plan Type in each Zone.

3. Separately, for each Land Use Class of for-sale Residential Property in each Zone, the CFD Administrator shall determine whether or not the Total Effective Tax Rate for all Plan Types in a Land Use Class is less than or equal to 2.00%.

    a. If the Total Effective Tax Rate for all Plan Types in a Land Use Class in a Zone is less than or equal to 2.00%, then there shall be no change in the Assigned Special Tax for such Land Use Class in such Zone.

    b. If the Total Effective Tax Rate for any Plan Type in a Land Use Class in a Zone is greater than 2.00%, the CFD Administrator shall calculate a revised Assigned Special Tax for such Land Use Class in such Zone, which revised Assigned Special Tax shall be the highest amount (rounded to the nearest whole dollar) that will not cause the Total Effective Tax Rate for any Plan Type in such Land Use Class in such Zone to exceed 2.00%.

4. If the Assigned Special Tax for any Land Use Class in a Zone is revised pursuant to step 3.b. above, the CFD Administrator shall calculate a revised Backup Special Tax for all property within such Zone. The revised Backup Special Tax per Acre for such Zone shall be an amount (rounded to the nearest whole dollar) equal to the Backup Special Tax per Acre for such Zone as set forth in Table 7 above, reduced by a percentage equal to the weighted average percentage reduction in the Assigned Special Taxes for all Land Use Classes of Residential Property in such Zone resulting from the calculations in steps 3.a. and 3.b. above.

The weighted average percentage will be calculated by taking the sum of the products of the number of units constructed or expected to be constructed in each Land Use Class in such Zone multiplied by the percentage change in the Assigned Special Tax (pursuant to step 3.b. above) for each Land Use Class in such Zone (or 0 for Land Use Classes that are not changing). This amount is then divided by the total number of units constructed or expected to be constructed within the Zone and converted to a percentage.

5. If the Assigned Special Tax for any Land Use Class in any Zone is revised pursuant to step 3.b. above, the CFD Administrator shall prepare and execute a Certificate of Reduction in Special Taxes substantially in the form of Exhibit B hereto and shall deliver such Certificate of Reduction in Special Taxes to CFD No. 2016-1. The Certificate of Reduction in Special Taxes shall be completed for all Land Use Classes in all Zones and shall set forth, as applicable, either (i) the reduced Assigned Special Tax for a Land Use Class in a Zone as calculated pursuant to step 3.b., or (ii) the Assigned Special Tax as identified in Tables 1 through 6 in Section C for a Land Use Class in a Zone that was not revised as determined pursuant to step 3.a.; as well as either (i) the revised Backup Special Tax for a Zone as calculated pursuant to step 4, or (ii) the Backup Special Tax as identified in Table 7 in Section C.1.(d) for a Zone that was not revised as determined pursuant to step 4.

6. If the Issuance Date of the first series of Bonds is within 120 days of the date of receipt of the Price Point Study by the CFD Administrator, CFD No. 2016-1 shall execute the acknowledgement on such Certificate of Reduction in Special Taxes, dated as of the closing date of such Bonds, and upon the closing of such first series of Bonds, the Assigned Special Tax for each Land Use Class and the Backup Special Tax shall be, for all purposes, as set forth in such Certificate of Reduction in Special Taxes. If the Issuance Date of the first series of Bonds is not within 120 days of the date of receipt of the Price Point Study by the CFD Administrator, such Certificate of Reduction in Special Taxes shall not be acknowledged by CFD No. 2016-1 and shall, as of such date, be void and of no further force and effect. In such case, if subsequently a first series of Bonds is expected to be issued, at least 30 days prior to the expected Issuance Date of such first series of Bonds, the CFD Administrator shall cause a new Price Point Study to be delivered to the CFD Administrator and, following such delivery, steps 2 through 5 of this section shall be performed based on such new Price Point Study.

7. As soon as practicable after the execution by CFD No. 2016-1 of the acknowledgement on the Certificate of Reduction in Special Taxes, CFD No. 2016-1 shall cause to be recorded in the records of the County Recorder an Amended Notice of Special Tax Lien for CFD No. 2016-1 reflecting the Assigned Special Taxes and the Backup Special Tax for each Zone set forth in such Certificate of Reduction in Special Taxes.

8. If the Assigned Special Tax is not required to be changed for any Land Use Class in any Zone based on the calculations performed under step 3 above, there shall be no reduction in the Maximum Special Tax, and no Certificate of Reduction in Special Taxes shall be required. However the CFD Administrator shall prepare and deliver to CFD No. 2016-1 a Certificate of No Reduction in Special Taxes substantially in the form of Exhibit C hereto dated as of the closing date of the first series of Bonds that states that the calculations required pursuant to this Section H have been made and that no changes to the Maximum Special Tax are necessary.

9. CFD No. 2016-1 and the CFD Administrator shall take no further actions under this Section H upon the earlier to occur of the following: (i) the execution of the acknowledgement by CFD No. 2016-1 on a Certificate of Reduction in Special Taxes pursuant to step 6; or (ii) the delivery by the CFD Administrator of a Certificate of No Reduction in Special Taxes pursuant to step 8.

I. TERM OF SPECIAL TAX

The Special Tax shall be levied on an Assessor's Parcel for a period not to exceed forty years from the Fiscal Year in which such Assessor's Parcel first becomes Developed Property.

J. DETERMINATIONS OF CFD ADMINISTRATOR CONSIDERED FINAL

Any determinations made by CFD Administrator under terms of this Rate and Method of Apportionment shall be final.

EXHIBIT A

ZONE DESIGNATION

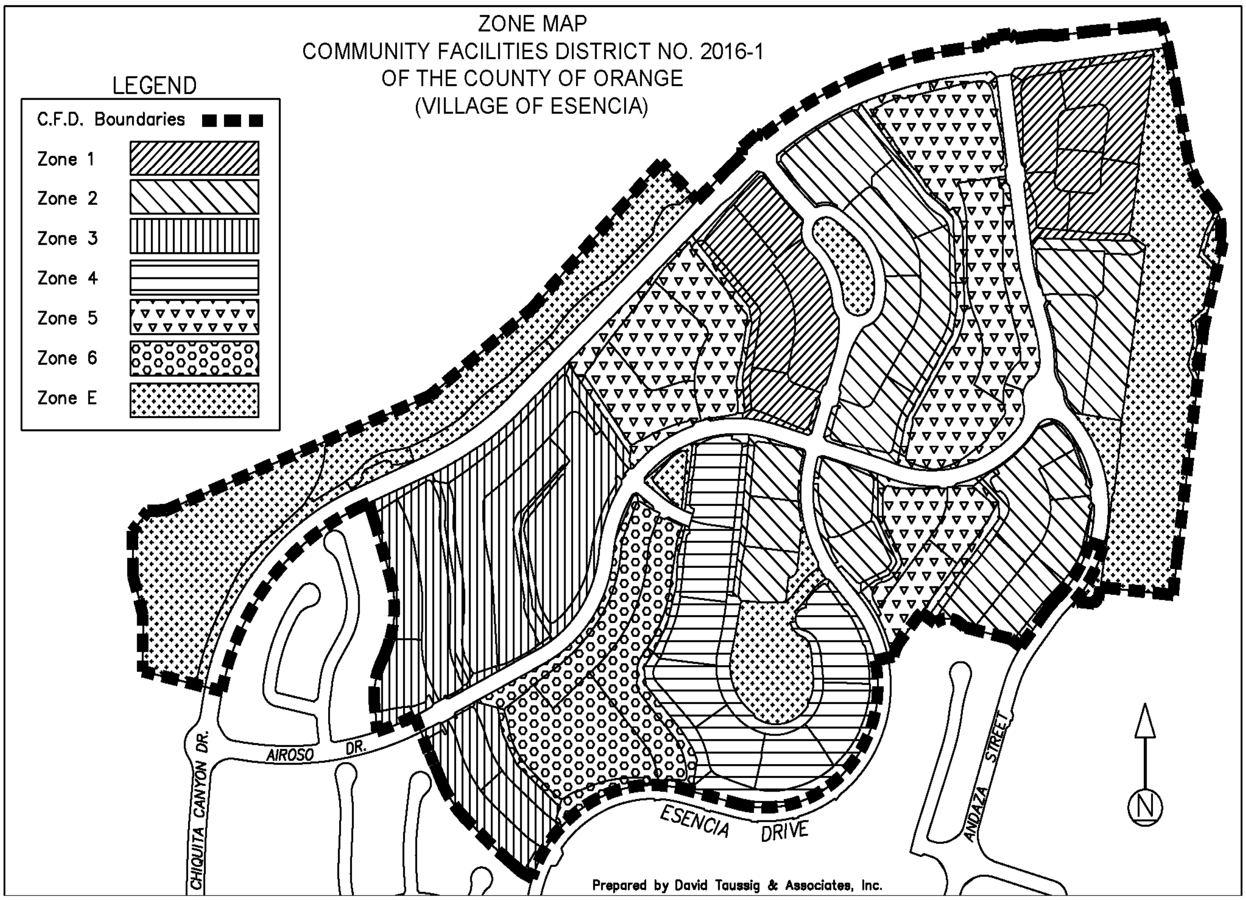

EXHIBIT B

CERTIFICATE OF REDUCTION IN SPECIAL TAXES

Community Facilities District No. 2016-1 of the County of Orange
(Village of Esencia)

1. Pursuant to Section H of the Rate and Method of Apportionment, the Maximum Special Tax for Developed Property for [certain or all] Land Use Classes within CFD No. 2016-1 has been reduced.

2. The calculations made pursuant to Section H were based upon a Price Point Study that was received by the CFD Administrator on _________________.

3. Tables 1A through 6A below show the Assigned Special Tax for each Land Use Class in Zones 1 through 6 after such reduction.

Table 1A
Assigned Special Tax for Developed Property in Zone 1
Fiscal Year 2016-17

Land Use Class	Residential Floor Area	Description	Assigned Special Tax
1	> 2,200 SF	Residential Property	$______ per unit
2	2,001 – 2,200 SF	Residential Property	$______ per unit
3	1,801 – 2,000 SF	Residential Property	$______ per unit
4	1,601 – 1,800 SF	Residential Property	$______ per unit
5	1,401 – 1,600 SF	Residential Property	$______ per unit
6	1,201 – 1,400 SF	Residential Property	$______ per unit
7	< 1,201 SF	Residential Property	$______ per unit
8	N/A	Non-Residential Property	$______ per Acre

Table 2A
Assigned Special Tax for Developed Property in Zone 2
Fiscal Year 2016-17

Land Use Class	Residential Floor Area	Description	Assigned Special Tax
1	> 3,200 SF	Residential Property	$______ per unit
2	3,001 – 3,200 SF	Residential Property	$______ per unit
3	2,801 – 3,000 SF	Residential Property	$______ per unit
4	2,601 – 2,800 SF	Residential Property	$______ per unit
5	2,401 – 2,600 SF	Residential Property	$______ per unit
6	2,201 – 2,400 SF	Residential Property	$______ per unit
7	2,001 – 2,200 SF	Residential Property	$______ per unit
8	1,801 – 2,000 SF	Residential Property	$______ per unit
9	< 1,801 SF	Residential Property	$______ per unit
10	N/A	Non-Residential Property	$______ per Acre

Table 3A
Assigned Special Tax for Developed Property in Zone 3
Fiscal Year 2016-17

Land Use Class	Residential Floor Area	Description	Assigned Special Tax
1	> 3,700 SF	Residential Property	$______ per unit
2	3,501 – 3,700 SF	Residential Property	$______ per unit
3	3,301 – 3,500 SF	Residential Property	$______ per unit
4	3,101 – 3,300 SF	Residential Property	$______ per unit
5	< 3,101 SF	Residential Property	$______ per unit
6	N/A	Non-Residential Property	$______ per Acre

Table 4A
Assigned Special Tax for Developed Property in Zone 4
Fiscal Year 2016-17

Land Use Class	Residential Floor Area	Description	Assigned Special Tax
1	> 2,000 SF	Residential Property	$______ per unit
2	1,801 – 2,000 SF	Residential Property	$______ per unit
3	< 1,801 SF	Residential Property	$______ per unit
4	N/A	Non-Residential Property	$______ per Acre

Table 5A
Assigned Special Tax for Developed Property in Zone 5
Fiscal Year 2016-17

Land Use Class	Residential Floor Area	Description	Assigned Special Tax
1	> 2,200 SF	Residential Property	$______ per unit
2	2,001 – 2,200 SF	Residential Property	$______ per unit
3	1,801 – 2,000 SF	Residential Property	$______ per unit
4	1,601 – 1,800 SF	Residential Property	$______ per unit
5	< 1,601 SF	Residential Property	$______ per unit
6	N/A	Non-Residential Property	$______ per Acre

<u>Table 6A</u>
Assigned Special Tax for Developed Property in Zone 6
Fiscal Year 2016-17

Land Use Class	Residential Floor Area	Description	Assigned Special Tax
1	> 2,600 SF	Residential Property	$______ per unit
2	2,401 – 2,600 SF	Residential Property	$______ per unit
3	< 2,401 SF	Residential Property	$______ per unit
4	N/A	Non-Residential Property	$______ per Acre

4. The Backup Special Tax for each Assessor's Parcel of Developed Property shall equal an amount per Acre after such reduction as shown in Table 7A below.

<u>Table 7A</u>
Backup Special Tax
Fiscal Year 2016-17

Zone	Backup Special Tax
1	$______ per Acre
2	$______ per Acre
3	$______ per Acre
4	$______ per Acre
5	$______ per Acre
6	$______ per Acre

5. Upon execution of this certificate by CFD No. 2016-1, CFD No. 2016-1 shall cause an amended notice of Special Tax lien for CFD No. 2016-1 to be recorded reflecting the Assigned Special Tax and Backup Special Tax set forth herein.

Submitted

CFD ADMINISTRATOR

By: ____________________________________ Date: ___________________

By execution hereof, the undersigned acknowledges, on behalf of CFD No. 2016-1, receipt of this certificate and modification of the Rate and Method of Apportionment as set forth in this certificate.

Community Facilities District No. 2016-1 of the County of Orange
(Village of Esencia)

By: ____________________________________ Date as of: [closing date of Bonds]

EXHIBIT C

CERTIFICATE OF NO REDUCTION IN SPECIAL TAXES

Community Facilities District No. 2016-1 of the County of Orange
(Village of Esencia)

1. All calculations required pursuant to Section H of the Rate and Method of Apportionment have been made based upon a Price Point Study that was received by the CFD Administrator on _________________.

2. Total Effective Tax Rate for all Plan Types in all Land Use Classes in all Zones is less than or equal to 2.00%

3. The Maximum Special Tax for Developed Property within CFD No. 2016-1, including the Assigned Special Taxes set forth in Sections C.1.(b) and the Backup Special Tax set forth in Section C.1.(d) of the Rate and Method of Apportionment, shall remain in effect and not be reduced.

Submitted

CFD ADMINISTRATOR

By: ______________________________________ Date as of: [closing date of Bonds]

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APPENDIX B

APPRAISAL REPORT

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APPRAISAL REPORT

COMMUNITY FACILITIES DISTRICT NO. 2016-1
OF THE COUNTY OF ORANGE
(VILLAGE OF ESENCIA)

Prepared for:

COUNTY OF ORANGE
333 W. Santa Ana Blvd.
Santa Ana, CA 92701

James B. Harris, MAI
Berri Cannon Harris
Harris Realty Appraisal
5100 Birch Street, Suite 200
Newport Beach, CA 92660

August 2016

Harris Realty Appraisal

5100 Birch Street, Suite 200
Newport Beach, California 92660
949-851-1227 FAX 949-851-2055
www.harris-appraisal.com

August 8, 2016

Ms. Suzanne Luster
Public Finance Manager
COUNTY OF ORANGE
333 W. Santa Ana Blvd.
Santa Ana, CA 92701

Re: Community Facilities District No. 2016-1 of the County of Orange (Village of Esencia)

Dear Ms. Luster:

In response to your authorization, we have prepared a self-contained appraisal report which addresses the property within the boundaries of the Community Facilities District No. 2016-1 of the County of Orange (Village of Esencia) ("the District" or "CFD No. 2016-1"). This appraisal includes an estimate of Market Value for all the land and improvements subject to a special tax levy. CFD No. 2016-1 is proposed for 590 for-sale market rate dwelling units and 288 for-sale age-restricted units. The land is in various stages of site construction from blue-top lots to finished lots. Six of the 12 for-sale products have model homes under construction as of the date of value. Based on information provided by the developer, the developer required improvements include grading, storm drains, sewer and water which are 95% to 100% complete. Additional developer improvements include dry utilities which are under construction and estimated to be 90% complete, street improvements which are under construction and estimated to be 80% complete, and the common area irrigation, landscape and hardscape improvements which are also under construction and estimated to be 80% complete. The 12 proposed for-sale products are built by eight merchant builders. The grand opening for 11 products is scheduled in September 2016. One product will open for sale in November 2016.

According to the specific guidelines of the California Debt and Investment Advisory Commission (CDIAC), CFD No. 2016-1 is valued in bulk, representing a discounted value to each ownership as of August 1, 2016, the date of value. The aggregate of the values, represents the Market Value of the entire property within CFD No. 2016-1, subject to a special tax levy.

Based on the investigation and analyses undertaken, our experience as real estate appraisers, and subject to all the premises, assumptions and limiting conditions set forth in this report, the following opinion of Market Value is formed as of August 1, 2016.

CFD NO. 2016-1 (VILLAGE OF ESENCIA)

TWO HUNDRED EIGHTY-THREE MILLION FOUR HUNDRED THOUSAND DOLLARS

$283,400,000

The District is under construction with site and dwelling improvements. Approximately $32,300,000 in remaining backbone infrastructure and impact fees are required from the master developer. The construction fund proceeds from CFD No. 2016-1 are estimated to be $96,200,000. The developer is expected to receive approximately $86,200,000 from this bond issue. The balance will be used to fund the offsite La Pata Avenue extension by the County of Orange.

The self-contained appraisal report that follows sets forth the results of the data and analyses upon which our opinions of value are, in part, predicated. This appraisal report has been prepared for the County of Orange for use in the sale of Community Facilities District No. 2016-1 of the County of Orange (Village of Esencia) Special Tax Bonds, Series 2016. The intended users of this appraisal report are the County of Orange, its underwriters, legal counsel, consultants, and potential bond investors. This appraisal has been prepared in accordance with and is subject to the requirements of *The Appraisal Standards for Land Secured Financing* as published by the California Debt and Investment Advisory Commission; the *Uniform Standards of Professional Appraisal Practice* (USPAP) of the Appraisal Foundation; and the *Code of Professional Ethics* and the *Standards of Professional Appraisal Practice* of the Appraisal Institute.

We meet the requirements of the Competency Provision of the *Uniform Standards of Professional Appraisal Practice*. A statement of our qualifications appears in the Addenda.

Respectfully submitted,

Berri Cannon Harris

Berri Cannon Harris
Principal
AG009147

James B Harris

James B. Harris, MAI
Principal
AG001846


County of Orange
Community Facilities District № 2016-1
Village of Esencia
La Pata Ave
Antonio Pkwy
Ortega Hwy
Cow Camp Rd
Esencia Dr
Boundaries Approximate

SUMMARY OF FACTS AND CONCLUSIONS

EFFECTIVE DATE OF APPRAISAL August 1, 2016

DATE OF REPORT August 8, 2016

DISTRICT NAME Community Facilities District No. 2016-1 of the County of Orange (Village of Esencia) referred to herein as the "District" or "CFD No. 2016-1".

INTEREST APPRAISED Fee Simple Estate, subject to special tax

PROJECT NAMES, OWNERSHIP, LEGAL DESCRIPTIONS AND SITE CONDITION

Product Name Ownership Tract, Product Type	Site & Unit Condition
Sage Meritage Tr 17593 Recorded MR2	*125 total proposed units* 5 Models u/c 12 Production u/c 108 Blue-top Sites w/ undergrounds
Veranda MBK Tr 17585 Recorded MR3	*86 total proposed units* 8 Models u/c 78 Blue-top Lots w/ undergrounds
Aria TRI Pointe Tr 17592 Pending MR15	*64 total proposed units* 64 Blue-top Lots w/ undergrounds u/c
Citron Ryland Tr 17590 Recorded MR17	*70 total proposed units* 70 Blue-top Lots w/ undergrounds
Canopy Warmington Tr 17586 Recorded MR18	*97 total proposed units* 4 Models u/c 93 Blue-top Lots w/ Undergrounds
Heirloom Ryland Tr 17584 Recorded MR19	*41 total proposed units* 41 Blue-top Lots w/ Undergrounds
Briosa Lyon Tr 17579 Recorded MR23	*50 total proposed units* 3 Models u/c 8 Production u/c 39 Physically Finished Lots

SUMMARY OF FACTS AND CONCLUSIONS

PROJECT NAMES, OWNERSHIP, LEGAL DESCRIPTIONS AND SITE CONDITION CONT.

Product Name Ownership Tract, Product Type	Site & Unit Condition
Aubergine TRI Pointe Tr 17581 Pending MR24	*57 total proposed units* 57 Blue-top Lots
Iris CalAtlantic Tr 17580 Recorded AQ2	*94 total proposed units* 4 Models u/c 90 Blue-top Sites w/ undergrounds u/c
Arista Pulte Tr 17589 Recorded AQ11	*71 total proposed units* 3 Models-near complete 4 Production u/c 64 Blue-top Lots w/ undergrounds
Cortesa Shea Homes Trs 17583 & 17588 Recorded AQ13	*72 total proposed units* 72 Blue-top Lots w/ undergrounds u/c
Alondra Shea Homes Tr 17582 Recorded AQ21	*51 total proposed units* 51 Blue-top Lots w/ undergrounds u/c

HIGHEST AND BEST USE

Continued development of 12 residential for-sale products proposed for 878± dwellings.

VALUATION CONCLUSIONS

CFD No. 2016-1 (Village of Esencia)

Market Value- $283,400,000

Merchant Builder Ownerships: $283,400,000

Ownership	Product	Value (Not Rounded)
CalAtlantic Group, Inc.	AQ2	$27,370,480
Pulte Home Corporation	AQ11	$22,897,614
Shea Homes Limited Partnership	AQ13	$25,848,000
Shea Homes Limited Partnership	AQ21	$23,511,000

SUMMARY OF FACTS AND CONCLUSIONS

Ownership	Product	Value (Not Rounded)
Meritage Homes of California, Inc.	MR2	$23,493,370
Esencia MR3, LLC	MR3	$23,100,160
TRI Pointe Homes, Inc.	MR15	$20,125,000
Ryland Homes of California, Inc	MR17	$24,278,000
Warmington MR18 Associates, LLC	MR18	$26,378,200
Ryland Homes of California, Inc.	MR19	$16,409,000
LT-MR23 LLC	MR23	$24,622,636
TRI Pointe Homes, Inc.	MR24	$25,396,000

TABLE OF CONTENTS

INTRODUCTION

Purpose of the Report

The purpose of this appraisal is to estimate the "as is" Market Value for the *fee simple estate, subject to special tax liens* for all the taxable property within the Community Facilities District No. 2016-1 of the County of Orange (Village of Esencia) referred to herein as the "District" or "CFD No. 2016-1". CFD No. 2016-1 is proposed for 590 for-sale market rate dwelling units and 288 age-restricted dwelling units.

The for-sale residential properties subject to Special Tax are under the ownerships of nine merchant builders, according to the recorded grant deeds, Meritage Homes of California, Inc.; Esencia MR3 LLC; TRI Pointe Homes, Inc.; Ryland Homes of California, Inc.; Warmington MR18 Associates, LLC; LT-MR23, LLC; CalAtlantic Group, Inc.; Pulte Home Corporation; and Shea Homes Limited Partnership. The appraiser's are aware that in late 2015 there was a merger between Ryland Homes and Standard Pacific Corp. However, based on our search of the public records and interview with a representative from CalAtlantic Homes, the land under the ownership of Ryland Homes has not transferred to the new ownership of CalAtlantic Group, Inc. However, the homes are marketed under CalAtlantic Homes.

The opinions set forth are subject to the assumptions and limiting conditions set forth herein and the specific appraisal guidelines as set forth by the County of Orange.

Function of the Report and Intended Use

It is our understanding that this appraisal report is to be used for CFD No. 2016-1 bond financing purposes only. The subject property is described within this report. The bonds will be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended. The maximum authorized bond indebtedness for the District is $115,000,000.

Client and Intended Users of the Report

This report was prepared for our client, the County of Orange. The intended users of the report include the County of Orange, its underwriters, legal counsel, consultants, and potential bond investors.

Scope of the Assignment

According to specific instructions from the County and the CDIAC guidelines, the total value conclusion includes the "as is" estimate of Market Value under the ownerships of the nine merchant builders. The estimated values of the land and units under construction, for each merchant builder ownership, will represent the "as is" bulk value to each ownership. Any lands designated for park, open space or civic uses within the District and not subject to tax are not included in this assignment.

According to the Engineer's Report for CFD No. 2016-1 prepared by Stantec, the subject property consists of 220± gross acres. The subject property is part of the second community to be improved within the master planned community known as "Rancho Mission Viejo". The development within CFD No. 2016-1 is known as "Esencia". The subject CFD includes 13 final tract maps proposed for 12 for sale products, 11 of which are scheduled to open for home sales by September 2016, with one product opening in November 2016.

We have analyzed the subject property based upon the proposed uses and our opinion of its highest and best use. The following paragraphs summarize the process of collecting, confirming and reporting of data used in the analysis.

1. Gathered and analyzed demographic data from sources including the California Department of Finance (population data), Employment Development Department of the State of California (employment data), County of Orange (zoning information, building permit trends), South Orange County Chamber of Commerce (local demographic trends), Metrostudy (housing sales, inventory levels, and absorption), and sales personnel of comparable projects (market trends of individual home sales). Subject information was gathered from the District's Special Tax Consultant, the Developer, merchant builders and interviews.

2. Inspected the subject, the subject's neighborhood and the general market area. Inspected similar for-sale products for consideration of Highest and Best Use of the proposed lots/sites.
3. Gathered and analyzed comparably zoned residential land sales within the subject market areas, for use in valuing the merchant builder sites. Data was gathered from sources including Comps.com, brokers and appraisers within the Southern California area. Where feasible, data were confirmed with both the buyer and seller.
4. Residential attached and detached dwelling unit sales, within the subject's primary and secondary market areas were analyzed. Data was gathered from sources including, but not limited to, RealQuest, appraisers and builders active in the area.

Date of Value and Report

The opinions of Market Value expressed in this report are stated as of August 1, 2016. The date of the appraisal report is August 8, 2016.

Date of Inspection

The subject property was inspected on several occasions, with the most recent on July 1, 2016, and August 8, 2016.

Property Rights Appraised

The property rights appraised are those of the *fee simple estate subject to special tax liens* of the real estate described herein.

Property Identification

CFD No. 2016-1 is a part of the developing Rancho Mission Viejo planned community proposed for 14,000± dwelling units, urban activity center uses, neighborhood retail centers, business park uses and support uses on 5,873 developable acres. Over 75% of the original land ownership (22,815 acres) within Rancho Mission Viejo has been retained as permanent open space/conservation land. The community of Rancho Mission Viejo is located to the south and east of the cities of Rancho Santa Margarita, Mission Viejo, San Juan Capistrano and northeast of San Clemente. Also within the vicinity of Rancho Mission Viejo are the built-out communities of Las Flores, Coto de Caza and Ladera Ranch. To the northeast of the planned community is the Cleveland National Forest. To the south of Rancho Mission Viejo is Camp Pendleton and open space within unincorporated Orange County and San Diego County.

CFD No. 2016-1 is a part of the second phase of development within Rancho Mission Viejo and can be identified within the "Ranch Plan Specific Plan" as a portion of Planning Area 2, referred to as PA 2.2 consisting of 220± gross acres. Residential uses are proposed on 120± acres plus a 6± acre park site. The first planning area of Rancho Mission Viejo, PA 1, Sendero, is built and sold out. Sendero includes market rate dwellings that have been built by seven merchant builders. Gavilan is the age-restricted neighborhood which was built by four merchant builders. In total, 971 dwellings have been built within Sendero. PA 2.1, Esencia, is being developed with 840 residential dwellings at this time. The subject, PA 2.2, Esencia, CFD No. 2016-1, is located to the east of Sendero and north of CFD No. 2015-1. In general, the subject, CFD No. 2016-1, is surrounded by undeveloped land, except for CFD No. 2015-1, to the south.

Property History

The developer, RMV PA2 Development, LLC or their affiliated owners have owned the property for over 100 years. The 12 merchant builder sites sold to the nine builders between November 18, 2015 and April 1, 2016. The sites were sold in a blue-top lot condition. Please refer to the Product Area Site Information section that lists each transaction, beginning on page 44.

SHEET 1 OF 1

PROPOSED BOUNDARIES OF COMMUNITY FACILITIES DISTRICT NO. 2016-1 OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA) COUNTY OF ORANGE, STATE OF CALIFORNIA

ACCEPTED AND FILED AT THE REQUEST OF
Clerk of the Board of Supervisors

DATE ____________
TIME ________ FEE $____
INSTRUMENT # ____________
BOOK ________ PAGE ________
in the book of Maps of Assessment and Community Facilities Districts

Hugh Nguyen
County Clerk-Recorder of
County of Orange

By ________________
Deputy

(1) Filed in the office of the Clerk of the Board of Supervisors of the County of Orange this ____ day of ____________, 2016.

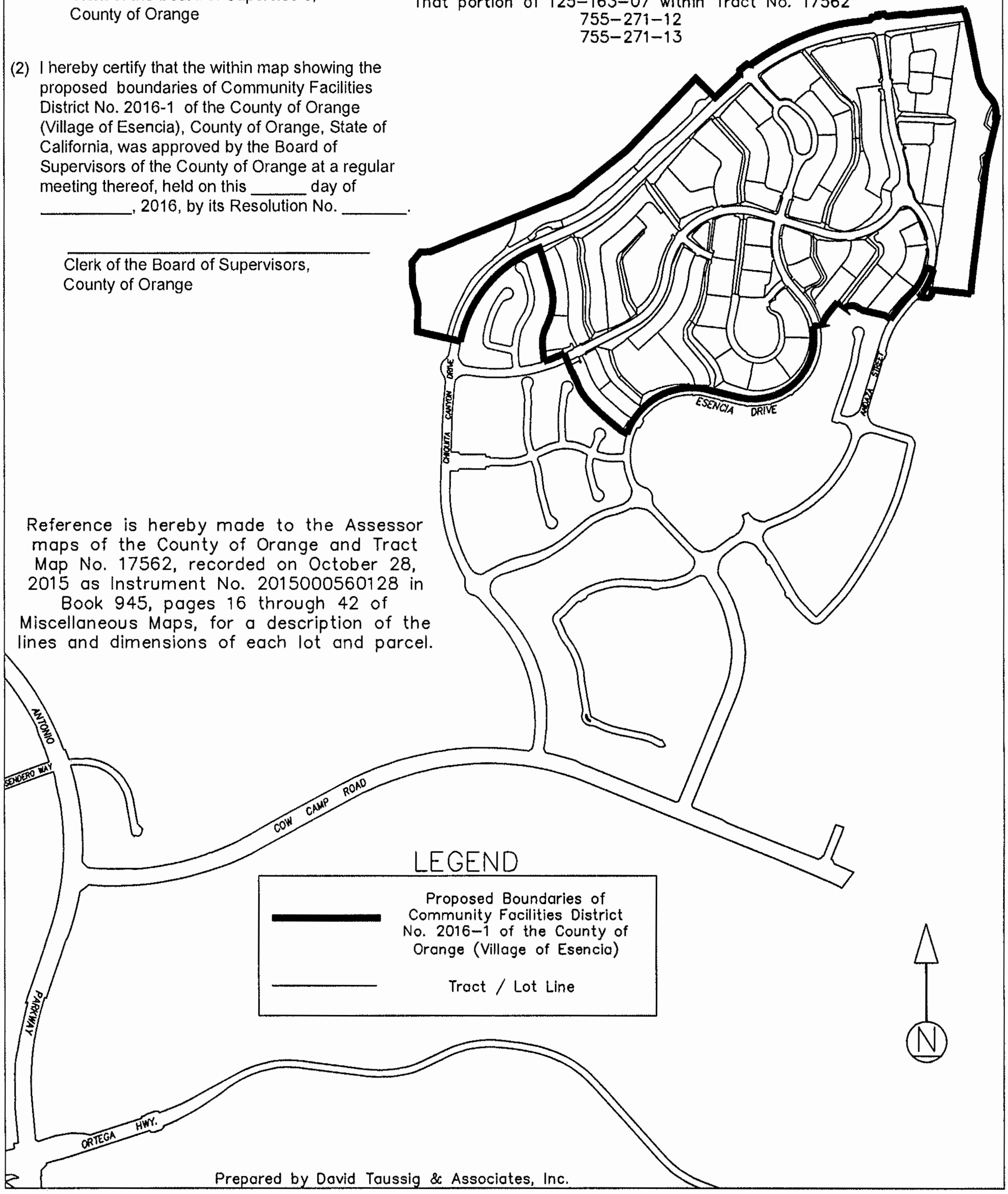
____
Clerk of the Board of Supervisors,
County of Orange

(2) I hereby certify that the within map showing the proposed boundaries of Community Facilities District No. 2016-1 of the County of Orange (Village of Esencia), County of Orange, State of California, was approved by the Board of Supervisors of the County of Orange at a regular meeting thereof, held on this ______ day of __________, 2016, by its Resolution No. _______.

____
Clerk of the Board of Supervisors,
County of Orange

Assessor Parcels within
Community Facilities District No. 2016-1:
That portion of 125-163-04 within Tract No. 17562
That portion of 125-163-07 within Tract No. 17562
755-271-12
755-271-13

Reference is hereby made to the Assessor maps of the County of Orange and Tract Map No. 17562, recorded on October 28, 2015 as Instrument No. 2015000560128 in Book 945, pages 16 through 42 of Miscellaneous Maps, for a description of the lines and dimensions of each lot and parcel.



Prepared by David Taussig & Associates, Inc.

Legal Description and Ownership

Ownership	Product	Legal (at time of land sale)
CalAtlantic Group, Inc.	AQ2	Lots 51 thru 58 Tract 17562
Pulte Home Corporation	AQ11	Lots 24 thru 26 Tract 17562
Shea Homes Limited Partnership	AQ13	Lots 13 thru 15 and 21 thru 23 Tract 17562
Shea Homes Limited Partnership	AQ21	Lots 10 thru 12 Tract 17562
Meritage Homes of California, Inc.	MR2	Lots 27 thru 32 Tract 17562
Esencia MR3, LLC	MR3	Lots 47 thru 50 Tract 17562
TRI Pointe Homes, Inc.	MR15	Lots 33 thru 35 Tract 17562
Ryland Homes of California, Inc	MR17	Lots 36 thru 40 Tract 17562
Warmington MR18 Associates, LLC	MR18	Lots 41 thru 46 Tract 17562
Ryland Homes of California, Inc.	MR19	Lots 16 thru 20 Tract 17562
LT-MR23 LLC	MR23	Lots 1 thru 6 Tract 17562
TRI Pointe Homes, Inc.	MR24	Lots 7 thru 9 Tract 17562
RMV PA2 Development, LLC	Balance of District	Lots 59 thru 63 Tract 17562

Definitions

Market Value[1]

The most probable price in terms of money which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

(a) Buyer and seller are typically motivated.

(b) Both parties are well informed or well advised, and each acting in what he considers his own best interest.

(c) A reasonable time is allowed for exposure in the open market.

(d) Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto.

(e) The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

[1] Part 563, subsection 563.17-1a(b)(2), Subchapter D, Chapter V, Title 12, Code of Federal Regulations.

Assessed Value[2]

The value of a property according to the tax rolls in ad valorem taxation. May be higher or lower than market value, or based on an assessment ratio that is a percentage of market value.

Retail Value

Retail value should be estimated for all fully improved and occupied properties. Retail value is an estimate of what an end user would pay for a finished property under the conditions requisite to a fair sale.

Bulk Sale Value[3]

Bulk sale value should be estimated for all vacant properties--both unimproved properties and improved or partially improved but unoccupied properties. Bulk sale value is derived by discounting retail values to present value by an appropriate discount rate, through a procedure called *Discounted Cash Flow Analysis.* A second method is to use bulk land sales. These are sales of numerous individual parcels sold to one buyer. Bulk sale value is defined as follows:

The most probable price, in a sale of *all* parcels within a tract or development project, to a single purchaser or sales to multiple buyers, over a reasonable absorption period discounted to present value, as of a specified date, in cash, or terms equivalent to cash, for which the property rights should sell after reasonable exposure, in a competitive market under all conditions requisite to a fair sale, with buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue stress.

Fee Simple Estate[4]

Absolute ownership unencumbered by any other interest or estate subject only to the four powers of government.

Fee Simple Estate Subject to Special Tax and Special Assessment Liens[5]

Empirical evidence (and common sense) suggests that the selling prices of properties encumbered by such liens are discounted compared to properties free and clear of such liens. In new development projects, annual Mello-Roos special tax and/or special assessment payments can be substantial, and prospective buyers take this added tax burden into account when formulating their bid prices.

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[2] *The Dictionary of Real Estate Appraisal*, Third Edition, published by The Appraisal Institute, 1993, Page 22

[3] *Appraisals Standard for Land-Secured Financings*, published by CDIAC, 2004, Page 10

[4] *The Dictionary of Real Estate Appraisal*, Third Edition, published by The Appraisal Institute, 1993, Page 140

[5] California Debt and Investment Advisory Commission, Page 9

Finished Lot

Land that is improved so that it is ready to be used for a specific purpose. (Improvements include graded lot, streets to the lot boundary, utilities to the lot boundary, and all fees required to pull a building permit paid.)

Physically Finished Lot

Physically finished lot requiring development impact fees and possibly minor site work before a building permit is issued and development can proceed.

Blue-top Lot

Graded parcel which includes streets cut and padded lots with utilities stubbed to the site and perimeter streets in. The lot has been rough graded to within 0.1 feet of the grade as described in the approved rough grading plans. All slopes relating to the lot shall be graded within 0.5 feet of the grades stated in the rough grading plan. In addition, the recommendations set forth in the soils and environmental reports that have been prepared are complete. All water, sewer, and street improvement plans have been approved and a civil engineer has certified that the lots meet the above conditions.

Hypothetical Condition

The term Hypothetical Condition is defined by USPAP as: "A condition directly related to a specific assignment, which is contrary to what is known by the appraiser exists on the effective date of the assignment results, but is used for the purpose of analysis."

Extraordinary Assumption

The term Extraordinary Assumption is defined by USPAP as: "An assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions."

Extraordinary Assumptions, Assumptions and Limiting Conditions

The analyses and opinions set forth in this report are subject to the following assumptions and limiting conditions:

Standards Rule ("S.R.") 2-1(c) of the "Standards of Professional Appraisal Practice" of the Appraisal Institute requires the appraiser to "clearly and accurately disclose any extraordinary assumption or limiting condition that directly affects an appraisal analysis, opinion, or conclusion." In compliance with S.R. 2-1(c) and to assist the reader in interpreting the report, the following contingencies, assumptions and limiting conditions are set forth as follows:

Extraordinary Assumption

The site development costs, which include major infrastructure improvements, land development improvements and merchant builder improvements, have been provided by the Rancho Mission Viejo Company and the merchant builders. The timing of the costs has also been provided by the Rancho Mission Viejo Company and the merchant builders. ***It is a specific assumption and contingency of this appraisal and its estimated values that the reported costs are all the costs associated with development of the subject properties to a finished lot ready to build condition.*** If any of the costs, reimbursements and/or timing of the costs or reimbursements change, the value conclusions reached in this report would likely be different.

Hypothetical Condition

This appraisal is contingent upon the successful issuance and funding of bonds for Community Facilities District No. 2016-1 through the County of Orange. A list of the estimated eligible facilities totaling $96,230,700 was prepared on behalf of the County of Orange by Stantec, the District Engineer.

The Market Value estimates reported in this report reflect the funding for a portion of the infrastructure improvements and fees from the proceeds of Community Facilities District No. 2016-1. If the CFD is not funded and/or the amount of the reimbursements should change, the value opinions stated herein could change. Please refer to the Valuation section for further detail of the reimbursements and timeline for reimbursement.

Assumptions and Limiting Conditions of the Appraisal

The date of value, for which the opinions of Market Value are expressed in this report, is August 1, 2016. The dollar amount of this value opinion is based on the purchasing power of the United States dollar on that date.

Maps, plats, and exhibits included herein are for illustration only, as an aid for the reader in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose, nor should they be removed from, reproduced, or used apart from this report.

Oil, gas, mineral rights and subsurface rights were not considered in making this appraisal unless otherwise stated and are not a part of the appraisal, if any exist.

The appraisers have not been provided with soils or geotechnical reports for review. CFD No. 2016-1 has been improved to at least a blue-top lot condition. Of the total 878 lots, 27 lots are improved with model home construction, from framing to color coat stucco. In addition 24 production homes are under vertical condition, in the framing stage and 24 production homes have slabs poured and will be valued as finished lots. *For purposes of this appraisal, the soil is assumed to be of adequate load-bearing capacity to support all uses considered under our conclusion of highest and best use.*

The appraisers have been provided with the original and a supplemental environmental reports prepared for the property within the CFD. *For purposes of this appraisal, it is assumed that there are no environmental issues and the build-out of CFD No. 2016-1 can be completed as currently planned.*

The appraisers have been provided with numerous preliminary title reports for the District. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely affect the value of the subject property. The notice of Special Tax Lien was recorded on April 26, 2016.

Information contained in this report has been gathered from sources which are believed to be reliable, and, where feasible, has been verified. No responsibility is assumed for the accuracy of information supplied by others.

Since earthquakes are common in the area, no responsibility is assumed for their possible impact on individual properties, unless detailed geologic reports are made available.

Your appraisers inspected as far as possible by observation, the land; however, it was impossible to personally inspect conditions beneath the soil. Therefore, no representations are made as to these matters unless specifically considered in the report.

The appraisers assume no responsibility for economic or physical factors which may occur after the date of this appraisal. The appraisers, in rendering these opinions, assume no responsibility for subsequent changes in management, tax laws, environmental regulations, economic, or physical factors which may or may not affect said conclusions or opinions.

No engineering survey, legal, or engineering analysis has been made by us of this property. It is assumed that the legal description and area computations furnished are reasonably accurate. However, it is recommended that such an analysis be made for exact verification through appropriate professionals before demising, hypothecating, purchasing or lending occurs.

Unless otherwise stated in this report, the existence of hazardous substances, including without limitation asbestos, polychlorinated biphenyls, petroleum leakage, or agricultural chemicals, which may or may not be present on the property, or other environmental conditions, were not called to the attention of nor did the appraisers become aware of such during the appraisers' inspection. The appraisers have no knowledge of the existence of such materials on or in the property unless otherwise stated. The appraisers, however, are not qualified to test for such substances or conditions.

The presence of such substances such as asbestos, urea formaldehyde, foam insulation, or other hazardous substances or environmental conditions may affect the value of the property. The value estimated herein is predicated on the assumption that there is no such condition on or in the property or in such proximity thereto that it would cause a loss in value. No responsibility is assumed for any such conditions, nor for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in the field of environmental impacts upon real estate if so desired.

The cost and availability of financing help determine the demand for and supply of real estate and therefore affect real estate values and prices. The transaction price of one property may differ from that of an identical property because financing arrangements vary.

Our forecasts of future events which influence the valuation process are predicated on the continuation of historic and current trends in the market.

The property appraised is assumed to be in full compliance with all applicable federal, state, and local environmental regulations and laws, and the property is in conformance with all applicable zoning and use ordinances/restrictions, unless otherwise stated.

We shall not be required, by reason of this appraisal, to give testimony or to be in attendance in court or any governmental or other hearing with reference to the property without prior arrangements having first been made with the appraisers relative to such additional employment.

In the event the appraisers are subpoenaed for a deposition, judicial, or administrative proceeding, and are ordered to produce their appraisal report and files, the appraisers will immediately notify the client.

The appraisers will appear at the deposition, judicial, or administrative hearing with their appraisal report and files and will answer all questions unless the client provides the appraisers with legal counsel who then instructs them not to appear, instructs them not to produce certain documents, or instructs them not to answer certain questions. These instructions will be overridden by a court order, which the appraisers will follow if legally required to do so. It shall be the responsibility of the client to obtain a protective order.

The appraisers have personally inspected the exterior of the subject properties; however, no opinion as to structural soundness of proposed or existing improvements or conformity to City, County, or any other agency building code is made. No responsibility for undisclosed structural deficiencies or conditions is assumed by the appraisers. No consideration has been given in this appraisal to personal property located on the premises; only the real estate has been considered unless otherwise specified.

James B. Harris is a Member of the Appraisal Institute. The Bylaws and Regulations of the Institute require each Member and Associates to control the uses and distribution of each appraisal report signed by such Member or Associates. Except as hereinafter provided, possession of this report, or a copy of it, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser and in any event only with properly written qualification and only in its entirety.

Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers or the firm with which they are connected, or any reference to the Appraisal Institute or the MAI designation) shall be disseminated to the public through advertising media, public relations, news media or any other public means of communication without the prior consent and approval of the undersigned. **The County of Orange, its underwriters and legal counsel may publish this report in the Preliminary and Final Official Statements for this Community Facilities District.**

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AREA DESCRIPTION

The following section of this report will summarize the major demographic and economic characteristics such as population, employment, income and other pertinent characteristics for Orange County, Rancho Santa Margarita and the subject market area.

Orange County

Orange County consists of 34 individual cities and numerous unincorporated communities. Orange County is bounded by the Pacific Ocean to the west, Los Angeles County to the north, Riverside County to the east, San Bernardino County to the northeast and San Diego County to the south. Orange County offers a wide variety of terrain from the Pacific Ocean beaches to foothill landscapes.

A strategic location and quality of life are the primary factors for Orange County's evolution from a rural, agricultural dominated economy into a premier urbanized commercial center. Prior to 1959, the County was considered to be a bedroom community of Los Angeles County. During the 1950's and 1960's, improvements in the transportation network and economic growth in Los Angeles County gave rise to the suburbanization of Orange County. By the 1970's, the commercial and industrial development transformed Orange County into an urbanized commercial center. Today, despite the severe economic downturn of 1991-1996, the filing by the County of Orange for bankruptcy in December 1994, the 2001-2002 recession, and the recent national economic crash, Orange County remains one of the most economically vibrant and diverse components of the Southern California region.

Population

Orange County has added almost 1,215,000 new residents since 1980 as illustrated in the following table. The most recently released population data indicates that as of January 2016, the countywide population stood at 3,183,000 residents. Annual population gains and losses from natural increase and immigration have ranged from a gain of 25,900 persons to a gain of 35,300 persons annually, over the last five years. The

Regional Map

population changes represent annual changes of 0.9% to 1.1%,over the last five years. The County population experienced a negative 4.1% adjustment in the year 2010. This was due to the population count in the U.S. Census and not from an actual out-migration from the County. The U.S. Census actual counts were significantly less than the prior State of California projections. The County's population increased 5.7% from 2010 to 2016. The 2015 population finally exceeded the prior record high population of 3,139,000, which occurred in 2009.

Population Trends
1980-2016[1]

		Average Annual Change	
Year	Population	Number	Percent
1980	1,932,921	--	--
1990	2,410,668	47,775	2.5%
2000	2,846,289	43,562	1.8%
2001	2,880,200	33,911	1.2%
2002	2,930,500	50,300	1.7%
2003	2,978,800	48,300	1.6%
2004	3,017,300	38,500	1.4%
2005	3,047,000	29,700	1.0%
2006	3,072,300	25,300	0.8%
2007	3,098,100	25,800	0.8%
2008	3,107,500	9,400	0.3%
2009	3,139,000	31,500	1.0%
2010	3,010,232	(128,768)	(4.1%)
2011	3,029,900	19,668	0.6%
2012	3,055,800	25,900	0.9%
2013	3,081,800	26,000	0.9%
2014	3,114,000	32,200	1.0%
2015	3,147,700	33,700	1.1%
2016	3,183,000	35,300	1.1%

[1] April 1, 1980, 1990, 2000, and 2010 all other years January 1.
Source: California Department of Finance, U.S. Census 5/16

The high cost of housing in Orange County compared to other areas has slowed the number of people relocating to Orange County. The recent decline in the Orange County economy began in 2007 and continued until mid-2012. This weakness was led by the decline in the residential real estate market. Both the number of sales and median dwelling prices declined over 40% from the peak of June 2007 to early 2009. As of June 2016, the median price had increased about 76% from the lows of early 2009, and is now about 1.0% above the previous peak, in 2007. Median prices have generally fluctuated between $601,000 and $651,500 over the last 12 months.

Employment

As of May 2016, Orange County had an unemployment rate of 3.6%, compared to the California rate of 4.7%. One year ago, in May 2015, the unemployment rate was 4.3%. The annual average rate for 2014 was 5.5%. This indicates a 14.0% decrease in the unemployment rate in one year and a 32.7% decrease in two years. From 1980 to 2000, the Orange County employment base expanded rapidly as the area became a financial and service center in the Southern California region. The following table illustrates the area's unemployment compared to California as of May 2016.

	Labor Force	Unemployment
California	18,983,900	4.7%
Orange County	1,603,000	3.6%

The most common measure of employment growth is the increase in nonagricultural wage and salary employment. Job growth in 2003 increased 25,300 jobs. During 2004, the total non-farm employment was 1,456,700, an increase of 1.9% or 27,700 jobs. In 2005, the increase in job growth was reported at 2.4% or an increase of 34,300 jobs. Job growth slowed to 1.9% in 2006 or 27,900 new jobs, for a record total of 1,518,900 jobs. In 2007, job growth declined 3,400 jobs to 1,515,500, or a negative 0.2%. In 2008, there was a decline of 34,000 jobs, or a negative 2.2% job growth. In 2009, job growth declined 109,500 jobs, or a negative 7.4% to 1,372,100 jobs. This was the largest annual decline in Orange County history. Job declines continued into 2010 when 5,400 jobs were lost, a negative 0.4%. The four year decline ended in 2011, when 15,700 jobs were added, an increase of 1.1% to 1,366,700 jobs. In 2012, 37,200 new jobs were added, a 2.7% increase to a total of 1,419,600 jobs. In 2013, 39,800 jobs were added, an increase of 2.8% to 1,459,400 jobs. During 2014 36,500 jobs were added, an increase of 2.5% to 1,495,900 jobs. During 2015, 46,800 jobs were added, an increase of 3.1% to 1,542,700 jobs. The job losses between 2007 and 2010 wiped out about 11 years of job growth. The current employment level is at a record high level.

Employment Trends 1983-2015

Year	Employment	Average Annual Change Number	Percent
1983	869,200	--	--
1990	1,172,400	43,314	5.0%
2000	1,388,900	21,600	1.8%
2001	1,413,700	24,800	1.8%
2002	1,403,700	(10,000)	(0.7%)
2003	1,429,000	25,300	1.8%
2004	1,456,700	27,700	1.9%
2005	1,491,000	34,300	2.4%
2006	1,518,900	27,900	1.9%
2007	1,515,500	(3,400)	(0.2%)
2008	1,481,600	(34,000)	(2.2%)
2009	1,372,100	(109,500)	(7.4%)
2010	1,366,700	(5,400)	(0.4%)
2011	1,382,400	15,700	1.1%
2012	1,419,600	37,200	2.7%
2013	1,459,400	39,800	2.8%
2014	1,495,900	36,500	2.5%
2015	1,542,700	46,800	3.1%

[1] 2015 benchmark
Source: Employment Development Department – 6/16

The ten largest employers in Orange County are shown below.

Orange County Ten Largest Employers

Company/Institution	No. of Employees
Walt Disney Co.	27,000
University of California, Irvine (UCI)	22,385
County of Orange	18,135
St. Joseph Health System (St. Joseph)	12,227
Kaiser Permanente	7,000
Boeing Co.	6,890
Wal-Mart	6,000
Memorial Care Health System	5,650
Bank of America	5,500
Target	5,400

Source: Orange CAFR, 2015

Income

The 2016 median household income in Orange County is estimated to be $77,390. These figures are significantly above the Southern California region average. The higher income level is due to the higher percentage of financial, insurance, real estate, and business service employment which typically has higher wage scales.

Orange County
Household Income Distribution
2016

Income Range	Households	Percent 1/
Less than $15,000	81,328	7.72%
$15,000 - $24,999	78,528	7.45%
$25,000 - $34,999	75,670	7.18%
$35,000 - $49,999	110,944	10.53%
$50,000 - $74,999	167,697	15.91%
$75,000 - $99,999	134,055	12.72%
$100,000 - $124,999	109,309	10.37%
$125,000 - $149,999	79,015	7.50%
$150,000 - $199,999	94,585	8.97%
$200,000 - $249,999	41,027	3.89%
$250,000 - $499,999	55,112	5.23%
$500,000 or more	26,693	2.53%
Total	1,053,963	100.0%
Median Household Income		$77,390
Average Household Income		$106,499
1/ Percent of total distribution		

Source: Nielsen 6/16

Approximately 51% of the county's households have annual income over $75,000. This high income level, in part, provides the financial means to support the continued demand in the residential market.

Retail Sales

For Orange County, taxable retail sales increased from $8.5 billion in 1980 to an estimated $39± billion in 2006, when the recent decline began. Sales for 1999 and 2000 increased 10.4% and 10.9%, respectively, to $27.49 billion. In 2001 the sales growth moderated to 3.8% or $28.52 billion. For 2002, sales increased 4.0%, up to $29.65 billion. During 2003, taxable retail sales totaled $32.28 billion; this was an 8.9% increase. This increase continued through 2004 with retail sales at $35.44 billion, which is a 9.8% increase. In 2005 the growth moderated to 6.3%, with sales at $37.67 billion. In 2006 the growth further moderated to 3.7%, with sales at $39.07 billion. In 2007, there was an actual decline to $38.99 billion, a 0.2% decline. In 2008, sales again declined to $35.77 billion, or a negative 8.3%. Declining sales worsened in 2009, declining 12.9% to $31.16 billion. This was the low point for retail sales in Orange County. In 2010 sales increased to

$32.55 billion or a 4.5% gain. In 2011, retail sales increased 9.3% to $35,587,795,000. The 2012 retail sales increased 7.8% to $38,372,456. The 2013 sales increased 4.3% to $40,024,929,000. The 2013 retail sales were at a record high level, finally exceeding the previous record high in 2006. Annual retail sales for 2014 have not been released.

Retail Sales Trends[1]
1985-2013

Year	Taxable Retail Sales (000's)	Average Annual Change Number (000's)	Percent
1985	$13,007,407	--	---
1990	$17,486,433	$ 895,805	6.9%
2000	$27,485,000	$ 999,857	5.7%
2001	$28,519,000	$1,034,000	3.8%
2002	$29,646,818	$1,127,848	4.0%
2003	$32,287,697	$2,640,879	8.9%
2004	$35,441,953	$3,163,256	9.8%
2005	$37,672,834	$2,230,881	6.3%
2006	$39,074,451	$1,401,617	3.7%
2007	$38,988,227	($ 86,224)	(0.2%)
2008	$35,768,595	($3,219,632)	(8.3%)
2009	$31,162,619	($4,605,976)	(12.9%)
2010	$32,552,107	$1,384,488	4.5%
2011	$35,587,795	$3,035,688	9.3%
2012	$38,372,456	$2,784,661	7.8%
2013	$40,025,929	$1,653,473	4.3%

[1] Retail stores, taxable retail sales total
Source: State Board of Equalization 6/16

Real Estate

The following table shows Orange County in relation to the remaining Southern California counties for median price and number of dwellings sold.

Southern California Home Sales

	No. Sold – All Homes			Median Price – All Homes		
County	May 2015	May 2016	Pct. Chg.	May 2015	May 2016	Pct. Chg.
Los Angeles	7,322	7,379	0.8%	$485,000	$525,000	8.2%
Orange County	**3,400**	**3,612**	**6.2%**	**$615,000**	**$651,500**	**5.9%**
Riverside	3,737	3,825	2.4%	$310,000	$330,000	6.5%
San Bernardino	2,492	2,642	6.0%	$255,000	$285,000	11.8%
San Diego	3,816	4,033	5.7%	$459,000	$490,000	6.8%
Ventura	987	975	-1.2%	$500,000	$517,250	3.5%
Southern California	21,754	22,466	3.3%	$430,000	$459,500	6.9%

Source: CoreLogic 7/16

During the period from 1988 through 1989, housing values appreciated at rates approaching an average of 15% per annum throughout much of Orange County and Southern California. During the period from 1990 through 1993 as the economic recession influenced all segments of potential homebuyers, the rate of house price changes fell dramatically with decreases of approximately 4% to 6% per annum. During 1996 home prices stabilized, and most new subdivisions experienced significant price increases from 1997 to mid-2005 with annual double digit appreciation. Over the subsequent 6± years sales prices significantly decreased. However, over the last 4± years, sales prices have increased on a year over year basis in almost every month. The May 2016 sales were the fifth highest May sales since 2006. The change in sales was up 1.0% from April 2016 and up 6.2% since May 2015. The region's median sale price increased 5.4% over the last five months, following 22 months of double-digit increases. Southern California's May median sale price was 9.0% below the peak median price of $505,000 reached in July 2007.

In all, 3,612 homes in the County sold in May 2016, which is an increase of 6.2% from May 2015 (Southern California had an increase in sales of 3.3%). The County's May 2016 median price of $651,500 is up 1.0% over April 2016. Over the past year, the median sales price increased 5.9%, according to CoreLogic. This is a vast improvement from the 20% to 25% annual declines on a monthly basis in 2007 and 2008. The May 2016 median price of $651,500 was 1.0% above the previous peak price of $645,000 in June 2007, and almost 76% higher than the January 2009 cyclical low median price of $370,000. Due to the strength in the new home market, the issuance of new home building permits in the County in 2012 was 70%± higher than the average number of permits issued over the previous five years. During 2013, single-family building permits increased to 3,783 from the 2012 total of 2,846 permits, about 33%. During 2014, single-family building declined 7.0% to 3,519 permits. In 2015, permits stabilized with a slight increase to 3,523 permits.

In Southern California, as a whole, May home sales were 9.0% below the May averages for the last 27 years. However, the May median price was the highest for any month since September 2007.

City of Rancho Santa Margarita

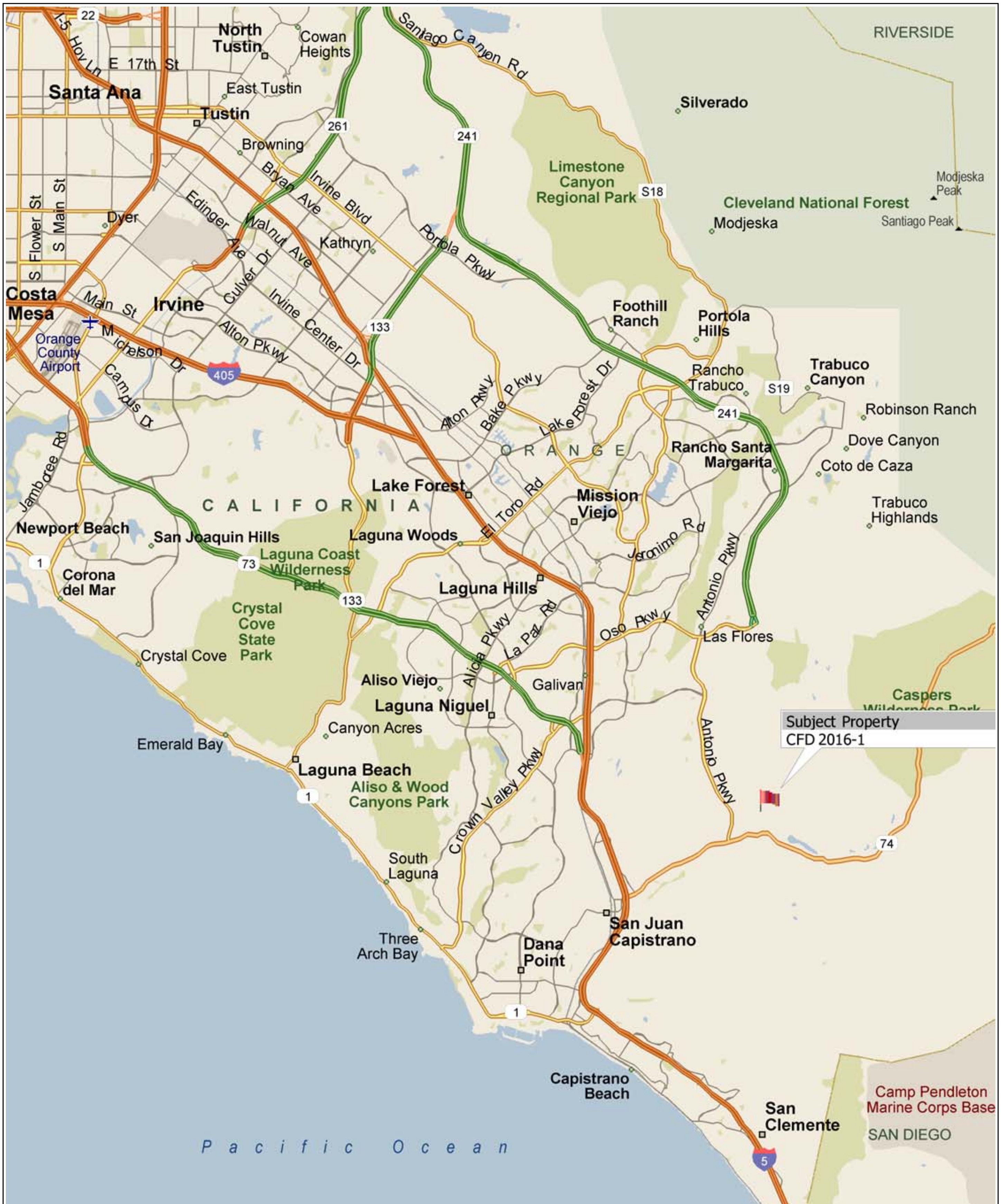
The City of Rancho Santa Margarita is located in south Orange County. It was incorporated on January 1, 2000. It is adjacent to Mission Viejo to the west and the unincorporated areas of Orange County to the north, south and east. The more rural unincorporated areas of Orange County are located south and east of the City limits. Rancho Santa Margarita is accessible from the Santa Ana Freeway (I-5), via several surface streets, while the S-241 toll road bisects the City. Please refer to the next page for a neighborhood map.

In 1882, Richard O'Neill and James Flood purchased a large ranch, which covered over 200,000 acres from Oceanside to Lake Forest. In 1941, the ranch was divided into three family ownerships. Richard O'Neill, Jr. took title to the 52,000 acres in Orange County. This ranch was known as Rancho Mission Viejo. In the mid-1960s a 10,000 acre planned community (now city) of Mission Viejo was developed. In the mid-1980's the family developed its second planned community (now city) of Rancho Santa Margarita. Subsequently, the planned communities of Las Flores and Ladera Ranch were developed. Through the years, the company's land holdings have diminished as homes have been sold and as land deemed sensitive for environmental or public recreational uses have been conveyed to governmental agencies to ensure preservation and public access. Today, approximately 22,000 acres remain under the company's stewardship.

Rancho Santa Margarita has a population as of January 1, 2016 of 48,500 persons. The City's most prominent business center is Rancho Santa Margarita Business Park, one of the County's major business, research and technology centers. The adjacent communities of Robinson Ranch and Dove Canyon were also included in the incorporation of Rancho Santa Margarita.

Rancho Santa Margarita has shared in the rapid growth of the region, particularly during the 1980s and 1990s. Nearly all of this population growth has been the result of people moving to the newer job markets in Orange County.

Neighborhood Map



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Population

As of the 2000 Census, the City had a population of 47,214 persons, a huge increase from its first residents in 1985. In 2010 the census reported a population of 47,853 persons. The State of California estimated the January 1, 2016 population at 48,500 persons. The City has nearly reached its maximum population.

Income Levels

The City has an income distribution substantially higher than the countywide distribution. The median household income for Rancho Santa Margarita is $109,657, which is significantly higher than the countywide figure. Sixty-seven percent of all households earn over $75,000, as compared to 51% for the County as a whole.

City of Rancho Santa Margarita
Household Income Distribution 2016

Income Range	Households	Percent
Less than $15,000	704	4.04%
$15,000 - $24,999	722	4.14%
$25,000 - $34,999	711	4.08%
$35,000 - $49,999	1,264	7.25%
$50,000 - $74,999	2,373	13.60%
$75,000 - $99,999	2,098	12.03%
$100,000 - $149,999	4,202	24.09%
$150,000 - $199,999	2,481	14.22%
$200,000 or more	2,891	16.58%
Total	17,446	100.00%
Median Household Income		$109,657
Average Household Income		$132,344

Source: Nielsen 7/16

Retail Sales

In 2013, the City generated retail sales of $442,228,000 or 1.1% of the County's total retail sales. The retail sales increased 39.2% from the City's 2001 level, while the County increased 40.3% during the same period. Annual retail sales for 2014 have not been reported.

Employment

As of May 2016, the City had an employment level of 28,100 persons. The unemployment rate for the City was 2.1%, which was 1.5% lower than the County as of May 2016. The top ten private employers in this area are shown on the following table. The information is from the City of Rancho Santa Margarita.

City of Rancho Santa Margarita Principal Employers 2015	
Employer	No. of Employees
Applied Medical Resources	2,500
Cox Communications	1,200
O'Connell Landscape	980
Saddleback Valley School District	606
Lucas & Mercier Construction	553
Control Components Inc. (CCI)	370
Target Corporation	247
Capistrano Unified School District	215
Car Sound Exhaust Systems, Inc.	207
PADI	200

Transportation

Rancho Santa Margarita has average freeway access provided by Interstate 5 (San Diego Freeway), the major north/south freeway in California, via Oso Parkway. The freeway merges with Interstate 405 at a major interchange situated about six miles north of the City. Both freeways intersect with State Highway 55 (Costa Mesa Freeway) to the west and northwest. From there, the Costa Mesa Freeway extends north to State Highway 91 (Riverside Freeway) providing access into Riverside and San Bernardino counties and west into Los Angeles County. The Costa Mesa Freeway continues southwest to Costa Mesa and Newport Beach. The San Diego Freeway (I-5) extends northwest to Los Angeles and further to Ventura County and central California. To the south, it provides access to San Clemente and ultimately to San Diego and the international border with Mexico.

Also available are the toll roads (the Eastern Transportation Corridor and the Foothill Transportation Corridor) that run from the Riverside Freeway near Anaheim to Oso Parkway at the south City limits.

Access to the subject neighborhood is primarily via the I-5, by way of Ortega Highway. Additional access is via the Foothill Transportation Corridor (S-241), by way of on/off ramps at Oso Parkway, then via Antonio Parkway to the subject neighborhood. The John Wayne Orange County Airport is about 15 miles northwest. The S-73 toll road is located 6.0 miles south.

Saddleback Valley

The subject property is located within an unincorporated area of Orange County. More specifically, this area is referred to as the "Saddleback Valley" which includes the unincorporated communities of Ladera Ranch, Foothill Ranch, Coto de Caza, and Wagon Wheel, and the cities of Aliso Viejo, Rancho Santa Margarita, Lake Forest, Laguna Hills, Laguna Niguel, and Mission Viejo. The Saddleback Valley is located approximately 50 miles south of Los Angeles, and 75 miles north of San Diego.

The communities within the Saddleback Valley are primarily unincorporated and governed by the Orange County Board of Supervisors. Police services are provided by the Orange County Sheriff's Department. The fire department is provided by Orange County as well.

The Saddleback Valley labor market area includes Rancho Santa Margarita, Foothill Ranch, Coto de Caza, Aliso Viejo, Lake Forest, Mission Viejo, Laguna Hills, and Laguna Niguel. Within this labor market area, over 95% of the labor pool are employed, with over 50%± of all households having two or more family members employed.

There are numerous employment opportunities in the existing and currently developing business parks which include: Santa Margarita Center (Rancho Santa Margarita), Pacific Commercentre (Lake Forest), Baker Ranch (Lake Forest), Foothill Ranch (County), Crown Business Center (Mission Viejo), and Pacific Park (Aliso Viejo).

The Irvine Spectrum consists of 5,000 acres and is approximately half completed. The development includes 3,500± companies that contain 38± million square feet, including 25 of the Fortune 500 with a total of 80,000± employees. Major companies such as Verizon Wireless, WATC, Billabong, and The Capital Group are located within the Spectrum. The concept is to attract a diverse economic headquarters that would attract commerce and technology world-wide, plus an environment for entrepreneurs.

Traffic congestion has been a severe problem not only in established areas such as North Orange County, but in rapidly developing areas within South Orange County. In an attempt to mitigate the South County traffic problems, an area-wide coordinated effort, between the California Department of Transportation "Caltrans," the County of Orange, local cities and the development community, was completed to expand existing roadways and to build new freeways. Included in these projects was the widening of the I-5 Freeway from a six-lane to a 12-lane freeway. The completion of the expansion has significantly improved the flow of traffic, particularly in South and Central Orange County.

The project that will have the most profound traffic impact on South Orange County is the proposed extension of the Foothill Transportation Corridor, "FTC." The FTC, when completed, is proposed to extend from the Eastern Corridor in Anaheim Hills to San Clemente. However, the proposed route for the remaining south leg has been rejected by both state and federal agencies. At this time, no route has been approved.

Community of Ladera Ranch

Ladera Ranch is the closest Planned Community to the community of Rancho Mission Viejo, of which the subject parcels are a part. The Ladera Ranch Planned Community was approved by a General Plan Amendment and Planned Community zoning as granted by the County in October 1995. Ladera Ranch contains a total of 4,000± acres of which 2,400± acres are zoned for development, with 1,600± acres to remain as open space. The County approved permits up to 8,100 dwelling units, 25± acres of retail development and 75± acres of mixed uses including commercial and limited residential uses for the urban activity center. The current build-out of Ladera Ranch is projected at 8,061 dwelling units.

Phase 1 of Ladera Ranch opened for sales to homeowners in August 1999. In total, over 6,500 production dwelling units have been sold to individual homeowners.

The custom lot development within the Ladera Ranch began sales on May 1, 2004. As of June 2016, 232 of the 232 lots were released for sale and 194 were reported as sold. An additional 36 lots are in escrow to two merchant builders. Two lots remain to be sold. The community of Ladera Ranch has met with very good acceptance from the market place.

In addition to the residential and commercial developments within Ladera Ranch, there are sites for community facilities (i.e. church, daycare, etc.), three K-5 school sites, one 6-8 school site, many neighborhoods and community park sites, and a 24-acre Sports Park site. The Sports Park is located on the north side of Crown Valley Parkway at the west side of the community, and includes 23± acres devoted to youth sports, with multiple softball-Little League fields, soccer fields, tot lot, picnic area, and concession building. The Sports Park was completed and dedicated to the County of Orange in March 2001.

The 1,600± acres of open space include surrounding ridgelines and arroyo areas that are protected through a conservation easement. This area includes diverse habitats such as coastal sage scrub, coastal live oak woodlands, native grasslands and riparian ecosystems.

Conclusions of Area Analysis

The strength of the economy for Orange County is evident in the increasing employment and, correspondingly, population of the County. While the employment and population figures have shown continued growth, local unemployment has consistently been below the national and state averages. The rebound from the past recession has shown continued gain in population and employment numbers. Most economists predict a continuation of expansion since the recent recession is over.

The local economy previously experienced economic decline from 2008 into 2012, due largely to the national and state recessions. However, beginning in mid-2012 the markets stabilized and home prices have increased. Inflation is reported to remain low, which should keep mortgage rates from rising too steeply while the economy gains strength. Nationally, the economy has rebounded from the recent recession lows. As of

August 1, 2016 the Dow Jones Industrial Average (DJIA) was near historical highs of 18,400. The S&P 500 was at historical highs of near 2,170. Home buyer demand in South and Central Orange County and all of Southern California currently exceeds the supply of homes on the market.

Orange County has experienced an increase of 5.9%± in median home price from a year ago. The median home price in Orange County was $651,500 in May 2016, which is a new record high median price. Home prices continue to increase, on a year-over-year basis although at a slowing rate. The year over year change in the sales rate have increased in ten of the last 12 months, with five months having increases between 13.8% and 15.5%, per month.

The surrounding area also provides good schools and community amenities, which are desirable characteristics for families as well as young and established professionals. Local growth provides an economic and employment base for retail and service businesses that will be supplemented by jobs resulting from the development of the surrounding business parks. As the economy and the housing market improves from the moderate market of 2014-2015, a return to more normal growth should continue.

SITE ANALYSIS

Phase I of Rancho Mission Viejo

The first Planning Area (PA 1.1, Sendero and Gavilan) of Rancho Mission Viejo is built-out and sold out to homeowners. Originally this Planning Area was approved for 1,170 dwelling units and other non-residential uses. Approximately 130 acres (Subareas 1.3, 1.4 and 1.5) were sold to the City of San Juan Capistrano for open space uses. Subarea 1.1 is currently developed with 941 dwellings in two neighborhoods.

Sendero, a market rate neighborhood has homes built by seven homebuilders. Gavilan is an age restricted 55-plus neighborhood with homes built by four home builders. Sendero has three townhome communities and four detached communities. Home sizes range from 1,000± square feet up to 3,000± square feet. Gavilan has duplex bungalows up to detached dwellings in four communities. Dwellings range from 1,275± square feet up to 2,325± square feet. Prices range from the low $300,000's to the high $800,000's in Sendero and is sold-out. Gavilan prices range from the mid-$400,000's to the high-$900,000's and is sold out.

PA 2.1, Esencia is being developed with 840 dwellings within 12 products. There are eight "market rate" (MR) products and four "age-qualified" (AQ) products. Within the MR products, home sizes range from 1,360± square feet up to 3,765± square feet. Within the AQ products, dwelling sizes range from 1,460± square feet up to 2,600± square feet. The MR dwellings have prices, that range from the low $500,000's to the high $1,200,000's. The AQ dwellings have prices that range from the high $500,000's to the low $1,000,000's. In total, as of mid-August 2016, 568 dwellings have been released for sale, 423 dwellings have been sold and 240 dwellings have closed to individual homeowners.

Planning Area 2 which includes the subject property (PA 2.2) and PA 2.1 contain a gross area of 1,680 acres. Approximately 785 gross acres are in open space. The remaining 895 gross acres are divided into: 820 gross acres for residential uses, 20 acres for parkland, 50 gross acres for an Urban Activity Center and 5 gross acres for neighborhood retail. In total, development of up to 3,291 dwelling units, 500,000 square feet of non-residential uses and 25,000 square feet of neighborhood retail uses are allowed. Planning Area 2 is approved for 3,291 residential units.

PA 2.2 of Rancho Mission Viejo - Subject Property

CFD No. 2016-1, the subject of this appraisal, is comprised of Planning Area 2.2 (PA 2.2), the second development phase of Planning Area 2. According to the March 27, 2013 Revision to The Ranch Plan Planning Area 2 document, PA 2.2 contains a total of 225 gross acres, of which residential uses total 170± net acres. At this time, PA 2.2 is approved for 878 for sale dwellings. As of the date of value of this appraisal, August 1, 2016, all of PA 2.2 has been graded into lots or sites that range from a blue-top lot condition to a physically finished lot condition. Six model home complexes are under construction and range from the framing stage to the color coat stucco stage of construction. Additionally, three projects are under construction with production dwellings. All three projects are in the framing stage. Twenty-four lots have slabs poured. All of these lots are valued as finished lots.

Esencia, PA 2.2 is proposed for a total development of 878 dwellings within 12 products. There are eight "market rate" (MR) products and four "age-qualified" (AQ) products. Eight merchant builders, under nine separate ownerships, are building within PA 2.2. Within the MR products there are two townhome products four detached condominium products and two traditional detached products on lots ranging from 5,225 to 5,500 square feet. Home sizes range from 931± square feet up to 3,760± square feet. The four AQ products include one duplex product, two detached condominium products and one traditional detached product on lots with a minimum size of 6,045 square feet. Dwelling sizes range from 1,470± square feet up to 2,600± square feet. Eleven of the products will have their grand opening in September 2016,with one product opening in November 2016. The MR dwellings have prices that range from the mid $300,000's to the low $1,100,000's. The AQ dwellings have prices that range from the mid $500,000's to the mid $900,000's.

According to the developer, as of the date of value, the backbone infrastructure has the following completion status: grading 100%; storm drain 100%; sewer

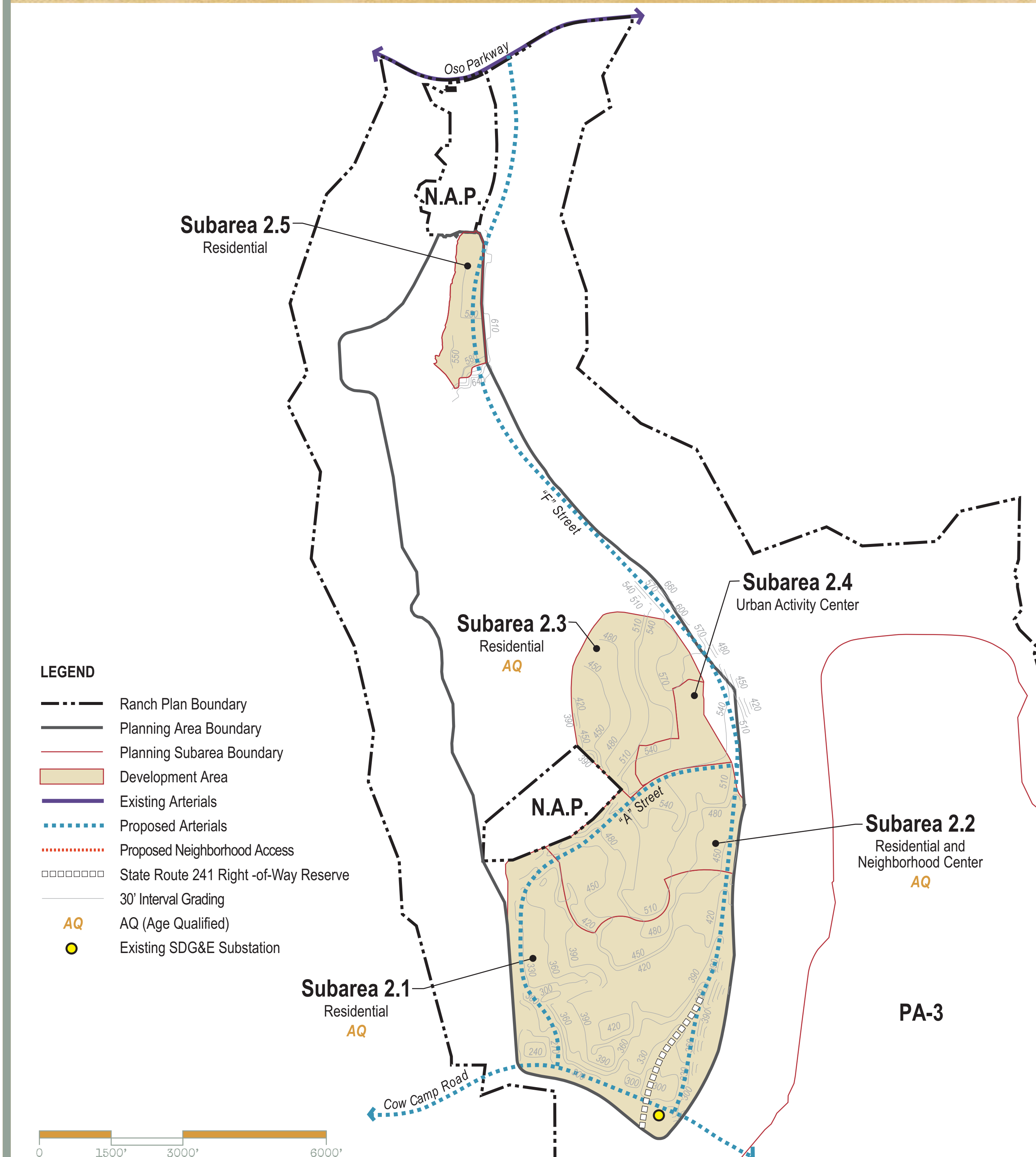
95%; domestic water 95%; reclaimed water 95%; dry utilities 90%; street improvements 80%; irrigation/ landscape/hardscape 80%. All backbone roads are paved except for the south bound lanes of Chiquita Canyon Drive, which is scheduled to be paved by the end of August 2016. According to the developer the cost to complete the balance of the backbone infrastructure and impact fees required by the developer, as of the date of value, is approximately $32,300,000. (Please refer to the summary of costs included in the Addenda of this report.) Based on information provided by the District's Underwriter, approximately $96,200,000 of construction funds will be available from CFD No. 2016-1. Of those funds, the developer is expected to receive approximately $86,200,000 from this bond issue. The balance will be used to fund the offsite La Pata Avenue extension.

Regional and Local Setting

Substantial portions of the 22,815-acre Rancho Mission Viejo have been used for ranching and agricultural uses for the past 120± years. These uses continue today. Commercial nursery operations, research and development uses, and natural resource extractions are ongoing activities within Rancho Mission Viejo through lease agreements. Previous extractions of mineral resources within Rancho Mission Viejo included rock aggregate, silica sand, clay, and expanded aggregate. CFD No. 2016-1 (PA 2.2) is located in the central portion of Rancho Mission Viejo, north of Ortega Highway (S-74) and east of Antonio Parkway. PA 2.2 is adjacent to the north of PA 2.1. Please review the map of Planning Area 2 on the next page.

Circulation facilities within Rancho Mission Viejo boundaries include Ortega Highway, which runs in an east-west direction through the subject properties and connects with I-5 to the west. Ortega Highway continues east of CFD No. 2016-1 to Riverside County. Antonio Parkway/La Pata Avenue is a north-south arterial highway that extends through the western portion of Rancho Mission Viejo. Antonio Parkway begins north of the subject properties in the City of Rancho Santa Margarita, extends through the Las Flores and Ladera Ranch communities to Ortega Highway. At Ortega Highway, Antonio Parkway turns into La Pata Avenue where it currently terminates at the Prima Deshecha Landfill. An extension of La Pata Avenue to San Clemente is expected to open in the fall of 2016. Other private and ranch roads exist within Rancho Mission Viejo.

Planning Area 2



MASTER AREA PLAN
LAND USE PLAN
Ranch Plan Planned Community

Exhibit: 4

To the north and west of Rancho Mission Viejo are the cities of Rancho Santa Margarita, Mission Viejo and San Juan Capistrano with San Clemente to the southwest. Other large land developments in unincorporated Orange County and in the vicinity of Rancho Mission Viejo include the built out communities of Las Flores, Coto de Caza and Ladera Ranch. Existing land uses within Rancho Mission Viejo include the Rancho Mission Viejo headquarters adjacent to Sendero, (PA-1) located on Ortega Highway, west of Antonio Parkway. Also in this area, south of Ortega Highway, is the Oaks/Blenheim/ Rancho Mission Viejo Riding Park. Further east along Ortega Highway and San Juan Creek are a variety of commercial nursery operations, the Solag Disposal Materials Recovery Facility (MRF), a concrete batch plant and a company that manufactures paving stones. Proximate to the Prima Deshecha Landfill is the BFI Greenwaste commercial composting site. The Northrop Grumman TRW Capistrano Test Site was previously located on an approximately 2,700-acre leased site in Planning Area 8 of the Ranch Plan, adjacent to the City of San Clemente, the Talega Planned Community and MCB Camp Pendleton.

Within Rancho Mission Viejo are several existing major public facilities and utilities, including the Santa Margarita Water District (SMWD) Chiquita Water Reclamation Plant, located in Chiquita Canyon. This facility, located in Planning Area 2, north of the District, is identified as not a part (NAP) of the Ranch Plan. Other major utilities include a 66-inch domestic water line and smaller non-domestic water and sewer lines in the vicinity of Cristianitos Road. In addition, there are several large overhead electric distribution lines owned by San Diego Gas and Electric (SDG&E) and Southern California Edison (SCE) that extend from the closed San Onofre Nuclear Generating Station (SONGS) located south of San Clemente. Facilities near the subject include the County's Prima Deshecha Landfill, located at the western boundary of Rancho Mission Viejo and two SDG&E substations also located just west of the southern boundary of Rancho Mission Viejo.

Several creeks are located within the boundaries of Rancho Mission Viejo, found in the area's designated for permanent open space. In total, approximately 16,942 acres within Rancho Mission Viejo are designated as permanent open space. When the Orange County Board of Supervisors approved the Orange County General Plan Amendment on

November 8, 2004 for the 22,815 acre planned community, the Board of Supervisors selected a blueprint for the long-term conservation, management and development of the land. This plan allowed for construction of up to 14,000 dwelling units, 3,480,000 square feet of urban activity center uses on 251 acres, 500,000 square feet of neighborhood center uses on 50 acres and 1,220,000 square feet of business park uses on 80 acres, all of which were proposed to occur on approximately 7,683 acres of the planned community. The balance of approximately 15,132 acres of 66.32% were identified as permanent open space uses.

Subsequent to the approval of the FEIR 589, a coalition of environmental groups and the City of Mission Viejo filed legal actions questioning the potential local and regional transportation impacts associated with implementation of the Ranch Plan project. A settlement agreement was reached on August 16, 2005 with the dismissal of the individual lawsuits. This settlement is known as the Resource Organizations Settlement Agreement, (ROSA). The agreement reached resulted in certain refinements to the Development Agreement that increased the amount of open space that will be permanently protected and managed from 15,132± acres to 16,942± acres and reduced the maximum developable area from 7,683± acres to 5,873± acres. The allocated permanent open space is approximately 75% of the total planned community area. There are no entitlement issues that would delay the development of CFD No. 2016-1.

Planning Area 2 Entitlement Summary

Existing Approvals – Local Agencies

County of Orange Ranch Wide

General Plan: Orange County General Plan Amendment, Approved November 8, 2004

Zoning: Approved November 2004

Development Agreement: Approved November 8, 2004

Final Environmental Impact Report 589 Certified final November 8, 2004

Settlement Agreements

City of San Clemente, effective December 8, 2004

City of Mission Viejo, effective June 9, 2005

National Resources Defense Council et al, effective August 16, 2005

Maximum Development Thresholds

14,000 dwelling units, including a range of densities and 6,000 age-restricted units

5.2 million square feet of employment uses, commercial, business, urban center, etc.

5,768 acres of total development area within six development Planning Areas

16,915 acres of total open space; permanent open space, for conservation purposes and orchards

Open Space Agreement effective July 25, 2006

Affordable Housing Implementation Agreement effective July 18, 2006

Ranch Plan Fire Protection Program approved July 31, 2007; revised March 25, 2013

Ranch Plan Local Park Implementation Program approved March 14, 2007; revised June 12, 2012

Ranch Plan Master Trail and Bikeways Implementation Plan approved July 18, 2006; revised September 11, 2011

Ranch Plan Solid Waste Management Plan approved July 19, 2006

Ranch Plan Alternative Development Standards approved March 14, 2007, amended August 12, 2008

Orange County Sheriff Agreement for Impact Mitigation effective February 14, 2007

County Planning Area 2 Approval Actions:

Planning Area 2 Master Area Plan approved on March 31, 2013

Subarea Planning Areas 2.1, 2.2. 2.3 and 2.4 approved on March 31, 2013.

Rough Grading Permit, approved, grading complete

Vesting Tentative Maps 17561, 17652 and 17563 recorded

Tract No. 17561 recorded

Addendum to FEIR 589 for Planning Area 2

County Infrastructure Approvals

Ortega Highway Widening

Cow Camp Road from Antonio Parkway to eastern boundary of PA-2

Antonio Parkways and Bridge Widening

Santa Margarita Water District

Plans of Works, approved August 2006

State Agencies

California Department of Fish and Wildlife

Ranch Wide Master Streambed and Alteration Agreement (MSAA)

CEQA Environmental Impact Report for Southern Subregion Natural Communities Conservation Plan/Master Streambed Alteration Agreement (FEIR 584)

Planning Area 1 Streambed Alteration Agreement

Cow Camp Road MSAA Sub-Notification

Planning Area 2 MSAA Sub-Notification

San Diego Regional Water Quality Control Board

San Diego Regional Water Quality Control Board

Caltrans – Ortega Highway agreements for construction and implementation (see County Infrastructure Approvals – Ortega Highway, above)

Federal Agencies

U.S. Fish and Wildlife Service

Ranch wide Section Permit/Habitat Conservation Plan

Environmental Impact Statement for Southern Subregion Habitat Conservation Plan (SSHCP EIS)

U.S. Army Corps of Engineers

Ranch wide Long Term Individual 404 Permit

NEPA Environmental Impact Statement for Special Area Management Plan (SAMP EIS)

Planning Area 1 NWP 404 Permit

Key Project Conditions

South County Road Improvement Program (SCRIP)

Transportation Corridor Agency (TCA) Fees

Agreement for Foothill Transportation Corridor – South (FTC-S)

San Juan Creek Watershed Study

Run-off Management Plan (ROMP) and Master Plan of Drainage (MPD)

Access

Regional access to the District is via Interstate 5 (I-5), which is located west of Rancho Mission Viejo and State Route 241 (SR-241) (also known as the Foothill Transportation Corridor), which currently terminates at Oso Parkway, just north of the PA-2. Cow Camp Road and Ortega Highway (State Route 74) runs east-west through Rancho Mission Viejo. Antonio Parkway provides the subject properties with north-south arterial highway access. Avenida Pico, in the City of San Clemente, runs east-west and terminates near the southwestern boundary of Rancho Mission Viejo.

Topography and Size

Rancho Mission Viejo, of which the subject property is a part, is very irregular in shape. The subject property is generally rolling to steep hillside similar to the surrounding properties. Rancho Mission Viejo contains 22,815 acres, of which 220± acres are included in this appraisal. Please refer to the following table which shows the Sub-Planning Area Developable acreage for PA 2.

Development Use – PA-2	PA 2.1	**PA 2.2**	PA 2.3	PA 2.4	PA 2.5
Residential	380	**220**	170	0	50
Urban Activity Center (UAC)	0	**0**	0	50	0
Neighborhood Retail	0	**0**	0	0	0
Business Park	0	**0**	0	0	0
Park Land	10	**0**	10	0	0
Total Developable Acres – PA-2	***895***				

Soil Conditions and Geology

Rancho Mission Viejo ranges from rugged topography to a wide, meandering creek channel. North-south trending ridges and valleys dominate the topography north of San Juan Creek, and east-west ridges and valleys dominate to the south of San Juan Creek. San Juan Creek, trending west, bisects these ridges across the middle of the Ranch Plan area. Major named valleys located within Rancho Mission Viejo include Cañada Chiquita, Cañada Gobernadora, Trampas Canyon, Cristianitos Canyon, Gabino Canyon, Verdugo Canyon, Talega Canyon, and Blind Canyon. Gentle to moderate topography bounds Cañada Chiquita, Cañada Gobernadora, and Trampas Canyon. East of Cañada Gobernadora and Cristianitos Canyon, terrain is moderately steep to rugged.

Fluvial terrace deposits, creating wide, nearly flat mesas stepping down to the creek channel overly the flanks of the ridges north of San Juan Creek, east of Cristianitos Creek, south of Gabino Canyon, and north of Talega Canyon.

Rancho Mission Viejo lies to the southwestern flank of the Santa Ana Mountains, within the Peninsular Ranges geomorphic province of California. The geologic units within the area are laterally transitional between the units of the Los Angeles basin and San Diego County. These units form a generally homoclinal sequence of marine and non-marine sedimentary rocks ranging in age from late Cretaceous to early Miocene, offset by regional faulting. Region structure shows these units dipping gently westward, with local folding observed predominantly near faults. The sequence is overlain in some areas by Quaternary sediments.

Surficial units are found overlying bedrock formations across much of the development area. These Quarternary-age units consist of sediments placed by wind, water, or mass movements. Bedrock units within Rancho Mission Viejo, in general, increase in age towards the east. These units comprise the ridges and slopes, and underlie surficial units on flanks and canyon bottoms.

General Plan and Zoning

The District, referred to as a portion of Planning Area 2 of Rancho Mission Viejo, is approved for the proposed uses under the General Plan, Planned Community Zoning, Open Space Agreement and Development Agreement with the County of Orange. The "Ranch Plan" Final Program Environmental Impact Report No. 589 (FEIR 589) was certified by the Orange County Board of Supervisors on November 8, 2004 as adequately addressing the potential environmental impacts associated with the development of Rancho Mission Viejo, a 22,815 acre Planned Community allowing for development of up to 14,000 dwelling units and 5,200,000 square feet of employment uses. Planning Areas 1 and 2 of Rancho Mission Viejo had Final Area Plans prepared in

2012 and 2013. The subject properties appraised in this report are a part of the Ranch Plan Planning Area 2 Master Area Plan, approved on March 27 2013. The Master Area Plan allows up to 3,291 dwelling units, 500,000 square feet of U.A.C. Development and 25,000 square feet of neighborhood retail development.

Specifically, CFD No. 2016-1 encompasses all of Subarea 2.2 of Planning Area 2. Subarea 2.2 is zoned for residential uses only. Up to 342 units are zoned conventional single-family detached dwellings. Under this zoning, the minimum lot size is 3,000 square feet and the net density must be less than 9.0 dwelling units per net acre. Up to 536 dwelling units are zoned Planned Concept Detached Dwellings. Under this zoning there is no minimum lot size. Density is greater than 8 dwelling units per net acre with lot sizes less than 3,000 square feet. Age-qualified dwellings can be located in both of the zoning areas.

Flood Hazard/Seismic Zones

Flood insurance rate maps published by the Federal Emergency Management Agency (FEMA) indicate the District to be in Zone X, an area outside of 500-year flooding; flood insurance is not required in this zone. The applicable map for the District is numbered 06059C-0465J with an effective date of December 3, 2009.

According to the California Division of Mines and Geology, the subject property is not located in an Alquist-Priolo Earthquake Fault Zone; however, all of Southern California is impacted by earthquakes. Known active fault corridors within the Orange County area include the San Joaquin Hills Blind Thrust Fault that is about 6 miles northwest, the Newport-Inglewood-Offshore Fault that is approximately 10 miles westerly, the Elsinore Faults, the Whittier Fault and the Chino Fault located to the northeast.

Environmental Issues/Toxic Hazards

Several site assessment reports were submitted for our review. The reports reported no environmental issues. Our physical inspection of the subject property did not indicate evidence of hazardous materials and/or toxic waste. However, past land uses and current ground leases have the potential for soil contamination. Your appraisers are not considered an expert in the field and are not qualified to detect such materials. *A specific assumption of the report and values is that the soil is suitable for the development as proposed and no evidence of hazardous materials (including underground tanks) or toxic waste exists.*

Utilities

As of the date of this appraisal, all utilities are available to the District. The utilities are provided by the following companies/agencies:

Electricity:	San Diego Gas & Electric
Natural Gas:	The Gas Company
Telephone:	AT&T/Cox Communications
Fire:	Orange County Fire Authority
Police:	Orange County Sheriff
Transit:	Orange County Transit Authority
Water:	Santa Margarita Water District
Sewer:	Santa Margarita Water District
Cable	Cox Communications/AT&T

Transportation

Vital to an area's growth and economic expansion are its transportation facilities for both business and residents. The following is a summary of the existing transportation facilities available in the area.

Rail:	Amtrak stops in Irvine and San Juan Capistrano
Truck:	11 major trucking lines serve Orange County
Air:	John Wayne Airport (13 miles), Los Angeles International Airport (60 miles)
Bus:	Orange County Transit Authority, Dial-A-Ride, Park-N-Ride
Water:	Long Beach Harbor/Port of Los Angeles (40 miles)
Highways:	San Diego Freeway (Interstate 5) Foothill Transportation Corridor (S-241) San Joaquin Transportation Corridor (S-73)

Easements/Restrictions

The appraisers were provided with 12 preliminary title reports covering the 12 merchant builder parcels in the District. The reports were prepared by First American Title Insurance Company and were dated April 8, 2016; April 19, 2016; April 27, 2016; May 2, 2016; May 3, 2016; May 6, 2016; June 8, 2016; June 10, 2016 and June 21, 2016. Each report contained numerous exceptions. The exceptions included easements, right of ways, various Deeds of Trust, public utilities and incidental purposes, water and common use agreements, a second fire protection agreement, option agreements, joint use agreements, various other agreements, CC&R's, Development Agreement and the ROSA. A Notice of Special Tax Lien for CFD No. 2016-1 was recorded on April 26, 2016. *For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of the District.*

Assessed Value and Taxes

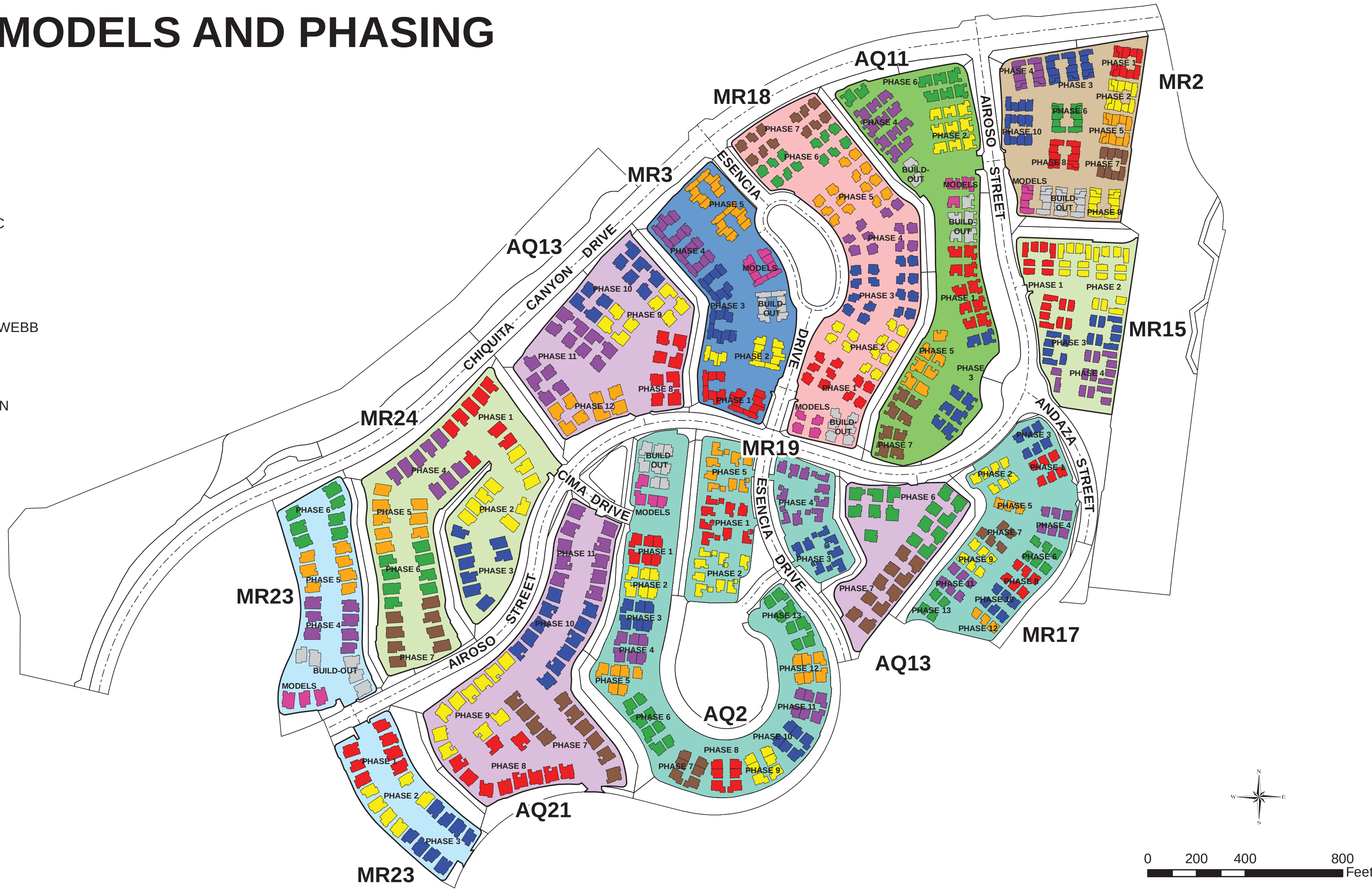
Generally, the real estate tax laws of the State of California limit tax assessment increases to a maximum of 2% per year until the property is resold, at which time it is reassessed at Market Value, or until major improvements are added, at which time it is also reassessed. Real estate taxes are currently based upon 1% of the assessed valuation plus any bonded indebtedness applied by the local taxing jurisdiction. Local assessments include mosquito and fire ant assessments, vector control fees, MWD water standby charge, Capistrano USD-Bonds and Santa Margarita Water District Bonds. The subject's tax rate is normal for the area. The District is a portion of numerous assessor parcels. The assessor parcels are listed in the Addenda of this report. The total Assessed Value for the subject ownerships in 2015-2016 is $47,040,343. The total 2015-2016 tax is $665,139.32. The total Assessed Value and total taxes are for all of the assessor parcels under the prior RMV PA2 Development LLC ownerships included in this appraisal, which includes land for future development. The Assessed Values and taxes to be established for tax year 2016-2017 will reflect the new merchant builder ownerships. The overall tax rate is estimated to range between 1.8% and 2.0% of value.

TRACT MAP NO. 17562
PA 2.2 MODELS AND PHASING

Legend

Builders

- CALATLANTIC
- LYON
- MBK
- MERITAGE
- PULTE / DEL WEBB
- SHEA
- TRI POINTE
- WARMINGTON



Date: 12/10/2015
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HUITT~ZOLLARS

Product Area Site Information

CFD No. 2016-1 includes all of Subarea 2.2 of Planning Area 2 of Rancho Mission Viejo. There are 12 residential for-sale projects in Subarea 2.2, within Tract 17562. These properties have been graded into sites ranging from blue-top lots to finished lots. Model homes are under construction at 6 of the 12 for-sale residential projects. Six of the products are extensions of the currently selling products in PA 2.1. These six products will continue to use the model complexes in PA 2.1. Three projects are under vertical construction with production dwellings. A map showing the 12 products can be found on the preceding page. Specific product information for the 12 proposed for-sale developments, is summarized below. The sales price, date of sale and costs to complete, as of the date of sale, have been verified by both the buyers and the seller.

Product Area:	MR-2, Attached, 5-plex
Location:	SEC Chiquita Canyon Dr. and Airosa St,
Owner/Builder	Meritage Homes of California, Inc.
Project Name:	Sage
Legal Description:	Tract No. 17593, recorded April 25, 2016
Shape/Size:	Generally rectangular, 8.5 acres
Number of Units:	125 dwelling units
Density:	14.53 units per acre
Site Condition:	Blue-top/mass graded
Cost to Complete:	$5,042,250 ($40,338/DU), at time of sale, $2,745,882 ($21,967/DU), as of August 1, 2016
Purchase Information:	RMV PA2 Development, LLC sold this property December 3, 2015 with Grant Deed No. 613958 for $19,614,000 or $156,912 per DU.
Title Report:	Prepared by First American Title Company dated April 19, 2016. No. NHSC-5003782. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development.

HRA

Product Area:	MR-3, Attached, 5-plex
Location:	SWC Chiquita Canyon Dr. and Esencia Dr.
Owner/Builder	Esencia MR3, LLC
Project Name:	Veranda
Legal Description:	Tract No. 17585, recorded July 8, 2016
Shape/Size:	Generally rectangular, 8.1 acres
Number of Dwelling Units:	86 dwelling units
Density:	12.84 units per acre
Site Condition:	Blue-top lots
Cost to Complete:	\$4,839,306 (\$56,271/DU), at time of sale, \$1,310,000 (\$15,233/DU), as of August 1, 2016
Purchase Information:	RMV PA2 Development, LLC sold this property November 24, 2015 and April 1, 2016 with Grant Deed No. 602517 & 140196 for \$23,939,936 or \$278,371 per DU.
Title Report:	Prepared by First American Title Company dated May 6, 2016. No. NHSC-5056120. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development.

Product Area:	MR-15, SFD, 8-plex
Location:	NEC Airoso St. and Airoso St.
Owner/Builder	Tri Pointe Homes, Inc.
Project Name:	Aira II
Legal Description:	Tract No. 17592, expected to record August 26, 2016
Shape/Size:	Generally rectangular, 6.0 acres
Number of Dwelling Units:	64 dwelling units
Density:	10.67 units per acre
Site Condition:	Blue-top/mass graded
Cost to Complete:	\$3,673,664 (\$57,401/DU), at time of sale \$2,275,000 (\$35,547/DU), as of August 1, 2016
Purchase Information:	RMV PA2 Development, LLC sold this property February 29, 2016 with Grant Deed No. 82560 for \$20,383,223 or \$318,488 per DU.
Title Report:	Prepared by First American Title Company dated June 21, 2016. No. NHSC 5077481. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development.

Product Area:	MR-17 SFD, 6-plex
Location:	SWC Airoso St. and Andaza St.
Owner/Builder	Ryland Homes of California, Inc.
Project Name:	Citron
Legal Description:	Tract No. 17590, recorded July 28, 2016
Shape/Size:	Generally rectangular, 7.7 acres
Number of Dwelling Units:	70 dwelling units
Density:	9.21 units per acre
Site Condition:	Blue-top lots
Cost to Complete:	$5,407,360 ($77,248/DU), at time of sale, $572,000 ($8,171/DU), as of August 1, 2016
Purchase Information:	RMV PA2 Development, LLC sold this property November 20, 2015 with Grant Deed No. 597471 for $19,416,500 or $277,378 per DU.
Title Report:	Prepared by First American Title Company dated April 8, 2016. No. NHSC-5051927. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development.

Product Area:	MR-18, SFD, 6-plex
Location:	NEC Esencia Dr. and Airso St.
Owner/Builder	Warmington MR 18 Associates, LLC
Project Name:	Canopy
Legal Description:	Tract No. 17586, recorded 5/10/2016
Shape/Size:	Generally rectangular, 11.7 acres
Number of Dwelling Units:	97 dwelling units
Density:	9.51 units per acre
Site Condition:	Blue-top/mass graded
Cost to Complete:	$8,645,513 ($89,129/DU), at time of sale, $8,036,000 ($82,845/DU), as of August 1, 2015
Purchase Information:	RMV PA2 Development, LLC sold this property November 24, 2015 with Grant Deed No. 602757 for $28,421,000 or $293,000 per DU.
Title Report:	Prepared by First American Title Company dated May 2, 2016. No. NHSC-5035048. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development.

Product Area:	MR-19, SFD, 8-plex
Location:	S/S Airoso St., E/S Esencia Dr.
Owner/Builder	Ryland Homes of California, Inc.
Project Name:	Heirloom
Legal Description:	Tract No. 17584, recorded July 28, 2016
Shape/Size:	Generally rectangular, 6.2 acres
Number of Dwelling Units:	41 dwelling units
Density:	6.61 units per acre
Site Condition:	Blue-top lots
Cost to Complete:	$3,406,977 ($83,097/DU), at time of sale $811,000 ($19,780/DU), as of August 1, 2016
Purchase Information:	RMV PA2 Development, LLC sold this property November 20, 2015 with Grant Deed No. 597486 for $14,347,500 or $349,939 per DU.
Title Report:	Prepared by First American Title Company dated April 27, 2016. No. NHSC-5051924. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development.

Product Area:	MR-23, SFD, 55' x 95' lots
Location:	B/S Airoso St.
Owner/Builder	LT-MR23, LLC
Project Name:	Briosa
Legal Description:	Tract No. 17579, recorded May 20, 2016
Shape/Size:	Generally rectangular, 11.9 acres
Number of Dwelling Units:	50 dwelling units
Density:	6.49 units per acre
Site Condition:	Blue-top/mass graded
Cost to Complete:	$3,928,650 ($78,573/DU), at time of sale $350,000 ($7,000/DU), as of August 1, 2016
Purchase Information:	RMV PA2 Development, LLC sold this property November 18, 2015 with Grant Deed No. 594442 for $21,929,500 or $438,585 per DU.
Title Report:	Prepared by First American Title Company dated June 8, 2016. No. NHSC-504245. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development.

Product Area:	MR-24, SFD, 55' x 100' lots
Location:	SWC Airoso St. and Cima Dr.
Owner/Builder	TRI Pointe Homes, Inc.
Project Name:	Aubergine II
Legal Description:	Tract No. 17581, is expected to record on August 26, 2016
Shape/Size:	Generally rectangular, 12.8 acres
Number of Dwelling Units:	57 dwelling units
Density:	4.49 units per acre
Site Condition:	Blue-top lots
Cost to Complete:	$4,363,578 ($76,554/DU), at time of sale $2,534,000 ($44,546/DU), as of August 1, 2016
Purchase Information:	RMV PA2 Development, LLC sold this property November 19, 2015 with Grant Deed No. 596044 for $29,295,500 or $513,949 per DU.
Title Report:	Prepared by First American Title Company dated June 21, 2016. No. NHSC-5077482. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development.

Product Area:	AQ-2, Attached, 4-plex
Location:	Cima Dr. and Gracilla Dr.
Owner/Builder	CalAtlantic Group
Project Name:	Iris
Legal Description:	Tract No. 17580, recorded July 8, 2016
Shape/Size:	Generally rectangular, 12.6 acres
Number of Dwelling Units:	94 dwelling units
Density:	8.1 units per acre
Site Condition:	Blue-top/mass graded
Cost to Complete:	$6,198,736 ($65,944/DU), at time of sale. $2,900,000 ($30,851/DU), as of August 1, 2016
Purchase Information:	RMV PA2 Development, LLC sold this property November 19, 2015 with Grant Deed No. 595036 for $23,705,500 or $252,182 per DU.
Title Report:	Prepared by First American Title Company dated May 6, 2016. No. NHSC-5037448. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development.

Product Area:	AQ-11, SFD, 6-plex
Location:	SWC Chiquita Canyon Dr. and Airoso St.
Owner/Builder	Pulte Home Corporation
Project Name:	Arista
Legal Description:	Tract No. 17589, recorded July 8, 2016
Shape/Size:	Irregular, 11.9 acres
Number of Dwelling Units:	71 dwelling units
Density:	6.28 units per acre
Site Condition:	Blue-top lots
Cost to Complete:	$6,477,188 ($91,228/DU), at time of sale $1,250,000 ($17,606/DU), as of August 1, 2016
Purchase Information:	RMV PA2 Development, LLC sold this property December 3, 2015 with Grant Deed No. 616493 for $20,164,000 or $284,000 per DU.
Title Report:	Prepared by First American Title Company dated June 10, 2016. No. NHSC-5042437. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development.

Product Area:	AQ-13, SFD, 8-plex
Location:	NWC Airoso St. and Cima Dr.
Owner/Builder	Shea Homes Limited Partnership
Project Name:	Cortesa
Legal Description:	Tract No. 17583 & 17588, recorded July 8, 2016
Shape/Size:	Generally rectangular, 13.4 acres
Number of Dwelling Units:	72 dwelling units
Density:	5.33 units per acre
Site Condition:	Blue-top/mass graded
Cost to Complete:	$6,662,016 ($92,528/DU), at time of sale $2,952,000 ($41,000/DU), as of August 1, 2016
Purchase Information:	RMV PA2 Development, LLC sold this property November 30, 2015 with Grant Deed No. 608230 for $23,000,000 or $319,444 per DU.
Title Report:	Prepared by First American Title Company dated May 3, 2016. No. NHSC-4831730. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development.

Product Area:	AQ-21, SFD, 65' x 93' lots
Location:	SEC Airoso St. and Cima Dr.
Owner/Builder	Shea Homes Limited Partnership, Inc.
Project Name:	Alondra
Legal Description:	Tract No. 17582, recorded July 8, 2016
Shape/Size:	Irregular, 11.5 acres
Number of Units:	51 dwelling units
Density:	4.43 units per acre
Site Condition:	Blue-top lots
Cost to Complete:	\$3,551,640 (\$69,640/DU), at time of sale \$1,479,000 (\$29,000/DU), as of August 1, 2016
Purchase Information:	RMV PA2 Development, LLC sold this property November 30, 2015 with Grant Deed No. 608238 for \$23,066,500 or \$452,275 per DU.
Title Report:	Prepared by First American Title Company dated May 3, 2016. No. NHSC-4831757. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of this development.

PROPOSED IMPROVEMENT DESCRIPTION

General

CFD No. 2016-1 is proposed for a total development of 878 dwellings within 12 products. There are eight "market rate" (MR) products and four "age-qualified" (AQ) products. Eight merchant builders, under nine separate ownerships, are building within the District. Within the market rate projects there are two townhome products, four detached condominium products and two traditional detached products on lots ranging from 5,225 square feet to 5,500 square feet. The four age-qualified products include one townhome product, two detached condominium products and one traditional detached product on lots with a minimum size of 6,045 square feet. Eleven of the products are scheduled for their grand opening in September 2016. Six of 12 model complexes are under construction. Six of the proposed products are continuations of the current development in PA-2.1. These products will use their current model complexes in PA-2.1. Only the six new products will build model complexes. The land consists of lots from a blue-top condition to a finished lot condition.

The appraisers have not been provided with specifications for the proposed residential improvements within CFD No. 2016-1. The appraisers have information from the developer's web site for the Esencia project. The table on the following two pages summarizes the various products, merchant builders, floor plans and base sales prices as of the date of value. The first page summarizes the 8 MR products and the second page summaries the 4 AQ products. The base sales prices are those provided by the merchant builders.

Following the table is a list of some of the general construction specifications for the attached and detached single-family homes in the District. For purposes of this appraisal, we have assumed that the quality of construction, functional utility, amenities and features are similar to currently selling new home projects and meet market demand for product in the subject's market area.

County of Orange CFD No 2016-1 - Rancho Mission Viejo Esencia (PA 2.2)
Proposed Improvement Description as of August 1, 2016
Products Continued From PA-2.1

Project Builder	Number of Units	Lot Size	Bdrm/ Bath	Stories/ Garage	Base Sales Price	DU Size Sq. Ft.	$/Sq. Ft.
MR-2	21	Attached	1/1.5	2/2	$365,990	931	$393.11
Sage	26	Townhouse	2/2.5	2/2	$450,990	1,318	$342.18
Meritage Homes	21	5-Plex	2/2.5	2/2	$460,990	1,403	$328.57
	26		3/2.5	2/2	$510,990	1,689	$302.54
	5		3/2.5	2/2	$510,990	1,689	$302.54
	26		3/2.5	2/2	$525,990	1,791	$293.69
	125						
MR-3	14	Attached	3/2.5	2/2	$554,800	1,681	$330.04
Veranda	3	Townhouse	3/2.5	2/2	$602,800	1,721	$350.26
MBK Homes	3	8-Plex	3/2.5	2/2	$612,800	2,089	$293.35
	12		3/2.5	2/2	$606,800	1,912	$317.36
	7		3/2.5	2/2	$644,800	1,952	$330.33
	7		4/2.5	2/2	$654,800	2,320	$282.24
	11		4/2.5	2/2	$570,800	1,719	$332.05
	6		4/2.5	2/2	$624,800	1,950	$320.41
	15		4/2.5	2/2	$609,800	1,902	$320.61
	8		4/2.5	2/2	$684,000	2,254	$303.46
	86						
MR-15	30	Detached	3/2.5	2/2	$615,000	1,779	$345.70
Aria	17	8-Plex Clusters	3/2.5	2/2	$639,000	1,855	$344.47
TRI Pointe Homes	17		3/2.5	2/2	$658,000	1,937	$339.70
	64						
MR-17	24	Detached	3/2.5	2/2	$658,900	1,797	$366.67
Citron	2	6-Plex Clusters	3/2.5	2/2	$652,900	1,775	$367.83
CalAtlantic Homes	22		3/2.5	2/2	$679,900	1,936	$351.19
	22		3/2.5	2/2	$743,900	2,205	$337.37
	70						
MR-18	28	Detached	4/2.5	2/2	$715,000	2,153	$332.09
Canopy	28	6-Plex Clusters	4/2.3	2/2	$750,000	2,350	$319.15
Warmington Residential	32		4/3	2/2	$787,000	2,495	$315.43
	9		4/3	3/2	$855,000	2,798	$305.58
	97						
MR-19	10	Detached	3/2.5	2/2	$781,900	2,345	$333.43
Heirloom	9	8-Plex Clusters	3/2.5	2/2	$825,900	2,508	$329.31
CalAtlantic Homes	5		4/3.5	2/2	$841,900	2,657	$316.86
	6		4/3.5	2/2	$879,900	3,151	$279.24
	6		4/3.5	2/2	$958,900	3,084	$310.93
	5		4/3.5	3/2	$975,900	3,235	$301.67
	41						
MR-23	17	Traditional SFD	3/3	2/2	$950,000	3,069	$309.55
Briosa	17	5,225 SF Lots	4/4	2/2	$977,500	3,226	$303.01
William Lyon Homes	16		4/4	2/2	$1,026,500	3,486	$294.46
	50						
MR-24	20	Traditional SFD	4/4.5	2/3	$1,023,000	3,097	$330.32
Aubergine	20	5,500 SF Lots	4/4.5	2/3	$1,058,000	3,314	$319.25
TRI Pointe Homes	17		5/5.5	2/3	$1,135,000	3,761	$301.78
	57						

County of Orange CFD No 2016-1 - Rancho Mission Viejo Esencia (PA 2.2)
Proposed Improvement Description as of August 1, 2016
Products Continued From PA-2.1

Project Builder	Number of Units	Lot Size	Bdrm/ Bath	Stories/ Garage	Base Sales Price	DU Size Sq. Ft.	$/Sq. Ft.
AQ-2	26	Attached	2/2.5	1/2	$639,000	1,729	$369.58
Iris	26	4-plex	2/2.5	1/2	$649,000	1,788	$362.98
CalAtlantic Homes	9		2/2.5	1/2	$649,000	1,788	$374.16
	22		3/3	1/2	$669,000	1,823	$403.73
	11		3/3	2/2	$736,000	2,336	$315.07
	94						
AQ-11	8	Detached	2/2	1/2	$570,532	1,472	$387.59
Arista	17	6-Plex Clusters	2/2.5	1/2	$676,542	1,746	$387.48
Pulte Homes	16		2/2.5	1/2	$659,105	1,701	$387.48
	30		2/2.5	2/2	$726,527	1,875	$387.48
	71						
AQ-13	6	Detached	2/2	1/2	$727,900	1,816	$400.83
Cortesa	31	8-Plex Clusters	2/2	1/2	$758,900	1,831	$414.47
Shea Homes	18		3/2	1/2	$793,900	2,116	$375.19
	17		3/2	2/2	$807,900	2,362	$342.04
	72						
AQ-21	17	Traditional SFD	2/2.5	1/2	$904,900	2,325	$389.20
Alondra	18	6,045 SF Lots	2/2.5	1/2	$919,900	2,330	$394.81
Shea Homes	16		3/3	2/2	$959,900	2,589	$370.76
	51						

Total 878 Dwelling Units

HRA

Construction
Units are of Class "D" construction; wood frame and stucco siding with several elevation choices.

Foundations
Foundations are poured concrete. Particle board over wood floor joists for the second floor.

Structural Frame
Consists of 2" x 4" and 2” x 6” wood framing.

Roofs
Roofs are of concrete tile and composition shingle.

Windows
Vinyl dual glazed windows.

Floor Covering
Floor coverings are wall-to-wall carpet in all living areas. Entries are of ceramic tile.

Interior Finish
Custom trowelled ceiling and painted drywall.

Heating/HVAC
Central air conditioning and gas forced air heating.

Kitchens
Kitchens will be equipped with natural maple or birch wood Euro-styled frameless cabinetry, and granite countertops. Each kitchen will include appliances in stainless steel that include professional range, electric self-cleaning double oven, dishwasher, built-in microwave and stainless steel sink.

Bathrooms
Bathrooms will have double sinks with ceramic tile countertops, and tile surround in shower and tub.

Garage
Garage doors are two and three car sectional steel roll-up with concrete driveways.

Laundry Facilities
Interior laundry areas.

Exterior
Side and rear yard fencing. Detached condominiums include front yard landscape and irrigation.

Options
Numerous options and upgrades are available including flooring, cabinet, appliance package and countertop upgrades. Most options and upgrades provided at competing, similar quality developments were offered.

Functional Utility

It is an assumption of this appraisal that all of the floor plans are functional, and competitive with current design standards.

Remaining Economic Life

The total/remaining economic life, according to the Marshall Valuation Service, is considered to be 50 years from date of completion.

Homeowners Association

The homeowner's association dues are reported to range between $228± and $352± per month, depending on product. The HOA will be responsible for maintaining all of the common areas within the Master Association including all recreation facilities, alleys, landscaping and open space lots.

Conclusion of the Improvements

Based on the review of the product information and physical inspection of the ten currently selling products within the District, we are of the opinion that the quality of the products is good and will generally meet buyer expectations for the subject's marketplace.

HIGHEST AND BEST USE

The term *highest and best use* is an appraisal concept that has been defined as follows:

> The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.[6]

The determination of highest and best use, therefore, requires a separate analysis for the land as legally permitted, as if vacant. Next, the highest and best use of the property with its improvements must be analyzed to consider any deviation of the existing improvements from the ideal. "The highest and best use of both land as though vacant and property as improved must meet four criteria. The highest and best use must be: legally permissible, physically possible, financially feasible, and maximally productive. These criteria are often considered sequentially."[7] The four criteria interact and, therefore, may also be considered in concert. A use may be financially feasible, but it is irrelevant if it is physically impossible or legally prohibited.

Legal Considerations

The legal factors influencing the highest and best use of the subject property are primarily governmental regulations such as zoning and building codes.

All of the land subject to special tax included in CFD No. 2016-1 is within Final Tract Map No. 17562. The subject of this appraisal includes 220± gross acres of land proposed for 878 attached and detached for-sale dwelling units. Final Tract Map No. 17562 is being further subdivided into 13 individual tract maps for the 12 for-sale products that have been sold to individual merchant builders. Eleven of the tract maps

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[6] *The Dictionary of Real Estate Appraisal*, 4th Edition, Pub. by the Appraisal Institute, Chicago, IL., p. 135.

[7] *The Appraisal of Real Estate*, 10th Edition, Pub. by the Appraisal Institute, Chicago, IL., p. 280.

are recorded as of the date of value, while the remaining two tract maps are expected to record within 30 days. The District ranges from a blue-top lot condition to finished lot condition. As of the date of value, six of the merchant builder products are under construction, with a total of 27 model homes. Twenty-four production dwellings are under construction in the framing stage. Twenty-four production dwellings have slabs and foundations completed. As previously discussed, all of CFD No. 2016-1 is entitled for the proposed uses. The average net developable density for all of the merchant builder products is 7.7 dwellings per acre. The proposed improvements are legal and conforming uses.

Physical and Locational Considerations

The physical and locational characteristics of the subject property are considered good for the proposed uses. The proposed uses conform to the various zoning specifications as approved by the County of Orange. The subject properties are a natural extension of existing residential developments located in the City of San Juan Capistrano, Rancho Mission Viejo and Ladera Ranch. The South Orange County area is established and offers a large employment base near CFD No. 2016-1. Prior to the recent recession and deterioration in the residential market, there was strong demand for similar developments as evidenced by sales of merchant builder land and dwelling units in the adjacent planned communities. Since the end of the last recession and more particularly from 2012 to the present time, the strong demand for residential dwelling units has returned to the Orange County and Rancho Mission Viejo markets.

All necessary utilities are reported to be available to the District with capacity to service the proposed developments. The site's access and configuration are good. Topography is rolling hillsides. The subject sites do not appear to present any development constraints. This appraisal report and the values included herein assume there are no soil problems or hazardous conditions that would have an adverse impact to development of CFD No. 2016-1.

Based on the physical analysis, the site's location and topography would suggest the land has a primary use of residential development due to the adjacent developments, Final Tract Map approval and current on-site construction.

Market Conditions and Feasibility

The financial feasibility of the development of CFD No. 2016-1 is based on its ability to generate sufficient income and value in excess of the costs to develop the property to its highest and best use. Please refer to the Valuation sections of this report, which give support to the financial feasibility of CFD No. 2016-1.

The attractiveness of residential development anywhere in Orange County is evidenced by market activity which has taken place over the last 30 years. The current condition of the housing market is that there has been a significant increase in demand over the past 4± years, which has positively impacted price. The decline in sales and prices between the end of 2005 through 2011 has ended. There was a slight increase in the median Orange County home price between July 2011 and July 2012 of almost 3%. However, the following 12 month period to mid-2013 showed the median price increased almost 20%. From July 2013 to July 2014, the price increase moderated to 8.4%. The June 2016 median price is 4.6% higher than the June 2015 median price. The June 2016 median price of $657,500 is higher than the June 2007 peak of $645,000. It appears that the upward pressure on price due to demand outpacing supply could be moderating. Over the past 12 months, sales decreased by 1.7%, from 3,850 sales in June 2015 to 3,786 sales in June 2016. The June 2016 median home price increased 7.5% from $628,500 to $657,000 over the 12 month time frame. This is the highest June median price since 2007.

As of mid-July 2016, there were only 7,329 existing and new homes for sale in Orange County. This is 415± more homes on the market than the July 2015 inventory, but 29% below the 12-year average of 10,375 dwellings in the inventory. Absorption of all homes currently on the market is estimated at 80 days, lower than the typical four to six month absorption going back to 2004. The current inventory, albeit about two-thirds of the average between 2005 and 2016, supports a much more sustainable market than what was seen one to two years ago.

According to the Metrostudy report dated first quarter of 2016, homebuilders sold 950 new homes in the Orange County market, which represents a 4.3% increase from the total new home sales one year ago. This represents an 18.3% decrease for detached homes, while the attached new home closings increased by 76.5%. On an annual rolling 12-month basis, for the last four quarters, new total home closings in Orange County are down 12.9% from one year earlier.

The median sale price of all new homes closed during the first quarter of 2016 was at $785,800, a decrease of 4.1%± from the first quarter of 2015. The detached median sale price increased 4.4% to $990,200, while the attached median sale price increased 5.4% to $576,400 over the past 12 months.

According to Metrostudy, at the end of Q1 2016 there were 130 active detached subdivisions in the Orange County market, representing a decrease of 24 subdivisions from one year ago. At the end of Q1 2016, there were 2,393 available detached units, which include model homes, completed dwellings and dwellings in various stages of construction. Based on the most recent closing data, this represents an 11.9 month supply of inventory of dwellings. One year ago, the absorption was 6.1 months. According to Metrostudy there are 3,292 finished lots in the County which represents a 12.3 month supply of finished lots. One year ago, the absorption for finished lots was 12.7 months.

Metrostudy locates Rancho Mission Viejo within the South Inland submarket of Orange County. This area also includes the communities of Coto de Caza, Foothill Ranch, Ladera Ranch, Lake Forest, Las Flores, Mission Viejo, Rancho Santa Margarita and Trabuco Canyon. The South Inland submarket region accounted for 123 detached sales during the first quarter of 2016, or a 22% market share of the Orange County market. This sales rate is down 18.3% from the first quarter 2015 sales rate. An indication of the moderating market is that for the first quarter of 2016, the South Inland submarket had average quarterly sales per project of 4.7 units. One year ago, the sales rate was higher at 7.5 units per quarter. Over the last 12 months, the South Inland submarket reported 396 closings compared to 580 for the 12 months ending March 2015, a 31.7% decrease. The annual (12-month) closing rate per subdivision decreased from 30.5 units per year in Q1 2015 to 12.8 units per year in Q1 2016, representing a 58.2% decrease.

The median detached sales price in the South Inland submarket increased 5.3% from $854,500 in Q1 2015 to $900,000 in Q1 2016. The attached sales price increased 9.9% from $503,100 one year ago to $553,100 in Q1 2016. The median detached unit size increased 6.1%± from 2,360 square feet to 2,439 square feet. The attached median size decreased 2.0% to 1,519 square feet. The median price per square foot for a detached dwelling increased from $383 to $434 over the past 12 months. This is the second highest median price per square foot of the five submarkets in Orange County. The attached dwelling units increased in median price per square foot from $323 to $332 in Q1 2016, a 3.1% increase in price per square foot.

During the first quarter of 2016, the subject's submarket sold 5 detached homes priced between $500,000 and $599,999; 43 detached homes priced between $600,000 and $699,999; 88 detached homes priced between $700,000 and $799,999 and 431 homes priced over $800,000 were sold. There were 52 attached units that sold in the subject's submarket in the first quarter of 2016. Of those, 1 unit was priced under $400,000; 13 were priced between $400,000 and $499,999; 30 were priced between $500,000 and $599,999, and 8 were priced between $600,000 and $699,999.

Within the South Inland submarket there were 26 active detached projects and 7 active attached products at the end of Q1 2016. This is 11 more than the end of Q1 2015 for detached products and 2 more for attached products. The subject's submarket area reports 2 detached units as built but unsold inventory units and 470 unsold units under construction. This is a 14.3± month absorption time for the completed dwellings and units under construction. Total inventory which includes units built, under construction and model homes totals 541 units which equates to a 16.4 month supply at the current sales rate. One year ago total detached inventory was at 198 units, and the absorption time based on last year's sales rate was 4.1 months. While total inventory increased 173.2%, absorption time increased 300.0% or 12.3 months.

According to an interest rate survey published weekly in the Los Angeles Times, the typical 30-year, fixed rate conforming loan is around 3.5% as of the date of this report. Mortgage rates have been in the 3.4% to 4.0%± range over the past month. Six months previously, rates were in the 3.7% to 4.0% range. While a slight increase in rates may impact demand, we do not anticipate a significant drop in demand, due to the interest rate increases, as long as rates remain near the current level. The current level of interest rates, along with stable to moderately increases in sales prices, should continue to sustain sales activity, for qualified buyers.

The table on the following two pages illustrates the currently selling comparable attached and detached projects within the subject's market area. The detached projects are generally selling around 1.5± to 4.8± units per month. The attached products are generally selling between 4.5± to 4.7± units per month. Eleven of the subject products will have their grand opening in September 2016. One product will open for sale in November 2016.

Feasibility

It is not in the scope of this appraisal assignment for the appraisers to conduct an extensive independent market study/absorption analysis, but it is the appraisers' responsibility to address the reasonableness of the conclusions of any market study which has been prepared by outside firms for the subject property. Unforeseen national and regional economic and/or social changes will affect the time-frame of real estate development.

In an attempt to arrive at a reasonable and supportable absorption schedules for the proposed dwellings within CFD No. 2016-1, the appraisers reviewed an

Comparable Residential Project Summary
Attached and Detached Single Family Homes
Planning Area 2.1 Rancho Mission Viejo
August 1, 2016

No.	Project, Builder & City	Units	Product Type	Price Range	Size Range	$/Sq. Ft. Range	No. Released	No. Sold Start Dt.	Overall Mo. Abs.
	ATTACHED PROJECTS								
	Esencia								
1	**Aurora**	94	TH	$502,000	1,361	$368.85	64	47	4.5
	William Lyon		12-Plex	$504,000	1,384	$364.16		Sep-15	
	Esencia, MR-1			$524,000	1,614	$324.66			
				$549,000	1,554	$353.28			
				$611,000	1,777	$343.84			
	DETACHED PROJECTS								
	Esencia								
2	**Trellis**	62	SDF	$582,000	1,512	$384.92	59	50	4.8
	Warmington		1,750 SF	$629,900	1,684	$374.05		Sep-15	
	Esencia, MR-14			$670,900	1,681	$399.11			
				$721,900	1,863	$387.49			
3	**Aria**	87	SFD	$619,900	1,763	$351.62	52	45	4.3
	Tri Pointe		2,130 SF Min	$672,900	1,850	$363.73		Sep-15	
	Esencia, MR-15		2,700 SF Ave	$698,900	1,948	$358.78			
4	**Citron**	50	SFD	$686,900	1,797	$382.25	42	35	3.4
	Ryland		2,250 SF	$696,900	1,936	$359.97		Sep-15	
	Esencia, MR-17			$789,900	2,205	$358.23			
5	**Ventana**	60	SFD	$774,900	2,207	$351.11	41	32	3.1
	Shea		4,050 SF Min	$814,900	2,450	$332.61		Sep-15	
	Esencia, MR-22		5,000 SF Ave	$854,900	2,669	$320.31			
6	**Heirloom**	45	SFD	$842,900	2,305	$365.68	36	15	1.5
	Ryland		3,900 SF	$874,900	2,508	$348.84		Sep-15	
	Esencia, MR-19		4,500 SF Ave	$943,900	2,640	$357.54			
				$990,900	3,135	$316.08			
				$1,091,900	3,091	$353.25			
				$1,275,900	3,201	$398.59			
7	**Cirrus**	58	SFD	$839,990	2,698	$311.34	34	27	2.6
	Meritage		4,750 SF	$894,990	2,894	$309.26		Sep-15	
	Esencia, MR-23			$964,990	3,211	$300.53			
8	**Aubergine**	66	SFD	$1,036,900	3,097	$334.81	36	23	2.2
	TRI Pointe		5,500 SF	$1,081,900	3,324	$325.48		Sep-15	
	Esencia, MR-24			$1,184,900	3,765	$314.71			

Comparable Residential Project Summary
Attached and Detached Single Family Homes
Planning Area 2.1 Rancho Mission Viejo
August 1, 2016

No.	Project, Builder & City	Units	Product Type	Price Range	Size Range	$/Sq. Ft. Range	No. Released	No. Sold Start Dt.	Overall Mo. Abs.
	ATTACHED PROJECTS								
	Esencia- Gavilan (55+)								
9	**Vireo**	90	TH	$593,990	1,456	$407.96	68	49	4.7
	William Lyon		duplex	$604,990	1,546	$391.33		Sep-15	
	Esencia, AQ-1			$652,990	1,936	$337.29			
				$619,990	1,707	$363.20			
				$657,990	1,950	$337.43			
	DETACHED PROJECTS								
	Esencia- Gavilan (55+)								
10	**Avocet**	98	SFD	$635,900	1,473	$431.70	57	35	3.4
	Standard Pacific		3,400 SF	$710,900	1,697	$418.92		Sep-15	
	Esencia, AQ-11			$775,900	1,778	$436.39			
				$722,900	1,937	$373.21			
				$805,900	2,110	$381.94			
11	**Cortesa**	63	SFD	$725,900	1,816	$399.72	53	42	4.0
	Shea		4,500 SF	$772,900	1,831	$422.12		Sep-15	
	Esencia, AQ-13			$864,421	2,116	$408.52			
				$1,034,436	2,362	$437.95			
12	**Alondra**	70	SFD	$904,900	2,325	$389.20	50	29	2.8
	Shea		5,655 SF	$919,900	2,330	$394.81		Sep-15	
	Esencia, AQ-21		6,500 SF Ave	$959,900	2,589	$370.76			

independently prepared absorption analysis that relates to the entire build-out of the District. This independent study is titled Community Facilities District No. 2016-1 (Village of Esencia) Market Absorption Study, prepared for the County of Orange and prepared by Empire Economics, Inc., dated May 12, 2016, and revised June 27, 2016.

The study analyzes the 12 proposed products within CFD No. 2016-1. The report reflects no closed sales until 2017. The report forecasts future closings of 281 dwellings during 2017, 407 dwellings during 2018, 177 closings in 2019 and 13 dwellings in 2020. Based on the absorption analysis prepared by Empire Economics, the estimated average monthly absorption per project is from 1.0± to 4.6± units, with an overall absorption of 2.0± units per month per project.

It is our opinion, after surveying the competitive projects and analyzing the pricing, design, location and other pertinent factors that the subject properties should experience good absorption, similar to that estimated by Empire Economics, Inc., assuming market conditions continue as currently predicted.

Maximally Productive

In considering what uses would be maximally productive for the subject property, we must consider the previously stated legal considerations. We are assuming the land uses allowed under the zoning specifications of CFD 2016-1 in Rancho Mission Viejo are the most productive uses that will be allowed at the present time. Current zoning and approved uses indicate that other alternative uses are not feasible at this time.

As discussed, all of the subject products will open for sale by October 2016. Products that entered the market during 2011/2012 are generally sold out due to the explosion of sales activity during 2012 and 2013. The return to an active residential market after the housing crash and economic recession has created significant merchant builder activity, over the past 48± months.

Based on current market conditions, it appears that the proposed products meet current market demand. It is our opinion that development of detached products between 1,500 and 3,500 square feet, and the attached products between 1,300 and 2,300 square feet, provides the highest land value and is, therefore, maximally productive.

Conclusion

Legal, physical, and market considerations have been analyzed to evaluate the highest and best use of the property. This analysis is presented to evaluate the type of uses which will generate the greatest level of future benefits possible from the land. After reviewing the alternatives available and considering this and other information, it is the opinion of the appraisers that the highest and best use for the subject property, as vacant and as improved, is for residential development of attached and detached dwellings similar to what is currently proposed in CFD No. 2016-1. In general, the proposed projects appear to have the location and features to obtain an acceptable sales rate under normal financing and market conditions.

As Vacant

After reviewing the alternatives available and considering this and other information, it is these appraisers' opinion that ultimate development of single-family attached and detached for-sale products is considered the highest and best use of the property. The market has improved significantly and continually over the past 4± years, although stabilization has been seen in the last 12 months. The forecast is for moderate economic growth in the foreseeable future.

As Proposed

The proposed uses are a legal use of the properties and the value of the properties as proposed far exceed the value of the sites if vacant. This means that the proposed improvements contribute substantial value to the sites. Based on these considerations, it is our opinion that the proposed residential improvements constitute the highest and best use of the subject property.

VALUATION METHODOLOGY

Basis of Valuation

Valuation is based upon general and specific background experience, opinions of qualified informed persons, consideration of all data gathered during the investigative phase of the appraisal, and analysis of all market data available to the appraiser.

Valuation Approaches

Three basic approaches to value are available to the appraiser:

Cost Approach

This approach entails the preparation of a replacement or reproduction cost estimate of the subject property improvements new (maintaining comparable quality and utility) and then deducting for losses in value sustained through age, wear and tear, functionally obsolescent features, and economic factors affecting the property. This is then added to the estimated land value to provide a value estimate.

Income Approach

This approach is based upon the theory that the value of the property tends to be set by the expected net income therefrom to the owner. It is, in effect, the capitalization of expected future income into present worth. This approach requires an estimate of net income, an analysis of all expense items, the selection of a capitalization rate, and the processing of the net income stream into a value estimate.

Direct Comparison Approach

This approach is based upon the principle that the value of a property tends to be set by the price at which comparable properties have recently been sold or for which they can be acquired. This approach requires a detailed comparison of sales of comparable properties with the subject property. One of the main requisites, therefore, is that sufficient transactions of comparable properties be available to provide an accurate indicator of value and that accurate information regarding price, terms, property description, and proposed use be obtained through interview and observation.

> *Static Residual Analysis* is used to estimate the merchant builder finished lot value. From the estimated base retail home price, all costs associated with the home construction including direct construction costs, indirect construction costs, financing and profit are deducted. Following the deduction of costs, the residual figure is an estimate of the merchant builder finished lot value or blue-top lot value.

The purpose of this appraisal assignment is to estimate Market Value for the taxable property within CFD No. 2016-1. As summarized in the Site Analysis and Proposed Improvement Description sections of this report, there will be 12 products in an active sales program beginning September 2016. Currently six of the 12 model complexes are under construction. The remaining six products are continuation products from PA 2.1 (CFD 2015-1). These six products will utilize their existing models in PA 2.1. Within CFD No. 2016-1, 878 dwelling units will be built in the 12 products. Currently the land ranges from a blue-top lot condition to a finished lot condition. Twenty-seven model homes are under construction. Twenty-four production dwellings are in the framing stage of construction. Twenty-four lots have slabs completed. The lots with slabs are valued as finished lots.

As discussed, there are 27 model homes and 24 production homes in various states of vertical construction as of the date of value. The units under vertical construction are valued based on our inspection of the property. An estimate of completion (stated as a percent) for each dwelling is estimated as of the date of value. As illustrated in the highest and best use section of this report, demand and acceptance for the subject products should be average to good. Given current market conditions and demand for the subject products, additional value is considered warranted for the models under construction. The estimated completion is applied to the average size model for the specific product.

The Direct Comparison Approach is used for the valuation of land when sufficient comparable sales are available. Their sales prices would be considered the best indicators of value, assuming the sales are current and in a similar land condition. The Income Approach is typically used when appraising income producing properties. This approach is not applicable in the valuation of land as land is not typically held to generate monthly income, but rather purchased to construct an end product that may or may not generate income. The Cost Approach is not an appropriate tool in the valuation of land.

The balance of CFD No. 2016-1 consists of 827 blue-top to finished lots. All of the lots are within tracts of currently developing subdivisions. The 12 products will begin an active sales program in September 2016. The merchant builder land within CFD No. 2016-1 is valued by the Direct Comparison Approach with similar recent merchant builder land sales and the Static Residual Analysis. The Static Residual Analysis closely reflects current market conditions in a dynamic market. Due to the dramatic changes in the residential market over the past three years, the Static Residual Analysis is considered a reliable method for estimating finished lot value based on existing or proposed product.

VALUATION OF UNDER CONSTRUCTION HOMES

Valuation of Model Homes Under Construction

There are 27 model homes in various stages of vertical construction within the 12 products of CFD No. 2016-1. As of the date of value, there were 4 models in the framing stage, 12 models in the wrapped stage, 8 models with color coat stucco and three models in a near complete stage, For purposes of this appraisal, the appraisers have estimated the percent complete based on construction, 80% for the dwellings near completion, 65% for the dwellings improved to color coat, 60% for the dwellings wrapped and 55% for the dwellings framed.

The table on the following page summarizes the estimated Market Value for the 27 model homes under construction for each merchant builder ownership. As indicated the total estimated Market Value for the 27 models is $11,300,000, rounded.

MODEL HOMES UNDER CONSTRUCTION
Merchant Builder Ownerships

Product Ownership No. of Units	Condition of Units	Estimated % Complete	Avg. Base S/P Per Project	Estimated Value
MR-2 - Sage - Meritage Homes				
5	Models - Color coat stucco	65%	$470,990	$1,530,718
MR-3 - Veranda - MBK Homes				
8	Models - Wrapped	60%	$616,700	$2,960,160
MR-18 - Canopy - Warmington Homes				
4	Models - Wrapped	60%	$776,750	$1,864,200
MR-23 - Briosa - Lyon Homes				
3	Models - Color coat stucco	65%	$984,667	$1,920,101
AQ-2 - Iris - CalAtlantic Homes				
4	Models - Framing	55%	$668,400	$1,470,480
AQ-11 - Arista - Pulte Homes				
3	Models - Near Complete	80%	$658,177	$1,579,625
27	***Total Models Homes Under Construction***			***$11,325,283***
	6 Merchant Builder Ownerships			
			Rounded to:	***$11,300,000***

VALUATION OF PRODUCTION HOMES

Valuation of Production Homes Under Construction

There are 24 production homes under Vertical construction within the 12 products of CFD No. 2016-1. As of the date of value, all 24 dwellings are in the framing stage. For purposes of this appraisal, the appraisers have estimated the percent complete, at 55% for the dwellings framed.

The table on the following page summarizes the estimated Market Value for the 24 production homes under construction for the merchant builder ownership. As indicated the total estimated Market Value for the 24 production dwellings is $8,900,000, rounded.

PRODUCTION HOMES UNDER CONSTRUCTION
Merchant Builder Ownerships

Product Ownership No. of Units	Condition of Units	Estimated % Complete	Avg. Base S/P Per Project	Estimated Value
MR-2 - Sage - Meritage Homes				
12	Production - Framing	55%	$470,990	$3,108,534
MR-23 - Briosa - Lyon Homes				
8	Production - Framing	55%	$984,667	$4,332,535
AQ-11 - Arista - Pulte Homes				
4	Production - Framing	55%	$658,177	$1,447,989
24	***Total Production Homes Under Construction***			***$8,889,058***
	3 Merchant Builder Ownerships			
			Rounded to:	***$8,900,000***

VALUATION OF FINISHED LOTS

General Information

CFD No. 2016-1 is a developed parcel with lots ranging from a blue-top condition to a finished lot condition. Final Tract Map No. 17562 is approved for development of 878 single family attached and detached units. Twelve products are proposed that include eight market rate (MR) for–sale products and four age-qualified (AQ) products. The eight MR products include two attached products, four detached cluster products and two traditional detached products. The attached products have a density range of 12.8 units to 14.5 units per acre and the detached products are on lots ranging 2,400 square feet to 5,500 square feet. The four AQ products include one attached townhome product, with a density of 8.1 units per acre and the detached products are on lots ranging from 4,300 square feet to 6,045 square feet. This section of the appraisal report will value the land as if in a finished lot condition. Deductions will be made for the costs to bring the land from its "as is" condition, as of the date of value, to finished lots.

The actual sales price of a particular parcel is always considered the best indication of value, assuming the transaction is arm's length, current and meets the definition of Market Value. The first set of sales used in the analysis are located within the subject CFD, PA 2.2 of the Esencia Village master planned community located in Rancho Mission Viejo. The second set of sales are in the Pavilion Park community in the City of Irvine. A discussion of the market data will precede the valuation of the finished lots.

Due to the changing market conditions, the Static Residual Analysis is also used to estimate finished lot values. The proposed products of CFD No. 2016-1 are analyzed. The results of both the Direct Comparison Approach and the Static Residual Analysis are considered in estimating finished lot values for the 827 remaining lots within CFD No. 2016-1.

Direct Sales Comparison Approach

The Direct Sales Comparison Approach is based upon the premise that, when a property is replaceable in the market, its value tends to be set by the purchase price necessary to acquire an equally desirable substitute property, assuming no costly delay is encountered in making the decision and the market is reasonably informed. In appraisal practice, this is known as the Principle of Substitution.

This approach is a method of analyzing the subject property by comparison of actual sales of similar properties, when available. These sales are evaluated by weighing both overall comparability and the relative importance of such variables as time, terms of sale, location of sale property, and lot characteristics. For the purpose of this report, the unit of comparison utilized is the price per lot for the residential land. Please refer to the following pages that summarize the sales considered most similar to the subject lots.

We have surveyed residential sales in the central and south Orange County market area. We have reviewed and inspected all of the data items. The data includes the finished lot prices for merchant builder parcels. The comparable land sales have generally sold in a blue-top lot condition. Costs to bring the land from the condition at the time of sale to finished lot condition were made available by the sellers to analyze the data. Therefore, the analysis will conclude at an indication of the finished lot value for the subject lots.

Between the date of the Pavilion Park land sales and the date of value, market conditions have moderately improved. As discussed throughout this report, over the past 48± months, the residential market throughout California and specifically Orange County has experienced significant increases in sales activity and sales prices. As the demand for the dwelling units increases, and related home prices increase, the value of the land or lots increase.

Land Sales Summary

Data No./ Project	Buyer/ Seller	Sale Date	Density/ Lot Size	No. of Lots	Sales Price	Sale Price Per Lot	Finished Price/Lot	Land Condition at Time of Sale
Rancho Mission Viejo - Escencia								
No. 1 Sage Product MR-2	Meritage Homes of California, Inc. RMV PA2 Development, LLC Lots 27-32 Tr 17562	12/2015	Attached 14.5 U/Ac	125	$19,614,000	$156,912	$197,250	Blue-top lots 1,470 SF Avg. Home Size
No. 2 Veranda Product MR-3	Esencia MR3, LLC RMV PA2 Development, LLC Lots 47-50 Tr 17562	11/2014 & 04/2016	Attached 12.8 U/Ac	86	$23,940,000	$278,372	$334,643	Blue-top Lots 1,950 SF Avg. Home Size
No. 3 Aria Product MR-15	TRI Pointe Homes, Inc. RMV PA2 Development, LLC Lots 33-35 Tr 17562	02/2016	Det. Condo 10.7 U/Ac 2,400 SF	64	$20,383,500	$318,492	$375,893	Blue-top Lots 1,857 SF Avg. Home Size
No. 4 Citron Product MR-17	Ryland Homes of California, Inc. RMV PA2 Development, LLC Lots 36-40 Tr 17562	11/2015	Det. Condo 9.2 U/Ac 2,900 SF	70	$19,416,500	$277,379	$354,627	Blue-top Lots 1,929 SF Avg. Home Size
No. 5 Canopy Product MR-18	Warmington MR 18 Associates, LLC RMV PA2 Development, LLC Lots 41-46 Tr 17562	11/2015	Det. Condo 9.5 U/Ac 2,900 SF	97	$28,421,000	$293,000	$382,129	Blue-top Lots 2,449 SF Avg. Home Size
No. 6 Heirloom Product MR-19	Ryland Homes of California, Inc. RMV PA2 Development, LLC Lots 16-20 Tr 17562	11/2015	Detached 6.6 U/Ac 3,900 SF	41	$14,347,500	$349,939	$433,036	Blue-top Lots 2,830 SF Avg. Home Size
No. 7 Briosa Product MR-23	LT - MR23, LLC RMV PA2 Development, LLC Lots 1-6 Tr 17562	11/2015	Detached 6.5 U/Ac 5,225 SF	50	$21,929,500	$438,590	$517,163	Blue-top Lots 3,260 SF Avg. Home Size
No. 8 Aubergine Product MR-24	TRI Pointe Homes, Inc. RMV PA2 Development, LLC Lots 7-9 Tr 17562	11/2015	Detached 4.5 U/Ac 5,500 SF	57	$23,295,500	$408,693	$485,247	Blue-top Lots 3,391 SF Avg. Home Size
No. 9 Iris Product AQ-2	CalAtlantic Group, Inc. RMV PA2 Development, LLC Lots 51-58 Tr 17562	11/2015	Duplex 8.1 U/Ac	94	$23,705,500	$252,186	$318,130	Blue-top Lots 1,710 SF Avg. Home Size

HRA

Land Sales Summary

Data No./ Project	Buyer/ Seller	Sale Date	Density/ Lot Size	No. of Lots	Sales Price	Sale Price Per Lot	Finished Price/Lot	Land Condition at Time of Sale
No. 10 Arista Product AQ-11	Pulte Home Corporation RMV PA2 Development, LLC Lots 24-26 Tr 17562	12/2015	Detached 6.3 U/Ac 4,300 SF	71	$20,164,000	$284,000	$375,228	Blue-top Lots 1,699 SF Avg. Home Size
No. 11 Cortesa Product AQ-13	Shea Homes Limited Partnership RMV PA2 Development, LLC Lots 13-15 & 21-23 Tr 17562	11/2015	Detached 5.3 U/Ac 4,700 SF	72	$23,000,000	$319,444	$411,972	Blue-top Lots 2,031 SF Avg. Home Size
No. 12 Alondra Product AQ-21	Shea Homes Limited Partnership RMV PA2 Development, LLC Lots 10-12 Tr 17562	11/2015	Detached 4.4 U/Ac 6,045 SF	51	$23,066,500	$452,284	$521,924	Blue-top Lots 2,415 SF Avg. Home Size
Great Park - Irvine								
No. 13 Brio	Shea Homes Limited Partnership Heritage Fields El Toro, LLC Tracts 17734 & 17724	12/2014	Duplex 14.1 U/Ac	76	$23,500,500	$309,217	$353,217	Blue-top Lots 1,714 SF Avg. Home Size
No. 14 Primrose	Continental Residential Inc. Heritage Fields El Toro, LLC Tracts 17741 & 17735	12/2014	TH 3-plex 15.1 U/Ac	105	$34,500,000	$328,571	$353,972	Blue-top Lots 1,799 SF Avg. Home Size
No. 15 Rowland	Lennar Homes of California, Inc. Heritage Fields El Toro, LLC Tracts 17740 & 17733	12/2014	TH 3-plex 18.1 U/Ac	107	$32,989,650	$308,314	$357,272	Blue-top Lots 1,831 SF Avg. Home Size
No. 16 Opus	Warmington BP Associates, LLC Heritage Fields El Toro, LLC Tracts 17736 & 17724	04/2015	TH 12.6 U/Ac	60	$13,700,000	$228,333	$295,733	Blue-top Lots 2,107 SF Avg. Home Size
No. 17 Harper	Lennar Homes of California, Inc. Heritage Fields El Toro, LLC Tract 17732	12/2014	Det. Condo 12.8 U/Ac	84	$31,250,694	$372,032	$434,348	Blue-top Lots 1,887 SF Avg. Home Size
No. 18 Ellwood	Richmond American Homes Heritage Fields El Toro, LLC Tracts 17744 & 17725	12/2014	Det. Condo 10.8 U/Ac	71	$29,252,071	$412,001	$467,696	Blue-top Lots 2,213 SF Avg. Home Size

Land Sales Summary

Data No./ Project	Buyer/ Seller	Sale Date	Density/ Lot Size	No. of Lots	Sales Price	Sale Price Per Lot	Finished Price/Lot	Land Condition at Time of Sale
No. 19 Welton	Taylor Morrison of California, LLC Heritage Fields El Toro, LLC Tracts 17738 & 17724	12/2014	Det. Condo 8.1 U/Ac	53	$26,000,000	$490,566	$519,585	Blue-top Lots 2,446 SF Avg. Home Size
No. 20 Melody	Lennar Homes of California, Inc. Heritage Fields El Toro, LLC Tracts 17742 & 17725	12/2014	Det. Condo 8.6 U/Ac	62	$31,076,266	$501,230	$577,475	Blue-top Lots 2,545 SF Avg. Home Size
No. 22 Rosemont	CDCG 3 Hov LP Heritage Fields El Toro, LLC Tracts 17729 & 17725	12/2014	Detached 7.4 U/Ac 4,500	76	$47,375,000	$623,355	$637,355	Blue-top Lots 2,492 SF Avg. Home Size
No. 23 Larkspur	Lennar Homes of California, Inc. Heritage Fields El Toro, LLC Tracts 17730 & 17725	12/2014	Detached 7.5 U/Ac 5,040	69	$44,247,882	$641,274	$705,399	Blue-top Lots 2,717 SF Avg. Home Size
No. 24 Oakmont	Ryland Homes of California, Inc. Heritage Fields El Toro, LLC Tracts 17731 & 17725	12/2014	Detached 7.9 U/Ac 4,550	49	$29,252,951	$596,999	$650,570	Blue-top Lots 2,790 SF Avg. Home Size
No. 25 Silvermist	K. Hovnanian at Beacon Park Heritage Fields El Toro, LLC Tracts 17737 & 17726	12/2014	Detached 5.6 U/Ac 6,300	51	$44,525,000	$873,039	$935,039	Blue-top Lots 3,546 SF Avg. Home Size
No. 26 Juniper	Pulte Home Corporation Heritage Fields El Toro, LLC Tracts 17737 & 17726	12/2014	Detached 6.7 U/Ac 5,100	55	$37,369,145	$679,439	$753,793	Blue-top Lots 3,125 SF Avg. Home Size
No. 27 Torrey	Standard Pacific Corp. Heritage Fields El Toro, LLC Tracts 17737 & 17726	12/2014	Detached 5.9 U/Ac 5,700	63	$43,773,221	$694,813	$749,908	Blue-top Lots 3,506 SF Avg. Home Size
No. 28 Legend	Ryland Homes of California, Inc. Heritage Fields El Toro, LLC Tracts 17737 & 17726	06/2015	Detached 5.8 U/Ac 6,300	48	$42,072,000	$876,500	$932,542	Blue-top Lots 4,444 SF Avg. Home Size

Analysis

Financing

All of the comparable sales were all cash transactions or financing considered to be cash, therefore, no adjustments for financing were warranted.

Property Rights Conveyed

All of the comparables involved the transfer of the fee simple interest. The subject fee simple interest is appraised in this report, and therefore, no adjustment is warranted.

Time of Sale

Since the time of the land sales, the residential market in the subject's area has moderated. During the most recent recession, home prices were severely negatively impacted. During 2012, the market appeared to begin to stabilize. Since mid-2012, home sales have significantly increased, along with sales prices. Interviews with sales personnel indicated that their base pricing was being increased with each phase of development between mid- 2012 and mid-2014. Over the past year, prices have generally stabilized or increased at a much more moderate rate than the preceding two years of recovery. Sales that occurred in late 2014 have been adjusted upward by 5%.

Conditions of Sale

Typically, adjustments for conditions of sale reflect the motivations of the buyer and the seller in the transfer of real property. The conditions of sale adjustment reflects the difference between the actual sales price of the comparable and its probable sales price if it were sold in an arms-length transaction with typical motivations. Some circumstances of comparable sales that will need adjustment include sales made under duress, eminent domain transactions and sales that were not arm's length. All of the transactions were reported to be arm's length in nature. Accordingly, no adjustment is indicated.

Location

The location adjustment is based on proximity to existing infrastructure, amenities and employment, and market response. The sales in Pavilion Park, in Irvine, are considered superior in overall location and a downward adjustment of 15% for the attached products and 25% for the detached product are estimated.

Entitlement/Map Status

All of the sales are entitled. No adjustment is required.

Tax Rate

The subject property is expected to have an average overall tax rate between 1.8% to 2.0% of base sales price. This rate is consistent with the sales in Irvine. No adjustment is required.

Lot Size

The comparables and the subject properties have varying minimum lot sizes that range from attached townhomes, cluster lots ranging from 2,400± square feet to 4,000± square feet, and traditional detached lots ranging from 5,000± square feet to 6,000± square feet. No adjustment is required.

Condition of Lots

All of the data included information to estimate a finished lot price for each comparable. According to the Merchant Builders, there are costs associated with the blue-top and physically finished lots within CFD No. 2016-1, other than impact fees due at building permit which reportedly, will be paid by the developer, RMV PA2 Development, LLC. Based on the information received from the merchant builders, the cost to complete for each of the 12 products ranges from $7,000 per lot to $85,000± per lot.

Please refer to the following pages for the adjustment grid of the comparable land sales.

As previously discussed, the residential market started to stabilize at the beginning of 2012, after the lengthy downturn in the market over the previous six years. By mid-2012, the positive impact on the residential market started with increased sales

Land Sales Adjustment Grid

Data No./ Project	Sale Date	Density/ Lot Size	No. of Lots	Finished Price/Lot	Time Adjustment	Adjusted $/DU	Location Adjustment	Adjusted $/DU	Land Condition at Time of Sale
Rancho Mission Viejo - Esencia									
No. 1 Sage Product MR-2	12/2015	Attached 14.5 U/Ac	125	$197,250	0%	$197,250	0%	$197,250	Blue-top lots 1,470 SF Avg. Home Size
No. 2 Veranda Product MR-3	11/2014 & 04/2016	Attached 12.8 U/Ac	86	$334,643	0%	$334,643	0%	$334,643	Blue-top Lots 1,950 SF Avg. Home Size
No. 3 Aria Product MR-15	02/2016	Det. Condo 10.7 U/Ac 2,400	64	$375,893	0%	$375,893	0%	$375,893	Blue-top Lots 1,857 SF Avg. Home Size
No. 4 Citron Product MR-17	11/2015	Det. Condo 9.2 U/Ac 2,900	70	$354,627	0%	$354,627	0%	$354,627	Blue-top Lots 1,929 SF Avg. Home Size
No. 5 Canopy Product MR-18	11/2015	Det. Condo 9.5 U/Ac 2,900	97	$382,129	0%	$382,129	0%	$382,129	Blue-top Lots 2,449 SF Avg. Home Size
No. 6 Heirloom Product MR-19	11/2015	Detached 6.6 U/Ac 3,900	41	$433,036	0%	$433,036	0%	$433,036	Blue-top Lots 2,830 SF Avg. Home Size
No. 7 Briosa Product MR-23	11/2015	Detached 5,225 6.5 U/Ac	50	$517,163	0%	$517,163	0%	$517,163	Blue-top Lots 3,260 SF Avg. Home Size
No. 8 Aubergine Product MR-24	11/2015	Detached 5,500 4.5 U/Ac	57	$485,247	0%	$485,247	0%	$485,247	Blue-top Lots 3,391 SF Avg. Home Size
No. 9 Iris Product AQ-2	11/2015	Duplex 8.1 U/Ac	94	$318,130	0%	$318,130	0%	$318,130	Blue-top Lots 1,710 SF Avg. Home Size

Land Sales Adjustment Grid

Data No./ Project	Sale Date	Density/ Lot Size	No. of Lots	Finished Price/Lot	Time Adjustment	Adjusted $/DU	Location Adjustment	Adjusted $/DU	Land Condition at Time of Sale
No. 10 Arista Product AQ-11	12/2015	Detached 6.3 U/Ac 4,300	71	$375,228	0%	$375,228	0%	$375,228	Blue-top Lots 1,699 SF Avg. Home Size
No. 11 Cortesa Product AQ-13	11/2015	Detached 5.3 U/Ac 4,700	72	$411,972	0%	$411,972	0%	$411,972	Blue-top Lots 2,031 SF Avg. Home Size
No. 12 Alondra Product AQ-21	11/2015	Detached 4.4 U/Ac 6,045	51	$521,924	0%	$521,924	0%	$521,924	Blue-top Lots 2,415 SF Avg. Home Size
Irvine - Great Park									
No. 13 Brio	12/2014	Duplex 14.1 U/Ac	76	$353,217	5%	$370,878	-15%	$315,246	Blue-top Lots 1,714 SF Avg. Home Size
No. 14 Primrose	12/2014	TH 3-plex 15.1 U/Ac	105	$353,972	5%	$371,671	-15%	$315,920	Blue-top Lots 1,799 SF Avg. Home Size
No. 15 Rowland	12/2014	TH 3-plex 18.1 U/Ac	107	$357,272	5%	$375,136	-15%	$318,866	Blue-top Lots 1,831 SF Avg. Home Size
No. 16 Opus	04/2015	TH 12.6 U/Ac	60	$295,733	5%	$310,520	-15%	$263,942	Blue-top Lots 2,107 SF Avg. Home Size
No. 17 Harper	12/2014	Det. Condo 12.8 U/Ac	84	$434,348	5%	$456,065	-25%	$342,049	Blue-top Lots 1,887 SF Avg. Home Size
No. 18 Ellwood	12/2014	Det. Condo 10.8 U/Ac	71	$467,696	5%	$491,081	-25%	$368,311	Blue-top Lots 2,213 SF Avg. Home Size

Land Sales Adjustment Grid

Data No./ Project	Sale Date	Density/ Lot Size	No. of Lots	Finished Price/Lot	Time Adjustment	Adjusted $/DU	Location Adjustment	Adjusted $/DU	Land Condition at Time of Sale
No. 19 Welton	12/2014	Det. Condo 8.1 U/Ac	53	$519,585	5%	$545,564	-25%	$409,173	Blue-top Lots 2,446 SF Avg. Home Size
No. 20 Melody	12/2014	Det. Condo 8.6 U/Ac	62	$577,475	5%	$606,349	-25%	$454,762	Blue-top Lots 2,545 SF Avg. Home Size
No. 22 Rosemont	12/2014	Detached 7.4 U/Ac 4,500	76	$637,355	5%	$669,223	-25%	$501,917	Blue-top Lots 2,492 SF Avg. Home Size
No. 23 Larkspur	12/2014	Detached 7.5 U/Ac 5,040	69	$705,399	5%	$740,669	-25%	$555,501	Blue-top Lots 2,717 SF Avg. Home Size
No. 24 Oakmont	12/2014	Detached 7.9 U/Ac 4,550	49	$650,570	5%	$683,099	-25%	$512,324	Blue-top Lots 2,790 SF Avg. Home Size
No. 25 Silvermist	12/2014	Detached 5.6 U/Ac 6,300	51	$935,039	5%	$981,791	-25%	$736,343	Blue-top Lots 3,546 SF Avg. Home Size
No. 26 Juniper	12/2014	Detached 6.7 U/Ac 5,100	55	$753,793	5%	$791,483	-25%	$593,612	Blue-top Lots 3,125 SF Avg. Home Size
No. 27 Torrey	12/2014	Detached 5.9 U/Ac 5,700	63	$749,908	5%	$787,403	-25%	$590,553	Blue-top Lots 3,506 SF Avg. Home Size
No. 28 Legend	06/2015	Detached 5.8 U/Ac 6,300	48	$932,542	0%	$932,542	-25%	$699,407	Blue-top Lots 4,444 SF Avg. Home Size

that have continued to the present time. The impact of the sales activity and minimal supply to meet demand resulted in significant increases in sales prices during 2012 and 2013. However, over the last 12± months, sales prices have been stable.

In a rapidly changing market the better indication of land value can be estimated by the Static Residual Analysis which reflects current dwelling sales prices and market conditions. The following paragraphs begin the discussion of the Static Residual Analysis for the subject's currently selling products.

Static Residual Analysis to Finished Lot Value

The purpose of this analysis is to estimate a value for the land assuming no direct construction has taken place. This method is particularly helpful when development for a subdivision represents the highest and best use and when competitive house sales are available. Reportedly, this analysis is by far the most commonly used by merchant builders when determining price for land.

This analysis is useful for projects that will have a typical holding period of one to two years which represents the typical holding period anticipated by merchant builders. The Static Residual Analysis best replicates the investor's analysis when determining what can be paid for the land based on proposed product. Purchase of the land is simply treated as one of the components necessary to build the houses to sell to the homeowner. When all the components of the end-product can be identified and reasonable estimates of costs and profit can be allocated, the Static Residual Analysis becomes the best indicator of value to a merchant builder for a specific product. Specific product information is available, which makes this analysis particularly meaningful.

The analysis uses an estimated average base sales price, for a specific product, then deducts the various costs including direct and indirect costs of construction, marketing, taxes and overhead, as well as the required profit margin to attract an investor in light of the risks and uncertainties of the project and residential market. This analysis is most helpful when significant lot and or view premiums are not present. When negotiating land price, builders typically will consider the value of lot premiums when they are significant, but typically do not give the premiums full consideration. When a downturn in the market occurs or a slight stall in a sales program, premiums are typically the first to be negotiated away.

End-product Sales Prices

The analysis uses the average base sales price without lot premiums.

Direct Development Costs

The merchant builders have provided direct construction costs to build the 12 products. We have interviewed local builders in the Orange County market area for estimates of direct construction costs for similar products. Based on our understanding of the proposed quality of construction, home size and functional utility, the builders estimate of direct construction costs appear supported and are used in this analysis.

Indirect construction costs, such as insurance, real estate taxes, architecture and engineering costs, loan fees and permits have been estimated at 3% of sales price, which is found to be an industry standard for use in this analysis.

General and Administrative

General and administrative costs are estimated at 3% of sales price. This category covers such expenses as administrative, professional fees, real estate taxes, HOA dues, and miscellaneous costs. This estimate is typical and consistent with the market.

Marketing and Warranty

Marketing and sales expenses plus warranty costs are estimated at 7% of sales price. This category covers such expenses as advertising and sales commissions and home warranties. This estimate is typical and consistent with the market for product in master planned communities.

Developer Profit

The line item for profit reflects the required margin to attract an investor in light of the risk and uncertainties of the specific project. This analysis assumes a finished lot and no on-site construction. Therefore, additional risk of development is unknown.

Given the current residential market, demand for the proposed projects and timing for sales to begin, the risk of development is generally limited to risk associated with sales over the next 2± years. In general, sales activity is projected to continue in Orange County, inventory is still low based on the current sales rate. Interest rates, while increasing slightly in recent months is still very enticing to homebuyers. Most economists are not projecting interest rates to be over 6% for three to five years. Assuming economic growth continues at a slow and steady rate, interest rates are relatively stable and job growth and wage increases continue to gradually firm-up, sales for the subject properties are considered to be in a healthy residential market.

Based on surveys of builders, current profit requirements are typically between 8% and 12% of revenues, with occasional responses as high as 15%. These profit estimates are for projects that can be constructed and sold out in a two-year period. Higher profits can be required for longer construction/sellout periods and riskier projects. Lower profits can be accepted in inexpensive land cost areas where homes sell quickly. Lower profits are usually found in planned community environments where the master developer plans for different market segments and thus avoids direct competition between builders, and this is the case in Rancho Mission Viejo. Based on a review of the projected absorption for the subject products and competing subdivisions, a sales rate of 2± to 4± units per month for the products appears supportable.

The line item for profit is based on a typical holding period sought by merchant builders; that of 1 to 2 years. Based on current market conditions and the outlook for the next 12 to 24 months, a 7% line item for profit, would seem appropriate for the traditional single family detached products. Due to the additional risk of development for attached products, an 9% line item for profit appears appropriate. For the single-family detached condo products, an 8% line item for profit is used.

Interest During Holding Period

A typical allowance for financing during the holding period has been between 5% and 7%. Based on recent interviews with builders in the subject market area, we have concluded on a 6% deduction for financing during the holding period.

Site Costs

Because this analysis residuals to a finished lot condition, deductions for costs to bring to a finished lot condition are not required. Please refer to the following pages for copies of the Static Residual Analysis for each product in CFD No. 2016-1.

SAGE MR-2
Meritage Homes
Estimated Finished Lot Value

Plan No.	Size	Base Price
1	931	$365,990
2	1,318	$450,990
3	1,403	$460,990
4	1,689	$510,990
5	1,689	$510,990
6	1,791	$525,990
Average	**1,470**	**$470,990**
Net Base S/P		$470,990

Single Family Attached
Townhome 14.5 DU/Ac
125 Proposed Units

				Land Ratios
Average Retail Value of Improvements		$470,990	$320.37 (Per sq. ft.)	
Average Dwelling Size (Sq. Feet)	1,470			
Direct Building Cost Per Sq. Ft.	$92.00	$135,255		
Indirect Construction Costs	3.00%	$14,130		
General & Administrative Costs	3.00%	$14,130		
Marketing and Warranty Costs	7.00%	$32,969		
Builder's Profit	9.00%	$42,389		
Interest During Holding Period	6.00%	$28,259		
Costs to bring to Finished Lot		None		
Finished Lot Value Estimate		**$203,857**		
	Rounded to:	**$204,000**		
			Finished Lot	**0.43**

VERANDA MR-3
MBK Homes
Estimated Finished Lot Value

Plan No.	Size	Base Price
1	1,681	$554,800
2	1,721	$602,800
3	2,089	$612,800
4	1,912	$606,800
5	1,952	$644,800
6	2,320	$654,800
7	1,719	$570,800
8	1,950	$624,800
9	1,902	$609,800
10	2,254	$684,800
Average	**1,950**	**$616,700**

Net Base S/P $616,700

				Land Ratios
Single Family Attached				
Townhome 12.8 DU/Ac				
86 Proposed Units				
Average Retail Value of Improvements		$616,700	$316.26 (Per sq. ft.)	
Average Dwelling Size (Sq. Feet)	1,950			
Direct Building Cost Per Sq. Ft.	$99.00	$193,050		
Indirect Construction Costs	3.00%	$18,501		
General & Administrative Costs	3.00%	$18,501		
Marketing and Warranty Costs	7.00%	$43,169		
Builder's Profit	9.00%	$55,503		
Interest During Holding Period	6.00%	$37,002		
Costs to bring to Finished Lot		None		
Finished Lot Value Estimate		**$250,974**		
Rounded to:		**$251,000**		
			Finished Lot	**0.41**

ARIA MR-15
TRI Pointe Homes
Estimated Finished Lot Value

Plan No.	Size	Base Price
1	1,779	$615,000
2	1,855	$639,000
3	1,937	$658,000
Average	**1,857**	**$637,333**
Net Base S/P		$637,333

				Land Ratios
Detached Condo 8-Plex				
10.7 DU/Ac				
64 Proposed Units				
Average Retail Value of Improvements		$637,333	$343.21 (Per sq. ft.)	
Average Dwelling Size (Sq. Feet)	1,857			
Direct Building Cost Per Sq. Ft.	$73.00	$135,561		
Indirect Construction Costs	3.00%	$19,120		
General & Administrative Costs	3.00%	$19,120		
Marketing and Warranty Costs	7.00%	$44,613		
Builder's Profit	8.00%	$50,987		
Interest During Holding Period	6.00%	$38,240		
Costs to bring to Finished Lot		None		
Finished Lot Value Estimate		**$329,692**		
Rounded to:		**$330,000**		
			Finished Lot	**0.52**

CITRON MR-17
CalAtlantic Homes
Estimated Finished Lot Value

Plan No.	Size	Base Price
1	1,775	$658,900
2	1,797	$652,900
3	1,936	$679,900
4	2,205	$743,900
Average	**1,928**	**$683,900**
Net Base S/P		$683,900

				Land Ratios
Detached Condo 6-Plex				
9.2 DU/Ac				
70 Proposed Units				
Average Retail Value of Improvements		$683,900	$354.67 (Per sq. ft.)	
Average Dwelling Size (Sq. Feet)	1,928			
Direct Building Cost Per Sq. Ft.	$75.00	$144,619		
Indirect Construction Costs	3.00%	$20,517		
General & Administrative Costs	3.00%	$20,517		
Marketing and Warranty Costs	7.00%	$47,873		
Builder's Profit	8.00%	$54,712		
Interest During Holding Period	6.00%	$41,034		
Costs to bring to Finished Lot		None		
Finished Lot Value Estimate		**$354,628**		
Rounded to:		**$355,000**		
			Finished Lot	**0.52**

CANOPY MR-18
Warmington Residential
Estimated Finished Lot Value

Plan No.	Size	Base Price
1	2,153	$715,000
2	2,350	$750,000
3	2,495	$787,000
4	2,798	$855,000
Average	**2,449**	**$776,750**
Net Base S/P		$776,750

				Land Ratios
Detached Condo 6-Plex				
9.5 DU/AC				
97 Proposed Units				
Average Retail Value of Improvements		$776,750	$317.17 (Per sq. ft.)	
Average Dwelling Size (Sq. Feet)	2,449			
Direct Building Cost Per Sq. Ft.	$95.00	$232,655		
Indirect Construction Costs	3.00%	$23,303		
General & Administrative Costs	3.00%	$23,303		
Marketing and Warranty Costs	7.00%	$54,373		
Builder's Profit	8.00%	$62,140		
Interest During Holding Period	6.00%	$46,605		
Costs to bring to Finished Lot		None		
Finished Lot Value Estimate		**$334,373**		
Rounded to:		**$334,000**		
			Finished Lot	**0.43**

HEIRLOOM MR-19
CalAtlantic Homes
Estimated Finished Lot Value

Plan No.	Size	Base Price
1	2,345	$781,900
2	2,508	$825,900
3	2,657	$841,900
4	3,151	$879,900
5	3,084	$958,900
6	3,235	$975,900
Average	**2,830**	**$877,400**
Net Base S/P		$877,400

Detached Condo 8-Plex
6.6 DU/Ac
41 Proposed Units

				Land Ratios
Average Retail Value of Improvements		$877,400	$310.04 (Per sq. ft.)	
Average Dwelling Size (Sq. Feet)	2,830			
Direct Building Cost Per Sq. Ft.	$81.50	$230,645		
Indirect Construction Costs	3.00%	$26,322		
General & Administrative Costs	3.00%	$26,322		
Marketing and Warranty Costs	7.00%	$61,418		
Builder's Profit	8.00%	$70,192		
Interest During Holding Period	6.00%	$52,644		
Costs to bring to Finished Lot		None		
Finished Lot Value Estimate		**$409,857**		
Rounded to:		**$410,000**		
			Finished Lot	**0.47**

BRIOSA MR-23
William Lyon Homes
Estimated Finished Lot Value

Plan No.	Size	Base Price
1	3,069	$950,000
2	3,226	$977,500
3	3,486	$1,026,500
Average	**3,260**	**$984,667**

Net Base S/P $984,667

				Land Ratios
Single Family Detached				
5,225 SF Minimum Lots / 6.5 DU/Ac				
50 Proposed Units				
Average Retail Value of Improvements		$984,667	$302.01 (Per sq. ft.)	
Average Dwelling Size (Sq. Feet)	3,260			
Direct Building Cost Per Sq. Ft.	$76.00	$247,785		
Indirect Construction Costs	3.00%	$29,540		
General & Administrative Costs	3.00%	$29,540		
Marketing and Warranty Costs	7.00%	$68,927		
Builder's Profit	7.00%	$68,927		
Interest During Holding Period	6.00%	$59,080		
Costs to bring to Finished Lot		None		
Finished Lot Value Estimate		**$480,868**		
Rounded to:		**$480,000**		
			Finished Lot	**0.49**

AUBERGINE MR-24
TRI Pointe Homes
Estimated Finished Lot Value

Plan No.	Size	Base Price
1	3,097	$1,023,000
2	3,314	$1,058,000
3	3,761	$1,135,000
Average	**3,391**	**$1,072,000**
Net Base S/P		$1,072,000

				Land Ratios
Single Family Detached				
5,500 SF Minimum Lots / 4.5 DU/Ac				
57 Proposed Units				
Average Retail Value of Improvements		$1,072,000	$316.16 (Per sq. ft.)	
Average Dwelling Size (Sq. Feet)	3,391			
Direct Building Cost Per Sq. Ft.	$87.50	$296,683		
Indirect Construction Costs	3.00%	$32,160		
General & Administrative Costs	3.00%	$32,160		
Marketing and Warranty Costs	7.00%	$75,040		
Builder's Profit	7.00%	$75,040		
Interest During Holding Period	6.00%	$64,320		
Costs to bring to Finished Lot		None		
Finished Lot Value Estimate		**$496,597**		
Rounded to:		**$496,600**		
			Finished Lot	**0.46**

IRIS AQ-2
CalAtlantic Homes
Estimated Finished Lot Value

Plan No.	Size	Base Price
1	1,729	$639,000
2	1,788	$649,000
3	1,788	$649,000
4	1,823	$669,000
5	2,336	$736,000
Average	**1,893**	**$668,400**

Net Base S/P $668,400

				Land Ratios
Single Family Attached				
Duplex / 8.1 DU/Ac				
94 Proposed Units				
Average Retail Value of Improvements		$668,400	$353.13 (Per sq. ft.)	
Average Dwelling Size (Sq. Feet)	1,893			
Direct Building Cost Per Sq. Ft.	$84.00	$158,995		
Indirect Construction Costs	3.00%	$20,052		
General & Administrative Costs	3.00%	$20,052		
Marketing and Warranty Costs	7.00%	$46,788		
Builder's Profit	8.00%	$53,472		
Interest During Holding Period	6.00%	$40,104		
Costs to bring to Finished Lot		None		
Finished Lot Value Estimate		**$328,937**		
	Rounded to:	**$329,000**		
			Finished Lot	**0.49**

ARISTA AQ-11
Pulte Homes
Estimated Finished Lot Value

Plan No.	Size	Base Price
1	1,472	$570,532
2	1,746	$676,542
3	1,701	$659,105
4	1,875	$726,527
Average	**1,699**	**$658,177**

Net Base S/P $658,177

				Land Ratios
Detached Condo 6-Plex				
6.3 DU/Ac				
71 Proposed Units				
Average Retail Value of Improvements		$658,177	$387.50 (Per sq. ft.)	
Average Dwelling Size (Sq. Feet)	1,699			
Direct Building Cost Per Sq. Ft.	$98.00	$166,453		
Indirect Construction Costs	3.00%	$19,745		
General & Administrative Costs	3.00%	$19,745		
Marketing and Warranty Costs	7.00%	$46,072		
Builder's Profit	8.00%	$52,654		
Interest During Holding Period	6.00%	$39,491		
Costs to bring to Finished Lot		None		
Finished Lot Value Estimate		**$314,016**		
	Rounded to:	**$314,000**		
			Finished Lot	**0.48**

CORTESA AQ-13
Shea Homes
Estimated Finished Lot Value

Plan No.	Size	Base Price
1	1,816	$727,900
2	1,831	$758,900
3	2,116	$793,900
4	2,362	$807,900
Average	**2,031**	**$772,150**

Net Base S/P $772,150

				Land Ratios
Detached Condo 8-Plex				
5.3 DU/Ac				
72 Proposed Units				
Average Retail Value of Improvements		$772,150	$380.14 (Per sq. ft.)	
Average Dwelling Size (Sq. Feet)	2,031			
Direct Building Cost Per Sq. Ft.	$87.50	$177,734		
Indirect Construction Costs	3.00%	$23,165		
General & Administrative Costs	3.00%	$23,165		
Marketing and Warranty Costs	7.00%	$54,051		
Builder's Profit	8.00%	$61,772		
Interest During Holding Period	6.00%	$46,329		
Costs to bring to Finished Lot		None		
Finished Lot Value Estimate		**$385,935**		
Rounded to:		**$386,000**		
			Finished Lot	**0.50**

ALONDRA AQ-21
Shea Homes
Estimated Finished Lot Value

Plan No.	Size	Base Price
1	2,325	$904,900
2	2,330	$919,900
3	2,589	$959,900
Average	**2,415**	**$928,233**

Net Base S/P		$928,233

				Land Ratios
Single Family Detached *6,045 SF Minimum Lots / 4.4 DU/Ac* *51 Proposed Units*				
Average Retail Value of Improvements		$928,233	$384.41 (Per sq. ft.)	
Average Dwelling Size (Sq. Feet)	2,415			
Direct Building Cost Per Sq. Ft.	$88.00	$212,491		
Indirect Construction Costs	3.00%	$27,847		
General & Administrative Costs	3.00%	$27,847		
Marketing and Warranty Costs	7.00%	$64,976		
Builder's Profit	7.00%	$64,976		
Interest During Holding Period	6.00%	$55,694		
Costs to bring to Finished Lot		None		
Finished Lot Value Estimate		**$474,402**		
	Rounded to:	**$474,000**		
			Finished Lot	**0.51**

Conclusion of Finished Lot Values

The following table summarizes the conclusions of finished lot values by the Direct Comparison Approach, the Static Residual Analysis and the concluded lot value. The best comparables are sales that require the fewest adjustments. We have the benefit of the subject merchant builder sales which occurred between November 2015 and April 2016, over a relatively stable residential market. The sales prices and finished lot costs have been verified by both the buyers and seller. The Static Residual Analysis more closely reflects the current market for the prices. Therefore, we have given considerations to both approaches, lot size and finished lot ratio for the merchant builder finished lot values

Finished Lot Value Conclusions

Product/Builder	Direct Comparison Approach	Minimum Lot Size	Static Residual Analysis	Finished Lot Ratio	Concluded Lot Value
Sage/Meritage	$197,200	Attached	$204,000	43%	$200,000
Veranda/MBK	$334,600	Attached	$251,000	41%	$275,000
Aria/TRI Pointe	$375,900	2,400 SF	$330,000	52%	$350,000
Citron/CalAtlantic	$354,600	2,900 SF	$355,000	52%	$355,000
Canopy/Warmington	$382,100	2,900 SF	$334,000	43%	$350,000
Heirloom/CalAtlantic	$433,000	3,900 SF	$410,000	47%	$420,000
Briosa/Lyon	$517,200	5,225 SF	$480,000	49%	$480,000
Aubergine/TRI Pointe	$485,200	5,500 SF	$496,600	46%	$490,000
IRIS/CalAtlantic	$318,100	Duplex	$329,000	49%	$320,000
Arista/Pulte	$375,200	4,300 SF	$314,000	48%	$330,000
Cortesa/Shea	$412,000	4,700 SF	$386,000	50%	$400,000
Alondra/Shea	$521,900	6,045 SF	$474,000	51%	$490,000

***Table rounded to nearest $100**

The following page calculates each merchant builder's "as is" values, including the estimated value for the 27 model homes under construction and the 24 production dwellings under vertical construction. The builders have provided the costs to complete site construction as of the date of value. The total estimated value for the 827 merchant builder lots is $263,200,000, rounded. The values of the model homes and production dwellings under vertical construction have been included to arrive at a total estimated

Market Value for each merchant builder's ownership in CFD No. 2016-1.

In addition to the remaining cost to complete reported by the 12 merchant builders, the developer, RMV PA2 Development, LLC, has reported that it has remaining developer site cost of $32,200,000. Because a portion of the issuance of the CFD No. 2016-1 bond will be used to reimburse the developer's remaining site cost, no deduction is made to the value of the district.

FOR-SALE RESIDENTIAL
SUMMARY OF VALUE CONCLUSIONS

Product/ Builder No. of Units	Condition of Lots/Units		Avg. S/P/Unit Per Project	Finished Lot $	Estimated Value
MR-2 - Sage - Meritage Homes					
5	Models - Color Coat Stucco	65%	$470,990		$1,530,718
12	Production Dwellings - Framing	55%	$470,990		$3,108,534
108	Blue-top Lots			$200,000	$21,600,000
	Costs to Complete MB Site Improvements				-$2,745,882
					$23,493,370
MR-3 - Veranda - MBK Homes					
8	Models - Wrapped	60%	$616,700		$2,960,160
78	Blue-top Lots			$275,000	$21,450,000
	Costs to Complete MB Site Improvements				-$1,310,000
					$23,100,160
MR-15 - Aria - TRI Pointe Homes					
0	Models	0%	$637,333		$0
64	Blue-top Lots			$350,000	$22,400,000
	Costs to Complete MB Site Improvements				-$2,275,000
					$20,125,000
MR-17 - Citron - CalAtlantic Homes					
0	Models	0%	$683,900		$0
70	Blue-top Lots			$355,000	$24,850,000
	Costs to Complete MB Site Improvements				-$572,000
					$24,278,000
MR-18 - Canopy - Warmington Homes					
4	Models - Wrapped	60%	$776,750		$1,864,200
93	Blue-top lots			$350,000	$32,550,000
	Costs to Complete MB Site Improvements				-$8,036,000
					$26,378,200
MR-19 - Heirloom - CalAtlantic Homes					
0	Models	0%	$877,400		$0
41	Blue-top Lots			$420,000	$17,220,000
	Costs to Complete MB Site Improvements				-$811,000
					$16,409,000
MR-23 - Briosa - William Lyon Homes					
3	Models - Color Coat Stucco	65%	$984,667		$1,920,101
8	Production Dwellings - Framing	55%	$984,667		$4,332,535
39	Physically Finished Lots			$480,000	$18,720,000
	Costs to Complete MB Site Improvements				-$350,000
					$24,622,636
MR-24 - Aubergine - TRI Pointe Homes					
57	Blue-top Lots			$490,000	$27,930,000
	Costs to Complete MB Site Improvements				-$2,534,000
					$25,396,000
AQ-2 - Iris - CalAtlantic Homes					
4	Models - Framing	55%	$668,400		$1,470,480
90	Blue-top Lots			$320,000	$28,800,000
	Costs to Complete MB Site Improvements				-$2,900,000
					$27,370,480
AQ-11 - Arista - Pulte Homes					
3	Models -Near Complete	80%	$658,177		$1,579,625
4	Production Dwellings - Framing	55%	$658,177		$1,447,989
64	Blue-top Lots			$330,000	$21,120,000
	Costs to Complete MB Site Improvements				-$1,250,000
					$22,897,614
AQ-13 - Cortesa - Shea Homes					
0	Models	0%	$767,887		$0
72	Blue-top Lots			$400,000	$28,800,000
	Costs to Complete MB Site Improvements				-$2,952,000
					$25,848,000
AQ-21 - Alondra - Shea Homes					
0	Models	0%	$928,233		$0
51	Blue-top Lots			$490,000	$24,990,000
	Costs to Complete MB Site Improvements				-$1,479,000
					$23,511,000
827	**Lots**				**$263,215,118**
27	**Models Under Construction**				**$11,325,284**
24	**Production Dwellings Under Construction**				**$8,889,058**
	Total Estimated Market Value for 878 Proposed For-Sale Residential Units				***$283,429,460***
	Rounded to:				***$283,400,000***

VALUATION CONCLUSION

Based on the investigation and analyses undertaken, our experience as real estate appraisers, and subject to all the premises, assumptions and limiting conditions set forth in this report, the following opinion of Market Value has been formed as of August 1, 2016.

CFD NO. 2016-1 (VILLAGE OF ESENCIA)

TWO HUNDRED EIGHTY-THREE MILLION FOUR HUNDRED THOUSAND DOLLARS

$283,400,000

The table on the following page summarizes the individual values by Ownership.

Exposure Time

Considering the sizes, quality, condition and location of the subject properties, we have estimated an exposure time of approximately 6± to 9± months would have been required to sell the finished lots.

Summary of Values by Ownership

Merchant Builder Ownerships: $283,429,460
(Not Rounded)

Ownership	Product	Valuation (Not Rounded)
CalAtlantic Group, Inc.	AQ2	$27,370,480
Pulte Home Corporation	AQ11	$22,897,614
Shea Homes Limited Partnership	AQ13	$25,848,000
Shea Homes Limited Partnership	AQ21	$23,511,000
Meritage Homes of California, Inc.	MR2	$23,493,370
Esencia MR3, LLC (MBK)	MR3	$23,100,160
TRI Pointe Homes, Inc.	MR15	$20,125,000
Ryland Homes of California, Inc	MR17	$24,278,000
Warmington MR18 Associated, LLC	MR18	$26,378,200
Ryland Homes of California, Inc.	MR19	$16,409,000
LT-MR23 LLC	MR23	$24,622,636
TRI Pointe Homes, Inc.	MR24	$25,396,000

CERTIFICATION

We hereby certify that during the completion of this assignment, we personally inspected the property that is the subject of this appraisal and that, except as specifically noted:

We have no present or contemplated future interest in the real estate or personal interest or bias with respect to the subject matter or the parties involved in this appraisal.

We have not provided appraisal services regarding the subject property within the last three years to our client, the County of Orange.

To the best of our knowledge and belief, the statements of fact contained in this appraisal report, upon which the analyses, opinions, and conclusions expressed herein are based, are true and correct.

Our engagement in this assignment was not contingent upon developing or reporting predetermined results. The compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.

The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.

The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.

As of the date of this report, James B. Harris has completed the requirements of the continuing education program of the Appraisal Institute.

The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, unbiased professional analyses, opinions, and conclusions.

No one provided significant real property appraisal assistance to the persons signing this certificate.

The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives. In furtherance of the aims of the Appraisal Institute to develop higher standards of professional performance by its Members, we may be required to submit to authorized committees of the Appraisal Institute copies of this appraisal and any subsequent changes or modifications thereof.

Respectfully submitted,

Berri Cannon Harris

Berri Cannon Harris
Principal
AG009147

James B Harris

James B. Harris, MAI
Principal
AG001846

ADDENDA

QUALIFICATIONS

HARRIS REALTY APPRAISAL
5100 Birch Street, Suite 200
Newport Beach, CA 92660
(949) 851-1227

QUALIFICATIONS
OF
JAMES B. HARRIS, MAI

PROFESSIONAL BACKGROUND

Actively engaged as a real estate analyst and consulting appraiser since 1971. Principal of **Harris Realty Appraisal,** with offices at:

5100 Birch Street, Suite 200
Newport Beach, California 92660

Before forming Harris Realty Appraisal, in 1982, was employed with Real Estate Analysts of Newport, Inc. (REAN) as a Principal and Vice President. Prior to employment with REAN was employed with the Bank of America as the Assistant Urban Appraisal Supervisor. Previously, was employed by the Verne Cox Company as a real estate appraiser.

PROFESSIONAL ORGANIZATIONS

Member of the Appraisal Institute, with MAI designation No. 6508

- Director, Southern California Chapter – 1998, 1999
- Chair, Orange County Branch, Southern California Chapter -1997
- Vice-Chair, Orange County Branch, Southern California Chapter - 1996
- Member, Region VII Regional Governing Committee - 1991 to 1995, 1997, 1998
- Member, Southern California Chapter Executive Committee - 1990, 1997 to 1999
- Chairman, Southern California Chapter Seminar Committee - 1991
- Chairman, Southern California Chapter Workshop Committee - 1990
- Member, Southern California Chapter Admissions Committee - 1983 to 1989
- Member, Regional Standards of Professional Practice Committee -1985 - 1997

Member of the International Right-of-Way Association, Orange County Chapter 67.

California State Certified Appraiser, Number AG001846

EDUCATIONAL ACTIVITIES

B.S., California State Polytechnic University, Pomona

Successfully completed the following courses sponsored by the Appraisal Institute and the Right-of-Way Association:

Course I-A	Principles of Real Estate Appraisal
Course I-B	Capitalization Theory
Course II	Urban Properties
Course IV	Litigation Valuation
Course VI	Investment Analysis
Course VIII	Single-Family Residential Appraisal
Course SPP	Standards of Professional Practice
Course 401	Appraisal of Partial Acquisitions

Has attended numerous seminars sponsored by the Appraisal Institute and the International Right-of-Way Association.

TEACHING AND LECTURING ACTIVITIES

Seminars and lectures presented to the Appraisal Institute, the University of California-Irvine, UCLA, California Debt and Investment Advisory Commission, Stone & Youngberg and the National Federation of Municipal Analysts.

MISCELLANEOUS

Member of the Advisory Panel to the California Debt and Investment Advisory Commission, regarding Appraisal Standards for Land Secured Financing (March 2003 through June 2004)

LEGAL EXPERIENCE

Testified as an expert witness in the Superior Court of the County of Los Angeles and the County of San Bernardino and in the Federal Bankruptcy Courts five times concerning the issues of Eminent Domain, Bankruptcy, and Specific Performance. He has been deposed numerous times concerning these and other issues. This legal experience has been for both Plaintiff and Respondent clients. He has prepared numerous appraisals for submission to the IRS, without having values overturned. He has worked closely with numerous Bond Counsel in the completion of 175 Land Secured Municipal Bond Financing appraisals over the last five years.

SCOPE OF EXPERIENCE

Feasibility and Consultive Studies

Feasibility and market analyses, including the use of computer-based economic models for both land developments and investment properties such as shopping centers, industrial parks, mobile home parks, condominium projects, hotels, and residential projects.

Appraisal Projects

Has completed all types of appraisal assignments from San Diego to San Francisco, California. Also has completed out-of-state appraisal assignments in Arizona, Florida, Georgia, Hawaii, Nevada, New Jersey, Oklahoma, Oregon, and Washington.

Residential

Residential subdivisions, condominiums, planned unit developments, mobile home parks, apartment houses, and single-family residences.

Commercial

Office buildings, hotels, motels, retail store buildings, restaurants, power shopping centers, neighborhood shopping centers, and convenience shopping centers.

Industrial

Multi-tenant industrial parks, warehouses, manufacturing plants, and research and development facilities.

Vacant Land

Community Facilities Districts, Assessment Districts, master planned communities, residential, commercial and industrial sites; full and partial takings for public acquisitions.

QUALIFICATIONS
OF
BERRI CANNON HARRIS

PROFESSIONAL BACKGROUND

Actively engaged as a real estate appraiser since 1982. Principal of ***Harris Realty Appraisal***, with offices at:

5100 Birch Street, Suite 200
Newport Beach, California 92660

Before joining Harris Realty Appraisal was employed with Interstate Appraisal Corporation as Assistant Vice President. Prior to employment with Interstate Appraisal was employed with Real Estate Analysts of Newport Beach as a Research Assistant.

PROFESSIONAL ORGANIZATIONS

Appraisal Institute
- Co-Chair, Southern California Chapter Hospitality Committee - 1994 - 1998
- Chair, Southern California Chapter Research Committee - 1992, 1993

Commercial Real Estate Women, Orange County Chapter
- Chair, Special Events – 1998, 1999, 2000, 2001, 2002, 2003
- Second Vice-President - 1996, 1997
- Treasurer - 1993, 1994, 1995
- Chair, Network Luncheon Committee - 1991, 1992

California State Certified Appraiser, Number AG009147

EDUCATIONAL ACTIVITIES

B.S., University of Redlands, Redlands, California

Successfully completed the following courses sponsored by the Appraisal Institute:

- Principles of Real Estate Appraisal
- Basic Valuation Procedures
- Capitalization Theory and Techniques - A
- Capitalization Theory and Techniques - B
- Report Writing and Valuation Analyses
- Standards of Professional Practice
- Case Studies in Real Estate Valuation

Has attended numerous seminars sponsored by the Appraisal Institute. Has also attended real estate related courses through University of California-Irvine.

LECTURING ACTIVITIES

Seminars and lectures presented to UCLA, California Debt and Investment Advisory Commission, and Stone & Youngberg.

MISCELLANEOUS

Member of the Advisory Panel to the California Debt and Investment Advisory Commission, regarding Appraisal Standards for Land Secured Financing (March 2003 through June 2004)

SCOPE OF EXPERIENCE

Appraisal Projects

Has completed all types of appraisal assignments from San Diego to San Francisco, California. Also has completed out-of-state appraisal assignments in Arizona and Hawaii.

Residential

Residential subdivisions, condominiums, planned unit developments, mobile home parks, apartment houses, and single-family residences.

Commercial

Office buildings, retail store buildings, restaurants, neighborhood-shopping centers, strip retail centers.

Industrial

Multi-tenant industrial parks, warehouses, manufacturing plants, and research and development facilities.

Vacant Land

Residential sites, commercial sites, industrial sites, large multi-unit housing, master planned unit developments, and agricultural acreage. Specializing in Community Facilities District and Assessment District appraisal assignments.

PARTIAL LIST OF CLIENTS

Lending Institutions

Bank of America
Bank One
Commerce Bank
Downey S&L Assoc.
Fremont Investment and Loan
Institutional Housing Partners
NationsBank
Preferred Bank
Santa Monica Bank
Tokai Bank
Union Bank
Wells Fargo Bank

Public Agencies

Army Corps of Engineers
California State University
Caltrans
City of Adelanto
City of Aliso Viejo
City of Beaumont
City of Camarillo
City of Corona
City of Costa Mesa
City of Encinitas
City of Fontana
City of Fullerton
City of Hesperia
City of Honolulu
City of Huntington Beach
City of Indian Wells
City of Indio
City of Irvine
City of Lake Elsinore
City of Loma Linda
City of Los Angeles
City of Moreno Valley
City of Newport Beach
City of Oceanside
City of Ontario
City of Palm Springs
City of Perris
City of Rialto
City of Riverside
City of San Marcos
City of Tustin
City of Victorville
City of Yucaipa
County of Hawaii
County of Orange
County of Riverside
County of San Bernardino
Eastern Municipal Water District
Orange County Sheriff's Department
Ramona Municipal Water District
Rancho Santa Fe Comm. Services District
Capistrano Unified School District
Hemet Unified School District
Hesperia Unified School District
Romoland School District
Saddleback Valley Unified School District
Santa Ana Unified School District
Sulphur Springs School District
Val Verde Unified School District
Yucaipa-Calimesa Joint Unified School Dist.

Law Firms

Arter & Hadden
Bronson, Bronson & McKinnon
Bryan, Cave, McPheeters & McRoberts
Richard Clements
Cox, Castle, Nicholson
Gibson, Dunn & Crutcher
Hill, Farrer & Burrill
McClintock, Weston, Benshoof, Rochefort & MacCuish
Palmiri, Tyler, Wiener, Wilhelm, & Waldron
Sonnenschein Nath & Rosenthal
Strauss & Troy
Wyman, Bautzer, Rothman, Kuchel & Silbert

SUMMARY OF DEVELOPER'S SITE COST

Rancho Mission Viejo
Planning Area 2.2
Costs To Complete

	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	**2016 Total**	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	**2017 Total**	**Total**
Streets/Utilities	1,468,441	1,468,441	1,468,441	0	0	**4,405,322**	0	0	0	0	0	0	0	0	0	**0**	**4,405,322**
Landscape/Hardscape	572,765	572,765	572,765	572,765	572,765	**2,863,824**	572,765	572,765	572,765	572,765	572,765	572,765	0	0	0	**3,436,589**	**6,300,413**
Amenities	1,181,788	1,181,788	1,181,788	1,181,788	1,181,788	**5,908,939**	1,181,788	1,181,788	1,181,788	1,181,788	1,181,788	1,181,788	1,181,788	1,181,788	0	**9,454,303**	**15,363,242**
Indirects and Other	218,416	218,416	218,416	218,416	218,416	**1,092,082**	218,416	218,416	218,416	218,416	218,416	218,416	0	0	0	**1,310,498**	**2,402,581**
Impact Fees																	
Corridor	236,353	236,353	236,353	236,353	236,353	**1,181,763**	236,353	236,353	236,353	236,353	236,353	236,353	236,353	236,353	236,353	**2,127,173**	**3,308,935**
Sheriff	0	0	304,130	0	0	**304,130**	0	0	0	0	0	0	0	0	0	**0**	**304,130**
Library	0	0	0	0	0	**0**	0	0	0	0	0	0	0	0	219,500	**219,500**	**219,500**
	3,677,762	3,677,762	3,981,892	2,209,322	2,209,322	**15,756,060**	2,209,322	2,209,322	2,209,322	2,209,322	2,209,322	2,209,322	1,418,140	1,418,140	455,853	**16,548,062**	**32,304,122**

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

Bond Counsel will deliver an opinion for the Bonds substantially in the form set forth below:

[Closing Date]

Community Facilities District No. 2016-1
of the County of Orange (Village of Esencia)
Santa Ana, California

Re: $93,110,000 Community Facilities District No. 2016-1 of the County of Orange (Village of Esencia) Series A of 2016 Special Tax Bonds

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the Board of Supervisors of the County of Orange taken in connection with the authorization and issuance by the Community Facilities District No. 2016-1 of the County of Orange (Village of Esencia) (the "District") of its Series A of 2016 Special Tax Bonds in the aggregate principal amount of $93,110,000 (the "Bonds") and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the initial purchasers of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Mello Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California), Resolution No. 16-095, adopted by the Board of Supervisors of the County of Orange, acting in its capacity as the legislative body of the District (the "Board") on October 11, 2016, and the Indenture dated as of November 1, 2016 (the "Indenture"), by and between the District and U.S. Bank National Association, as trustee. All capitalized terms not defined herein shall have the meaning set forth in the Indenture.

The Bonds are dated their date of delivery and mature on the dates and in the amounts set forth in the Indenture. The Bonds bear interest payable semiannually on each February 15 and August 15, commencing on February 15, 2017, at the rates per annum set forth in the Indenture. The Bonds are registered bonds in the form set forth in the Indenture, redeemable in the amounts, at the times and in the manner provided for in the Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The Bonds have been duly and validly authorized by the District and are legal, valid and binding limited obligations of the District, enforceable in accordance with their terms and the terms of the Indenture, except as the same may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases, or by the limitations on legal remedies against public agencies in the State of California. The Bonds are limited obligations of the District but are not a debt of the County of Orange (the "County"), the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and,

except for the Special Taxes, neither the faith and credit nor the taxing power of the County, the State of California, or any of its political subdivisions is pledged for the payment thereof.

(2) The execution and delivery of the Indenture has been duly authorized by the District, and the Indenture is valid and binding upon the District and is enforceable in accordance with its terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases, or by the limitations on legal remedies against public agencies in the State of California; provided, however, we express no opinion as to the enforceability of the covenant of the District contained in the Indenture to levy Special Taxes for the payment of Administrative Expenses and we express no opinion as to any provisions with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver provisions contained therein.

(3) The Indenture creates a valid pledge of that which the Indenture purports to pledge, subject to the provisions of the Indenture, except to the extent that enforceability of the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases, or by the limitations on legal remedies against public agencies in the State of California.

(4) Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest (and original issue discount) will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

(5) Interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.

(6) The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bondowner will increase the Bondowner's basis in the applicable Bond. Original issue discount that accrues for the Bondowner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph 4 above) and is exempt from State of California personal income tax.

(7) The amount by which a Bondowner's original basis for determining loss on sale or exchange in the applicable Bond (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable Bond premium reduces the Bondowner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bondowner realizing a taxable gain when a Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the owner.

The opinion expressed in paragraph (4) above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds is subject to the condition that the District and the County comply with all requirements of the Code, that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District and the County have covenanted to comply with all such requirements. Except as set forth in paragraphs (4), (5), (6) and (7) above, we express no opinion as to any tax consequences related to the Bonds.

Certain requirements and procedures contained or referred to in the Indenture may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in the Indenture, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the exclusion of interest on the Bonds from gross income for federal income tax purposes on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction and express no opinion as to the enforceability of the choice of law provisions contained in the Indenture.

The opinions expressed herein are based upon an analysis of existing statutes, regulations, rulings and judicial decisions, including the default judgment entered on July 22, 2016, by the Superior Court of the State of California for the County of Orange in the action entitled County of Orange v. All Persons Interested in the Matter etc., Case No. 30-2016-00850206-CU-MC-CJC, and cover certain matters not directly addressed by such authorities.

We call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur).

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to the matters contained in the Official Statement.

Respectfully submitted,

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APPENDIX D

GENERAL ECONOMIC AND DEMOGRAPHIC DATA FOR THE COUNTY OF ORANGE

The following economic data for the County of Orange (the "County"), the City of Rancho Santa Margarita and the City of Mission Viejo are presented for information purposes only. The Bonds are not a debt or obligation of the County or the City.

General

The County is third largest county in California and is located adjacent to the Pacific Ocean and the Counties of Los Angeles, San Bernardino, Riverside and San Diego. The County is located in the most heavily populated region of California, necessitating easy access to road, rail, air and sea transportation. The County is also a major Southern California tourist center with a large number of amusement parks and recreational and entertainment activities. The County's Pacific Coast shoreline includes five state beaches and parks, five Municipal beaches and five County beaches.

The County is a general law county and governed by a five-member Board of Supervisors, each of whom serves for four-year terms. The County provides a wide range of services to its residents, including police, medical and health services, senior citizen assistance, library services, judicial institutions (including support programs), airport service, roads, solid waste management, harbors, beaches and parks, life guard services and a variety of public assistance programs.

Population

The following table summarizes population estimates for the City of Mission Viejo, the City of Rancho Santa Margarita, County and State from 2011 through 2016.

POPULATION ESTIMATES
The City of Mission Viejo, the City of Rancho Santa Margarita,
County of Orange and the State of California
2011-2015[(1)]

Year	*City of Mission Viejo*	*City of Rancho Santa Margarita*	*County of Orange*	*California*
2011	93,340	47,940	3,028,846	37,427,946
2012	94,108	48,298	3,057,233	37,680,593
2013	94,870	48,640	3,087,715	38,030,609
2014	95,320	48,823	3,114,209	38,357,121
2015	96,652	49,125	3,147,655	38,714,725

(1) January 1 data.
Source: California State Department of Finance, Demographic Research Unit.

Income

The following tables show the personal income and per capita income for the County, State of California and United States from 2010 through 2015.

PERSONAL INCOME
County of Orange, State of California, and United States
2010-2015[(1)]

Year	*County of Orange*	*California*	*United States*
2010	$144,888,672	$1,584,467,300	$12,459,613,000
2011	154,486,157	1,691,002,503	13,223,436,000
2012	164,970,595	1,812,314,643	13,904,485,000
2013	165,857,885	1,849,505,496	14,064,468,000
2014	173,305,650	1,939,527,656	14,683,147,000
2015[(1)]	N/A	2,061,337,141	15,324,108,725

Note: Dollars in Thousands.
(1) County data not yet available.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

PER CAPITA PERSONAL INCOME[(1)]
County of Orange, State of California, and United States
2010-2015[(1)]

Year	*County of Orange*	*California*	*United States*
2010	$48,007	$42,411	$40,277
2011	50,547	44,852	42,453
2012	53,390	47,614	44,266
2013	53,128	48,125	44,438
2014	55,096	49,985	46,049
2015[(2)]	N/A	52,651	47,669

(1) Per capita personal income is the total personal income divided by the total mid-year population estimates of the U.S. Bureau of the Census. All dollar estimates are in current dollars (not adjusted for inflation).
(2) County data not yet available.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Employment

The following table summarizes the labor force, employment and unemployment figures from 2011 to 2015 for the City of Mission Viejo, the City of Rancho Santa Margarita, the County and the State of California.

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
City of Mission Viejo, City of Rancho Santa Margarita, County of Orange, State of California and the United States
2011-2015[(1)]

	Area	*Labor Force*	*Employment[(2)]*	*Unemployment[(3)]*	*Unemployment Rate[(4)]*
2011	City of Mission Viejo	48,700	44,600	4,100	8.5%
	City of Rancho Santa Margarita	26,700	25,200	1,400	5.3
	Orange County	1,546,400	1,406,400	140,000	9.1
	State of California	18,415,100	16,258,100	2,157,000	11.7
	United States	153,617,000	139,869,000	13,747,000	8.9
2012	City of Mission Viejo	49,200	45,500	3,600	7.4%
	City of Rancho Santa Margarita	27,000	25,800	1,300	4.6
	Orange County	1,564,500	1,441,400	123,100	7.9
	State of California	18,551,400	16,627,800	1,923,600	10.4
	United States	154,975,000	142,469,000	12,506,000	8.1
2013	City of Mission Viejo	49,700	46,600	3,100	6.2%
	City of Rancho Santa Margarita	27,300	26,300	1,100	3.8
	Orange County	1,569,200	1,465,900	103,300	6.6
	State of California	18,670,100	17,001,000	1,669,000	8.9
	United States	155,389,000	143,929,000	11,460,000	7.4
2014	City of Mission Viejo	49,900	47,400	2,600	5.1%
	City of Rancho Santa Margarita	27,400	26,500	900	3.2
	Orange County	1,578,200	1,491,800	86,400	5.5
	State of California	18,827,900	17,418,000	1,409,900	7.5
	United States	155,922,000	146,305,000	9,617,000	6.2
2015	City of Mission Viejo	50,600	48,500	2,100	4.2%
	City of Rancho Santa Margarita	27,900	27,100	700	2.6
	Orange County	1,597,100	1,525,600	71,500	4.5
	State of California	18,981,800	17,798,600	1,183,200	6.2
	United States	157,130,000	146,411,000	8,296,000	5.3

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(1) Data is based on annual averages, unless otherwise specified, and is not seasonally adjusted.
(2) Includes persons involved in labor-management trade disputes.
(3) Includes all persons without jobs who are actively seeking work.
(4) The unemployment rate is computed from un-rounded data; therefore, it may differ from rates computed from rounded figures in this table.

Source: U.S. Department of Labor – Bureau of Labor Statistics, California Employment Development Department. March 2015 Benchmark.

Industry

The following table summarizes employment figures by industry for the Anaheim-Santa Ana-Irvine Metropolitan Division ("MD"), which is located entirely within the County.

INDUSTRY EMPLOYMENT & LABOR FORCE ANNUAL AVERAGES
Santa Ana-Anaheim-Irvine MD
(County of Orange)
2011-2015

	2011	***2012***	***2013***	***2014***	***2015***
Farming	3,200	2,800	2,900	2,800	2,500
Mining and Logging	600	600	600	700	700
Construction	69,200	71,300	76,800	82,000	90,400
Manufacturing	154,300	158,300	158,000	157,400	156,900
Wholesale Trade	77,300	77,200	79,400	81,900	81,000
Retail Trade	142,600	144,000	145,500	148,500	151,200
Transportation, Warehousing and Utilities	27,500	28,000	27,500	26,500	26,900
Information	23,800	24,300	25,000	24,500	25,500
Financial Activities	104,800	108,300	113,100	113,600	116,800
Professional and Business Services	247,700	260,600	267,300	276,600	285,400
Education and Health Services	172,000	177,800	186,000	190,800	198,800
Leisure and Hospitality	174,000	180,600	187,800	194,500	204,000
Other Services	43,200	44,600	45,600	47,300	48,800
Government	149,300	147,900	148,700	152,200	156,200
Total:	1,389,600	1,425,600	1,464,100	1,498,200	1,545,200

Note: Items may not add to total due to independent rounding.
Source: California Employment Development Department, Labor Market Information Division. March 2015 Benchmark.

Largest Employers

The following table presents the largest employers in the County as of June 30, 2015.

LARGEST EMPLOYERS
County of Orange
2015

Name of Business	***Number of Employees***	***Type of Business***
Walt Disney Co.	27,000	Entertainment
University of California, Irvine	22,385	Education
County of Orange	18,135	County Government
St. Joseph Health System	12,227	Healthcare
Kaiser Permanente	7,000	Healthcare
Boeing Co.	6,890	Aerospace Industries
Walmart	6,000	Retail
Memorial Care Health System	5,650	Healthcare
Bank of America Corporation	5,500	Financial Services
Target Corporation	5,400	Retail

Source: County of Orange Comprehensive Annual Financial Report, Year Ended June 30, 2015.

Building Activity

The following tables summarize building permits and valuations for the County and City during calendar years 2011 through 2015.

BUILDING PERMITS AND VALUATIONS
County of Orange
2011-2015

	2011	*2012*	*2013*	*2014*	*2015*
Valuation (In $000's)					
Residential	$1,236,970	$1,554,904	$2,596,543	$2,633,471	$2,826,883
Nonresidential	1,300,022	1,271,034	1,578,466	2,000,168	2,203,105
Total Valuation[(1)]	$2,536,992	$2,825,938	$4,175,009	$4,633,639	$5,029,988
New Dwelling Units (#)					
Single-Family	1,898	2,438	3,889	3,646	3,667
Multi-Family	2,909	3,725	6,564	6,990	7,230
Total:	4,807	6,163	10,453	10,636	10,897

(1) Total may not add up due to rounding.
Source: Construction Industry Research Board.

BUILDING PERMITS AND VALUATIONS
City of Mission Viejo
2011-2015

	2011	*2012*	*2013*	*2014*	*2015*
Valuation (In $000's)					
Residential	$20,670	$62,926	$58,373	$17,120	$23,735
Nonresidential	24,799	18,805	6,190	23,183	19,040
Total Valuation[(1)]	$45,469	$81,731	$64,563	$40,303	$42,775
New Dwelling Units (#)					
Single-Family	38	40	5	2	0
Multi-Family	4	334	251	0	0
Total:	42	374	256	2	0

(1) Total may not add up due to rounding.
Source: Construction Industry Research Board.

BUILDING PERMITS AND VALUATIONS
City of Rancho Santa Margarita
2011-2015

	2011	*2012*	*2013*	*2014*	*2015*
Valuation (In $000's)					
Residential	$1,798	$15,510	$24,258	$ 5,648	$ 5,395
Nonresidential	5,118	11,096	11,236	5,430	9,675
Total Valuation[(1)]	$6,916	$26,606	$35,494	$11,078	$15,070
New Dwelling Units (#)					
Single-Family	0	34	17	0	0
Multi-Family	0	0	44	0	0
Total:	0	34	61	0	0

(1) Total may not add up due to rounding.
Source: Construction Industry Research Board.

Taxable Sales

The history of taxable transactions in the County and the Cities from 2010 through 2014 is shown in the following tables.

TAXABLE SALES
County of Orange
2010-2014

Year	*Retail Permits*	*Retail and Food Taxable Transactions*	*Total Permits*	*Total Outlets Taxable Transactions*
2010	58,076	$32,552,107	92,047	$47,667,179
2011	58,795	35,587,795	92,207	51,731,139
2012	60,273	38,372,456	93,183	55,230,612
2013	62,208	40,025,929	94,862	57,591,217
2014	65,291	41,288,537	97,943	60,097,128

Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

TAXABLE SALES
City of Mission Viejo
2010-2014

Year	*Retail Permits*	*Retail and Food Taxable Transactions*	*Total Permits*	*Total Outlets Taxable Transactions*
2010	1,723	1,095,922	2,550	1,296,304
2011	1,727	1,155,130	2,542	1,380,815
2012	1,719	1,218,596	2,511	1,445,932
2013	1,694	1,260,548	2,452	1,467,087
2014	1,751	1,314,396	2,500	1,532,627

Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

TAXABLE SALES
City of Rancho Santa Margarita
2010-2014

Year	*Retail Permits*	*Retail and Food Taxable Transactions*	*Total Permits*	*Total Outlets Taxable Transactions*
2010	741	353,076	1,167	437,044
2011	766	393,866	1,176	484,007
2012	790	431,529	1,187	525,714
2013	730	442,228	1,098	536,028
2014	715	447,378	1,073	544,759

Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

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APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

The following is a summary of certain definitions and provisions of the Indenture which is not described elsewhere in the Official Statement. This Summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statement of its provisions.

DEFINITIONS

"Account" means any account created pursuant to the Indenture.

Acquisition Agreement" means that certain Series A of 2016 Special Tax Bonds Acquisition, Funding and Disclosure Agreement dated as of November 1, 2016, by and between the County and RMV PA2 Development, LLC, a Delaware limited liability company, together with any amendments thereto

"Acquisition and Construction Fund" means the fund by that name established pursuant to the Indenture.

"Act" means the Mello-Roos Community Facilities Act of 1982, as amended, Sections 53311 *et seq.* of the California Government Code.

"Administrative Expenses" means the following actual or reasonably estimated costs directly related to the administration of the District: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the County or designee thereof or both); the costs of collecting the Special Taxes (whether by the County or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the County, the District or any designee thereof of complying with arbitrage rebate requirements; the costs to the County, the District or any designee thereof of complying with disclosure requirements of the County, the District or obligated persons associated with applicable federal and state securities laws and the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the County, the District or any designee thereof related to an appeal of any Special Tax levy; the costs associated with the release of funds from an escrow account; and the County's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated by the CFD Administrator or advanced by the County or the District for any other administrative purposes of the District, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure action to collect delinquent Special Taxes.

"Administrative Expense Account" means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

"Administrative Expenses Cap" means $75,000 for Fiscal Year 2016-17, increasing at a rate of 2% per Fiscal Year thereafter.

"Annual Debt Service" means the principal amount of any Outstanding Bonds or Parity Bonds payable in a Bond Year either at maturity or pursuant to a Sinking Fund Payment and any interest payable on any Outstanding Bonds or Parity Bonds in such Bond Year, if the Bonds and any Parity Bonds are retired as scheduled.

"Assessor's Parcel" has the meaning ascribed to it in the RMA.

"Authorized Representative of the District" means the Chairman of the legislative body of the District, the County Executive Officer of the County, the Public Finance Director of the County or any other person or persons designated by the Chairman of the legislative body of the District, the County Executive Officer of the County or the Public Finance Director of the County by a written certificate signed by one of such officers of the County and containing the specimen signature of each such person.

"Bond Counsel" means an attorney at law or a firm of attorneys selected by the District of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

"Bond Register" means the books which the Trustee shall keep or cause to be kept on which the registration and transfer of the Bonds and any Parity Bonds shall be recorded.

"Bondowner" or "Owner" means the person or persons in whose name or names any Bond or Parity Bond is registered.

"Bonds" means the District's Series A of 2016 Special Tax Bonds issued on November 9, 2016 in the aggregate principal amount of $93,110,000.

"Bond Year" means the twelve-month period ending on August 15 of each year; provided, however, that the first Bond Year shall begin on the Delivery Date and end on August 15, 2017.

"Business Day" means a day which is not a Saturday or Sunday or a day of the year on which banks in New York, New York, Los Angeles, California, or the city where the corporate trust office of the Trustee is located, are not required or authorized to remain closed.

"Certificate of an Authorized Representative" means a written certificate or warrant request executed by an Authorized Representative of the District.

"Certificate of the Special Tax Consultant" means a certificate of David Taussig & Associates, Inc., or any successor entity appointed by the District, to administer the calculation and collection of the Special Taxes.

"Code" means the Internal Revenue Code of 1986, as amended, and any Regulations, rulings, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or Internal Revenue Service interpreting and construing it.

"Continuing Disclosure Certificate" means that certain Continuing Disclosure Certificate dated as of November 1, 2016, executed and delivered by the District, together with any amendments thereto.

"Costs of Issuance" means the costs and expenses incurred in connection with the issuance and sale of the Bonds or Parity Bonds, including the acceptance and initial annual fees and expenses of the Trustee, legal fees and expenses, costs of printing the Bonds and Parity Bonds and the preliminary and final official statements for the Bonds and Parity Bonds, fees of financial consultants, fees of special tax consultants and all other related fees and expenses, as set forth in a Certificate of an Authorized Representative of the District.

"Costs of Issuance Fund" means the fund by that name established pursuant to the Indenture.

"County" means the County of Orange, California.

"County Facilities Account" means the account by that name established pursuant to the Indenture.

"Delivery Date" means, with respect to the Bonds and each issue of Parity Bonds, the date on which the bonds of such issue were issued and delivered to the initial purchasers thereof.

"Developed Property" has the meaning ascribed to it in the RMA.

"District" means Community Facilities District No. 2016-1 (Village of Esencia) established pursuant to the Act and the Resolution of Formation.

"Event of Default" shall mean the "event of default" described in the Indenture.

"Federal Certificates" means evidences of indebtedness or ownership of proportionate interests in future principal and interest payments of Federal Securities, including depository receipts thereof, wherein (i) a bank or trust company acts as custodian and holds the underlying Federal Securities; (ii) the owner of the Federal Certificate is a real party in interest with the right to proceed directly and individually against the obligor of the underlying Federal Securities; and (iii) the underlying Federal Securities are held in trust in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian or any person claiming through the custodian, or any person to whom the custodian may be obligated.

"Federal Securities" means any of the following: (a) non-callable direct obligations of the United States of America ("Treasuries") or obligations for which the full faith and credit of the United States of America are unconditionally pledged for the payment of interest and principal, (b) evidence of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, and (c) pre-refunded municipal obligations rated "AAA" and "Aaa" by Standard & Poor's and Moody's, respectively (or any combination thereof).

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next following June 30.

"Fitch" means Fitch Ratings, New York, New York, or its successors, and if such organization shall for any reason no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the County.

"Gross Taxes" means the amount of all Special Taxes received by the District from the Treasurer, together with all payments made with respect to tax-defaulted parcels (including all delinquent and redemption penalties, fees and costs) and the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Indenture, but excluding any payment of Special Taxes on tax-defaulted parcels, including all delinquent and redemption penalties, fees and costs and the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Indenture, so long as the County has paid to the District the Special Taxes levied for a tax-defaulted parcel pursuant to the Teeter Plan established by the County pursuant to California Revenue and Taxation Code Sections 4701 *et seq*.

"Indenture" means the Bond Indenture pursuant to which the Bonds are issued, together with any Supplemental Indenture approved pursuant to the Indenture.

"Independent Financial Consultant" means a financial consultant or firm of such consultants generally recognized to be well qualified in the financial consulting field, appointed and paid by the District, who, or each of whom:

(1) is in fact independent and not under the domination of the District or the County;

(2) does not have any substantial interest, direct or indirect, in the District or the County; and

(3) is not connected with the District or the County as a member, officer or employee of the District or the County, but who may be regularly retained to make annual or other reports to the District or the County.

"Interest Account" means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

"Interest Payment Date" means each February 15 and August 15, commencing February 15, 2017; provided, however, that, if any such day is not a Business Day, interest up to the Interest Payment Date will be paid on the Business Day next succeeding such date.

"Investment Agreement" means one or more agreements for the investment of funds of the District complying with the criteria therefor as set forth in Subsection (8) of the definition of Permitted Investments.

"Maximum Annual Debt Service" means the maximum sum obtained for any Bond Year prior to the final maturity of the Bonds and any Parity Bonds by adding the following for each Bond Year:

(1) the principal amount of all Outstanding Bonds and Parity Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and

(2) the interest payable on the aggregate principal amount of all Bonds and Parity Bonds Outstanding in such Bond Year if the Bonds and Parity Bonds are retired as scheduled.

"Maximum Special Tax" has the meaning ascribed to it in the RMA.

"Moody's" means Moody's Investors Service, New York, New York, or its successors, and if such organization shall for any reason no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the County.

"Net Taxes" means Gross Taxes minus amounts set aside to pay Administrative Expenses.

"Nominee" shall mean the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

"Ordinance" means Ordinance No. 16-003 adopted by the legislative body of the District on April 26, 2016, providing for the levying of the Special Tax, as it may be amended from time to time, or any other ordinance adopted by the Board of Supervisors levying the Special Taxes.

"Outstanding" or "Outstanding Bonds and Parity Bonds" means all Bonds and Parity Bonds theretofore issued by the District, except:

(1) Bonds and Parity Bonds theretofore cancelled or surrendered for cancellation in accordance with the Indenture;

(2) Bonds and Parity Bonds for payment or redemption of which monies shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such Bonds or Parity Bonds), provided that, if such Bonds or Parity Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or any applicable Supplemental Indenture for Parity Bonds; and

(3) Bonds and Parity Bonds which have been surrendered to the Trustee for transfer or exchange pursuant to the Indenture or for which a replacement has been issued pursuant to the Indenture.

"Overlapping Debt" means with respect to any property within the District, the sum of (a) the aggregate amount of all unpaid assessments which are a lien on such property and which are pledged to secure the repayment of bonds, plus (b) a portion of the principal amount of any outstanding bonds of other community facilities districts which are payable at least partially from special taxes to be levied on such property (the "Other CFD Bonds") determined by multiplying the aggregate principal amount of the Other CFD Bonds by a fraction, the numerator of which is the amount of special taxes levied for the Other CFD Bonds on such property and the denominator of which is the total amount of special taxes levied for the Other CFD Bonds on all parcels of property which are subject to the levy of such special taxes, based upon information which is available for the then current Fiscal Year.

"Parity Bonds" means all bonds, notes or other similar evidences of indebtedness hereafter issued, payable out of the Net Taxes and which, as provided in the Indenture or any Supplemental Indenture, rank on a parity with the Bonds.

"Participants" shall mean those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Bonds or Parity Bonds as securities depository.

"Permitted Investments" means any of the following that at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein (provided that the Trustee may rely upon investment direction of the District as a determination that such investment is a legal investment):

(1) United States Treasury bills, notes, bonds, or certificates of indebtedness, for which the full faith and credit for the United States are pledged for the payment of principal and interest.

(2) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

(A) Senior debt obligations issued by Fannie Mae or the Federal Home Loan Mortgage Corporation (FHLMC)

(B) Obligations of the Resolution Funding Corporation (REFCORP)

(C) Senior debt obligations of the Federal Home Loan Bank System

(D) Senior debt obligations of other Government Sponsored Agencies;

(3) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks (including the Trustee and its affiliates) which have a rating on their short-term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and which mature not more than one hundred eighty (180) calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank):

(4) Commercial paper shall be of "prime quality" of the highest ranking or of the highest letter and number rating as provided by a NRSRO and not exceed 270 days. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b):

(a) Has total assets in excess of five hundred million dollars ($500,000,000), is organized and operating within the United States as a general corporation, and has debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.

(b) Is organized in the United States as a special purpose corporation, trust, or limited liability company, has program-wide credit enhancements including, but not limited to, over-collateralization, letters of credit or a surety bond, has commercial paper that is rated "A-1 or higher, or the equivalent, by a NRSRO.

Split ratings (i.e. A2/P1) are not allowed;

(5) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including funds for which the Trustee or its affiliates provide investment advisory or other management services, which only invest in direct obligations in U.S. Treasury bills, notes and bonds, U.S. Government Agencies and repurchase agreements with a weighted average of 60 days or less;

(6) Municipal obligations rated "Aaa/AAA" or general obligations of States with a rating of "Aa2/AA" or higher by both Moody's and S&P;

(7) Investment agreements which do not adversely affect the ratings on the Bonds;

(8) The County Treasurer's Orange County Investment Pool;

(9) Any other investment permitted by law and the County's Investment Policy with a rating not lower than the rating on the Bonds if any from S&P, and a rating not lower than the rating on the Bonds if any, from Moody's.

The value of the above investments shall be determined as follows:

(a) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers;

(b) As to certificates of deposit and bankers' acceptances, the face amount thereof, plus accrued interest thereon; and

(c) As to any investment not specified above, the value thereof established determined by the entity holding such funds, in accordance with its customary practice.

"Person" means natural persons, firms, corporations, partnerships, associations, trusts, public bodies and other entities.

"Prepayments" means any amounts paid by the District to the Trustee and designated by the District as a prepayment of Special Taxes for one or more parcels in the District made in accordance with the RMA.

"Principal Account" means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

"Principal Office of the Trustee" means the office of the Trustee located in Los Angeles, California, or such other office or offices as the Trustee may designate from time to time, or the office of any successor Trustee where it principally conducts its business of serving as trustee under indentures pursuant to which municipal or governmental obligations are issued.

"Project" means those public facilities described in the Acquisition Agreement which are to be acquired or constructed within and outside of the District, including all engineering, planning and design services and other incidental expenses related to such facilities.

"Project Facilities Account" means the account by that name created and established in the Acquisition and Construction Fund pursuant to the Indenture.

"Project Costs" means the amounts necessary to finance the Project, to create and replenish any necessary reserve funds, to pay the initial and annual costs associated with the Bonds or any Parity Bonds, including, but not limited to, remarketing, credit enhancement, Trustee and other fees and expenses relating to the issuance of the Bonds or any Parity Bonds, and to pay any other "incidental expenses" of the District, as such term is defined in the Act.

"Rating Agency" means Fitch, Moody's and Standard & Poor's, or any one of such entities, as the context requires.

"Rebate Fund" means the fund by that name established pursuant to the Indenture in which there are established the Accounts described in the Indenture.

"Record Date" means the first day of the month in which an Interest Payment Date occurs, regardless of whether such day is a Business Day.

"Redemption Account" means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

"Regulations" means the regulations adopted or proposed by the Department of Treasury from time to time with respect to obligations issued pursuant to Section 103 of the Code.

"Representation Letter" shall mean the Blanket Letter of Representations from the District to the Depository as described in the Indenture.

"Reserve Account" means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

"Reserve Requirement" means that amount as of any date of calculation equal to the lesser of (i) 10% of the initial principal amount of the Bonds and Parity Bonds, if any, (ii) Maximum Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any; and (iii) 125% of average Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any.

"Resolution of Formation" means Resolution No. 16-023 adopted by the Board of Supervisors of the County on March 22, 2016, pursuant to which the County formed the District, together with Resolution No. 16-024 adopted by the legislative body of the District on March 22, 2016.

"RMA" means the Rate and Method of Apportionment of Special Taxes for Community Facilities District No. 2016-1 (Village of Esencia) in the form attached to the Resolution of Formation.

"School Facilities Account" means the account by that name established pursuant to the Indenture.

"Sinking Fund Payment" means the annual payment to be deposited in the Principal Account to redeem a portion of the Term Bonds in accordance with the schedules set forth in the Indenture and any annual sinking fund payment schedule to retire any Parity Bonds which are designated as Term Bonds.

"Special Tax Fund" means the fund by that name created and established pursuant to the Indenture.

"Special Taxes" means the taxes authorized to be levied by the legislative body of the District on property within the District in accordance with the Ordinance, the Resolution of Formation, the Act and the voter approval obtained at the March 22, 2016 election in the District.

"Standard & Poor's" or "S&P" means S&P Global Ratings, a Standard & Poor's Financial Services LLC business or its successors and if such organization shall no longer perform the functions of a securities rating agency, "Standard & Poor's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the County.

"Subordinated Bonds" means any bonds or indebtedness of the District that have a lien, charge, pledge or encumbrance on the Net Taxes junior and subordinated to the lien, charge, pledge and encumbrance thereon for the Bonds and any Parity Bonds.

"Supplemental Indenture" means any supplemental indenture amending or supplementing the Indenture.

"Surplus Fund" means the fund by that name created and established pursuant to the Indenture.

"Tax Certificate" means the certificate by that name to be executed by the District on a Delivery Date to establish certain facts and expectations and which contains certain covenants relevant to compliance with the Code.

"Taxable Property" has the meaning ascribed to it in the RMA.

"Term Bonds" means the Bonds maturing on August 15, 2041 and on August 15, 2046, and any term maturities of an issue of Parity Bonds as specified in a Supplemental Indenture.

"Treasurer" means the Treasurer-Tax Collector of the County, or her written designee.

"Trustee" means U.S. Bank National Association a national banking association duly organized and existing under the laws of the United States, at its principal corporate trust office in Los Angeles, California, and its successors or assigns, or any other bank or trust company which may at any time be substituted in its place as provided in the Indenture and any successor thereto.

"Underwriters" means Piper Jaffray & Co. and Raymond James & Associates, Inc., with respect to the Bonds and, with respect to each issue of Parity Bonds, the institution or institutions, if any, with whom the District enters into a purchase contract for the sale of such issue.

"Undeveloped Property" has the meaning ascribed to it in the RMA.

"Value" means, for any Assessor's Parcel or Assessor's Parcels either (i) the fair market value, as of the date of value specified in the appraisal provided for below, of such Assessor's Parcel or Assessor's Parcels, including the value of the then existing improvements thereon, as estimated by an appraiser, who shall be a State of California certified general real estate appraiser selected and employed by the District, in an appraisal which specifies a date of value that is less than ninety (90) days preceding the date as of which such value is being applied by the District and which utilizes a methodology of valuation that is consistent with the County's policy for appraisals, provided that a mass appraisal methodology may be utilized if so permitted in a Certificate of an Authorized Representative; or (ii) the full cash value of any or all of such Assessor's Parcels, including the value of the improvements thereon as set forth on the last equalized assessment roll of the County Assessor of the County.

"Water Facilities Account" means the account by that name established pursuant to the Indenture.

GENERAL AUTHORIZATION AND BOND TERMS

Type and Nature of Bonds and Parity Bonds. Neither the faith and credit nor the taxing power of the County, the State of California, or any political subdivision thereof other than the District is pledged to the payment of the Bonds or any Parity Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds or any Parity Bonds. The Bonds and any Parity Bonds are not general or special obligations of the County nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the Special Tax Fund (exclusive of the Administrative Expense Account), as more fully described in the Indenture. The District's limited obligation to pay the principal of, premium, if any, and interest on the Bonds and any Parity Bonds from amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) is absolute and unconditional, free of deductions and without any abatement, offset, recoupment, diminution or set-off whatsoever. No Owner of the Bonds or any Parity Bonds may compel the exercise of the taxing power by the District (except as pertains to the Special Taxes) or the County or the forfeiture of any of their property. The principal of and interest on the Bonds and any Parity Bonds and premiums upon the redemption thereof, if any, are not a debt of the County, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory limitation or restriction. The Bonds and any Parity Bonds are not a legal or equitable pledge, charge, lien, or encumbrance upon any of the District's property, or upon any of its income, receipts or revenues, except the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) which are, under the terms of the Indenture and the Act, set aside for the payment of the Bonds, any Parity Bonds and interest thereon and neither the members of the legislative body of the District or the Board of Supervisors of the County nor any persons executing the Bonds or any Parity Bonds, are liable personally on the Bonds or any Parity Bonds, by reason of their issuance.

Notwithstanding anything to the contrary contained in the Indenture, the District shall not be required to advance any money derived from any source of income other than the Net Taxes for the payment of the interest on or the principal of the Bonds or any Parity Bonds, or for the performance of any covenants contained therein. The District may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose.

Equality of Bonds and Parity Bonds and Pledge of Net Taxes. Pursuant to the Act and the Indenture, the Bonds and any Parity Bonds shall be secured by a pledge, charge, lien and encumbrance upon and equally payable from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) without priority for number, date of the Bonds or Parity Bonds, date of sale, date of execution, or date of delivery, and the payment of the interest on and principal of the Bonds and any Parity Bonds and any premiums upon the redemption thereof, shall be exclusively paid from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account), which are set aside for the payment of the Bonds and any Parity Bonds. Amounts in the Special Tax Fund (other than the Administrative Expense Account therein) shall constitute a trust fund held for the benefit of the Owners to be applied to the payment of the interest on and principal of the Bonds and any Parity Bonds and so long as any of the Bonds and any Parity Bonds or interest thereon remain Outstanding shall not be used for any other purpose, except as permitted by the Indenture or any Supplemental Indenture. Notwithstanding any provision contained in the Indenture to the contrary, Net Taxes deposited in the Rebate Fund and the Surplus Fund shall no longer be considered to be pledged to the Bonds or any Parity Bonds, and none of the Rebate Fund, the Surplus Fund, the Acquisition and Construction Fund, the Costs of Issuance Fund or the Administrative Expense Account of the Special Tax Fund shall be construed as a trust fund held for the benefit of the Owners.

Nothing in the Indenture or any Supplemental Indenture shall preclude: (i) subject to the limitations contained in the Indenture, the redemption prior to maturity of any Bonds or Parity Bonds subject to call and redemption and payment of said Bonds or Parity Bonds from proceeds of refunding bonds issued under the Act as the same now exists or as hereafter amended, or under any other law of the State of California; or (ii) the issuance, subject to the limitations contained in the Indenture, of Parity Bonds which shall be payable from Net Taxes.

Place and Form of Payment. The Bonds and Parity Bonds shall be payable both as to principal and interest, and as to any premiums upon the redemption thereof, in lawful money of the United States of America. The principal of the Bonds and Parity Bonds and any premiums due upon the redemption thereof shall be payable upon presentation and surrender thereof at the Principal Office of the Trustee, or at the designated office of any successor Trustee. Interest on any Bond or Parity Bond shall be payable from the Interest Payment Date next preceding the date of authentication of that Bond or Parity Bond, unless (i) such date of authentication is an Interest Payment Date in which event interest shall be payable from such date of authentication; (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from the Interest Payment Date immediately succeeding the date of authentication; or (iii) the date of authentication is prior to the close of business on the first Record Date occurring after the issuance of such Bond or Parity Bond, in which event interest shall be payable from the dated date of such Bond or Parity Bond, as applicable; provided, however, that if at the time of authentication of such Bond or Parity Bond, interest is in default, interest on that Bond or Parity Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment or, if no interest has been paid or made available for payment on that Bond or Parity Bond, interest on that Bond or Parity Bond shall be payable from its dated date. Interest on any Bond or Parity Bond shall be paid to the person whose name shall appear in the Bond Register as the Owner of such Bond or Parity Bond as of the close of business on the Record Date. Such interest shall be paid by check of the Trustee mailed by first class mail, postage prepaid, to such Bondowner at his or her address as it appears on the Bond Register. In addition, upon a request in writing received by the Trustee on or before the applicable Record Date from an Owner of $1,000,000 or more in principal amount of the Bonds or of any issue of Parity Bonds, payment shall be made on the Interest Payment Date by wire transfer in immediately available funds to an account designated by such Owner.

Bond Register. The Trustee will keep or cause to be kept, at its office, sufficient books for the registration and transfer of the Bonds and any Parity Bonds which shall upon reasonable prior notice be open to inspection by the District during all regular business hours, and, subject to the limitations set forth in the Indenture, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be transferred on said Bond Register, Bonds and any Parity Bonds as provided in the Indenture.

The District and the Trustee may treat the Owner of any Bond or Parity Bond whose name appears on the Bond Register as the absolute Owner of that Bond or Parity Bond for any and all purposes, and the District and the Trustee shall not be affected by any notice to the contrary. The District and the Trustee may rely on the address of the Bondowner as it appears in the Bond Register for any and all purposes. It shall be the duty of the Bondowner to give written notice to the Trustee of any change in the Bondowner's address so that the Bond Register may be revised accordingly.

Registration of Exchange or Transfer. Subject to the limitations set forth in the following paragraph, the registration of any Bond or Parity Bond may, in accordance with its terms, be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond or Parity Bond for cancellation at the office of the Trustee, accompanied by delivery of written instrument of transfer in a form acceptable to the Trustee and duly executed by the Bondowner or his or her duly authorized attorney.

Bonds or Parity Bonds may be exchanged at the office of the Trustee for a like aggregate principal amount of Bonds or Parity Bonds for other authorized denominations of the same maturity and issue. The Trustee shall not collect from the Owner any charge for any new Bond or Parity Bond issued upon any exchange or transfer, but shall require the Bondowner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. Whenever any Bonds or Parity Bonds shall be surrendered for registration of transfer or exchange, the District shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds or a new Parity Bond or Parity Bonds, as applicable, of the same issue and maturity, for a like aggregate principal amount; provided that the Trustee shall not be required to register transfers or make exchanges of (i) Bonds or Parity Bonds for a period of 15 days next preceding any selection of the Bonds or Parity Bonds to be redeemed; or (ii) any Bonds or Parity Bonds chosen for redemption.

Mutilated, Lost, Destroyed or Stolen Bonds or Parity Bonds. If any Bond or Parity Bond shall become mutilated, the District shall execute, and the Trustee shall authenticate and deliver, a new Bond or Parity Bond of like tenor, date, issue and maturity in exchange and substitution for the Bond or Parity Bond so mutilated, but only upon surrender to the Trustee of the Bond or Parity Bond so mutilated. Every mutilated Bond or Parity Bond so surrendered to the Trustee shall be cancelled by the Trustee pursuant to the Indenture. If any Bond or Parity Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence is satisfactory to the Trustee and, if any indemnity satisfactory to the Trustee shall be given, the District shall execute and the Trustee shall authenticate and deliver, a new Bond or Parity Bond, as applicable, of like tenor, maturity and issue, numbered and dated as the Trustee shall determine in lieu of and in substitution for the Bond or Parity Bond so lost, destroyed or stolen. Any Bond or Parity Bond issued in lieu of any Bond or Parity Bond alleged to be mutilated, lost, destroyed or stolen, shall be equally and proportionately entitled to the benefits of the Indenture with all other Bonds and Parity Bonds issued under the Indenture. The Trustee shall not treat both the original Bond or Parity Bond and any replacement Bond or Parity Bond as being Outstanding for the purpose of determining the principal amount of Bonds or Parity Bonds which may be executed, authenticated and delivered under the Indenture or for the purpose of determining any percentage of Bonds or Parity Bonds Outstanding under the Indenture, but both the original and replacement Bond or Parity Bond shall be treated as one and the same. Notwithstanding any other provision of this Section, in lieu of delivering a new Bond or Parity Bond which has been mutilated, lost, destroyed or stolen, and which has matured, the Trustee may make payment with respect to such Bonds or Parity Bonds.

Validity of Bonds and Parity Bonds. The validity of the authorization and issuance of the Bonds and any Parity Bonds shall not be affected in any way by any defect in any proceedings taken by the District and the recital contained in the Bonds or any Parity Bonds that the same are issued pursuant to the Act and other applicable laws of the State shall be conclusive evidence of their validity and of the regularity of their issuance.

Book-Entry System. The Bonds shall be initially delivered in the form of a separate single fully registered Bond (which may be typewritten) for each of the maturities of the Bonds. Upon initial delivery, the ownership of each such Bond shall be registered in the registration books kept by the Trustee in the name of the Nominee as nominee of the Depository. Except as provided in the Indenture, all of the Outstanding Bonds shall be registered in the registration books kept by the Trustee in the name of the Nominee. At the election of the District, any Parity Bonds may also be issued as book-entry bonds registered in the name of the Nominee as provided in the Indenture, in which case the references to "Bonds" in the Indenture with respect to the Book-Entry System shall be applicable to such Parity Bonds.

With respect to Bonds registered in the registration books kept by the Trustee in the name of the Nominee, the District and the Trustee shall have no responsibility or obligation to any such Participant or to any Person on behalf of which such a Participant holds an interest in the Bonds. Without limiting the immediately preceding sentence, the District and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Participant or any other Person, other than an Owner as shown in the registration books kept by the Trustee, of any notice with respect to the Bonds, including any notice of redemption, (iii) the selection by the Depository and its Participants of the beneficial interests in the Bonds to be redeemed in the event the Bonds are redeemed in part, or (iv) the payment to any Participant or any other Person, other than an Owner as shown in the registration books kept by the Trustee, of any amount with respect to principal of, premium, if any, or interest due with respect to the Bonds. The District and the Trustee may treat and consider the Person in whose name each Bond is registered in the registration books kept by the Trustee as the holder and absolute owner of such Bond for the purpose of payment of the principal of, premium, if any, and interest on such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of, premium, if any, and interest due on the Bonds only to or upon the order of the respective Owner, as shown in the registration books kept by the Trustee, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to satisfy and discharge fully the District's obligations with respect to payment of the principal, premium, if any, and interest due on the Bonds to the extent of the sum or sums so paid. No Person other than an Owner, as shown in the registration books kept by the Trustee, shall receive a Bond evidencing the obligation of the District to make payments of principal, premium, if any, and interest pursuant to the Indenture. Upon delivery by the Depository to the Trustee and the District of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions in the Indenture with respect to Record Dates, the word Nominee in the Indenture shall refer to such new nominee of the Depository

Transfers Outside Book-Entry System. In the event (i) the Depository determines not to continue to act as securities depository for the Bonds, or (ii) the District determines that the Depository shall no longer so act, then the District will discontinue the book-entry system with the Depository. If the District fails to identify another qualified securities depository to replace the Depository then the Bonds so designated shall no longer be restricted to being registered in the registration books kept by the Trustee in the name of the Nominee, but shall be registered in whatever name or names Persons transferring or exchanging Bonds shall designate, in accordance with the provisions of the Indenture.

Payments to the Nominee. Notwithstanding any other provisions of the Indenture to the contrary, so long as any Bond is registered in the name of the Nominee, all payments with respect to principal, premium, if any, and interest due with respect to such Bond and all notices with respect to such Bond shall be made and given, respectively, as provided in the Representation Letter or as otherwise instructed by the Depository.

CREATION OF FUNDS AND APPLICATION OF PROCEEDS

Creation of Funds; Application of Proceeds.

(a) The Trustee has established the following funds and accounts:

(1) The Community Facilities District No. 2016-1 Proceeds Fund (the "Proceeds Fund").

(2) The Community Facilities District No. 2016-1 Special Tax Fund (the "Special Tax Fund") (in which there shall be established and created an Interest Account, a Principal Account, a Redemption Account, a Reserve Account and an Administrative Expense Account).

(3) The Community Facilities District No. 2016-1 Rebate Fund (the "Rebate Fund").

(4) The Community Facilities District No. 2016-1 Acquisition and Construction Fund (the "Acquisition and Construction Fund") (in which there shall be established a Project Facilities Account, a County Facilities Account, a School Facilities Account and a Water Facilities Account).

(5) The Community Facilities District No. 2016-1 Costs of Issuance Fund (the "Costs of Issuance Fund").

(6) The Community Facilities District No. 2016-1 Surplus Fund (the "Surplus Fund").

The amounts on deposit in the foregoing funds, accounts and subaccounts shall be held by the Trustee and the Trustee shall invest and disburse the amounts in such funds, accounts and subaccounts in accordance with the provisions of the Indenture and shall disburse investment earnings thereon in accordance with the provisions of the Indenture.

In connection with the issuance of any Parity Bonds, the Trustee, at the direction of an Authorized Representative of the District, may create new funds, accounts or subaccounts, or may create additional accounts and subaccounts within any of the foregoing funds and accounts for the purpose of separately accounting for the proceeds of the Bonds and any Parity Bonds.

(b) The proceeds of the sale of the Bonds shall be received by the Trustee on behalf of the District and deposited and transferred as set forth in the Official Statement under the caption "ESTIMATED SOURCES AND USES OF FUNDS."

Deposits to and Disbursements from Special Tax Fund.

(a) Except for Prepayments which shall be deposited to the Interest Account, the Principal Account and/or the Redemption Account as specified in a Certificate of an Authorized Representative, the Trustee shall, on each date on which the Special Taxes are received from the District, deposit the Special Taxes in the Special Tax Fund to be held in trust for the Owners. The Trustee shall transfer the Special Taxes on deposit in the Special Tax Fund on the dates and in the amounts set forth in the following Sections, in the following order of priority, to:

(1) the Administrative Expense Account of the Special Tax Fund;

(2) the Interest Account of the Special Tax Fund;

(3) the Principal Account of the Special Tax Fund;

(4) the Redemption Account of the Special Tax Fund;

(5) the Reserve Account of the Special Tax Fund;

(6) the Rebate Fund; and

(7) the Surplus Fund.

(b) At maturity of all of the Bonds and Parity Bonds and, after all principal and interest then due on the Bonds and Parity Bonds then Outstanding has been paid or provided for and any amounts owed to the Trustee have been paid in full, moneys in the Special Tax Fund and any accounts in the Indenture may be used by the District for any lawful purpose.

Administrative Expense Account of the Special Tax Fund. The Trustee shall transfer from the Special Tax Fund and deposit in the Administrative Expense Account of the Special Tax Fund from time to time amounts necessary to make timely payment of Administrative Expenses as set forth in a requisition, substantially in the form set forth in the Indenture, executed by an Authorized Representative of the District; provided, however, that, except as set forth in the following sentence, the total amount transferred in a Bond Year shall not exceed the Administrative Expenses Cap until such time as there has been deposited to the Interest Account and the Principal Account an amount, together with any amounts already on deposit in the Indenture, that is sufficient to pay the interest and principal on all Bonds and Parity Bonds due in such Bond Year and to restore the Reserve Account to the Reserve Requirement. Notwithstanding the foregoing, amounts in excess of the Administrative Expenses Cap may be transferred to the Administrative Expense Account to the extent necessary to collect delinquent Special Taxes on Undeveloped Property. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any Permitted Investments as directed in writing by an Authorized Representative of the District and shall be disbursed as directed in a Certificate of an Authorized Representative.

Interest Account and Principal Account of the Special Tax Fund. The principal of and interest due on the Bonds and any Parity Bonds until maturity, other than principal due upon optional or extraordinary redemption, shall be paid by the Trustee from the Principal Account and the Interest Account of the Special Tax Fund, respectively. For the purpose of assuring that the payment of principal of and interest on the Bonds and any Parity Bonds will be made when due, after making the transfer required by the Indenture, at least 5 Business Days prior to each February 15 and August 15, the Trustee shall make the following transfers from the Special Tax Fund first to the Interest Account and then to the Principal Account; provided, however, that, if amounts in the Special Tax Fund (exclusive of the Reserve Account) are inadequate to make the foregoing transfers, then any deficiency shall be made up by transfers from the Reserve Account:

(a) To the Interest Account, an amount such that the balance in the Interest Account 5 Business Days prior to each Interest Payment Date shall be equal to the installment of interest due on the Bonds and any Parity Bonds on said Interest Payment Date and any installment of interest due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account shall be used for the payment of interest on the Bonds and any Parity Bonds as the same become due. In the event that funds from Prepayments are deposited to the Interest Account, such amounts shall be expended in accordance with the schedule of payments included in the Certificate of an Authorized Representative delivered with respect to such Prepayments.

(b) To the Principal Account, an amount such that the balance in the Principal Account 5 Business Days prior to August 15 of each year, commencing August 15, 2017, shall equal the principal payment due on the Bonds and any Parity Bonds on such August 15, whether at maturity or by Sinking Fund Payment, and any principal payment due on a previous August 15 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds and any Parity Bonds as the same become due at maturity. In the event that funds from Prepayments are deposited to the Principal Account, such amounts shall be expended in accordance with the schedule of payments included in the Certificate of an Authorized Representative delivered with respect to such Prepayments.

Redemption Account of the Special Tax Fund.

(a) After making the deposits to the Administrative Expense Account, the Interest Account and the Principal Account of the Special Tax Fund pursuant to the Indenture, and in accordance with the District's election to call Bonds for optional redemption as set forth in the Indenture, or to call Parity Bonds for optional redemption as set forth in any Supplemental Indenture for Parity Bonds, the Trustee shall transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the principal and the premiums, if any, payable on the Bonds or Parity Bonds called for optional redemption; provided, however, that amounts in the Special Tax Fund (other than the Administrative Expense Account therein) may be applied to optionally redeem Bonds and Parity Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

(b) Prepayments deposited to the Redemption Account, along with any amounts that an Authorized Officer of the District directs to be transferred from the Reserve Account to the Redemption Account in connection with any Prepayments, shall be applied on the redemption date established pursuant to the Indenture for the use of such Prepayments to the payment of the principal of, premium, and interest on the Bonds and Parity Bonds to be redeemed with such Prepayments; provided that amounts shall be transferred from the Reserve Account only if immediately following such redemption the amount in the Reserve Account will meet the Reserve Requirement.

(c) Moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and Parity Bonds and shall be applied on or after the redemption date to the payment of principal of and premium, if any, on the Bonds or Parity Bonds to be redeemed upon presentation and surrender of such Bonds or Parity Bonds and in the case of an optional redemption or an extraordinary redemption from Prepayments to pay the interest thereon; provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Redemption Account, other than Prepayments, may be used to purchase Outstanding Bonds or Parity Bonds in the manner provided in the next sentence. Purchases of Outstanding Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus, in the case of moneys set aside for an optional redemption or an extraordinary redemption, the premium applicable at the next following call date according to the premium schedule established pursuant to the Indenture, or in the case of Parity Bonds the premium established by any Supplemental Indenture. Any accrued interest payable upon the purchase of Bonds or Parity Bonds may be paid from the amount reserved in the Interest Account of the Special Tax Fund for the payment of interest on the next following Interest Payment Date.

Reserve Account of the Special Tax Fund. There shall be maintained in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement. The amounts in the Reserve Account shall be applied as follows:

(a) Moneys in the Reserve Account shall be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on the Bonds and any Parity Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor and for the purpose of making any required transfer to the Rebate Fund pursuant to the Indenture upon written direction from the District. If the amounts in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on the Bonds or any Parity Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Trustee shall withdraw from the Reserve Account for deposit in the Interest Account or the Principal Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes.

(b) Whenever moneys are withdrawn from the Reserve Account, after making the required transfers to the Administrative Expense Account, the Interest Account, the Principal Account and the Redemption Account, the Trustee shall transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds which the District elects to apply to such purpose, the amount needed to restore the amount of such Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund shall be deemed available for transfer to the Reserve Account only if the Trustee determines that such amounts will not be needed to make the deposits required to be made to the Administrative Expense Account, the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund on or before the next August 15. If amounts in the Special Tax Fund together with any other amounts transferred to replenish the Reserve Account are inadequate to restore the Reserve Account to the Reserve Requirement, then the District, subject to any limitations in the Act, shall include the amount necessary fully to restore the Reserve Account to the Reserve Requirement in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates and the limitations of the Act.

(c) In connection with a redemption of Bonds in accordance with the Indenture, or Parity Bonds in accordance with any Supplemental Indenture, or a partial defeasance of Bonds or Parity Bonds, amounts in the Reserve Account may be applied to such redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such redemption or partial defeasance equals the Reserve Requirement. The District shall set forth in a Certificate of an Authorized Representative the amount in the Reserve Account to be transferred to the Redemption Account on a redemption date or to be transferred pursuant to the Indenture to partially defease Bonds, and the Trustee shall make such transfer on the applicable redemption or defeasance date, subject to the limitation in the preceding sentence.

(d) To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for the Bonds or an issue of Parity Bonds, amounts in the Reserve Account may be applied to pay the principal of and interest due on the Bonds and Parity Bonds, as applicable, in the final Bond Year for such issue. Moneys in the Reserve Account in excess of the Reserve Requirement not transferred in accordance with the preceding provisions of this section shall be withdrawn from the Reserve Account on the Business Day before each February 15 and August 15 and transferred to the Interest Account of the Special Tax Fund.

Rebate Fund.

(a) The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund. The District shall cause to be deposited in the Rebate Fund such amounts as required under the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, for payment to the United States Treasury. All amounts on deposit in the Rebate Fund with respect to the Bonds shall be governed by the Indenture and the Tax Certificate.

Without limiting the generality of the foregoing, the District agrees that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any temporary, proposed or final treasury regulations as may be applicable to the Bonds from time to time, which the District covenants to pay or cause to be paid to the United States at the times and in the amounts determined under the Tax Certificate. The Trustee agrees to comply with all instructions given to it by the District in accordance with this covenant. The Trustee shall conclusively be deemed to have complied with the provisions of this section if it follows the instructions of the District and shall not be required to take any actions under the Indenture in the absence of instructions from the District.

(b) Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund with respect to the Bonds and each series of Parity Bonds after payment in full of such issue and after making the payments required to comply with this section and the applicable Tax Certificate for such issue may be withdrawn by the Trustee at the written direction of the District and utilized in any manner by the District.

(c) Survival of Defeasance and Final Payment. Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the requirements of this section of the Indenture shall survive the defeasance and final payment of the Bonds and any Parity Bonds.

(d) Amendment Without Consent of Owners. This section of the Indenture may be deleted or amended in any manner without the consent of the Owners, provided that prior to such event there is delivered to the District an opinion of Bond Counsel to the effect that such deletion or amendment will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds issued on a tax-exempt basis. Notwithstanding any provision of this section, if the District shall provide to the Trustee an opinion of a nationally recognized bond or tax counsel that any specified action required under this section is no longer required or that some further or different action is required to maintain the tax-exempt status of interest on the Bonds and any Parity Bonds issued on a tax-exempt basis, the Trustee and the District may conclusively rely on such opinion in complying with the requirements of this section, and the covenants under the Indenture shall be deemed to be modified to that extent.

Surplus Fund. After making the foregoing transfers required by the Indenture, as soon as practicable after each August 15, and in any event prior to each September 1, the Trustee shall transfer all remaining amounts in the Special Tax Fund to the Surplus Fund, unless on or prior to such date, it has received a Certificate of an Authorized Representative directing (i) that certain amounts be retained in the Special Tax Fund because the District has included such amounts as being available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to the Indenture, or (ii) that certain amounts be transferred to the Acquisition and Construction Fund because such amounts were included in the levy of Special Taxes for the previous Fiscal Year to pay for the acquisition or construction of the Project; provided, however, that, if a transfer is made to the Acquisition and Construction Fund and unexpended proceeds of the Bonds or an issue of Parity Bonds remain in the Acquisition and Construction Fund, the Trustee shall establish a Subaccount of the Project Facilities Account for amounts transferred from the Surplus Fund. Moneys deposited in the Surplus Fund will be transferred by the Trustee at the direction of an Authorized Representative of the District (i) to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund to pay the principal of, including Sinking Fund Payments, premium, if any, and interest on the Bonds and any Parity Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account of the Special Tax Fund are insufficient therefor; (ii) to the Reserve Account in order to replenish the Reserve Account to the Reserve Requirement; (iii) to the Administrative Expense Account of the Special Tax Fund to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Account of the Special Tax Fund are insufficient to pay Administrative Expenses; (iv) to the Acquisition and Construction Fund to pay Project Costs; or (v) for any other lawful purpose of the District.

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds or the Parity Bonds and may be used by the District for any lawful purpose. In the event that the District reasonably expects to use any portion of the moneys in the Surplus Fund to pay debt service on any Outstanding Bonds or Parity Bonds, the District will notify the Trustee in a Certificate of an Authorized Representative and the Trustee will segregate such amount into a separate subaccount and the moneys on deposit in such subaccount of the Surplus Fund shall be invested at the written direction of the District in Permitted Investments, the interest on which is excludable from gross income under the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code) or in Permitted Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds to which such amounts are to be applied, unless, in the opinion of Bond Counsel, investment at a higher yield will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes.

Costs of Issuance Fund.

(a) The moneys in the Costs of Issuance Fund shall be disbursed by the Trustee pursuant to a Certificate of an Authorized Representative of the District to pay Costs of Issuance, substantially in the form attached to the Indenture, and all payments shall be made by check or wire transfer in accordance with the payment instructions set forth in such Certificate, and the Trustee may rely on such payment instructions with no duty to investigate or inquire as to their authenticity or the authority under which they were given.

(b) Upon the receipt of a Certificate of an Authorized Representative of the District stating that all or a specified portion of the amount remaining in the Costs of Issuance Fund is no longer needed to pay Costs of Issuance, the Trustee shall transfer all or such specified portion, as applicable, of the moneys remaining on deposit in the Costs of Issuance Fund to the Project Facilities Account of the Acquisition and Construction Fund. On the date which is six months after the date of issuance of each series of Bonds and Parity Bonds, all amounts remaining in the Costs of Issuance Fund shall be transferred to the Project Facilities Account of the Acquisition and Construction Fund and the Costs of Issuance Fund shall be closed.

Acquisition and Construction Fund.

(a) The Trustee shall hold the moneys in the Acquisition and Construction Fund and shall apply such moneys to pay the Project Costs. Amounts for Project Costs shall be disbursed by the Trustee on behalf of the District from the Acquisition and Construction Fund as specified in a Request for Disbursement of Project Costs, substantially in the form set forth in the Indenture, which must be submitted by an Authorized Representative of the District to the Trustee in connection with each requested disbursement.

(b) Upon receipt of a Certificate of an Authorized Representative of the District stating that all or a specified portion of the amount remaining in the Acquisition and Construction Fund is no longer needed to pay Project Costs, the Trustee shall transfer all or such specified portion, as applicable, of the moneys remaining on deposit in the Acquisition and Construction Fund to the Principal Account or Redemption Account of the Special Tax Fund or to the Surplus Fund, as directed in the Certificate, provided that in connection with any direction to transfer amounts to the Surplus Fund there shall have been delivered to the Trustee with such Certificate an opinion of Bond Counsel to the effect that such transfer to the Surplus Fund will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes.

Investments. Moneys held in any of the Funds, Accounts and Subaccounts under the Indenture shall be invested at the written direction of the District in accordance with the limitations set forth below only in Permitted Investments which shall be deemed at all times to be a part of such Funds, Accounts and Subaccounts. Any loss resulting from such Permitted Investments shall be credited or charged to the Fund, Account or Subaccount from which such investment was made, and any investment earnings on a Fund, Account or Subaccount shall be applied as follows: (i) investment earnings on all amounts deposited in the Costs of Issuance Fund, the Acquisition and Construction Fund, the Special Tax Fund, the Surplus Fund and the Rebate Fund and each Account therein (other than the Reserve Account of the Special Tax Fund) shall be deposited in those respective Funds and Accounts, and (ii) investment earnings on all amounts deposited in the Reserve Account shall be deposited and be applied as set forth in the Indenture. Moneys in the Funds, Accounts and Subaccounts held under the Indenture shall be invested by the Trustee as directed in writing by the District, from time to time, in Permitted Investments subject to the following restrictions:

(a) Moneys in the Costs of Issuance Fund and the Acquisition and Construction Fund shall be invested in Permitted Investments which will by their terms mature, or in the case of an Investment Agreement are available without penalty, as close as practicable to the date the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Costs of Issuance Fund and the Acquisition and Construction Fund.

(b) Moneys in the Interest Account, the Principal Account and the Redemption Account of the Special Tax Fund shall be invested only in Permitted Investments which will by their terms mature, or in the case of an Investment Agreement are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds and any Parity Bonds as the same become due.

(c) Monies in the Reserve Account of the Special Tax Fund may be invested only in Permitted Investments; provided that no such Permitted Investment of amounts in the Reserve Account shall mature later than the earlier of the final maturity date of the Bonds or any Parity Bonds.

(d) Moneys in the Rebate Fund shall be invested only in Permitted Investments of the type described in clause (1) of the definition thereof which by their terms will mature, as nearly as practicable, on the dates such amounts are needed to be paid to the United States Government or in Permitted Investments of the type described in clause (5) of the definition thereof.

(e) In the absence of written investment directions from the District, the Trustee shall invest solely in Permitted Investments specified in clause (5) of the definition thereof.

The Trustee shall sell, or present for redemption, any Permitted Investment whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer to such Funds and Accounts or from such Funds and Accounts. For the purpose of determining at any given time the balance in any such Funds and Accounts, any such investments constituting a part of such Funds and Accounts shall be valued at their cost, except that amounts in the Reserve Account shall be valued at the market value thereof within 5 Business Days prior to each August 15. In making any valuations under the Indenture, the Trustee may utilize such computerized securities pricing services as may be available to it, including, without limitation, those available through its regular accounting system, and conclusively rely thereon. Notwithstanding anything in the Indenture to the contrary, the Trustee shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of the Indenture.

The Trustee may act as principal or agent in the making or disposing of any investment and shall be entitled to its customary fee for making such investment. The Trustee may sell at the best market price obtainable, or present for redemption, any Permitted Investment so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Permitted Investment is credited, and, subject to the provisions of the Indenture, the Trustee shall not be liable or responsible for any loss resulting from such investment. For investment purposes, the

Trustee may commingle the funds and accounts established under the Indenture, but shall account for each separately.

The District acknowledges that, to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the District periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

REDEMPTION

Selection of Bonds and Parity Bonds for Redemption. If less than all of the Bonds or Parity Bonds Outstanding are to be redeemed, the portion of any Bond or Parity Bond of a denomination of more than $5,000 to be redeemed shall be in the principal amount of $5,000 or an integral multiple thereof. In selecting portions of such Bonds or Parity Bonds for redemption, the Trustee shall treat such Bonds or Parity Bonds, as applicable, as representing that number of Bonds or Parity Bonds of $5,000 denominations which is obtained by dividing the principal amount of such Bonds or Parity Bonds to be redeemed in part by $5,000. The procedure for the selection of Parity Bonds for redemption may be modified as set forth in the Supplemental Indenture for such Parity Bonds. The Trustee shall promptly notify the District in writing of the Bonds or Parity Bonds, or portions thereof, selected for redemption.

Partial Redemption of Bonds or Parity Bonds. Upon surrender of any Bond or Parity Bond to be redeemed in part only, the District shall execute and the Trustee shall authenticate and deliver to the Bondowner, at the expense of the District, a new Bond or Bonds or a new Parity Bond or Parity Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered, with the same interest rate and the same maturity or, in the case of surrender of a Parity Bond, a new Parity Bond or Parity Bonds subject to the foregoing limitations.

Effect of Notice and Availability of Redemption Money. Notice of redemption having been duly given, as provided in the Indenture, and the amount necessary for the redemption having been made available for that purpose and being available therefor on the date fixed for such redemption: (a) the Bonds and Parity Bonds, or portions thereof, designated for redemption shall, on the date fixed for redemption, become due and payable at the redemption price thereof as provided in the Indenture or in any Supplemental Indenture with respect to any Parity Bonds, anything in the Indenture or in the Bonds or the Parity Bonds to the contrary notwithstanding; (b) upon presentation and surrender thereof at the office of the Trustee, the redemption price of such Bonds and Parity Bonds shall be paid to the Owners thereof; (c) as of the redemption date the Bonds or the Parity Bonds, or portions thereof so designated for redemption shall be deemed to be no longer Outstanding and such Bonds or Parity Bonds, or portions thereof, shall cease to bear further interest; and (d) as of the date fixed for redemption no Owner of any of the Bonds, Parity Bonds or portions thereof so designated for redemption shall be entitled to any of the benefits of the Indenture or any Supplemental Indenture, or to any other rights, except with respect to payment of the redemption price and interest accrued to the redemption date from the amounts so made available.

COVENANTS AND WARRANTY

Warranty. The District warrants that it shall preserve and protect the security pledged under the Indenture to the Bonds and any Parity Bonds against all claims and demands of all persons.

Covenants. So long as any of the Bonds or Parity Bonds issued under the Indenture are Outstanding and unpaid, the District makes the following covenants with the Bondowners under the provisions of the Act and the Indenture (to be performed by the District or its proper officers, agents or employees), which covenants are necessary and desirable to secure the Bonds and Parity Bonds; provided, however, that said covenants do not require the District to expend any funds or moneys other than the Special Taxes and other amounts deposited to the Special Tax Fund:

(a) Punctual Payment; Against Encumbrances. The District covenants that it will receive all Special Taxes in trust for the Owners and will instruct the Treasurer to deposit all Special Taxes with the Trustee as soon as reasonably practicable following their apportionment to the District, and the District shall have no beneficial right or interest in the amounts so deposited except as provided by the Indenture. All such Special Taxes shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

The District covenants that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond and Parity Bond issued under the Indenture, together with the premium, if any, thereon on the date, at the place and in the manner set forth in the Bonds and the Parity Bonds and in accordance with the Indenture to the extent that Net Taxes and other amounts pledged under the Indenture are available therefor, and that the payments into the Funds and Accounts created under the Indenture will be made, all in strict conformity with the terms of the Bonds, any Parity Bonds, and the Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplemental Indentures and of the Bonds and any Parity Bonds issued under the Indenture.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Special Taxes except as provided in the Indenture, and will not issue any obligation or security having a lien, charge, pledge or encumbrance upon the Net Taxes senior or superior to the Bonds or Parity Bonds or on a parity with the Bonds, other than Parity Bonds. Nothing in the Indenture shall prevent the District from issuing Subordinated Bonds or incurring other indebtedness which is payable from a pledge of Net Taxes which is subordinate in all respects to the pledge of Net Taxes to repay the Bonds and the Parity Bonds.

(b) Levy of Special Tax. Beginning in Fiscal Year 2016-17 and so long as any Bonds or Parity Bonds issued under the Indenture are Outstanding, subject to the limitations set forth in the Act and the RMA, the legislative body of the District covenants to levy the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund and deemed available for such purpose, to pay (i) the principal of and interest on the Bonds and any Parity Bonds when due; (ii) the Administrative Expenses; and (iii) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement (the "Annual Special Tax Levy"). The District further covenants that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax for so long as the Bonds and any Parity Bonds are Outstanding.

(c) Commence Foreclosure Proceedings. The District covenants for the benefit of the Owners of the Bonds and any Parity Bonds that it will commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of $25,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due and will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied, and diligently pursue to completion such foreclosure proceedings; provided that, notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel so long as the amount in the Reserve Account of the Special Tax Fund is at least equal to the Reserve Requirement. The District may, but shall not be obligated to, advance funds from any source of legally available funds in order to maintain the Reserve Account of the Special Tax Fund at the Reserve Requirement or to avoid a default in payment on the Bonds and any Parity Bonds.

The District covenants that it will deposit any Gross Taxes received in connection with a foreclosure in the Special Tax Fund and will apply such proceeds remaining after the payment of Administrative Expenses to make current payments of principal and interest on the Bonds and any Parity Bonds, to bring the amount on deposit in the Reserve Account up to the Reserve Requirement and to pay any delinquent installments of principal or interest due on the Bonds and any Parity Bonds.

(d) Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Net Taxes or other funds in the

Special Tax Fund (other than the Administrative Expense Account as set forth in the Indenture), or which might impair the security of the Bonds or any Parity Bonds then Outstanding; provided, however, that nothing contained in the Indenture shall require the District to make any such payments so long as the District in good faith shall contest the validity of any such claims.

(e) Books and Accounts. The District will keep proper books of records and accounts, separate from all other records and accounts of the District, in which complete and correct entries shall be made of all transactions relating to the improvements constructed with the proceeds of bonded indebtedness issued by the District, the levy of the Special Tax and the deposits to the Special Tax Fund. Such books of records and accounts shall at all times during business hours be subject to the inspection of the Trustee (who shall have no duty to inspect) or of the Owners of not less than 10% of the principal amount of the Bonds or the Owners of not less than 10% of any issue of Parity Bonds then Outstanding or their representatives authorized in writing.

(f) Federal Tax Covenants. Absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds and any Parity Bonds issued on a tax-exempt basis for federal income tax purposes will not be adversely affected for federal income tax purposes, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(1) Private Activity. The District will take no action or refrain from taking any action or make any use of the proceeds of the Bonds or any Parity Bonds or of any other monies or property which would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be "private activity bonds" within the meaning of Section 141 of the Code.

(2) Arbitrage. The District will make no use of the proceeds of the Bonds or any Parity Bonds or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be "arbitrage bonds" within the meaning of Section 148 of the Code.

(3) Federal Guaranty. The District will make no use of the proceeds of the Bonds or any Parity Bonds or take or omit to take any action that would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

(4) Information Reporting. The District will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code.

(5) Hedge Bonds. The District will make no use of the proceeds of the Bonds or any Parity Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be considered "hedge bonds" within the meaning of Section 149(g) of the Code unless the District takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds and any applicable Parity Bonds.

(6) Miscellaneous. The District will take no action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed on the Delivery Date by the District in connection with the Bonds and any issue of Parity Bonds and will comply with the covenants and requirements stated in the Indenture and incorporated by reference in the Indenture.

(7) Other Tax Exempt Issues. The District will not use proceeds of other tax exempt securities to redeem any Bonds or Parity Bonds without first obtaining the written opinion of Bond Counsel that doing so will not impair the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds issued on a tax-exempt basis.

(g) Reduction of Maximum Special Taxes. The District finds and determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For this reason, the District determines that a reduction in the maximum Special Tax rates authorized to be levied on parcels in the District below the levels provided in the Indenture would interfere with the timely retirement of the Bonds and Parity Bonds. The District determines it to be necessary in order to preserve the security for the Bonds and Parity Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District does covenant, that it shall not initiate proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, (i) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property in each Bond Year for any Bonds and Parity Bonds Outstanding will equal at least the sum of the estimated Administrative Expenses and 110% of gross debt service in each Bond Year on all Bonds and Parity Bonds to remain Outstanding after the reduction is approved, (ii) the District finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds and Parity Bonds, and (iii) the District is not delinquent in the payment of the principal of or interest on the Bonds or any Parity Bonds. For purposes of estimating Administrative Expenses for the foregoing calculation, the Independent Financial Consultant shall compute the Administrative Expenses for the then-current Fiscal Year and escalate that amount by two percent (2%) in each subsequent Fiscal Year.

Notwithstanding the foregoing, the District may modify, alter or amend the RMA in any manner so long as such changes do not reduce the maximum Special Taxes that may be levied in each year on Developed Property below the amounts which are necessary to pay Administrative Expenses and to provide Special Taxes in an amount equal to one hundred ten percent (110%) of Maximum Annual Debt Service on the Bonds and Parity Bonds Outstanding as of the date of such amendment.

(h) Covenants to Defend. The District covenants that, in the event that any initiative is adopted by the qualified electors in the District which purports to reduce the minimum or the maximum Special Tax below the levels specified in the Indenture or to limit the power of the District to levy the Special Taxes for the purposes set forth in the Indenture, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

(i) Limitation on Right to Tender Bonds. The District covenants that it will not adopt any policy pursuant to Section 53344.1 of the Act permitting the tender of Bonds or Parity Bonds in full payment or partial payment of any Special Taxes unless the District shall have first received a certificate from an Independent Financial Consultant that the acceptance of such a tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds and Parity Bonds when due.

(j) Continuing Disclosure. The District covenants to comply with the terms of the Continuing Disclosure Certificate and with the terms of any agreement executed by the District with respect to any Parity Bonds to assist the Underwriters in complying with Rule 15(c)2-12 adopted by the Securities and Exchange Commission.

(k) Further Assurances. The District shall preserve and protect the security pledged to the Bonds and any Parity Bonds against all claims and demands as long as the Bonds or Parity Bonds are Outstanding and shall make, execute and deliver any and all such further agreements, instruments and assurances as may be reasonably necessary or desirable to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds and any Parity Bonds of the rights and benefits provided in the Indenture.

AMENDMENTS TO INDENTURE

Supplemental Indentures or Orders Not Requiring Bondowner Consent. The District may from time to time, and at any time, without notice to or consent of any of the Bondowners, adopt Supplemental Indentures for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provisions in the Indenture which may be inconsistent with any other provision in the Indenture, or to make any other provision with respect to matters or questions arising under the Indenture or in any additional resolution or order, provided that such action is not materially adverse to the interests of the Bondowners;

(b) to add to the covenants and agreements of and the limitations and the restrictions upon the District contained in the Indenture, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Indenture as theretofore in effect or which further secure Bond or Parity Bond payments;

(c) to provide for the issuance of any Parity Bonds, and to provide the terms and conditions under which such Parity Bonds may be issued, subject to and in accordance with the provisions of the Indenture;

(d) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, or to comply with the Code or regulations issued under the Indenture, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds or any Parity Bonds then Outstanding;

(e) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondowners or that is contrary to the rules and regulations of the Municipal Securities Rulemaking Board.

Supplemental Indentures or Orders Requiring Bondowner Consent. Exclusive of the Supplemental Indentures described in the preceding paragraph, the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding shall have the right to consent to and approve the adoption by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing in the Indenture shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal, or the payment date of interest on, any Bond or Parity Bond; (b) a reduction in the principal amount of, or redemption premium on, any Bond or Parity Bond or the rate of interest thereon; (c) a preference or priority of any Bond over any other Bond or Parity Bond; or (d) a reduction in the aggregate principal amount of the Bonds and Parity Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds and Parity Bonds then Outstanding.

If at any time the District shall desire to adopt a Supplemental Indenture, which pursuant to the terms of this Section shall require the consent of the Bondowners, the District shall so notify the Trustee and shall deliver to the Trustee a copy of the proposed Supplemental Indenture. The Trustee shall, at the expense of the District, cause notice of the proposed Supplemental Indenture to be mailed, by first class mail, postage prepaid, to all Bondowners at their addresses as they appear in the Bond Register. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the office of the Trustee for inspection by all Bondowners. The failure of any Bondowners to receive such notice shall not affect the validity of such Supplemental Indenture when consented to and approved by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding as required by the Indenture. Whenever at any time within one year after the date of the first mailing of such notice, the Trustee shall receive an instrument or instruments purporting to be executed by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding, which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice, and shall specifically consent to and approve the adoption thereof by the District substantially in the form of the copy referred to in such notice as on file with the Trustee, such proposed Supplemental Indenture, when duly adopted by the District, shall thereafter become a part of the proceedings for the issuance of the Bonds and any Parity Bonds. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds and Parity Bonds have consented to the adoption of any Supplemental Indenture, Bonds or Parity Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District, shall be disregarded and shall be treated as though they were not Outstanding for the purpose of any such determination.

Upon the adoption of any Supplemental Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of not less than a majority in aggregate principal amount of the Outstanding Bond and Parity Bonds in instances where such consent is required pursuant to the provisions of this section, the Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District and all Owners of Outstanding Bonds and Parity Bonds shall thereafter be determined, exercised and enforced under the Indenture, subject in all respects to such modifications and amendments.

TRUSTEE

Trustee. U.S. Bank National Association has been appointed the Trustee for the Bonds and any Parity Bonds unless and until another Trustee is appointed by the District under the Indenture. The Trustee represents that it has a combined capital (exclusive of borrowed capital) and surplus of at least $100,000,000. The District may, at any time, appoint a successor Trustee satisfying certain requirements under the Indenture for the purpose of receiving all money which the District is required to deposit with the Trustee under the Indenture and to allocate, use and apply the same as provided in the Indenture.

Removal of Trustee. The District may at any time at its sole discretion remove the Trustee initially appointed, and any successor thereto, by delivering to the Trustee a written notice of its decision to remove the Trustee and may appoint a successor or successors thereto; provided that any such successor shall be a bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least $100,000,000, and subject to supervision or examination by federal or state authority. Any removal shall become effective only upon acceptance of appointment by the successor Trustee. If any bank or trust company appointed as a successor publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Any removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee and notice being sent by the successor Trustee to the Bondowners of the successor Trustee's identity and address.

Resignation of Trustee. The Trustee may at any time resign by giving written notice to the District and by giving to the Owners notice of such resignation, which notice shall be mailed to the Owners at their addresses appearing in the registration books in the office of the Trustee. Upon receiving such notice of resignation, the District shall promptly appoint a successor Trustee satisfying the criteria in the Indenture by an instrument in writing. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee. In the event the District shall for any reason whatsoever fail to appoint a successor Trustee within ninety (90) days following the receipt of notice by the District, the Trustee may apply to a court of competent jurisdiction for the appointment of a successor Trustee meeting the requirements of the Indenture. Any such successor Trustee appointed by such court shall become the successor Trustee under the Indenture notwithstanding any action by the District purporting to appoint a successor Trustee following the expiration of such 90-day period.

EVENTS OF DEFAULT; REMEDIES

Events of Default. Any one or more of the following events shall constitute an "Event of Default":

(a) default in the due and punctual payment of the principal of or redemption premium, if any, on any Bond or Parity Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(b) default in the due and punctual payment of the interest on any Bond or Parity Bond when and as the same shall become due and payable; or

(c) except as described in (a) or (b), default shall be made by the District in the observance of any of the agreements, conditions or covenants on its part contained in the Indenture, the Bonds or any Parity Bonds, and such default shall have continued for a period of 30 days after the District shall have been given notice in writing of such default by the Trustee or the Owners of 25% in aggregate principal amount of the Outstanding Bonds and Parity Bonds.

The Trustee has agreed to give notice to the Owners as soon as practicable upon the occurrence of an Event of Default under (a) or (b) above and within 10 days of the Trustee's knowledge of a default of the type described in (c) above which, if not cured, with the passage of time would become an Event of Default.

Remedies of Owners. Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Bonds and Parity Bonds, and to enforce any rights of the Trustee under or with respect to the Indenture, including:

(a) by mandamus or other suit or proceeding at law or in equity to enforce his rights against the District and any of the members, officers and employees of the District, and to compel the District or any such members, officers or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in the Indenture;

(b) by suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or

(c) by a suit in equity to require the District and its members, officers and employees to account as the Trustee of an express trust.

If an Event of Default shall have occurred and be continuing and if requested so to do by the Owners of at least 25% in aggregate principal amount of Outstanding Bonds and Parity Bonds and if indemnified to its satisfaction, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Indenture, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Owners of the Bonds and Parity Bond.

No remedy conferred in the Indenture upon or reserved to the Trustee or to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

Application of Revenues and Other Funds After Default. All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of the Indenture relating to the Bonds and Parity Bonds shall be applied by the Trustee in the following order upon presentation of the several Bonds and Parity Bonds:

First, to the payment of the fees, costs and expenses of the Trustee in declaring such Event of Default and in carrying out the provisions of the Indenture, including reasonable compensation to its agents, attorneys and counsel, and to the payment of all other outstanding fees and expenses of the Trustee; and

Second, to the payment of the whole amount of interest on and principal of the Bonds and Parity Bonds then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Bonds and Parity Bonds; provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

(a) first to the payment of all installments of interest on the Bonds and Parity Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing;

(b) second, to the payment of all installments of principal, including Sinking Fund Payments, of the Bonds and Parity Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing; and

(c) third, to the payment of interest on overdue installments of principal and interest on the Bonds and Parity Bonds on a pro rata basis based on the total amount then due and owing.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of twenty-five percent (25%) in aggregate principal amount of the Bonds and Parity Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in aggregate principal amount of the Outstanding Bonds and Parity Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other such litigation. Any suit, action or proceeding which any Owner of Bonds or Parity Bonds shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds and Parity Bonds similarly situated and the Trustee has been appointed (and the successive respective Owners of the Bonds and Parity Bonds and Parity Bonds issued under the Indenture, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney in fact of the respective Owners of the Bonds and Parity Bonds for the purposes of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Bonds and Parity Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

Appointment of Receivers. Upon the occurrence of an Event of Default under the Indenture, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Owners of the Bonds and Parity Bonds under the Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Net Taxes and other amounts pledged under the Indenture, pending such proceedings, with such powers as the court making such appointment shall confer.

Non-Waiver. Nothing in the Indenture or in the Bonds or the Parity Bonds, shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds and Parity Bonds to the respective Owners of the Bonds and Parity Bonds at the respective dates of maturity, as provided in the Indenture, out of the Net Taxes and other moneys pledged in the Indenture for such payment.

Limitations on Rights and Remedies of Owners. No Owner of any Bond or Parity Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds and Parity Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers in the Indenture before granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are, in every case, to be conditions precedent to the exercise by any Owner of Bonds and Parity Bonds of any remedy under the Indenture; it being understood and intended that no one or more Owners of Bonds and Parity Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds and Parity Bonds.

The right of any Owner of any Bond or Parity Bond to receive payment of the principal of and interest and premium (if any) on such Bond or Parity Bonds as provided in the Indenture or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner.

Termination of Proceedings. In case the Trustee shall have proceeded to enforce any right under the Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the District, the Trustee and the Owners shall be restored to their former positions and rights under the Indenture, respectively, with regard to the property subject to the Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

DEFEASANCE AND PARITY BONDS

Defeasance. If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond or Parity Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Indenture or any Supplemental Indenture, then the Owner of such Bond or Parity Bond shall cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond or Parity Bond under the Indenture and any Supplemental Indenture relating to such Parity Bond shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds and Parity Bonds pursuant to this section, the Trustee shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the District's general fund all money or securities held by it pursuant to the Indenture which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds and Parity Bonds.

Any Outstanding Bond or Parity Bond shall be deemed to have been paid within the meaning expressed in the preceding paragraph if such Bond or Parity Bond is paid in any one or more of the following ways:

(a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable on and prior to the maturity date or redemption date thereof, as applicable; or

(c) by depositing with the Trustee or another escrow bank appointed by the District, in trust, Federal Securities, in which the District may lawfully invest its money, in such amount as will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable on and prior to the maturity date or redemption date thereof, as applicable.

If paid as provided above, then, notwithstanding that any Outstanding Bonds and Parity Bonds shall not have been surrendered for payment, all obligations of the District under the Indenture and any Supplemental Indenture with respect to such Bond or Parity Bond shall cease and terminate, except for the obligation of the Trustee to pay or cause to be paid to the Owners of any such Bond or Parity Bond not so surrendered and paid, all sums due thereon and except for the federal tax covenants of the District or any covenants in a Supplemental Indenture relating to compliance with the Code. Notice of an election by the District to defease any Bond or Parity Bond shall be filed with the Trustee not less than ten days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Trustee. In the event any of the Bonds or Parity Bonds to be defeased are to be redeemed prior to maturity, the District shall have given irrevocable instructions to the Trustee to mail a notice of redemption in accordance with the Indenture or any Supplemental Indenture, as applicable.

In connection with a defeasance under (c) above, there shall be provided to the District a verification report from an independent nationally recognized certified public accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Trustee or the escrow bank to pay and discharge the principal of, premium, if any, and interest on all Outstanding Bonds and Parity Bonds to be defeased in accordance with the Indenture, as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds or Parity Bonds being defeased have been legally defeased in accordance with the Indenture and any applicable Supplemental Indenture.

Upon a defeasance, the Trustee, upon request of the District, shall release the rights of the Owners of such Bonds and Parity Bonds which have been defeased under the Indenture and any Supplemental Indenture and execute and deliver to the District all such instruments as may be desirable to evidence such release, discharge and satisfaction. In the case of a defeasance under the Indenture of all Outstanding Bonds and Parity Bonds, the Trustee shall pay over or deliver to the District any funds held by the Trustee at the time of a defeasance, which are not required for the purpose of paying and discharging the principal of or interest on the Bonds and Parity Bonds when due. The Trustee shall, at the written direction of the District, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds or Parity Bonds have been defeased, in the form directed by the District, stating that the defeasance has occurred.

Conditions for the Issuance of Parity Bonds and Other Additional Indebtedness. The District may at any time after the issuance and delivery of the Bonds under the Indenture issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expense Account therein) and secured by a lien, charge, pledge and encumbrance upon such amounts equal to the lien, charge pledge and encumbrance securing the Outstanding Bonds and any other Parity Bonds theretofore issued under the Indenture or under any Supplemental Indenture. Parity Bonds may be issued subject to the following additional specific conditions, which are made conditions precedent to the issuance of any such Parity Bonds:

(a) The District shall be in compliance with all covenants set forth in the Indenture and any Supplemental Indenture then in effect and a certificate of the District to that effect shall have been filed with the Trustee; provided, however, that Parity Bonds may be issued notwithstanding that the District is not in compliance with all such covenants so long as immediately following the issuance of such Parity Bonds the District will be in compliance with all such covenants.

(b) The issuance of such Parity Bonds shall have been duly authorized pursuant to the Act and all applicable laws, and the issuance of such Parity Bonds shall have been provided for by a Supplemental Indenture duly adopted by the District which shall specify the following:

(1) the purpose for which such Parity Bonds are to be issued and the fund or funds into which the proceeds thereof are to be deposited;

(2) the authorized principal amount of such Parity Bonds;

(3) the date and the maturity date or dates of such Parity Bonds; provided that (i) each maturity date shall fall on an August 15, (ii) all such Parity Bonds of like maturity shall be identical in all respects, except as to number, and (iii) fixed serial maturities or Sinking Fund Payments, or any combination thereof, shall be established to provide for the retirement of all such Parity Bonds on or before their respective maturity dates;

(4) the description of the Parity Bonds, the place of payment thereof and the procedure for execution and authentication;

(5) the denominations and method of numbering of such Parity Bonds;

(6) the amount and due date of each mandatory Sinking Fund Payment, if any, for such Parity Bonds;

(7) the amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Account of the Special Tax Fund to increase the amount therein to the Reserve Requirement;

(8) the form of such Parity Bonds; and

(9) such other provisions as are necessary or appropriate and not inconsistent with the Indenture.

(c) The District shall have received the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Parity Bonds by the Trustee (unless the Trustee shall accept any of such documents bearing a prior date):

(1) an executed copy of the Supplemental Indenture pursuant which such Parity Bonds are issued;

(2) a written request of the District as to the delivery of such Parity Bonds;

(3) an opinion of Bond Counsel and/or general counsel to the District to the effect that (i) the District has the right and power under the Act to adopt the Indenture and the Supplemental Indentures relating to such Parity Bonds, and the Indenture and all such Supplemental Indentures have been duly and lawfully adopted by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (ii) the Indenture creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; and (iii) such Parity Bonds are valid and binding limited obligations of the District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of the Indenture and all Supplemental Indentures thereto and entitled to the benefits of the Indenture and all such Supplemental Indentures, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Indenture and all such Supplemental Indentures; and a further opinion of Bond Counsel to the

effect that, assuming compliance by the District with certain tax covenants, the issuance of the Parity Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds theretofore issued on a tax exempt basis, or the exemption from State of California personal income taxation of interest on any Outstanding Bonds and Parity Bonds theretofore issued;

(4) a certificate of the District containing such statements as may be reasonably necessary to show compliance with the requirements of the Indenture;

(5) a certificate of an Independent Financial Consultant certifying that: (i) the Maximum Special Tax that may be levied in each Fiscal Year on property that, as of the date of such certificate, is not known by the District to be delinquent in the payment of any *ad valorem* taxes or any Special Taxes is not less than the sum of the Administrative Expenses Cap plus 110% of the Annual Debt Service in the Bond Year that begins in such Fiscal Year; (ii) the aggregate Value of all Assessors Parcels of Taxable Property that, as of the date of such certificate, are not known by the District to be delinquent in the payment of any *ad valorem taxes* or any Special Taxes is not less than five (5) times the sum of the principal amount of the Outstanding Bonds, the Outstanding Parity Bonds, the Parity Bonds proposed to be issued and the Overlapping Debt for all Parcels of Taxable Property; (iii) the aggregate amount of the Maximum Special Tax that may be levied in each Fiscal Year on all Assessor's Parcels of Developed Property at projected build-out is not less than the sum of the estimated Administrative Expenses and 110% of gross debt service in each Bond Year on all Outstanding Bonds and Parity Bonds and the Parity Bonds proposed to be issued; and (iv) no Assessor's Parcel that is owned in whole or in part by any developer or an any affiliate of a developer developing the property within the District is delinquent in the payment of any *ad valorem* taxes or any Special Taxes.

For purposes of the foregoing certificate, all calculations shall (i) include the Parity Bonds proposed to be issued and the debt service thereon except to the extent that payment of any such proposed Parity Bonds is provided for through amounts on deposit in a fund or account held by the Trustee and (ii) escalate Administrative Expenses for the then-current Fiscal Year by two percent (2%) in each subsequent Fiscal Year.

The provisions of this paragraph (5) shall not apply to Parity Bonds issued for the purpose of refunding Outstanding Bonds and Parity Bonds if the District shall have received a certificate from an Independent Financial Consultant to the effect that in each Bond Year the Annual Debt Service on the Bonds and Parity Bonds to remain Outstanding following the issuance of the Parity Bonds proposed to be issued is less than the Annual Debt Service on the Bonds and Parity Bonds Outstanding prior to the issuance of such Parity Bonds.

(6) such further documents, money and securities as are required by the provisions of the Indenture and the Supplemental Indenture providing for the issuance of such Parity Bonds.

MISCELLANEOUS

Cancellation of Bonds and Parity Bonds. All Bonds and Parity Bonds surrendered to the Trustee for payment upon maturity or for redemption shall be upon payment therefor, and any Bond or Parity Bond purchased by the District as authorized in the Indenture and delivered to the Trustee for such purpose shall be, cancelled forthwith and shall not be reissued. The Trustee shall destroy such Bonds and Parity Bonds, as provided by law, and, upon request of the District, furnish to the District a certificate of such destruction.

Execution of Documents and Proof of Ownership. Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by the Indenture to be signed or executed by Bondowners may be in any number of concurrent instruments of similar tenor may be signed or executed by such Owners in person or by their attorneys appointed by an instrument in writing for that purpose, or by the bank, trust company or other depository for such Bonds. Proof of the execution of any such instrument, or of any instrument appointing any such attorney, and of the ownership of Bonds or Parity Bonds shall be sufficient for the purposes of the Indenture (except as otherwise provided therein), if made in the following manner:

(a) The fact and date of the execution by any Owner or his or her attorney of any such instrument and of any instrument appointing any such attorney, may be proved by a signature guarantee of any bank or trust company located within the United States of America. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such signature guarantee shall also constitute sufficient proof of his authority.

(b) As to any Bond or Parity Bond, the person in whose name the same shall be registered in the Bond Register shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal of any such Bond or Parity Bond, and the interest thereon, shall be made only to or upon the order of the registered Owner thereof or his or her legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond or Parity Bond and the interest thereon to the extent of the sum or sums to be paid. Neither the District nor the Trustee shall be affected by any notice to the contrary.

Nothing contained in the Indenture shall be construed as limiting the Trustee or the District to such proof, it being intended that the Trustee or the District may accept any other evidence of the matters stated therein which the Trustee or the District may deem sufficient. Any request or consent of the Owner of any Bond or Parity Bond shall bind every future Owner of the same Bond or Parity Bond in respect of anything done or suffered to be done by the Trustee or the District in pursuance of such request or consent

Unclaimed Moneys. Any money held by the Trustee in trust for the payment and discharge of any of the Outstanding Bonds and Parity Bonds which remain unclaimed for two years after the date when such Outstanding Bonds or Parity Bonds have become due and payable, if such money was held by the Trustee at such date, or for two years after the date of deposit of such money if deposited with the Trustee after the date when such Outstanding Bonds or Parity Bonds become due and payable, shall be repaid by the Trustee to the District, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of such Outstanding Bonds or Parity Bonds; provided, however, that, before being required to make any such payment to the District, the Trustee at the written request of the District or the Trustee shall, at the expense of the District, cause to be mailed by first-class mail, postage prepaid, to the registered Owners of such Outstanding Bonds or Parity Bonds at their addresses as they appear on the registration books of the Trustee a notice that said money remains unclaimed and that, after a date named in said notice, which date shall not be less than 30 days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the District.

Provisions Constitute Contract. The provisions of the Indenture shall constitute a contract between the District and the Bondowners and the provisions of the Indenture shall be construed in accordance with the laws of the State of California.

In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and, should said suit, action or proceeding be abandoned, or be determined adversely to the Bondowners or the Trustee, then the District, the Trustee and the Bondowners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

After the issuance and delivery of the Bonds the Indenture shall be irrepealable, but shall be subject to modifications to the extent and in the manner provided in the Indenture, but to no greater extent and in no other manner.

Future Contracts. Nothing contained in the Indenture shall be deemed to restrict or prohibit the District from making contracts or issuing Subordinated Bonds or creating other indebtedness payable from a pledge, lien, charge and encumbrance upon the Net Taxes which is subordinate to the pledge under the Indenture, or which is payable from the general fund of the District or from taxes or any source other than the Net Taxes and other amounts pledged under the Indenture.

Further Assurances. The District will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or desirable to carry out the intention or to facilitate the performance of the Indenture, and for the better assuring and confirming unto the Owners of the Bonds or any Parity Bonds the rights and benefits provided in the Indenture.

Severability. If any covenant, agreement or provision, or any portion thereof, contained in the Indenture, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of the Indenture and the application of any such covenant, agreement or provision, or portion thereof, to other persons or circumstances, shall be deemed severable and shall not be affected thereby, and the Indenture, the Bonds and any Parity Bonds issued pursuant to the Indenture shall remain valid and the Bondowners shall retain all valid rights and benefits accorded to them under the laws of the State of California.

APPENDIX F

FORM OF DISTRICT CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate dated as of November 1, 2016 (the "Disclosure Certificate") is executed and delivered by Community Facilities District No. 2016-1 of the County of Orange (Village of Esencia) (the "District") in connection with the issuance and delivery by the District of its $93,110,000 Series A of 2016 Special Tax Bonds (the "Bonds"). The Bonds are being issued pursuant to Resolution No. 16-095 adopted on October 11, 2016, by the Board of Supervisors of the County of Orange, acting as the legislative body of the District, and the Bond Indenture dated as of November 1, 2016 by and between the District and U.S. Bank National Association, as trustee. The District covenants as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission.

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Section 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income purposes.

"County" means the County of Orange, California.

"Disclosure Representative" shall mean the Public Finance Director of the County of Orange, or his or her designee, or such other officer or employee as the District shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean, initially, the District, or any successor Dissemination Agent designated in writing by the District and which has filed with the then current Dissemination Agent a written acceptance of such designation.

"District" shall mean Community Facilities District No. 2016-1 of the County of Orange (Village of Esencia).

"EMMA" shall mean the Electronic Municipal Market Access system of the MSRB.

"Listed Events" shall mean any of the events listed in Section 5(a) and (b) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

"Official Statement" shall mean that certain Official Statement for the Bonds dated October 26, 2016.

"Owners" shall mean the registered owners of the Bonds as set forth in the registration books maintained by the Trustee.

"Repository" shall mean the MSRB or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Unless otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the EMMA website of the MSRB, currently located at *http://emma.msrb.org*.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"Trustee" means U.S. Bank National Association or such other entity appointed by the District pursuant to the Indenture to act as the trustee under the Indenture.

"Underwriter" shall mean any underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Section 3. Provision of Annual Reports.

(a) The District shall, or, if the Dissemination Agent is other than the District, upon written direction shall cause the Dissemination Agent to, not later than March 1 after the end of the District's Fiscal Year (June 30) commencing with the report due by March 1, 2017, which initial Annual Report shall consist solely of the Official Statement and audited financial statements of the District, if any, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District, if any exist, may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District's fiscal year changes, the District shall give notice of such change in the same manner as for a Listed Event under Section 5(d).

(b) In the event that the Dissemination Agent is an entity other than the District, then the provisions of this Section 3(b) shall apply. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report, the District shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to the due date for an Annual Report the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District will be filing the Annual Report in compliance with subsection (a). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the District and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to EMMA by the date required in subsection (a), the Dissemination Agent shall send, in a timely manner, a notice of such failure to file to EMMA, in the form required by EMMA.

(d) If the Dissemination Agent is other than the District, the Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of the Repository if other than the MSRB through EMMA; and

(ii) promptly after receipt of the Annual Report, file a report with the District certifying that the Annual Report has been provided to EMMA and the date it was provided.

(e) Notwithstanding any other provision of this Disclosure Certificate, all filings shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

Section 4. Content of Annual Reports. The first Annual Report due by March 1, 2017 shall consist of the Official Statement and audited financial statements of the District, if any. Thereafter, the District's Annual Report shall contain or include by reference the following:

(a) Financial Statements. The audited financial statements of the District for the prior fiscal year, if any have been prepared and which, if prepared, shall be prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board; provided, however, that the District may, from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the District shall modify the basis upon which its financial statements are prepared, the District shall provide the information referenced in Section 8 below regarding such modification. If the District is preparing audited financial statements and such audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Financial and Operating Data. The Annual Report shall contain or incorporate by reference the following:

(i) the principal amount of the Bonds outstanding as of the August 16 preceding the filing of the Annual Report;

(ii) the balance in each fund under the Indenture and the Reserve Requirement as of the August 16 preceding the filing of the Annual Report;

(iii) any changes to the Rate and Method of Apportionment of the Special Taxes approved or submitted to the qualified electors for approval prior to the filing of the Annual Report;

(iv) an update of the estimated assessed value-to-lien ratio for the District substantially in the form of Table 5 in the Official Statement based upon the most recent Special Tax levy preceding the date of the Annual Report and on the assessed values of property for the current fiscal year;

(v) until such time that the property within the District is no longer owned by any developer or merchant builder, an update of the largest taxpayers the District substantially in the form of Table 6 in the Official Statement based upon the most recent Special Tax levy preceding the date of the Annual Report and on the assessed values of property for the current fiscal year;

(vi) the percentage of the maximum Special Taxes levied by the District with respect to the Bonds;

(vii) the status of any foreclosure actions being pursued by the District with respect to delinquent Special Taxes;

(viii) a statement as to whether the District participates in the Teeter Plan (as defined in the Official Statement) and in the event that the Teeter Plan is terminated with respect to the District, a table showing the total Special Taxes levied and the total Special Taxes collected for the prior fiscal year and the total Special Taxes that, as of December 31, remain unpaid for each prior fiscal year in which Special Taxes were levied and the number of delinquent parcels in the District;

(ix) if Special Taxes are levied on Undeveloped Property, the amount of Special Taxes levied on Undeveloped Property and the amount of Special Taxes levied on Developed Property (as such terms are defined in the Rate and Method of Apportionment of the Special Taxes); and

(x) any information not already included under (i) through (ix) above that the District is required to file in its annual report pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended, with the California Debt and Investment Advisory Commission.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to EMMA or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB through EMMA. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause the Dissemination Agent to give, notice filed with the Repository of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) business days after the event:

1. principal and interest payment delinquencies;

2. unscheduled draws on debt service reserves reflecting financial difficulties;

3. unscheduled draws on credit enhancements reflecting financial difficulties;

4. substitution of credit or liquidity providers, or their failure to perform;

5. adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability or of a Notice of Proposed Issue (IRS Form 5701-TEB);

6. tender offers;

7. defeasances;

8. ratings changes; and

9. bankruptcy, insolvency, receivership or similar proceedings.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. unless described in paragraph 5(a)(5) above, notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

2. the consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

3. appointment of a successor or additional paying agent or the change of the name of a paying agent;

4. nonpayment related defaults;

5. modifications to the rights of Owners of the Bonds;

6. notices of redemption; and

7. release, substitution or sale of property securing repayment of the Bonds.

(c) Upon the occurrence of a Listed Event under Section 5(b) above, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the District determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the District shall file a notice of such occurrence with the Repository in a timely manner not more than 10 business days after the event.

(e) The District hereby agrees that the undertaking set forth in this Disclosure Certificate is the responsibility of the District and that the Dissemination Agent, if other than the District, shall not be responsible for determining whether the District's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

Section 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

Section 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the District. The Dissemination Agent, if other than the District, shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The initial Dissemination Agent shall be the District. The Dissemination Agent may resign by providing thirty (30) days written notice to the District and the Trustee.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver is related to the provisions of Sections 3(a), 4, or 5, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking hereunder, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment related to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(a), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the formed accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, the Trustee at the written direction of any Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, shall, or any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate, but only to the extent funds have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges of the Trustee whatsoever, including, without limitation, fees and expenses of its attorney. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. Where an entity other than the District is acting as the Dissemination Agent, the Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Certificate may be given as follows:

District:	Community Facilities District No. 2016-1 of the County of Orange (Village of Esencia) County Executive Office 333 West Santa Ana Boulevard, 3rd Floor Santa Ana, CA 92701 Attn: Public Finance Director
Underwriters:	Piper Jaffray & Co. 1100 South Coast Highway, Suite 300A Laguna Beach, CA 92651 Attn: Public Finance
	Raymond James & Associates, Inc.. One Embarcadero Center, Suite 650 San Francisco, CA 92111 Attn: Public Finance

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notice or communications should be sent.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Trustee, the Dissemination Agent, the Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

This Disclosure Certificate is executed as of the date and year first set forth above.

COMMUNITY FACILITIES DISTRICT NO. 2016-1 OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA)

By: ______________________________________
Disclosure Representative

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APPENDIX G

FORM OF DEVELOPER CONTINUING DISCLOSURE AGREEMENT

This Developer Continuing Disclosure Agreement (the "Disclosure Agreement") dated as of October 1, 2016 is executed and delivered by the RMV PA2 Development, LLC (the "Landowner"), and David Taussig & Associates, as dissemination agent (the "Dissemination Agent"), in connection with the execution and delivery by Community Facilities District No. 2016-1 (Village of Esencia) of the County of Orange of its $93,110,000 Community Facilities District No. 2016-1 (Village of Esencia) of the County of Orange Series A of 2016 Special Tax Bonds (the "Bonds"). The Bonds are being issued pursuant to Resolution No. 16-095 adopted on October 11, 2016, by the Board of Supervisors of the County of Orange, acting as the legislative body of the District, and the Bond Indenture dated as of November 1, 2016 by and between the District and U.S. Bank National Association, as trustee. The Landowner covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Landowner to assist the Underwriter in the marketing of the Bonds.

SECTION 2. Definitions. Unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Affiliate" shall mean, with respect to any Person, (a) each Person that, directly or indirectly, owns or controls, whether beneficially or as an agent, guardian or other fiduciary, twenty-five percent (25%) or more of any class of Equity Securities of such Person, (b) each Person that controls, is controlled by or is under common control with such Person or any Affiliate of such Person or (c) each of such Person's executive officers, directors, joint venturers and general partners; provided, however, that in no case shall the District be deemed to be an Affiliate of the Landowner for purposes of this Disclosure Agreement. For the purpose of this definition, "control" of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise. Affiliates of the Landowner include, but are not limited to, RMV Community Development, LLC.

"Annual Report" shall mean any Annual Report provided by the Landowner pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of the Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the Chief Financial Officer or his designee acting on behalf of the Landowner, or such other officer or employee as the Landowner shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean David Taussig & Associates, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Landowner and which has filed with the Landowner and the District a written acceptance of such designation.

"District" shall mean Community Facilities District No. 2016-1 of the County of Orange (Village of Esencia).

"EMMA" shall mean the Electronic Municipal Market Access system of the MSRB.

"Equity Securities" of any Person shall mean (a) all common stock, preferred stock, participations, shares, general partnership interests or other equity interests in and of such person (regardless of how designated and whether or not voting or non-voting) and (b) all warrants, options and other rights to acquire any of the foregoing.

"Fiscal Year" shall mean the period beginning on January 1 of each year and ending on the next succeeding December 31.

"Government Authority" shall mean any national, state or local government, any political subdivision thereof, any department, agency, authority or bureau of any of the foregoing, or any other Person exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Listed Event" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Official Statement" shall mean the Official Statement, dated October 26, 2016, relating to the Bonds.

"Parity Bonds" shall mean bonds of the District that are secured on a parity with the Bonds.

"Person" shall mean any natural person, corporation, partnership, firm, association, Government Authority or any other Person whether acting in an individual fiduciary, or other capacity.

"Repository" shall mean the MSRB or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Unless otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"Semiannual Report" shall mean any report to be provided by the Landowner on or prior to December 15 of each year pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"State" shall mean the State of California.

"Underwriter" shall mean the original underwriters of the Bonds, which are Piper Jaffray & Co. and Raymond James & Associates, Inc.

SECTION 3. Provision of Annual Reports and Semiannual Report.

(a) The Landowner shall, or upon receipt of the Annual Report the Dissemination Agent shall, not later than June 15 of each year, commencing June 15, 2017, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. If, in any year, June 15 falls on a Saturday, Sunday or a holiday on which the Dissemination Agent's offices are closed for business, such deadline shall be extended to the next following day on which the Dissemination Agent's offices are open for business. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement, provided that the audited financial statements, if any, of the Landowner may be submitted separately from the balance of the Annual Report and later than the date required for the filing of the Annual Report if they are not available by that date. In addition, until such time as the Landowner's reporting requirements terminate pursuant to Section 6 below, the Landowner shall, or upon receipt of the Semiannual Report the Dissemination Agent shall, not later than December 15 of each year, commencing December 15, 2017, provide to the Repository a Semiannual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. If, in any year, December 15 falls on a Saturday, Sunday or a holiday on which the Dissemination Agent's offices are closed for business, such deadline shall be extended to the next following day on which the Dissemination Agent's offices are open for business.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report and Semiannual Report to the Repository, the Landowner shall provide the Annual Report or the Semiannual Report, as applicable, to the Dissemination Agent or shall provide notification to the Dissemination Agent that the Landowner is preparing, or causing to be prepared, the Annual Report or the Semiannual Report, as applicable, and the date which the Annual Report or the Semiannual Report, as applicable, is expected to be available. If by such date, the Dissemination Agent has not received a copy of the Annual Report or the Semiannual Report, as applicable, or notification as described in the preceding sentence, the Dissemination Agent shall notify the Landowner of such failure to receive the report.

(c) If the Dissemination Agent is unable to provide an Annual Report or Semiannual Report to the Repository by the date required in subsection (a) or to verify that an Annual Report or Semiannual Report has been provided to the Repository by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repository in the form required by the Repository.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report and the Semiannual Report the name and address of the Repository; and

(ii) promptly after receipt of the Annual Report, file a report with the Landowner and the District certifying that the Annual Report or the Semiannual Report, as applicable, has been provided pursuant to this Disclosure Agreement, stating the date it was provided to the Repository.

(e) Notwithstanding any other provision of this Disclosure Agreement, any of the required filings hereunder shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

SECTION 4. Content of Annual Report and Semiannual Report.

(a) The Landowner's Annual Report and Semiannual Report shall contain or include by reference the information which is updated, except with respect to the financial statements of the Developer required under 4(a)(4), through a date which shall not be more than 60 days prior to the date of the filing of the Annual Report or the Semiannual Report, as applicable, relating to the following:

1. An update (if any) to the information relating to the Landowner and its Affiliates under the captions in the Official Statement entitled "PROPERTY OWNERSHIP AND THE DEVELOPMENT—General Description of the Development," "The Developer," "The Development," and "Remaining Developer Properties." Such updates shall include, but not be limited to, the estimated remaining cost of the Landowner and its Affiliates to complete any of the public improvements in the District and status of construction for the nonresidential property currently owned by the Landowner (to the extent the same remains owned by the Landowner or an Affiliate) (collectively, the Landowner Improvements").

2. Any significant amendments to land use entitlements with respect to parcels owned by the Landowner or its Affiliates within the District, or that are otherwise known to the Landowner, including an update of the total acres subject to the levy of Special Taxes if the amendment affects the total number of acres subject to the levy of the Special Taxes.

3. Status of Special Tax payments on all parcels owned by the Landowner and its Affiliates.

4. In the Annual Report only, the financial statements of the Landowner for its most recently completed Fiscal Year (which currently ends on each December 31).

5. An update of the number of building permits pulled by each merchant builder as set forth in Table 7 of the Official Statement.

(b) Any and all of the items listed above may be included by specific reference to other documents, including official statements of debt issues which have been submitted to the Repository or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Landowner shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Landowner shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material under clauses (b) and (c) as soon as practicable after the occurrence of any of the following events:

1. Failure to pay any real property taxes, special taxes or assessments levied within the District on a parcel owned by the Landowner or any Affiliate;

2. Material default by the Landowner or any Affiliate on any loan with respect to the construction or permanent financing of the Landowner Improvements to which the Landowner or any Affiliate has been provided a notice of default;

3. Material default by the Landowner or any Affiliate on any loan secured by property within the District owned by the Landowner or any Affiliate to which the Landowner or any Affiliate has been provided a notice of default;

4. Payment default by the Landowner or any Affiliate on any loan of the Landowner or any Affiliate (whether or not such loan is secured by property within the District) which is beyond any applicable cure period in such loan;

5. The filing of any proceedings with respect to the Landowner or any Affiliate, in which the Landowner or any Affiliate, may be adjudicated as bankrupt or discharged from any or all of their respective debts or obligations or granted an extension of time to pay debts or a reorganization or readjustment of debts; and

6. The filing of any lawsuit against the Landowner or any of its Affiliates which, in the reasonable judgment of the Landowner, will adversely affect the completion of the development of parcels owned by the Landowner or its Affiliates within the District, or litigation which if decided against the Landowner, or any of its Affiliates, in the reasonable judgment of the Landowner, would materially adversely affect the financial condition of the Landowner or its Affiliates or their respective ability to pay special taxes levied within the District.

(b) Whenever the Landowner obtains knowledge of the occurrence of a Listed Event, the Landowner shall as soon as possible determine if such event would be material under applicable federal securities laws. The Dissemination Agent shall have no responsibility to determine the materiality of any of the Listed Events.

(c) If the Landowner determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Landowner shall promptly file a notice of such occurrence with the Dissemination Agent which shall then distribute such notice to the Repository, with a copy to the District.

SECTION 6. Termination of Reporting Obligation. The Landowner's obligations under this Disclosure Agreement shall terminate upon the earlier to occur of the following events:

(a) the legal defeasance, prior redemption or payment in full of all of the Bonds, or

(b) as of the date of the filing for the Semiannual Report or Annual Report (1) with respect to the obligation of the Landowner to update the information pursuant to Section 4(a)(1) – (4) above, ninety percent (90%) of the public improvements to be constructed by the Landowner as described under the caption "PROPERTY OWNERSHIP AND THE DEVELOPMENT—The Development" have been completed based on costs expended and (2) with respect to the obligation of the Landowner to update the information pursuant to Section 4(a)(5) above, 75% of the building permits for the planned residential development within the District have been issued.

If such termination occurs prior to the final maturity of the Bonds, the Landowner shall give notice of such termination in the same manner as for an Annual Report hereunder.

SECTION 7. Dissemination Agent. The Landowner may from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the Landowner, the Dissemination Agent shall not be responsible in any manner for the form or content of any notice or report prepared by the Landowner pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing (i) thirty days written notice to the Landowner and the Dissemination Agent and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Landowner may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The amendment or waiver either (i) is approved by the owners of the Bonds in the same manner as provided in the Resolution with the consent of owners of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel addressed to the District and the Dissemination Agent, materially impair the interests of the owners or Beneficial Owners of the Bonds; and

(c) The Landowner, or the Dissemination Agent, shall have delivered copies of the amendment and any opinions delivered under (b) above to the District and the Trustee.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Landowner shall describe such amendment in the next Annual Report or Semiannual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Landowner.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Landowner from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Landowner chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Landowner shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

The Landowner acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Landowner, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the Landowner under such laws.

SECTION 10. Default. In the event of a failure of the Landowner or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Underwriter or any owner or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Landowner or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. The sole remedy under this Disclosure Agreement in the event of any failure of the Landowner or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the Landowner, the Underwriter, owners of the Bonds or Beneficial Owners or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon a direction from the Landowner or an opinion of nationally recognized bond counsel. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent may conclusively rely upon the Annual Report provided to it by the Landowner as constituting the Annual Report required of the Landowner in accordance with this Disclosure Agreement and shall have no duty or obligation to review such Annual Report. The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Landowner in a timely manner in a form suitable for filing with the Repositories. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act.

The Dissemination Agent will not, without the Landowner's prior written consent, settle, compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding in respect of which indemnification may be sought hereunder unless such settlement, compromise or consent includes an unconditional release of the Landowner and its controlling persons from all liability arising out of such claim, action or proceedings. If a claim, action or proceeding is settled with the consent of the Landowner or if there is a final judgment (other than a stipulated final judgment without the approval of the Landowner) for the plaintiff in any such claim, action or proceeding, with or without the consent of the Landowner, the Landowner agrees to indemnify and hold harmless the Dissemination Agent to the extent described herein.

SECTION 12. Landowner as Independent Contractor. In performing under this Disclosure Agreement, it is understood that the Landowner is an independent contractor and not an agent of the District.

SECTION 13. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Landowner:	RMV PA2 Development, LLC 28811 Ortega Highway San Juan Capistrano, CA 92675 Attn: Chief Financial Officer
Dissemination Agent:	David Taussig & Associates 5000 Birch Street, Suite 6000 Newport Beach, CA 92660 Attn: Andrea Roess
Underwriters:	Piper Jaffray & Co. 1100 South Coast Highway, Suite 300A Laguna Beach, CA 92651 Attn: Public Finance
	Raymond James & Associates, Inc. One Embarcadero Center, Suite 650 San Francisco, CA 94111 Attn: Public Finance

SECTION 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Landowner, the District, the Dissemination Agent, the Underwriter and owners of the Bonds and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

RMV PA 2 DEVELOPMENT, LLC, a Delaware limited liability company

By: RANCHO MISSION VIEJO, LLC, a Delaware limited liability company, as agent and manager

By: ______________________________
Name: Elise L. Millington
Title: Chief Financial Officer

By: ______________________________
Name: Donald L. Vodra
Title: Chief Operating Officer

DAVID TAUSSIG & ASSOCIATES, as Dissemination Agent

By: ______________________________
Authorized Officer

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APPENDIX H

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC to the District which the District believes to be reliable, but the District and the Underwriters do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each annual maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited through the facilities of DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at *www.dtcc.com*.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as prepayments, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Bond Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered to DTC.

THE PAYING AGENT, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

APPENDIX I

SAMPLE PROPERTY TAX BILLS

COUNTY OF ORANGE
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (ESENCIA)
ESTIMATED FY 2016-17 SAMPLE TAX BILL
DEVELOPED PROPERTY – SINGLE FAMILY DETACHED - MARKET RATE
ZONE 3 - TAX CLASS 1 (> 3,700 SF)

Assessed Value and Property Taxes		*Percent of Total AV*	*Expected Amount*	*Maximum Amount*
Total Assessed Value[1]	$1,135,000			
Net Assessed Value[1]	$1,128,000			
Land Assessed Value[2]	$610,248			
Unit Size[3]	3,761 Square Feet			
Lot Size[4]	6,789 Square Feet			
AD VALOREM PROPERTY TAXES[5]				
Basic Levy		1.00000%	$11,350.00	
Metropolitan Water District GO Bonds		0.00350%	39.73	
Capistrano Unified School District SFID 1 GO Bonds, Series 2001		0.00439%	49.83	
Capistrano Unified School District SFID 1 GO Bonds, Series 2012		0.00404%	45.85	
Santa Margarita Water District ID No. 4/4C[6] 0.1304% of land value[6]		0.07055%	800.70	
Total General Property Taxes and Overrides		1.08248%	$12,286.11	
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES				
Mosquito & Fire Ant Assessment[7]			$ 6.72	
Vector Control Charge[8]			1.92	
Metropolitan Water District West Standby Charge[9]			10.08	
County of Orange CFD No. 2016-1[10]			10,380.00	$10,380.00
Total Assessments, Special Taxes and Parcel Charges			$10,398.72	$10,398.72
PROJECTED TOTAL PROPERTY TAXES			$22,684.83	$22,684.83
Projected Total Effective Tax Rate (as percentage of Total Price)			**1.9987%**	**1.9987%**

(1) Based on base sale price for 17 units in Tax Class 1 of Zone 3 set forth in the Price Point Study. Total Assessed Value used to determine the Total Effective Tax Rate.
(2) The ratio of land value to net value is assumed to be 0.541 based on the Price Point Study.
(3) Based on expected unit size for 17 units in Tax Class 1 of Zone 3.
(4) Based on the average lot size for all 107 units in Zone 3.
(5) Based on actual Fiscal Year 2016-17 *ad valorem* rates.
(6) Percent of land value of 0.1304% based on combined rate for ID 4/4C as indicated in Tri-Party Agreement. The ratio of land value to net value is assumed to be 0.541 based on the Price Point Study.
(7) Based on the Fiscal Year 2016-17 rate of $6.72 per benefit unit. Residential parcels are assessed at 1 benefit unit.
(8) Based on the Fiscal Year 2016-17 rate of $1.92 per benefit unit. Residential parcels are assessed at 1 benefit unit.
(9) Based on the Fiscal Year 2016-17 rate of $10.08 per parcel or per acre, whichever is greater.
(10) Expected amount based on the Fiscal Year 2016-17 Special Tax rate of $10,380.00 per unit. Maximum Special Tax is based on the greater of the Fiscal Year 2016-17 Backup Special Tax rate of $66,139.00 per acre or the Fiscal Year 2016-17 Assigned Special Tax of $10,380.00 per unit.

Sources: David Taussig and Associates, Inc.; County of Orange; Metropolitan Water District; Santa Margarita Water District; Empire Economics, Inc.

COUNTY OF ORANGE
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (ESENCIA)
ESTIMATED FY 2016-17 SAMPLE TAX BILL
DEVELOPED PROPERTY – SINGLE FAMILY DETACHED – AGE QUALIFIED
ZONE 6 - TAX CLASS 2 (2,401-2,600 SF)

Assessed Value and Property Taxes	*Percent of Total AV*	*Expected Amount*	*Maximum Amount*
Total Assessed Value[(1)] $959,900			
Net Assessed Value[(1)] $952,900			
Land Assessed Value[(2)] $515,519			
Unit Size[(3)] 2,589 Square Feet			
Lot Size[(4)] 7,081 Square Feet			
AD VALOREM PROPERTY TAXES[(5)]			
Basic Levy	1.00000%	$9,599.00	
Metropolitan Water District GO Bonds	0.00350%	33.60	
Capistrano Unified School District SFID 1 GO Bonds, Series 2001	0.00439%	42.14	
Capistrano Unified School District SFID 1 GO Bonds, Series 2012	0.00404%	38.78	
Santa Margarita Water District ID No. 4/4C[(6)] 0. 1304% of land value[(6)]	0.07055%	677.17	
Total General Property Taxes and Overrides	1.08248%	$10,390.69	
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES			
Mosquito & Fire Ant Assessment[(7)]		$ 6.72	
Vector Control Charge[(8)]		1.92	
Metropolitan Water District West Standby Charge[(9)]		10.08	
County of Orange CFD No. 2016-1[(10)]		6,963.00	$7,710.68
Total Assessments, Special Taxes and Parcel Charges		$ 6,981.72	$7,729.40
PROJECTED TOTAL PROPERTY TAXES		$17,372.41	$18,120.09
Projected Total Effective Tax Rate (as percentage of Total Price)		**1.8098%**	**1.8877%**

(1) Based on base sale price for 16 units in Tax Class 2 of Zone 6 set forth in the Price Point Study. Total Assessed Value used to determine the Total Effective Tax Rate.
(2) The ratio of land value to net value is assumed to be 0.541 based on the Price Point Study
(3) Based on expected unit size for 16 units in Tax Class 2 of Zone 6.
(4) Based on the average lot size for all 51 units in Zone 6.
(5) Based on actual Fiscal Year 2016-17 *ad valorem* rates.
(6) Percent of land value of 0.1304% based on combined rate for ID 4/4C as indicated in Tri-Party Agreement. The ratio of land value to net value is assumed to be 0.541 based on the Price Point Study.
(7) Based on the Fiscal Year 2016-17 rate of $6.72 per benefit unit. Residential parcels are assessed at 1 benefit unit.
(8) Based on the Fiscal Year 2016-17 rate of $1.92 per benefit unit. Residential parcels are assessed at 1 benefit unit.
(9) Based on the Fiscal Year 2016-17 rate of $10.08 per parcel or per acre, whichever is greater.
(10) Expected amount based on the Fiscal Year 2016-17 Special Tax rate of $6,693.00 per unit. Maximum Special Tax based on the greater of the Fiscal Year 2016-17 Backup Special Tax rate of $47,436.00 per acre for Zone 3 property or the Fiscal Year 2016-17 Assigned Special Tax of $6,963.00 per unit.

Sources: David Taussig and Associates, Inc.; County of Orange; Metropolitan Water District; Santa Margarita Water District; Empire Economics, Inc.

COUNTY OF ORANGE
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (ESENCIA)
ESTIMATED FY 2016-17 SAMPLE TAX BILL
DEVELOPED PROPERTY – SINGLE FAMILY ATTACHED – MARKET RATE
ZONE 1 - TAX CLASS 7 (< 1,201 SF)

Assessed Value and Property Taxes	*Percent of Total AV*	*Expected Amount*	*Maximum Amount*
Total Assessed Value[1] $365,990			
Net Assessed Value[1] $358,990			
Land Assessed Value[2] $194,214			
Unit Size[3] 931 Square Feet			
Lot Size[4] 3,197 Square Feet			
AD VALOREM PROPERTY TAXES[5]			
Basic Levy	1.00000%	$3,659.90	
Metropolitan Water District GO Bonds	0.00350%	12.81	
Capistrano Unified School District SFID 1 GO Bonds, Series 2001	0.00439%	16.07	
Capistrano Unified School District SFID 1 GO Bonds, Series 2012	0.00404%	14.79	
Santa Margarita Water District ID No. 4/4C[6] 0. 1304% of land value[6]	0.07055%	258.19	
Total General Property Taxes and Overrides	1.08248%	$3,961.76	
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES			
Mosquito & Fire Ant Assessment[7]		$ 6.72	
Vector Control Charge [8]		1.92	
Metropolitan Water District West Standby Charge[9]		10.08	
County of Orange CFD No. 2016-1[10]		3,324.00	$5,204.19
Total Assessments, Special Taxes and Parcel Charges		$3,342.72	$5,222.91
PROJECTED TOTAL PROPERTY TAXES		$7,304.48	$9,184.66
Projected Total Effective Tax Rate (as percentage of Total Price)		**1.9958%**	**2.5095%**

(1) Based on base sale price for 21 units in Tax Class 7 of Zone 1 set forth in the Price Point Study. Total Assessed Value used to determine the Total Effective Tax Rate.
(2) The ratio of land value to net value is assumed to be 0.541 based on the Price Point Study.
(3) Based on expected unit size for 21 units in Tax Class 7 of Zone 1.
(4) Based on the average lot size for all 211 units in Zone 1.
(5) Based on actual Fiscal Year 2016-17 *ad valorem* rates.
(6) Percent of land value of 0.1304% based on combined rate for ID 4/4C as indicated in Tri-Party Agreement. The ratio of land value to net value is assumed to be 0.541 based on the Price Point Study.
(7) Based on the Fiscal Year 2016-17 rate of $6.72 per benefit unit. Residential parcels are assessed at 1 benefit unit.
(8) Based on the Fiscal Year 2016-17 rate of $1.92 per benefit unit. Residential parcels are assessed at 1 benefit unit.
(9) Based on the Fiscal Year 2016-17 rate of $10.08 per parcel or per acre, whichever is greater.
(10) Expected amount based on the Fiscal Year 2016-17 Special Tax rate of $3,324.00 per unit for Tax Class 7 property of Zone 1. Maximum Special Tax based on the greater of the Fiscal Year 2016-17 Backup Special Tax rate of $70,899.00 per acre for Zone 1 property or the Fiscal Year 2016-2017 Assigned Special Tax of $3,324.00 per unit.

Sources: David Taussig and Associates, Inc.; County of Orange; Metropolitan Water District; Santa Margarita Water District; Empire Economics, Inc.

COUNTY OF ORANGE

COMMUNITY FACILITIES DISTRICT NO. 2016-1 (ESENCIA)
ESTIMATED FY 2016-17 SAMPLE TAX BILL
DEVELOPED PROPERTY – SINGLE FAMILY ATTACHED – AGE QUALIFIED
ZONE 4 - TAX CLASS 1 (>2,000 SF)

Assessed Value and Property Taxes	*Percent of Total AV*	*Expected Amount*	*Maximum Amount*
Total Assessed Value[1] $736,000			
Net Assessed Value[1] $729,000			
Land Assessed Value[2] $394,389			
Unit Size[3] 2,336 Square Feet			
Lot Size[4] 3,688 Square Feet			
AD VALOREM PROPERTY TAXES[5]			
Basic Levy	1.00000%	$ 7,360.00	
Metropolitan Water District GO Bonds	0.00350%	25.76	
Capistrano Unified School District SFID 1 GO Bonds, Series 2001	0.00439%	32.31	
Capistrano Unified School District SFID 1 GO Bonds, Series 2012	0.00404%	29.73	
Santa Margarita Water District ID No. 4/4C[6] 0. 1304% of land value[6]	0.07055%	519.22	
Total General Property Taxes and Overrides	1.08248%	$ 7,967.03	
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES			
Mosquito & Fire Ant Assessment[7]		$ 6.72	
Vector Control Charge [8]		1.92	
Metropolitan Water District West Standby Charge[9]		10.08	
County of Orange CFD No. 2016-1[10]		6,218.00	$6,218.00
Total Assessments, Special Taxes and Parcel Charges		$ 6,236.72	$6,236.72
PROJECTED TOTAL PROPERTY TAXES		$14,203.75	$14,203.75
Projected Total Effective Tax Rate (as percentage of Total Price)		**1.9299%**	**1.9299%**

(1) Based on base sale price for 17 units in Tax Class 1 of Zone 4 set forth in the Price Point Study. Total Assessed Value used to determine the Total Effective Tax Rate.

(2) The ratio of land value to net value is assumed to be 0.541 based on the Price Point Study

(3) Based on expected unit size for 11 units in Tax Class 1 of Zone 4.

(4) Based on the average lot size for all 94 units in Zone 4.

(5) Based on actual Fiscal Year 2016-17 *ad valorem* rates.

(6) Percent of land value of 0.1304% based on combined rate for ID 4/4C as indicated in Tri-Party Agreement. The ratio of land value to net value is assumed to be 0.541 based on the Price Point Study.

(7) Based on the Fiscal Year 2016-17 rate of $6.72 per benefit unit. Residential parcels are assessed at 1 benefit unit.

(8) Based on the Fiscal Year 2016-17 rate of $1.92 per benefit unit. Residential parcels are assessed at 1 benefit unit.

(9) Based on the Fiscal Year 2016-17 rate of $10.08 per parcel or per acre, whichever is greater.

(10) Expected amount based on the Fiscal Year 2016-17 Special Tax rate of $6,219.00 per unit for Tax Class 1 property of Zone 4. Maximum Special Tax based on the greater of the Fiscal Year 2016-17 Backup Special Tax rate of $68,278.00 per acre for Zone 4 property or the Fiscal Year 2016-17 Assigned Special Tax of $6,218.00 per unit.

Sources: David Taussig and Associates, Inc.; County of Orange; Metropolitan Water District; Santa Margarita Water District; Empire Economics, Inc.

APPENDIX J

MARKET ABSORPTION STUDY

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COMMUNITY FACILITIES DISTRICT NO. 2016-1
(VILLAGE OF ESENCIA)

MARKET ABSORPTION STUDY

PREPARED FOR:
COUNTY OF ORANGE
ORANGE COUNTY, CALIFORNIA

PREPARED BY:
EMPIRE ECONOMICS, INC.
JOSEPH T. JANCZYK, PH.D

MAY 12, 2016
(July 27, 2016: Revisions to Builders' Prices and Age-Qualified Absorption Rates)
(October 6, 2016: Grammatical revisions – Page 11)

OVERVIEW OF THE MARKET ABSORPTION STUDY

The County of Orange retained Empire Economics Inc. (Empire), an economic and real estate consulting firm, to perform a Market Absorption Study for the forthcoming projects in CFD No. 2016-1, sometimes herein referred to as CFD, which are being marketed as the Planned Community of Esencia (Phase 2).

Introduction

This section provides a description of the role of the market absorption study in the bond financing program as well as a discussion of the methodology underlying the study, along with maps showing the market areas and location of the CFD. There is also a Certification of Independence, that Empire performs studies only for the public sector.

Section I: Expected Product Mix Characteristics of the Forthcoming Projects

There are expected to be twelve residential projects by eight different builders that plan to offer a total of 878 homes: Age–Qualified: 94-attached and 194-detached as well as All-Ages: 211-Attached, 134-Small Detached and 245-Large Detached. The prices for the homes, as estimated by the builders, average about $721,113, and they have a range from a low of $365,990 to a high of $1,135,000. The sizes of living areas for the projects average 2,128 sq.ft., and the various projects have a range from a low of 931 to 3,761. The total tax burden is expected to amount to 1.80%to 1.88% for Age-Qualified and 2.00% for All-Ages; the County's maximum tax burden is 2.00%.

Section II: Economic and Real Estate Model Underlying the Market Absorption Study

The recent rate of employment growth for Orange County amounts to about 40,000 new jobs per year, and this typically generates a demand for about 25,000 new homes. By comparison, the supply of new homes, including for-sale and apartments, has been only about 12,000 per year. Consequently, there is a strong demand for new housing.
Orange County's economic base is expected to continue to generate strong employment growth, and this will strengthen its housing market, thereby providing support for the CFD's forthcoming residential projects. The cities in the vicinity of CFD No. 2016-1 generally have unemployment rates that are below the County's overall rate of 4.0%. The potential impact of millennials choosing to reside in urbanized areas in apartments due to cultural factors as well as financial challenges, is expected to have only a moderate impact on the demand for for-sale housing. From a cultural perspective, Orange County is in a coastal/urbanized area which suits their preferences but from a financial perspective, many millennials do not have a sufficient amount of savings for down payments.

Section III: Overview of Development Trends/Patterns and Socioeconomic Factors

CFD No. 2016-1 is situated in the southerly portion of Orange County and so it is somewhat distant from major employment centers, such as the cities of Irvine (20 miles) and Anaheim (30 miles). From a socioeconomic perspective, the cities in the vicinity of the CFD have a significantly lower crime rate and the school district has a higher educational achievement level than for Orange County and California; these positive socioeconomic factors support the demand for the forthcoming homes in the CFD.

Section IV: Analysis of the Residential Projects in the CFD No. 2016-1 Competitive Housing Market Area

A Competitive Market Analysis of the projects in the CFD was performed by comparing their characteristics with the currently active comparable projects in the Competitive Housing Market Area, including their prices, sizes of living area and Special Taxes. The forthcoming projects have full prices (base prices and special tax liens) that are generally similar to the currently active market comparable projects in Esencia Phase 1, for both age qualified and all ages as well as attached/detached product types.
However, the price differential between new homes in Irvine (major employment center) and Esencia reflect their distance from major the employment centers: Attached Products: Esencia lower by -13%, Detached Smaller (about 2,000 sq.ft.): Esencia -16% and Detached Larger (about 3,000 sq.ft.): Esencia by -26%.

Section V: Estimated Absorption Schedules for the Projects in CFD No. 2016-1

The projects in CFD No. 2016-1 are expected to have their Grand Opening in Fall 2016. Based upon a comprehensive analysis of the product mix characteristics, macroeconomic factors, and microeconomic factors that are expected to influence the absorption of the projects in the CFD, Empire concluded that the absorption prospects for future escrow closings for the 878 homes are regarded as being favorable. However, since six of the twelve forthcoming projects in CFD 2016-1 (Phase 2 of Esencia) are also currently active in CFD No. 2015-1 (Phase 1 of Esencia), their sales are expected to commence only after their corresponding projects in CFD 2015-1 have been completely sold out. Consequently some of the extension projects experience delays of a year or more before beginning to close their escrows.

Please refer to the following page for the Table of Contents; Empire recommends that the Study be read in its entirety.

TABLE OF CONTENTS

INTRODUCTION

A. OVERVIEW OF THE BOND FINANCING PROGRAM

Rancho Mission Viejo requested the County of Orange to form Community Facilities District No. 2016-1 (CFD No. 2016-1) to assist with the financing for the public infrastructure that is required to support the development of the forthcoming residential projects in a portion of the Planned Community of "Village of Esencia".

The Village of Esencia (Esencia) represents a newly developing area in the southerly portion of the County of Orange, easterly of the City of San Juan Capistrano. Esencia follows a sequential development pattern of Planned Communities that have previously been developed/built out in this area, including Ladera Ranch with about 8,000 homes and Sendero with about 900 homes. Due to its size, Esencia has been partitioned into three phases. The first phase, CFD No. 2015-1, currently has twelve projects on the marketplace with for-sale homes. CFD No. 2016-1 is the second phase, and it is located northerly of the first phase. The Grand Opening for its projects is anticipated to be in September 2016.

CFD No. 2016-1 is expected to have 878 for-sale homes in twelve residential projects (six will use existing model complexes in CFD 2015-1 and the other six will have new model complexes) with eight different builders; these projects have been categorized into five major market segments:

- Age-Qualified: 55+
  - Attached Product: 1 project
  - Detached Product: 3 projects (two of these projects will be extensions of currently active projects in CFD No. 2015-1)
- All-Ages:
  - Attached Product: 2 projects
  - Detached Product – Smaller Sq.Ft.: 2 projects (both of these will be extension projects)
  - Detached Product – Larger Sq.Ft.: 4 projects (two of these will be extension projects)

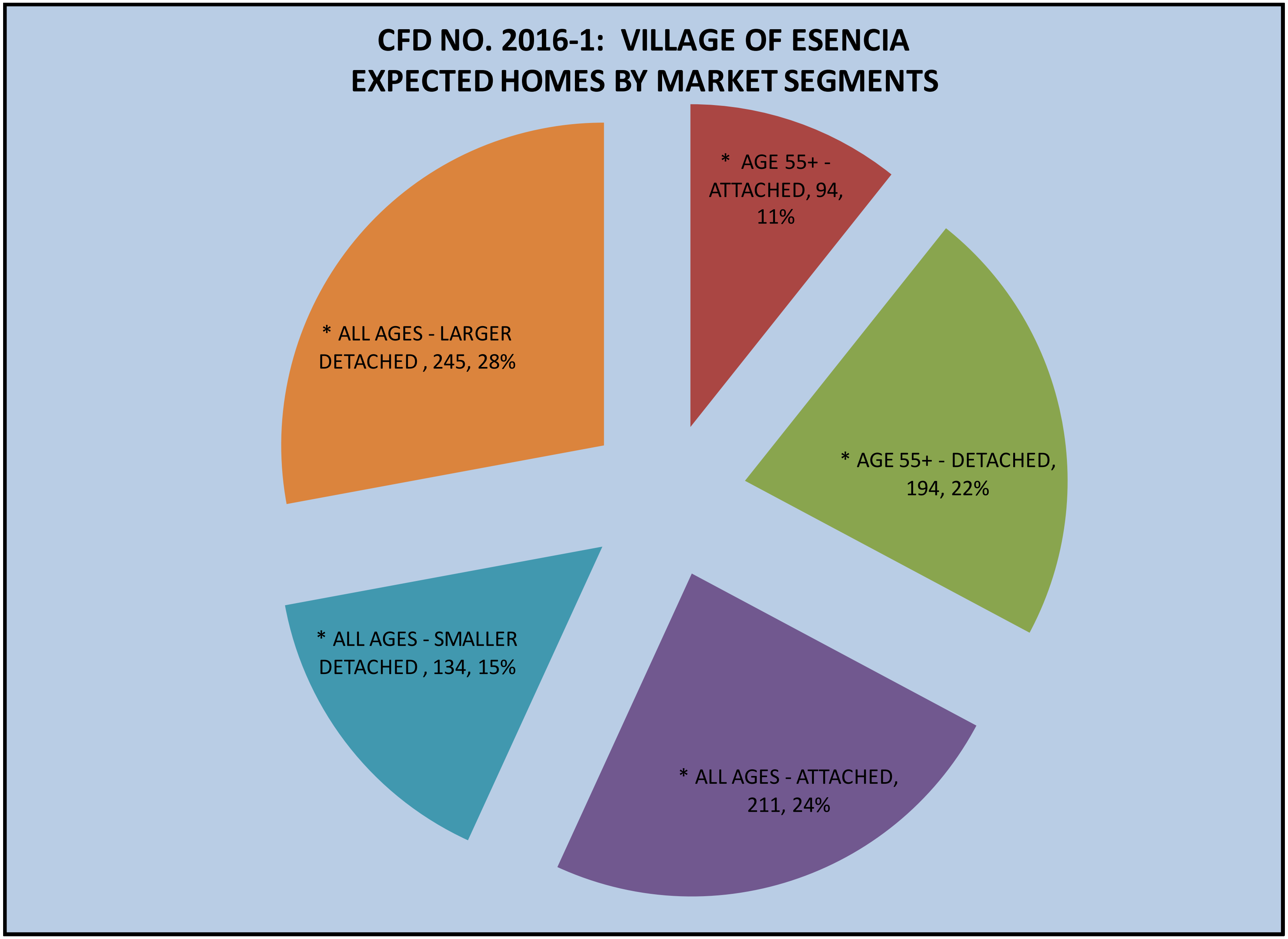
The County of Orange retained Empire, an economic and real estate consulting firm, to perform a Market Absorption Study for the forthcoming projects in CFD No. 2016-1. The Market Absorption Study performs a comprehensive analysis of the product mix characteristics, macroeconomic factors, and microeconomic factors that are expected to influence the absorption of the forthcoming homes in CFD No. 2016-1, in order to arrive at conclusions regarding the following:

- Estimated absorption schedules for the homes in each of the twelve projects, from market-entry to build-out, on an annualized basis.
- Discussion of potential economic, financial and real estate risk factors that may adversely impact their marketability.

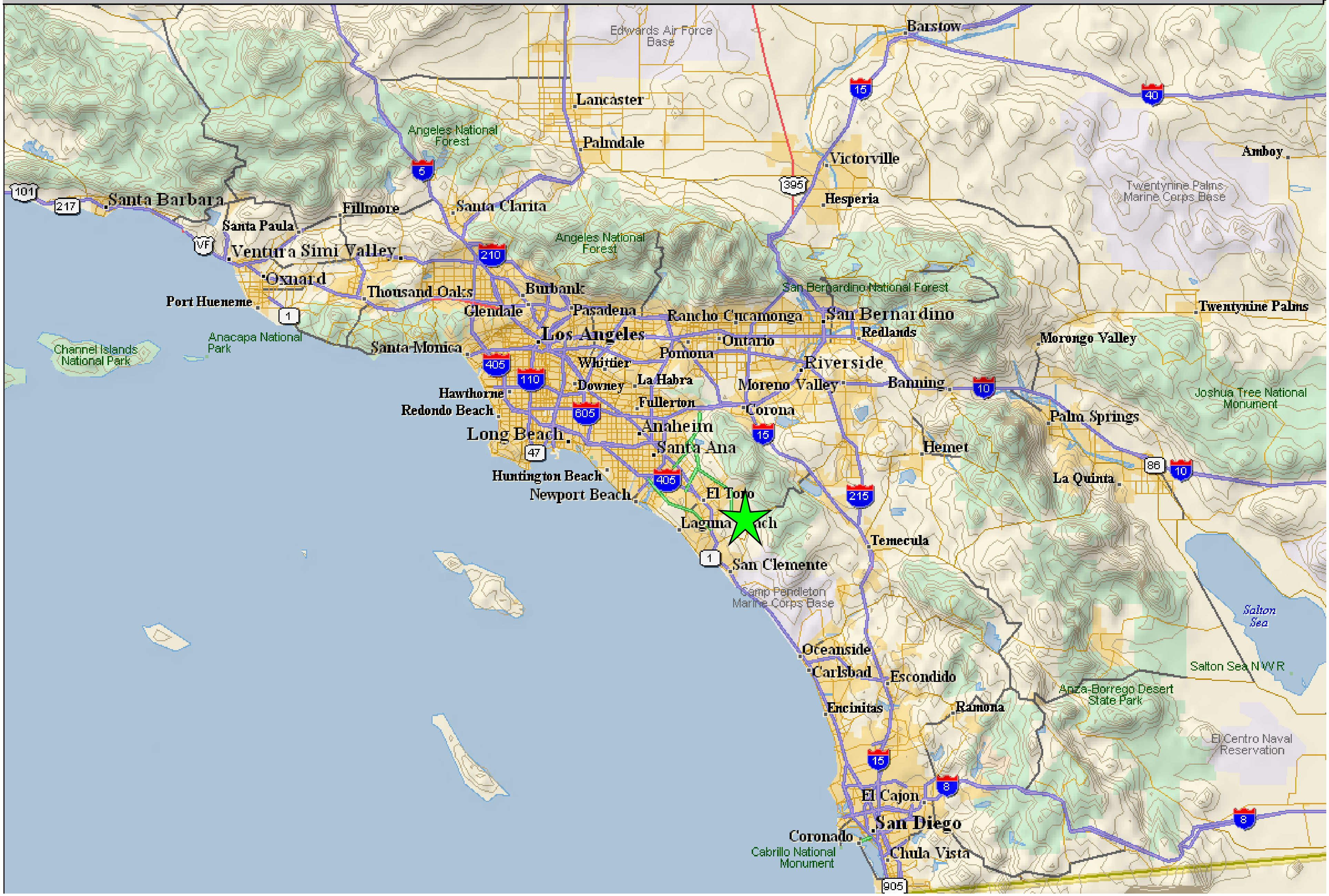
The relevant geographical areas for the economic and real estate research are as follows:

- Market Region includes all of the cities/communities within Orange County, as a whole
- Market Area encompasses the currently active residential projects in south Orange County

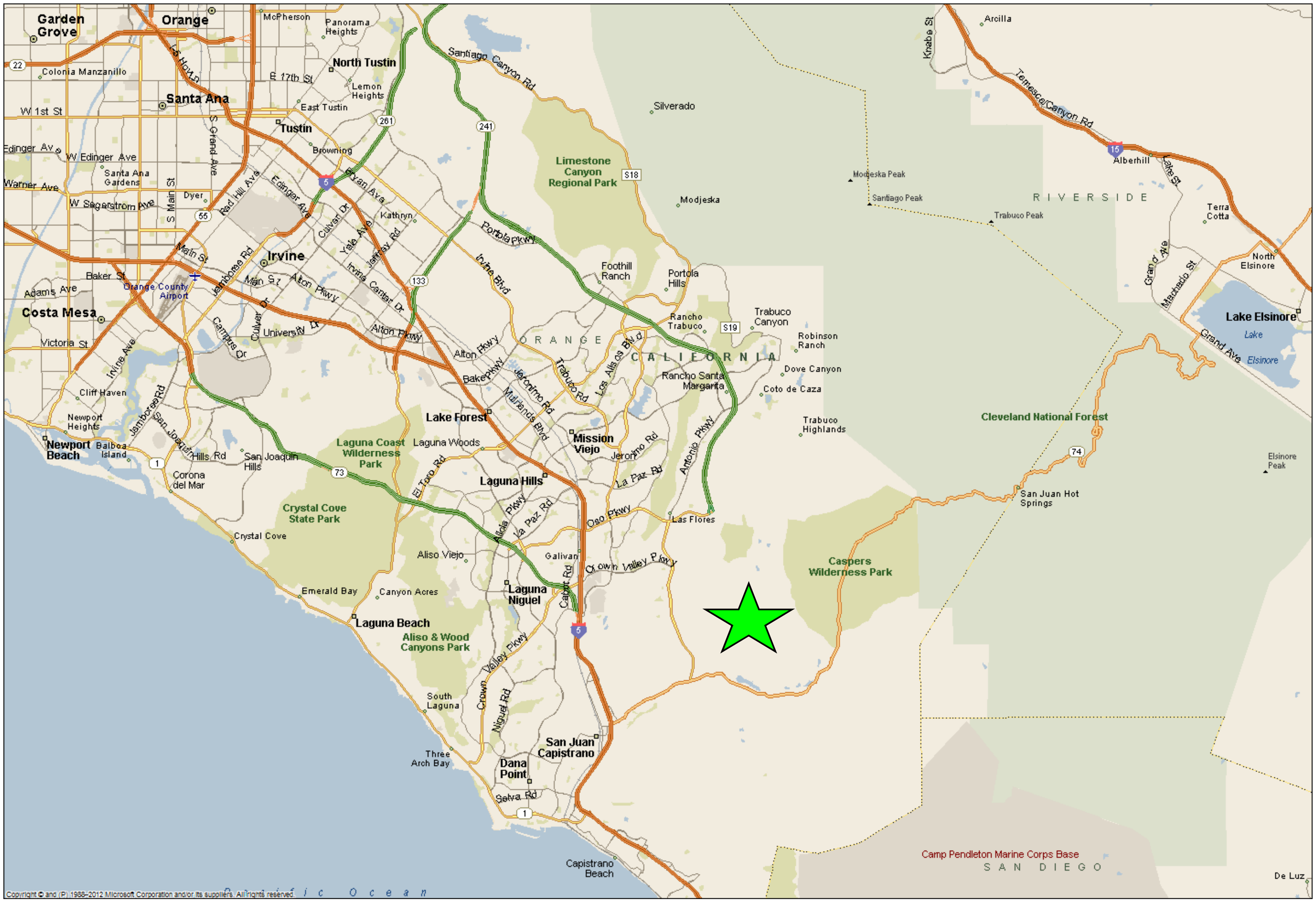
For information on the location of CFD No. 2016-1, please refer to the graph and maps on the following pages.


CFD NO. 2016-1: VILLAGE OF ESENCIA
EXPECTED HOMES BY MARKET SEGMENTS
* AGE 55+ - ATTACHED, 94, 11%
* AGE 55+ - DETACHED, 194, 22%
* ALL AGES - ATTACHED, 211, 24%
* ALL AGES - SMALLER DETACHED , 134, 15%
* ALL AGES - LARGER DETACHED , 245, 28%

SOUTHERN CALIFORNIA MARKET REGION:
LOCATION OF CFD NO. 2016-1: VILLAGE OF ESENCIA



SOUTH ORANGE COUNTY
APPROXIMATE LOCATION OF CFD NO. 2016-1
(VILLAGE OF ESENCIA)



B. ROLES OF THE MARKET ABSORPTION STUDY FOR THE BOND FINANCING

The Market Absorption Study for CFD No. 2016-1 has a multiplicity of roles with regards to the Bond Financing; accordingly, these are set-forth below:

Marketing Prospects for the Residential Products

Estimated Absorption Schedules:
Escrow Closings of Homes to Homeowners,
from Market-Entry to Build-Out for
each of the Twelve Projects

Potential Risk Factors that may Adversely Impact
the Marketability of the Projects

Relationship of the Market Study to the Special Tax Payments

Special Taxes for the Residential Projects/Products

Aggregate Levels of Special Tax Revenues for Bond Sizing

Absorption Rate Determines Shares of Payments:
Developer/Builders vs. Final-Users/Homeowners

Relationship of the Market Absorption Study to the Appraisal/Valuation

Appraisal of Property
Appraiser Uses Absorption Schedules for
Discounted Cash Flow – Present Value

(The Longer the Absorption Time, the Lower the Present Value)

C. METHODOLOGY UNDERLYING THE MARKET ABSORPTION STUDY FOR CFD NO. 2016-1

The Market Absorption Study performs a comprehensive analysis of the product mix characteristics, macroeconomic factors, and microeconomic factors as well as the potential risk factors that are expected to influence the absorption of the homes in CFD No. 2016-1 (Village of Esencia); the primary components of the Study are as follows:

I. Expected Product Mix Characteristics

II. Economic and Real Estate Model Underlying the Market Absorption Study

III. Overview of the Development Trends/Patterns and Socioeconomic Factors

IV. Competitive Market Analysis of the Residential Projects

V. Estimated Absorption Schedules for the Projects/Products

Assumptions and Limiting Conditions

D. CERTIFICATION OF INDEPENDENCE

EMPIRE ECONOMICS PROVIDES CONSULTING SERVICES ONLY FOR PUBLIC ENTITIES

The Securities & Exchange Commission has taken action against firms that have utilized their research analysts to promote companies with whom they conduct business, citing this as a potential conflict of interest. Accordingly, Empire Economics (Empire), in order to ensure that its clients, including the County of Orange, are not placed in a situation that could cause such conflicts of interest, provides a Certification of Independence.

This Certificate states that Empire performs consulting services only for public entities such as the County of Orange, in order to avoid potential conflicts of interest that could occur if it also provided consulting services for developers/builders.

For example, if a research firm for a specific Community Facilities District were to provide consulting services to both the public entity as well as the property owner/developer/builders, then a potential conflict of interest could be created, given the different objectives of the public entity versus the property owner/developer.

Accordingly, Empire Economics certifies that the Market Absorption Study for the CFD No. 2016-1 of the County of Orange was performed in an independent professional manner, as represented by the following statements:

- Empire was retained to perform the Market Absorption Study by the County of Orange, not the CFD's developer/builders.
- Empire has not performed any consulting services for the CFD's property owner or the developer/builders during the past twenty+ years.
- Empire will not perform any consulting services for the CFD's property owner or the developer/builders during the next five years.
- Empire's compensation for performing the Market Absorption Study for the CFD is not contingent upon the issuance of bonds; Empire's fees are paid on a non-contingency basis.

Therefore, based upon the statements set-forth above, Empire hereby certifies that the Market Absorption Study for CFD No. 2016-1 of the County of Orange was performed in an independent professional manner.

SECTION I
EXPECTED FOR-SALE RESIDENTIAL PRODUCT MIX CHARACTERISTICS
(Source of Data: Merchant Builder Information Forms: July 2016)

CFD No. 2016-1, which encompasses Phase 2 of the Village of Esencia, is expected to have a total of 878 for-sale homes in twelve different projects by eight different builders. Empire has partitioned these projects into five distinct market segments, based upon age-qualified vs. all ages as well as attached vs. detached; accordingly, their characteristics are as follows:

- **Age-Qualified 55+ Attached Product** segment has one project (planning area AQ-2) by Cal Atlantic Homes that is expected to have 94 homes. Their estimated base prices range from $639,000 to $736,000, for an overall average of about $661,100. Their living areas range from 1,729 sq.ft. to 2,336 sq.ft., for an overall average of 1,844 sq.ft. The value ratio (price/living area) amounts to about $359/sq.ft. and their total tax burden (ad valorem and other special taxes/assessments) are expected to amount to about 1.88%.

- **Age-Qualified 55+ Detached Product** segment has three projects (AQ-11, AQ-13, and AQ-21), including Pulte Group (1) and Shea Homes (2), that are expected to have 194 homes. Their estimated base prices range from $570,500 to $959,900, for an overall average of about $781,570. Their living areas range from 1,472 sq.ft. to 2,589 sq.ft., for an overall average of 2,029 sq.ft. The value ratio amounts to about $385/sq.ft. and their total tax burden is expected to amount to about 1.81%.

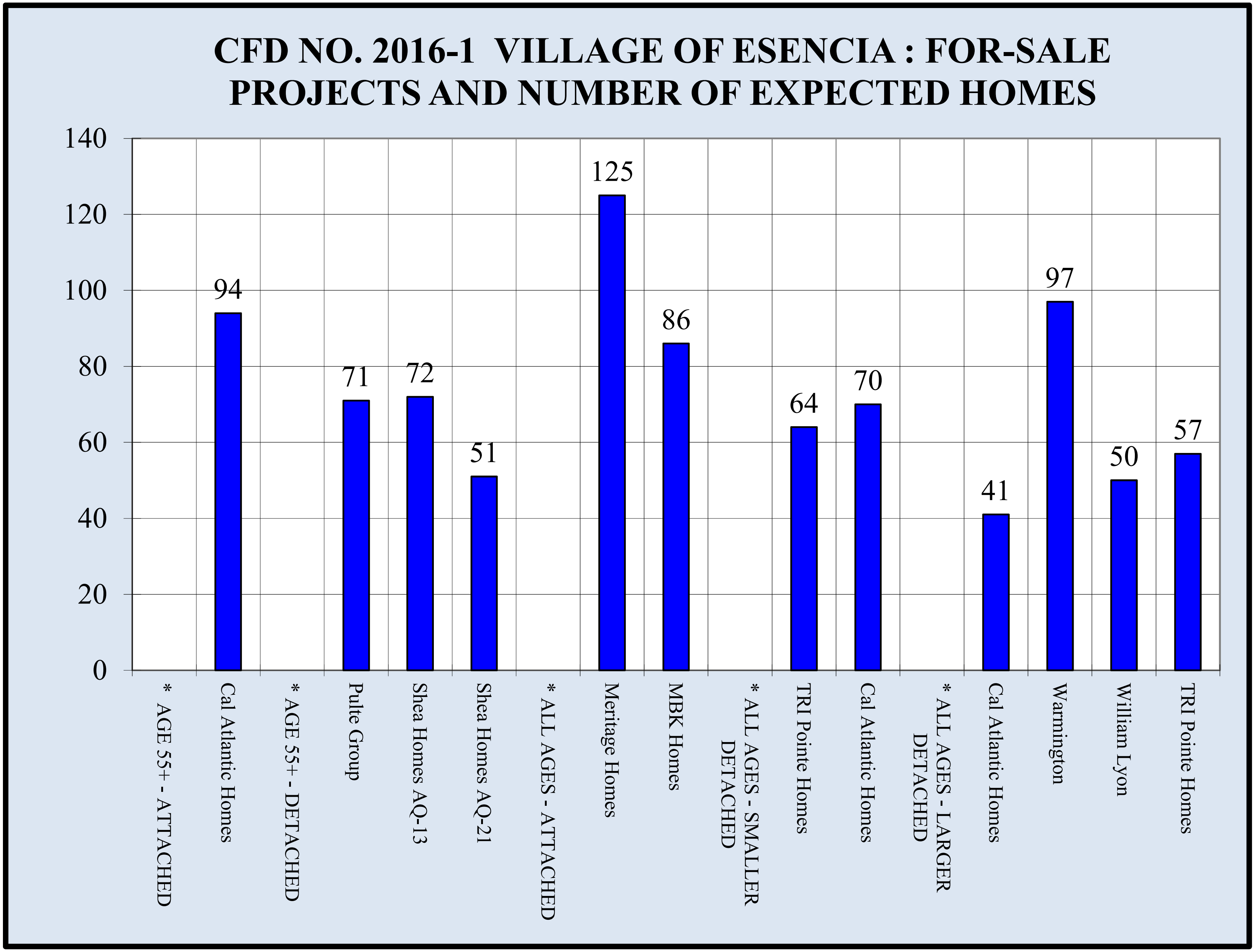
- **All-Ages Attached Product** segment has two projects (MR-2 and MR-3) by Meritage Homes and MBK Homes that are expected to have 211 homes. The estimated base prices range from $365,990 to $684,000, for an overall average of about $526,300. Their living areas range from 931 sq.ft. to 2,320 sq.ft., for an overall average of 1,645 sq.ft. The value ratio amounts to about $320/sq.ft. and their total tax burden is not expected to exceed 2.00%.

- **All-Ages Detached Product - Smaller (Plan Average Below 2,200 sq.ft.)** segment has two projects (MR-15 and MR-17), including TRI Pointe and Cal Atlantic Homes, that are expected to have 134 homes. Their estimated base prices range from $615,000 to $743,900, for an overall average of about $663,746 Their living areas range from 1,779 sq.ft. to 2,206 sq.ft., for an overall average of 1,908 sq.ft. The value ratio amounts to about $348/sq.ft. and their total tax burden is not expected to exceed 2.00%.

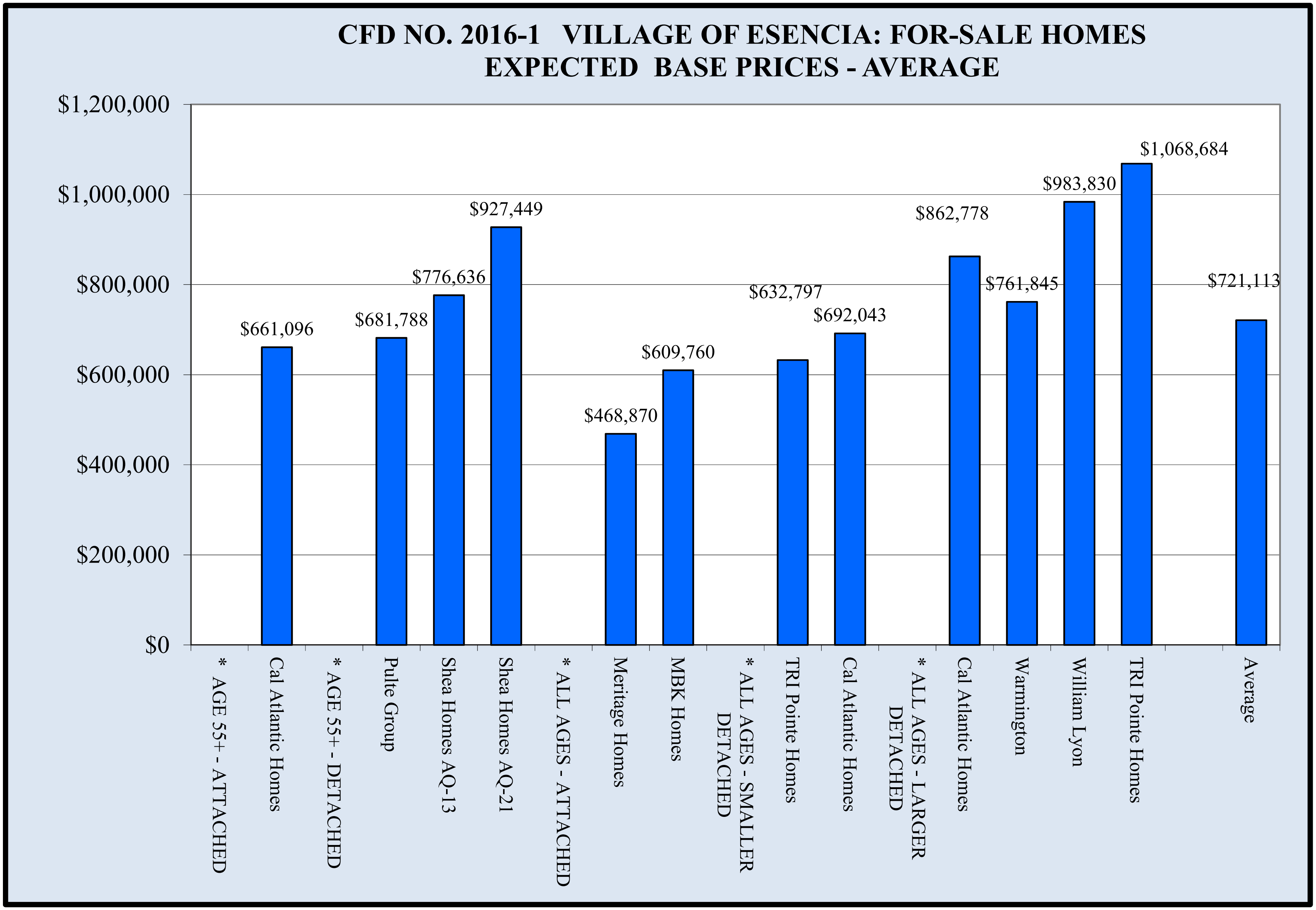
- **All-Ages Detached Product - Larger (Plan Average Above 2,200 sq.ft.)** segment has four projects (MR-19, MR-18, MR-23, and MR-24), including Cal Atlantic Homes, Warmington, William Lyon, and TRI Pointe Homes, that are expected to have 245 homes. Their estimated base prices range from $715,000 to $1,135,000, for an overall average of about $895,400. Their living areas range from 2,153 sq.ft. to 3,761 sq.ft., for an overall average of 2,853 sq.ft. The value ratio amounts to about $314/sq.ft. and their total tax burden is not expected to exceed 2.00%.

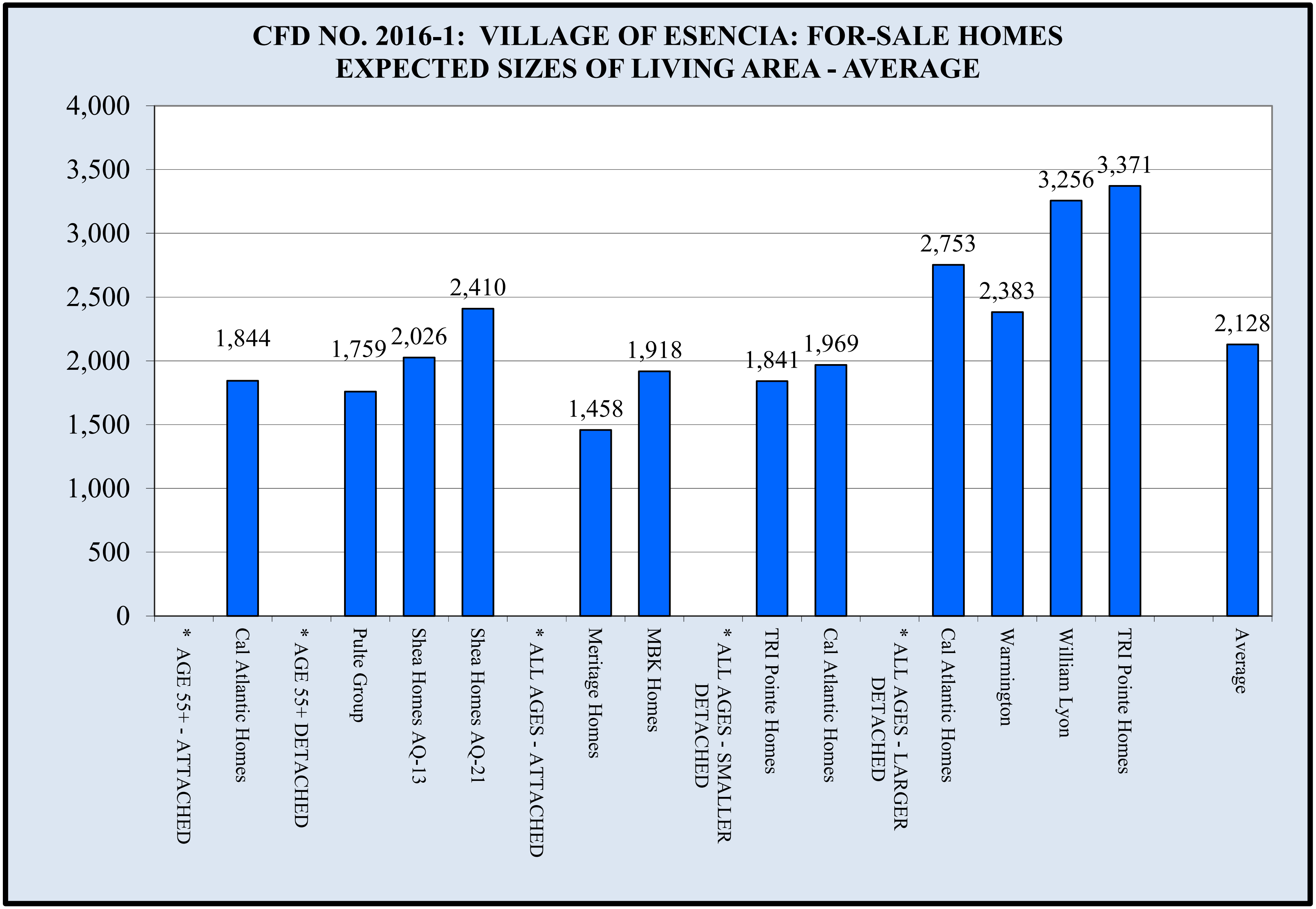
So, for all of the projects, as a whole, the base prices amount to some $721,113, on the average, and they have a range of $365,990 to $1,135,000. While their living areas amount to some 2,128 sq.ft., on the average, and they have a range of 931 to 3,761 sq.ft. Their overall value ratio amounts to $339/sq.ft., on the average. The total tax burdens are expected to be around 1.80% to 1.88% for the age qualified and 2.00% for the all-age products.

For more information on these projects, please refer to the following graphs and table.



CFD NO. 2016-1 VILLAGE OF ESENCIA : FOR-SALE PROJECTS AND NUMBER OF EXPECTED HOMES
140
120
100
80
60
40
20
0
94
71
72
51
125
86
64
70
41
97
50
57
* AGE 55+ - ATTACHED
Cal Atlantic Homes
* AGE 55+ - DETACHED
Pulte Group
Shea Homes AQ-13
Shea Homes AQ-21
* ALL AGES - ATTACHED
Meritage Homes
MBK Homes
* ALL AGES - SMALLER DETACHED
TRI Pointe Homes
Cal Atlantic Homes
* ALL AGES - LARGER DETACHED
Cal Atlantic Homes
Warmington
William Lyon
TRI Pointe Homes


CFD NO. 2016-1 VILLAGE OF ESENCIA: FOR-SALE HOMES
EXPECTED BASE PRICES - AVERAGE
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$0
$661,096
$681,788
$776,636
$927,449
$468,870
$609,760
$632,797
$692,043
$862,778
$761,845
$983,830
$1,068,684
$721,113
* AGE 55+ - ATTACHED
Cal Atlantic Homes
* AGE 55+ - DETACHED
Pulte Group
Shea Homes AQ-13
Shea Homes AQ-21
* ALL AGES - ATTACHED
Meritage Homes
MBK Homes
* ALL AGES - SMALLER DETACHED
TRI Pointe Homes
Cal Atlantic Homes
* ALL AGES - LARGER DETACHED
Cal Atlantic Homes
Warmington
William Lyon
TRI Pointe Homes
Average



CFD NO. 2016-1: VILLAGE OF ESENCIA: FOR-SALE HOMES
EXPECTED SIZES OF LIVING AREA - AVERAGE
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
1,844
1,759
2,026
2,410
1,458
1,918
1,841
1,969
2,753
2,383
3,256
3,371
2,128
* AGE 55+ - ATTACHED
Cal Atlantic Homes
* AGE 55+ DETACHED
Pulte Group
Shea Homes AQ-13
Shea Homes AQ-21
* ALL AGES - ATTACHED
Meritage Homes
MBK Homes
* ALL AGES - SMALLER DETACHED
TRI Pointe Homes
Cal Atlantic Homes
* ALL AGES - LARGER DETACHED
Cal Atlantic Homes
Warmington
William Lyon
TRI Pointe Homes
Average

EXPECTED CHARACTERISTICS OF THE FORTHCOMING PROJECTS IN CFD NO. 2016-1

(Source of Data: Merchant Builder Information Forms: July 2016)

Planning Area >	AQ-2	AQ-11	AQ-13	AQ-21	MR-2	MR-3	MR-15	MR-17	MR-19	MR-18	MR-23	MR-24
	Age Qualified (Age 55+)				**All Ages**							
Market Segments >	**Attached**	**Detached**	**Detached**	**Detached**	**Attached**	**Attached**	**Detach-Small**	**Detach-Small**	**Detach - Large**	**Detach - Large**	**Detach - Large**	**Detach - Large**
Planning Area >	AQ-2	AQ-11	AQ-13	AQ-21	MR-2	MR-3	MR-15	MR-17	MR-19	MR-18	MR-23	MR-24
Builder >	Cal Atlantic Homes	Pulte Group	Shea Homes	Shea Homes	Meritage Homes	MBK Homes	TRI Pointe Homes	Cal Atlantic Homes	Cal Atlantic Homes	Warmington	William Lyon	TRI Pointe Homes
Model Complex> On-Site or Off-Site	On-Site	On-Site	Off-Site	Off-Site	On-Site	On-Site	Off-Site	Off-Site	Off-Site	On-Site	On-Site	Off-Site
Housing Units												
Totals	94	71	72	51	125	86	64	70	41	97	50	57
Share	10.7%	8.1%	8.2%	5.8%	14.2%	9.8%	7.3%	8.0%	4.7%	11.0%	5.7%	6.5%
Marketing Status:												
Closed	0	0	0	0	0	0	0	0	0	0	0	0
Future Closings	94	71	72	51	125	86	64	70	41	97	50	57
Market Segment-Totals>	94		194		211		134			245		
Expected Product Mix												
Plan # 1	26	8	6	17	21	14	30	24	10	28	17	20
Plan # 2	26	17	31	18	26	3	17	2	9	28	17	20
Plan # 3	9	16	18	16	21	3	17	22	5	32	16	17
Plan # 4	22	30	17		26	12		22	6	9		
Plan # 5	11				5	7			6			
Plan # 6					26	7			5			
Plan # 7						11						
Plan # 8						6						
Plan # 9						15						
Plan # 10						8						
Totals	94	71	72	51	125	86	64	70	41	97	50	57
Living Areas (Sq. Ft.)												
Plan # 1	1,729	1,472	1,816	2,325	931	1,681	1,779	1,797	2,345	2,153	3,069	3,097
Plan # 2	1,788	1,746	1,831	2,330	1,318	1,721	1,855	1,775	2,508	2,350	3,226	3,314
Plan # 3	1,788	1,701	2,116	2,589	1,403	2,089	1,937	1,936	2,657	2,495	3,486	3,761
Plan # 4	1,823	1,875	2,362		1,689	1,912		2,206	3,151	2,798		
Plan # 5	2,336				1,689	1,952			3,084			
Plan # 6					1,791	2,320			3,235			
Plan # 7						1,719						
Plan # 8						1,950						
Plan # 9						1,902						
Plan # 10						2,254						
Averages	1,844	1,759	2,026	2,410	1,458	1,918	1,841	1,969	2,753	2,383	3,256	3,371
Market Segment-Averages >	1,844		2,029		1,645		1,908			2,853		
Current Prices												
Plan # 1	$639,000	$570,532	$727,900	$904,900	$365,990	$554,800	$615,000	$658,900	$781,900	$715,000	$950,000	$1,023,000
Plan # 2	$649,000	$676,542	$758,900	$919,900	$450,990	$602,800	$639,000	$652,900	$825,900	$750,000	$977,500	$1,058,000
Plan # 3	$649,000	$659,105	$793,900	$959,900	$460,990	$612,800	$658,000	$679,900	$841,900	$787,000	$1,026,500	$1,135,000
Plan # 4	$669,000	$726,527	$807,900		$510,990	$606,800		$743,900	$879,900	$855,000		
Plan # 5	$736,000				$510,990	$644,800			$958,900			
Plan # 6					$525,990	$654,800			$975,900			
Plan # 7						$570,800						
Plan # 8						$624,800						
Plan # 9						$609,800						
Plan # 10						$684,000						
Averages	$661,096	$681,788	$776,636	$927,449	$468,870	$609,760	$632,797	$692,043	$862,778	$761,845	$983,830	$1,068,684
Market Segment-Averages >	$661,096		$781,570		$526,295		$663,746			$895,426		
Value Ratios : (Price / Living Area)	$359	$387	$383	$385	$322	$318	$344	$352	$313	$320	$302	$317
Market Segment-Averages >	$359		$385		$320		$348			$314		
Tax Burdes - Estimated												
Ad Valorem - Percent of Price	1.09%	1.09%	1.09%	1.09%	1.09%	1.09%	1.09%	1.09%	1.09%	1.09%	1.09%	1.09%
Special Taxes $/Yr - Avg.	$5,252	$5,097	$5,486	$6,583	$4,267	$5,549	$5,758	$6,298	$7,851	$6,933	$8,953	$9,725
*** Total Tax Burden %/Price**	1.88%	1.84%	1.80%	1.80%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

SECTION II

ECONOMIC AND REAL ESTATE FORECASTING MODEL UNDERLYING THE MARKET ABSORPTION STUDY FOR THE CFD NO. 2016-1 – VILLAGE OF ESENCIA

A. OVERVIEW OF THE ECONOMIC AND REAL ESTATE FORECASTING MODEL

This section describes the Economic and Real Estate Forecasting Model underlying the Market Absorption Study for the forthcoming residential projects in the CFD No. 2016-1 (Village of Esencia); accordingly, the primary components are as follows:

B. Critical Components of the Forecasting Model
- Employment as the Primary Driver of Housing Demand and Prices
- Mortgage Rates as a Secondary Economic Driver of Housing Demand and Prices
- Levels of Mortgage Defaults
- Sales of Existing and New Homes
- New Residential Development Activity

C. Recent Employment Trends/Patterns in the County of Orange
- Employment Trends/Patterns
- Unemployment Rates: California, Orange County and Select Cities

D. Extraordinary Factors Reducing the Demand of For-Sale Homes

E. Conclusion on Recent/Future Housing Market Conditions

RECENT/EXPECTED REAL ESTATE MARKET TRENDS/PATTERNS FOR THE MARKET REGION AND MARKET AREA

IMPACT OF EMPLOYMENT

STRONGER THAN ANTICIPATED EMPLOYMENT GROWTH ACCELERATES THE REAL ESTATE RECOVERY

EMPLOYMENT CHANGES, WHICH DEPEND UPON THE OVERALL ECONOMY, MAY SHIFT THIS PARADIGM

LOWER THAN ANTICIPATED EMPLOYMENT GROWTH ELONGATES THE REAL ESTATE RECOVERY

PHASE 1: PRICE DECLINES 2007 TO 2009

HOUSING PRICES ADJUST FROM PEAK LEVELS BACK TO EQUILIBRIUM, BASED UPON HOUSEHOLD INCOMES AND CONVENTIONAL FINANCING TECHNIQUES

PRICES DECLINE SIGNIFICANTLY DUE INITIALLY TO MORTGAGE RESETS AND THEN PRICE DECLINES CONTINUE DUE TO NEGATIVE EQUITY FOR HOMEOWNERS

PHASE 2: PRICES STABILIZE 2010 TO 2012

FORECLOSURE AND SHORT-SALES DOMINATED THE MARKET

FORECLOSURE/SHORT SALES WERE A SIGNIFICANT COMPONENT OF THE MARKET
MARKET SALES OF EXISTING HOMES WERE MODERATE
SALES OF NEW HOMES WERE MINIMAL – DISPLACED BY FORECLOSURE SALES

MOST OF THE HOMES THAT HAVE SIGNIFICANT LEVELS OF NEGATIVE EQUITY WERE CLEARED IN THE MARKETPLACE

PHASE 3: HOUSING MARKET RECOVERY 2013-2016+

MODERATE/STRONG EMPLOYMENT GROWTH IN ORANGE COUNTY, AS A WHOLE, AND ALSO SOUTHERN ORANGE COUNTY, IN PARTICULAR

EMPLOYMENT GROWTH DRIVES HOUSING DEMAND AND PRICE APPRECIATION, SO THE MARKET IS SUFFICIENTLY STRONG TO SUPPORT NEW RESIDENTIAL PROJECTS

BUT POTENTIAL NEAR-TERM CHALLENGES ARE REDUCING THE FEDERAL DEFICIT AND THE FEDERAL RESERVE RE-BALANCING ITS FINANCIAL ACCOUNTS

IMPACT OF MORTGAGE RATES

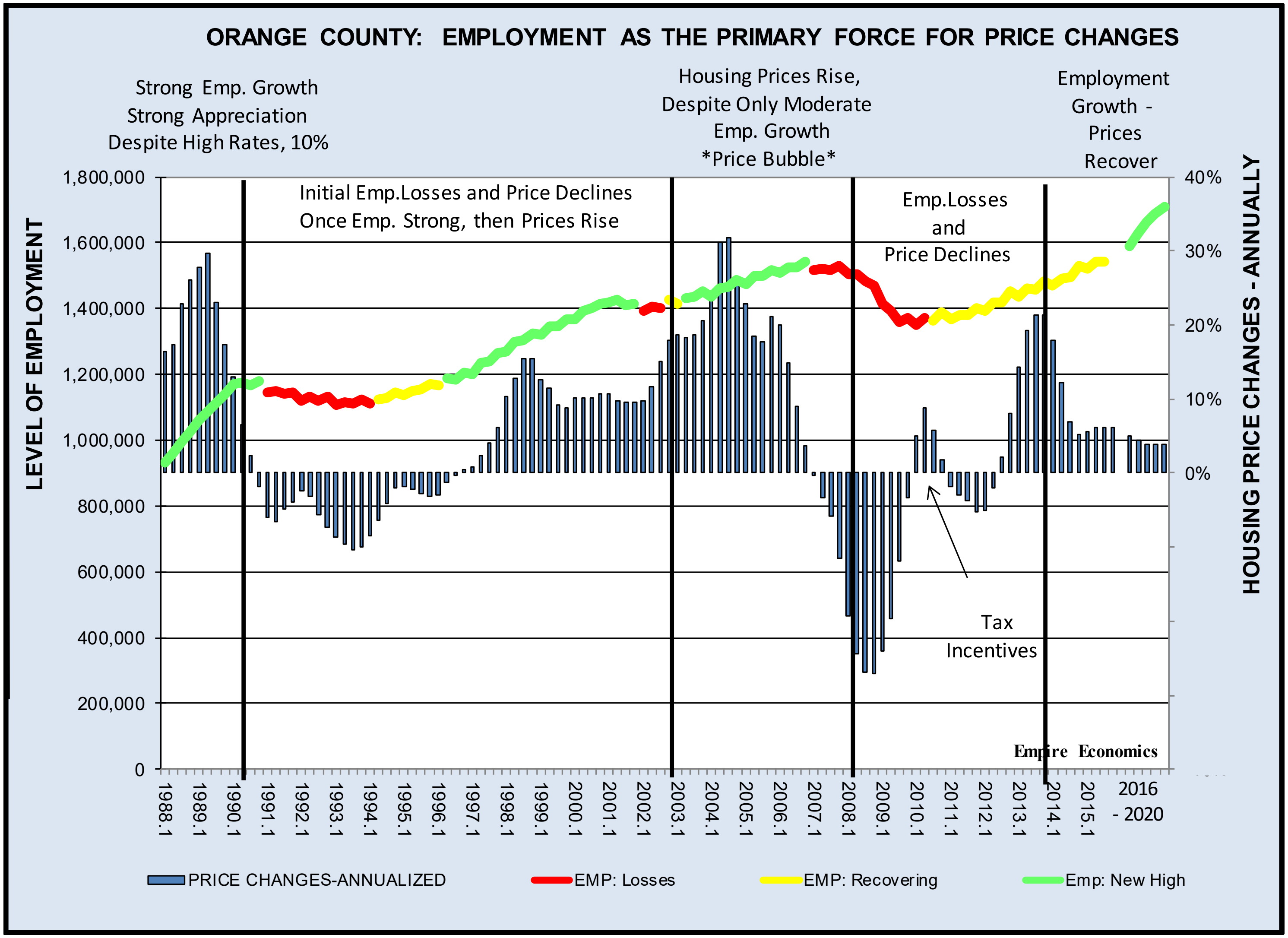
LOWER THAN ANTICIPATED MORTGAGE RATES ACCELERATE THE REAL ESTATE RECOVERY

THE LEVEL OF MORTGAGE RATES, WHICH DEPEND UPON THE RATE OF INFLATION, MAY SHIFT THIS PARADIGM

HIGHER THAN ANTICIPATED MORTGAGE RATES ELONGATE THE REAL ESTATE RECOVERY

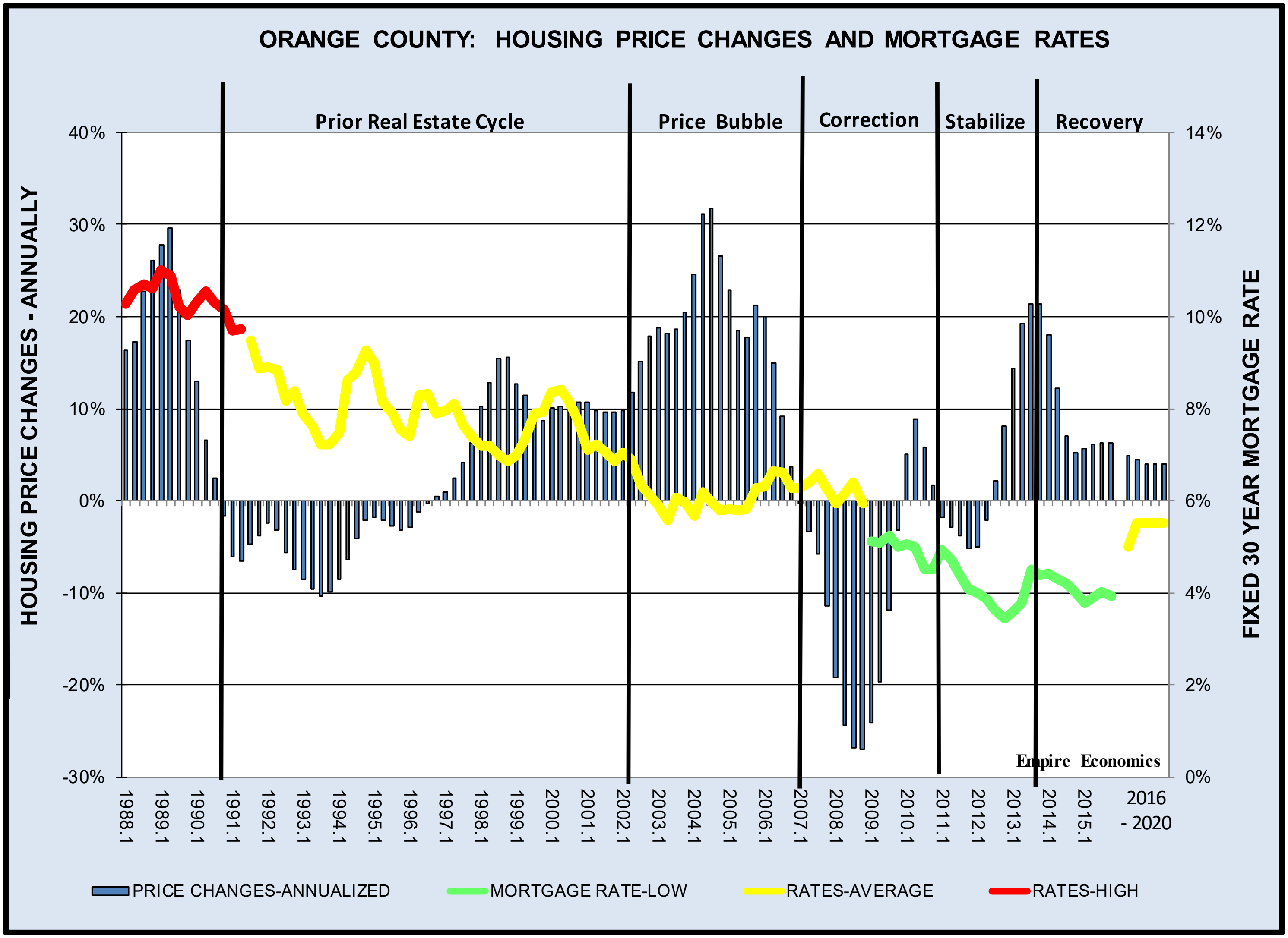
B. CRITICAL COMPONENTS OF THE FORECASTING MODEL

EMPLOYMENT IS THE **PRIMARY ECONOMIC DRIVER** OF HOUSING DEMAND AND PRICE CHANGES
EMPLOYMENT GROWTH/LOSSES **DRIVE DEMAND AND PRICE INCREASES/DECREASES**

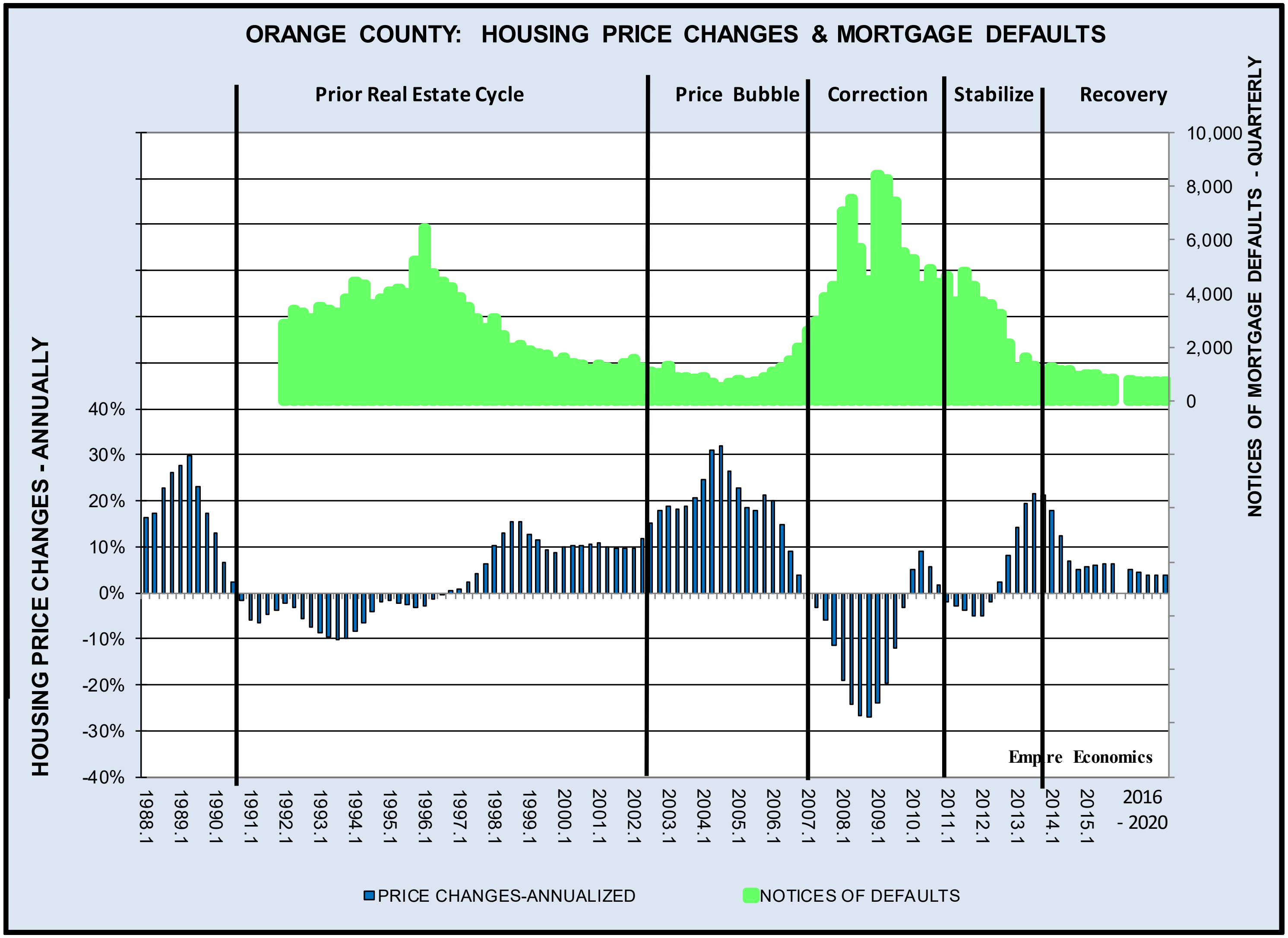


MORTGAGE RATES ARE A SECONDARY ECONOMIC DRIVER OF HOUSING PRICES:

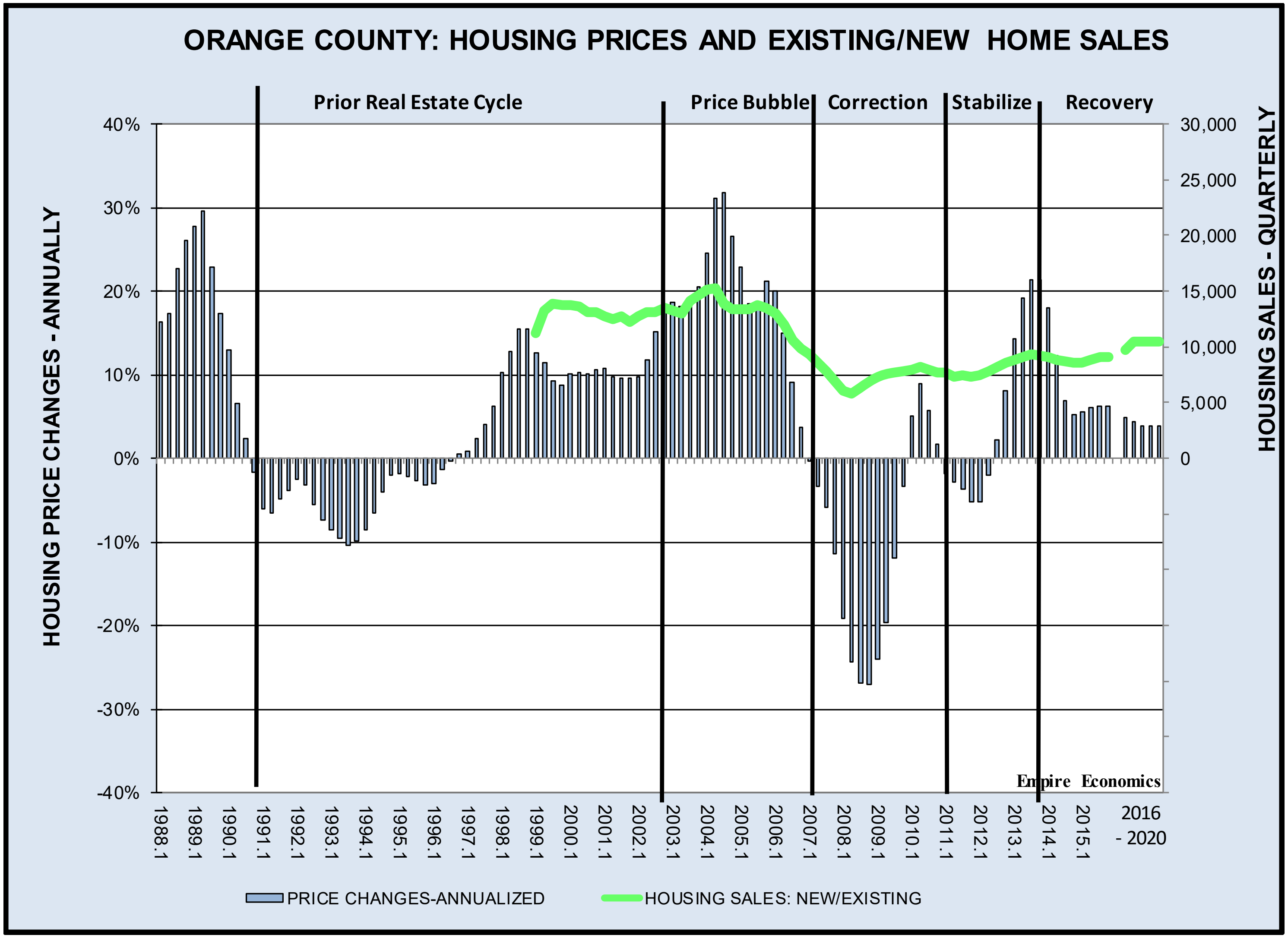
HIGH/LOW **MORTGAGE RATES HAVE A MODERATE INFLUENCE** ON HOUSING PRICES
LENDING CRITERIA ALSO PLAYS ROLE: LOOSE (2002-2006) VS. TIGHT (2010-2013)



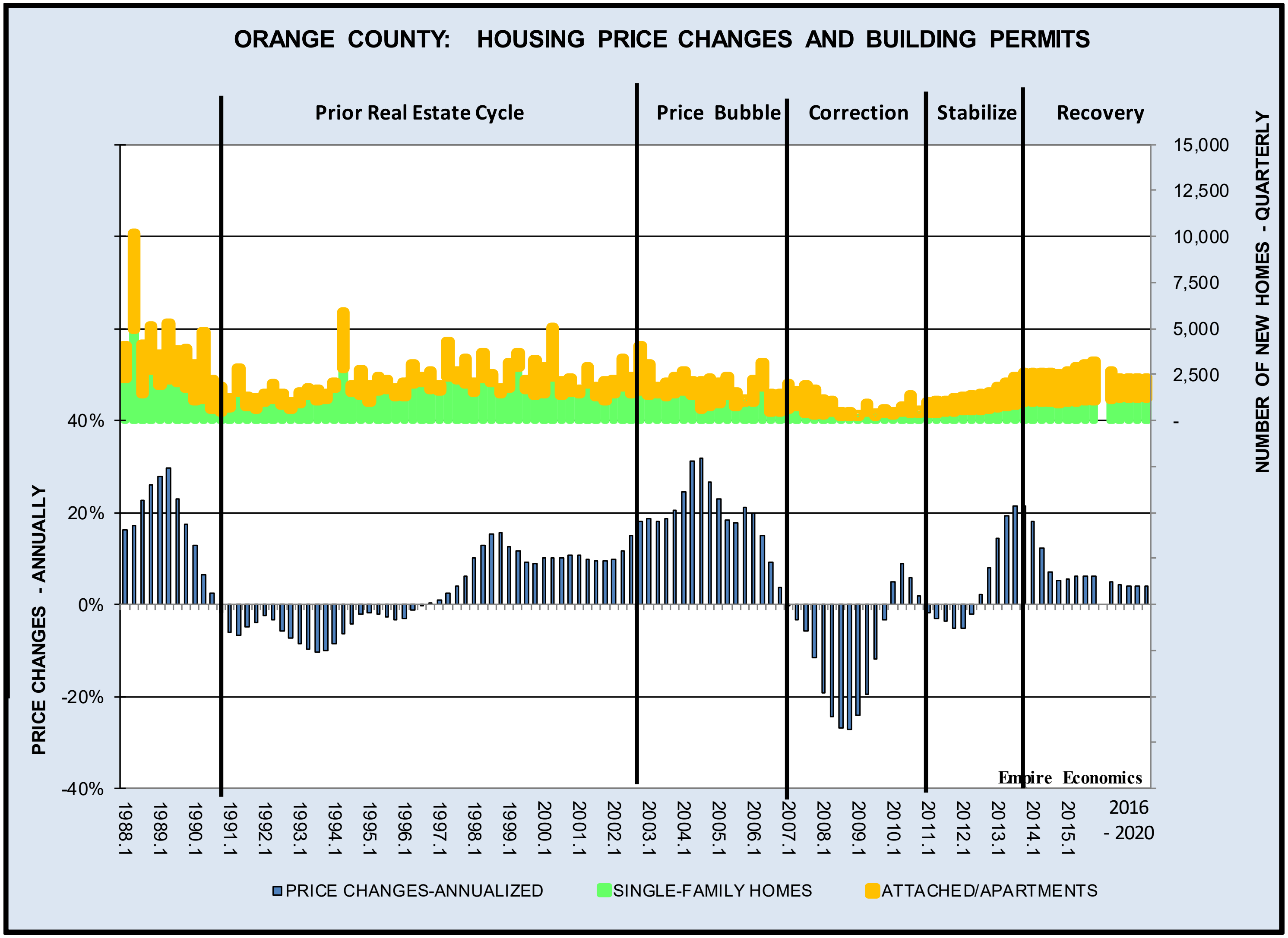
HIGH (LOW) **LEVELS OF MORTGAGE DEFAULTS** CONTRIBUTE TO PRICE DECLINES (STABILITY) DUE TO EXCESS SUPPLY AND PRICE DISCOUNTS



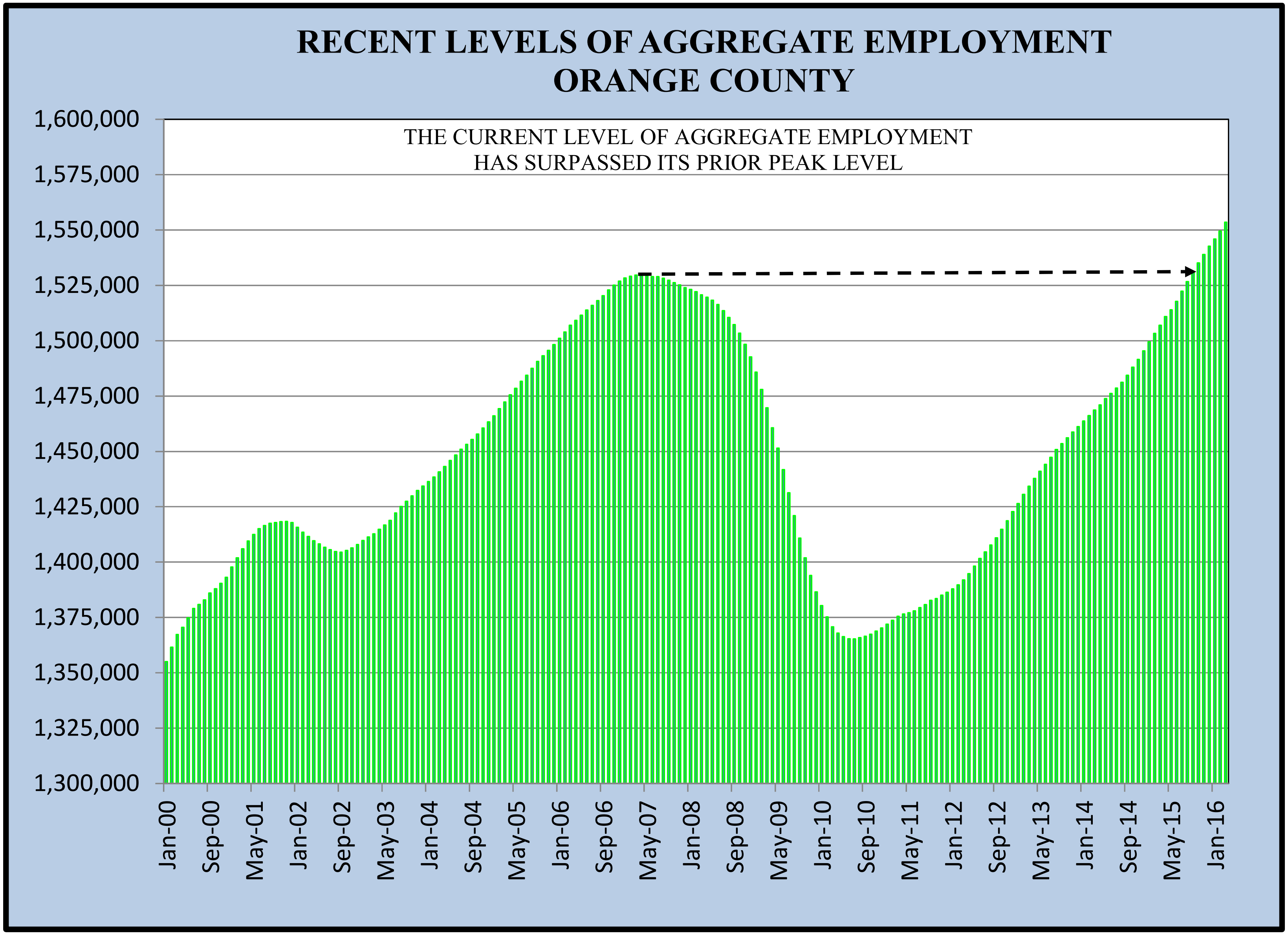
SALES OF EXISTING AND NEW HOMES ARE DRIVEN
PRIMARILY BY EMPLOYMENT GROWTH BUT ALSO MORTGAGE RATES

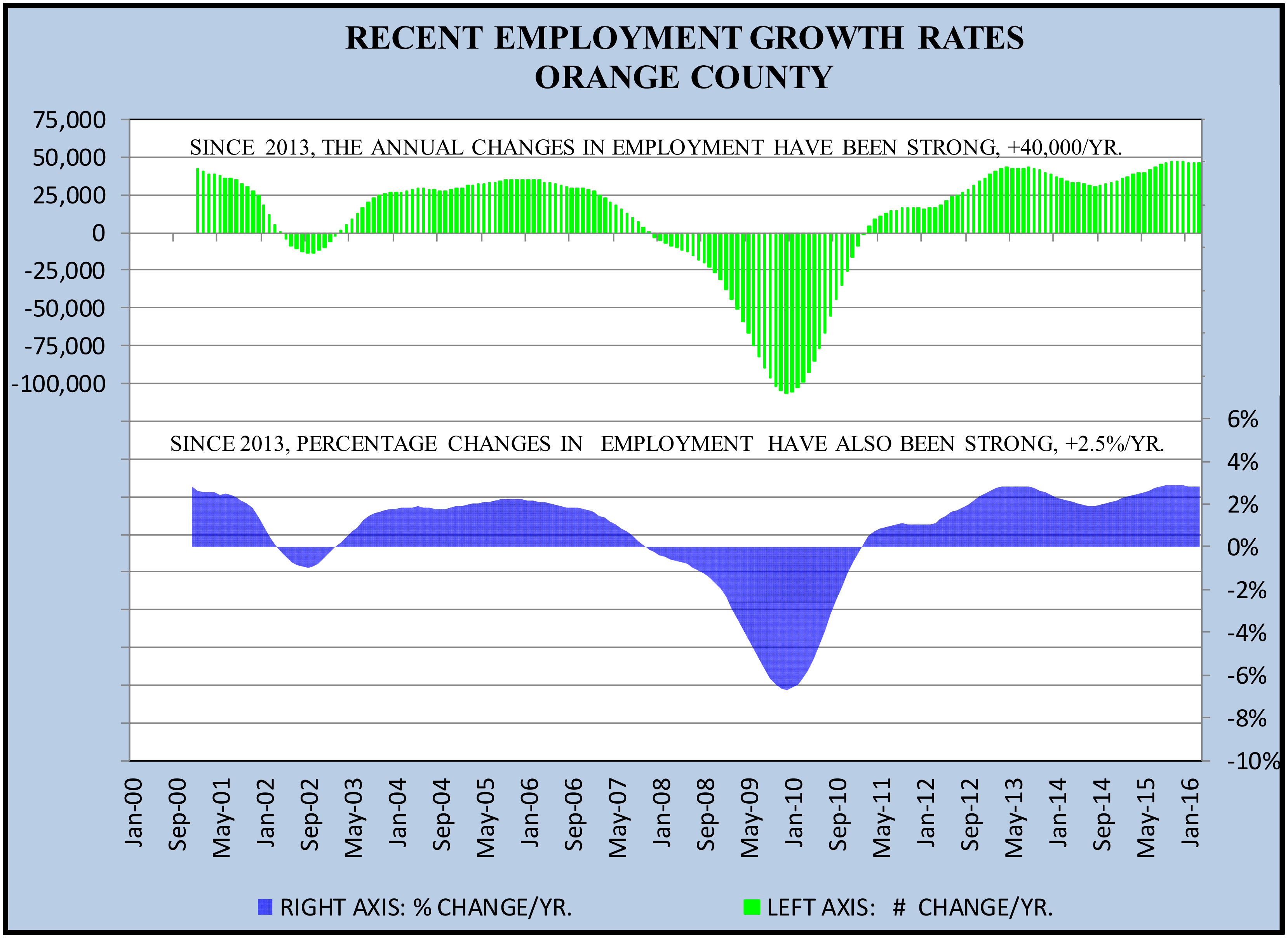


NEW RESIDENTIAL DEVELOPMENT ACTIVITY IS DRIVEN
BY EMPLOYMENT GROWTH AND HOUSING PRICE INCREASES

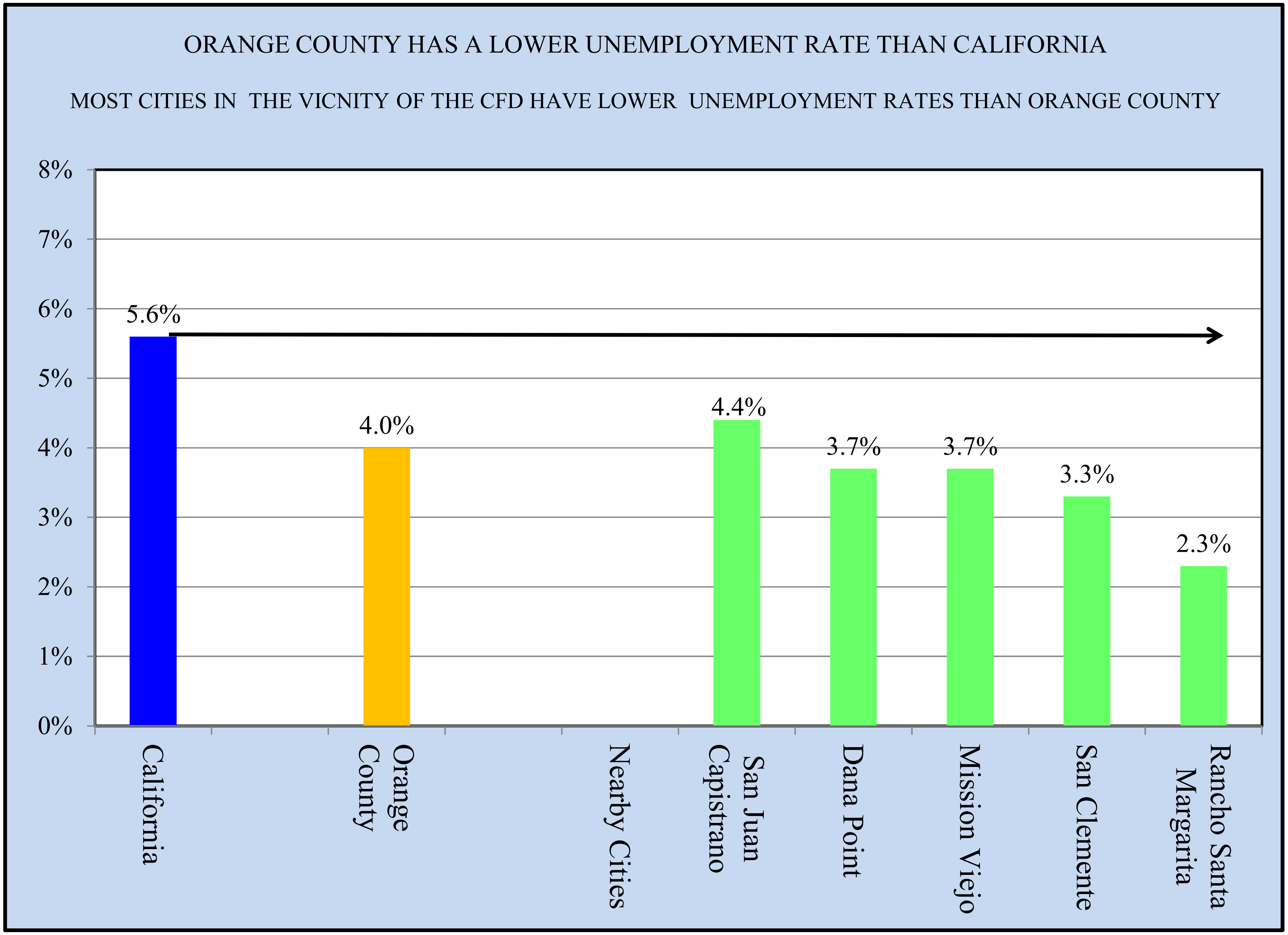


C. RECENT EMPLOYMENT TRENDS IN THE COUNTY OF ORANGE

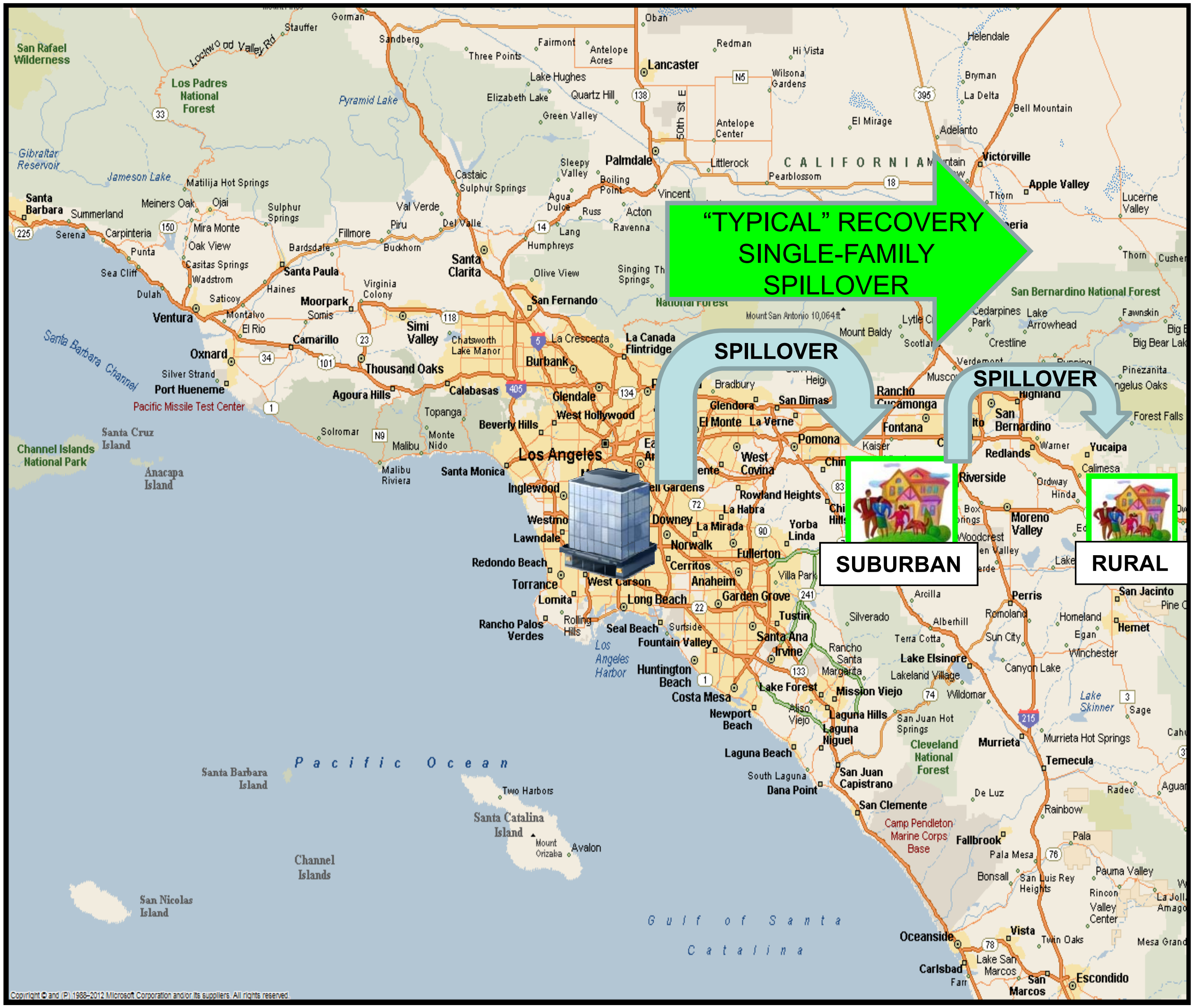



RECENT EMPLOYMENT GROWTH RATES
ORANGE COUNTY
SINCE 2013, THE ANNUAL CHANGES IN EMPLOYMENT HAVE BEEN STRONG, +40,000/YR.
SINCE 2013, PERCENTAGE CHANGES IN EMPLOYMENT HAVE ALSO BEEN STRONG, +2.5%/YR.
75,000
50,000
25,000
0
-25,000
-50,000
-75,000
-100,000
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
Jan-00
Sep-00
May-01
Jan-02
Sep-02
May-03
Jan-04
Sep-04
May-05
Jan-06
Sep-06
May-07
Jan-08
Sep-08
May-09
Jan-10
Sep-10
May-11
Jan-12
Sep-12
May-13
Jan-14
Sep-14
May-15
Jan-16
RIGHT AXIS: % CHANGE/YR.
LEFT AXIS: # CHANGE/YR.

RECENT ORANGE COUNTY UNEMPLOYMENT RATES: MARCH 2016



EMPLOYMENT *TYPICALLY* GENERATES SPILLOVER TO SUBURBAN AND RURAL INLAND AREAS



D. EXTRAORDINARY FACTORS REDUCING THE DEMAND FOR FOR-SALE HOMES

MILLENNIALS' (18-34) PREFERENCES AND FINANCES → HIGHER-DENSITY / URBANIZED HOUSING

CULTURAL PREFERENCES

- PROXIMITY TO COMMUNITY AND URBAN ACTIVITIES
- PROXIMITY TO OFFICE - MINIMIZES COMMUTING TIME
- RESORT-LIKE AMENITY PACKAGES: CONCIERGE SERVICE, GYM AND SWIMMING POOL
- CONVENIENCE: NO YARD WORK OR MAINTENANCE OR REPAIRS
- WAITING LONGER TO GET MARRIED AND STARTING A FAMILY

FINANCIAL FACTORS

- SIGNIFICANT STUDENT DEBT: ADVERSELY IMPACTS DOWN PAYMENT AND MORTGAGE QUALIFICATION
- RENTING PROVIDES MORE JOB FLEXIBILITY (CHANGE JOBS/FIRMS MORE FREQUENTLY)
- SOME EVEN PAY VERY HIGH RENTS, RATHER THAN PURCHASE A HOME

PARENTS: GENERATION X (AGES 35-54) IMPACTED BY IMPLOSION OF HOUSING PRICE BUBBLE

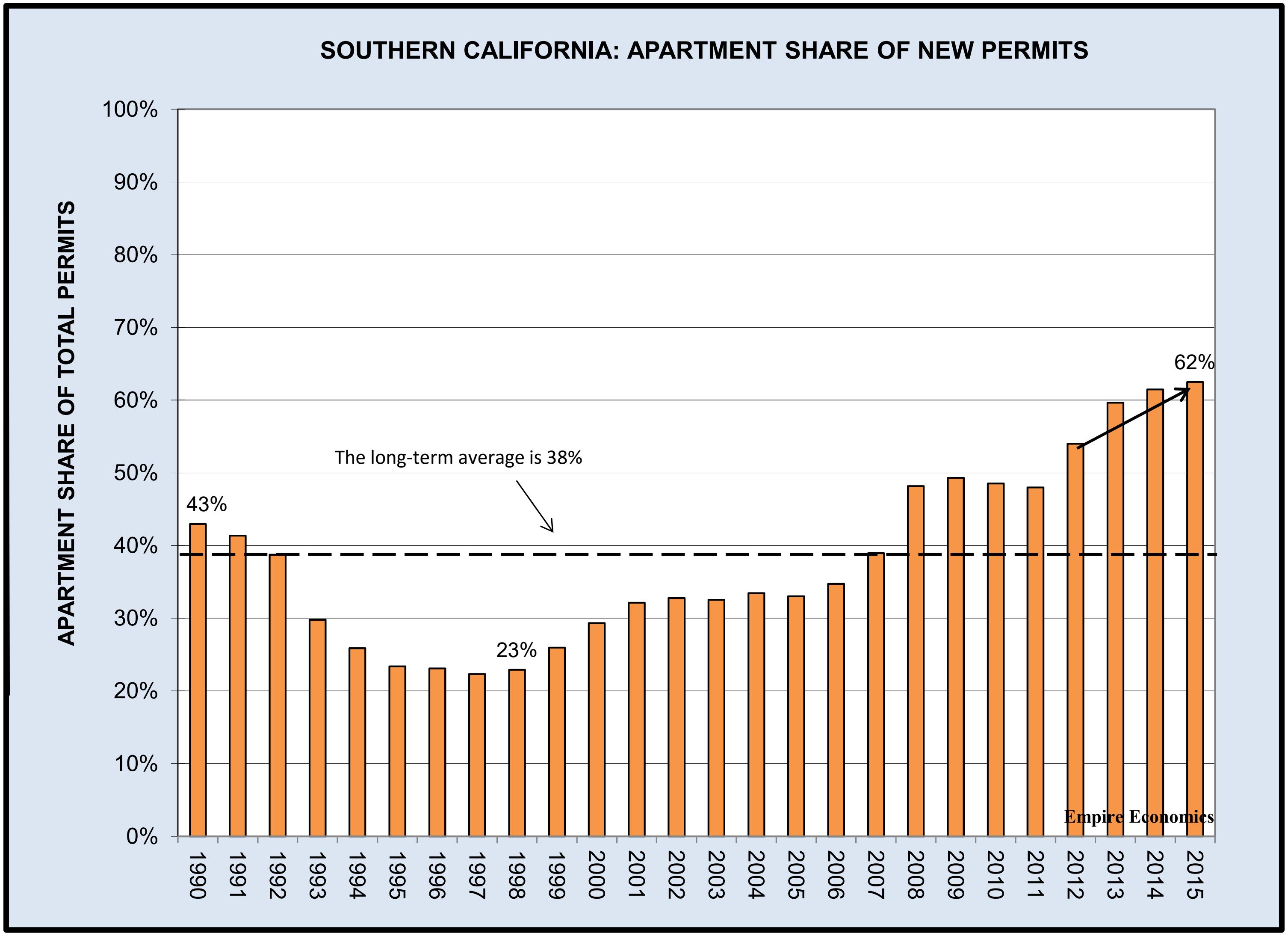
D. EXTRAORDINARY FACTORS REDUCING THE DEMAND FOR FOR-SALE HOMES (CON'T.)

OTHER FACTORS POTENTIALLY RESTRAINING THE DEMAND FOR SINGLE-FAMILY HOMES

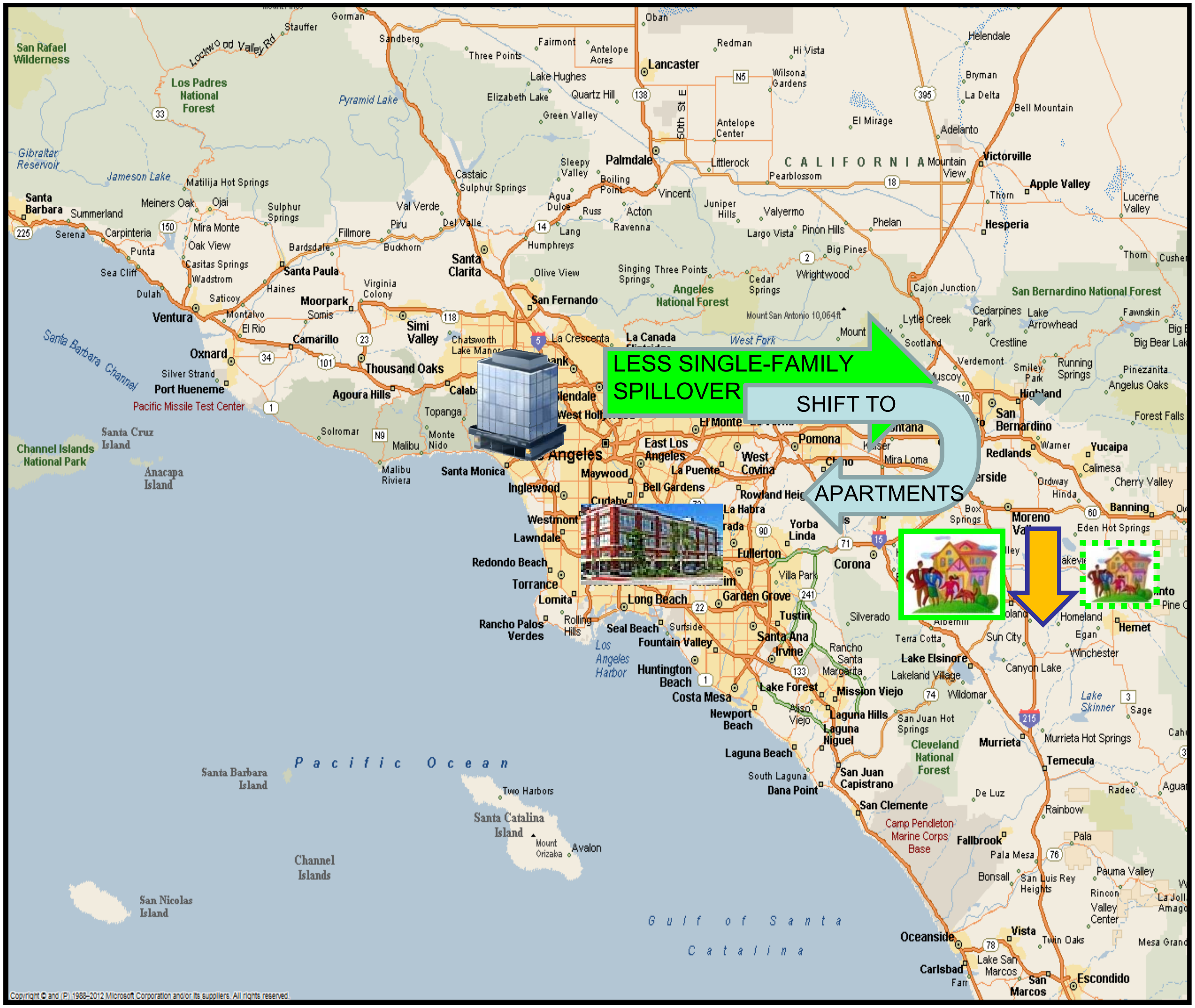
1. HOMEOWNERSHIP HAS DECLINED FROM 60%-2005 TO 54%-2014	→	REDUCED DEMAND FOR NEW SINGLE-FAMILY HOMES
2. INCREASES IN SINGLE FAMILY RENTALS	→	REFLECT A TRANSFORMATION OF THE EXCESS HOUSING MARKET BUBBLE SINGLE-FAMILY OWNERSHIP TO RENTALS
3. MODERATE FUTURE PRICE EXPECTATIONS	→	RESTRAINED BUYER CONFIDENCE
4. SIGNIFICANT SUPPLY OF NEW APARTMENT PROJECTS IN THE PIPELINE	→	WILL CONTINUE TO PROVIDE COMPETITIVE ALTERNATIVE TO HOME OWNERSHIP

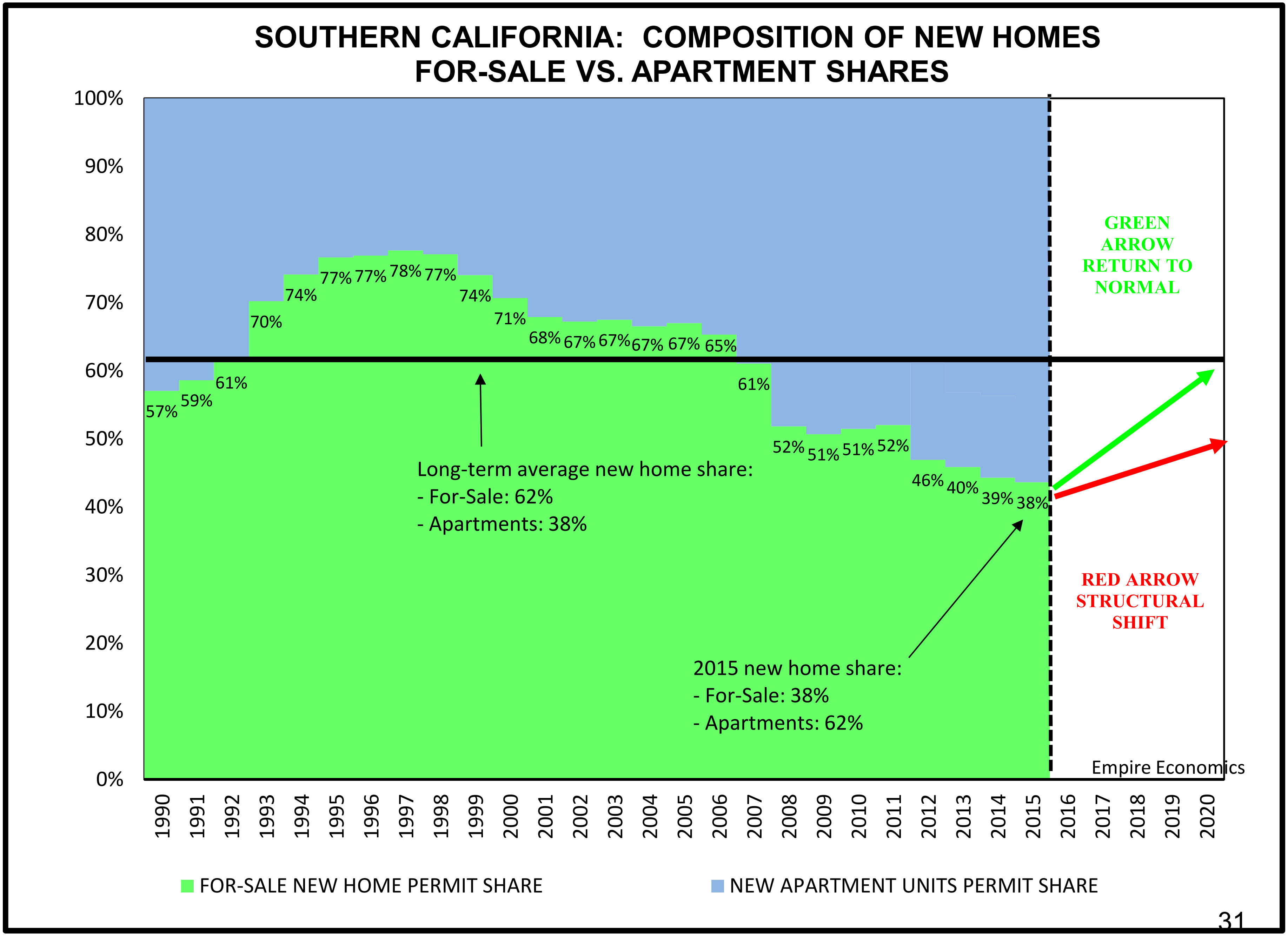
COMBINED IMPACT OF FAVORABLE AND CONSTRAINING FACTORS - HIGHER SHARE OF APARTMENTS

MILLENNIALS ARE RAISING THE SHARE OF APARTMENTS TO VERY HIGH LEVELS



ALTHOUGH EMPLOYMENT GROWTH IS STRONG,
EXTRAORDINARY SPECIAL FACTORS ARE CAUSING MAJOR MARKET SHIFTS





SOUTHERN CALIFORNIA: COMPOSITION OF NEW HOMES
FOR-SALE VS. APARTMENT SHARES
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
57%
59%
61%
70%
74%
77%
77%
78%
77%
74%
71%
68%
67%
67%
67%
67%
65%
61%
52%
51%
51%
52%
46%
40%
39%
38%
Long-term average new home share:
- For-Sale: 62%
- Apartments: 38%
2015 new home share:
- For-Sale: 38%
- Apartments: 62%
GREEN ARROW RETURN TO NORMAL
RED ARROW STRUCTURAL SHIFT
Empire Economics
1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020
FOR-SALE NEW HOME PERMIT SHARE
NEW APARTMENT UNITS PERMIT SHARE

SOUTHERN CALIFORNIA – TYPES OF NEW HOUSING PRODUCTS BY GEOGRAPHIC AREAS

NEW FOR-SALE HOMES

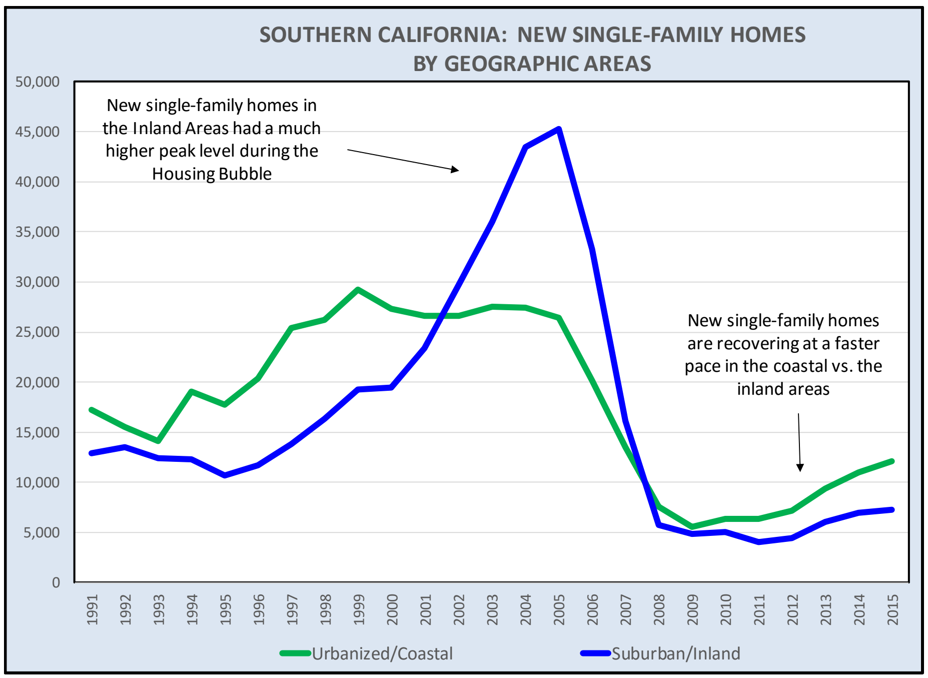
NEW FOR-SALE HOME ACTIVITY RECOVERY:

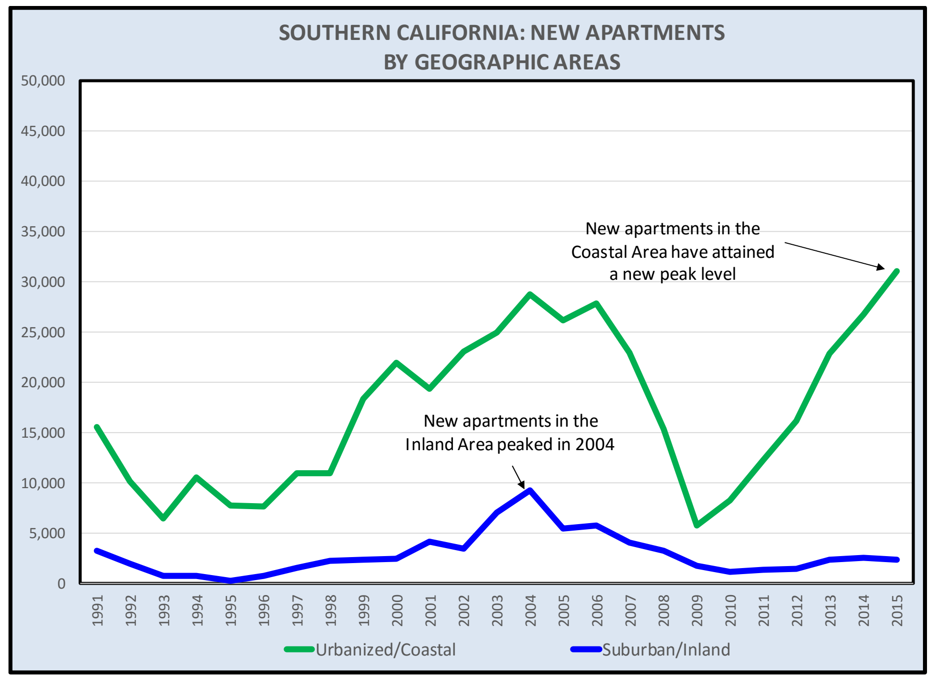
* MODERATE PACE IN THE URBANIZED AREAS
* BUT AT A SLOW PACE IN THE INLAND AREAS

APARTMENT RENTALS

NEW APARTMENT ACTIVITY RECOVERY:

* STRONG PACE IN THE URBANIZED AREAS,
* BUT MINIMAL LEVELS IN THE INLAND AREAS





E. CONCLUSIONS ON RECENT/FUTURE HOUSING MARKET CONDITIONS

The recent trends/patterns in Orange County's economy and housing market, along with Empire's forecast for economic growth and housing demand based upon its Designated Economic and Real Estate Scenario, are now discussed.

Price Appreciation: Starting in 2002, housing prices began to appreciate as mortgage rates declined. Then during 2004 to 2006 the rate of appreciation accelerated due to the pervasive use of non-conventional (creative) financing structures. During this time period, these financing structures and related financing factors, rather than employment growth, were the primary driving forces underlying the extraordinary rate of housing price appreciation for California and also for Orange County.

Price Declines – Negative Equity: During 2007 to 2009, housing prices decreased significantly, pushing a substantial proportion of homeowners who purchased their homes during the price bubble into a position of negative equity, especially those that had high loan to value ratios. The enormous number of homeowners under duress caused an over-supply of homes which, in turn, severely depressed new development activity.

Foundation for Recovery: Since 2009, and continuing through 2012, housing prices were relatively stable, and this enabled the housing market to go through a consolidation phase:

- Some homeowners with negative equity went through the foreclosure and short sales process.
- These homes, in turn, were purchased by new bona-fide homeowners as well as investors that benefited from lower prices. Although mortgage rates were very favorable, mortgage lending criteria were tighter for households and many investors were cash buyers.

Market Recovery During 2013: The housing market experienced a strong level of demand from home purchasers as well as investors who were attracted by the oversold market conditions, and their demand resulted in housing price increases of some 20% for Southern California, including Orange County.

Normal Market Conditions During 2014+: Employment, the traditional driver of housing price appreciation, is expected to continue to increase, and this will enable the housing market to return to its "historical" rate of price appreciation. However, unlike other recoveries, this recovery is expected to be only moderate, rather than robust, due to the following macroeconomic conditions:

- Reducing the Federal Deficit through higher tax rates, reduced deductions and lower spending.
- Federal Reserve Board re-balancing its accounts by selling recently purchased securities.

Economic Strength of the County of Orange: <u>The County of Orange is regarded as having favorable prospects, considering its recent growth rates as well as the size and diversity of its employment-economic base, along with its relatively low unemployment rate. These economic factors along with its future employment growth, will generate a strong level of demand for housing thereby providing support for the residential projects in CFD No. 2016-1. The potential impact of millennials choosing to reside in apartments due to cultural factors as well as financial challenges, is expected to have only a moderate impact on the demand for for-sale housing in Orange County, since it is a coastal/urbanized area.</u>

SECTION III

OVERVIEW OF DEVELOPMENT TRENDS/PATTERNS AND SOCIOECONOMIC FACTORS

This section discusses the employment and residential development trends/patterns in the general vicinity of CFD No. 2016-1 as well as the County of Orange, and also the socioeconomic factors that households consider when purchasing a home, such as personal safety as well as educational quality.

A. DEVELOPMENT TRENDS/PATTERNS IN THE MARKET AREA (SOUTH ORANGE COUNTY)

From a geographical regional perspective, the marketing potential of the forthcoming products in CFD No. 2016-1 involves an analysis of the existing/active/forthcoming Planned Communities, Retail Centers and Business Parks, in conjunction with the transportation system in south Orange County. South Orange County includes the portion of Orange County that is generally southerly of Route 55, spanning from the Newport-Tustin-Irvine at the northern portion, Aliso Viejo in the central area, and to San Clemente at the southern portion.

Business Parks generate employment through their industrial-office development while Planned Communities generate residential development which, in turn, generates a demand for Retail Centers; additionally, the flow of traffic between them is facilitated by the freeways and transportation corridors between them.

- **Primary Employment Center and Business Parks**

The currently established major employment center in south Orange County is the City of Irvine. For example, the City of Irvine has a robust economic base that has created 85,000+ net new jobs since 2003. There are also some secondary employment centers, such as Newport Beach, Aliso Viejo and Foothill Ranch, among others.

- **Commuting Patterns: Employment Centers to Residential Areas**

The employment growth in the primary as well as the secondary employment centers, in turn, generates a substantial demand for housing in CFD No. 2016-1 Market Area. Some of the households employed in the City of Irvine, due to its high housing prices, will seek moderately priced housing in other areas. Their commuting patterns are based upon the available transportation corridors, including the Interstate 5 freeway that links the City of Irvine to CFD No. 2016-1.

Therefore, CFD No. 2016-1 is situated in the south portion of Orange County, and it offers more moderately priced housing opportunities for households that are employed in the Irvine-Tustin-Newport Beach and Aliso Viejo employment centers.

For additional information on the regional development patterns, please refer to the following exhibit.

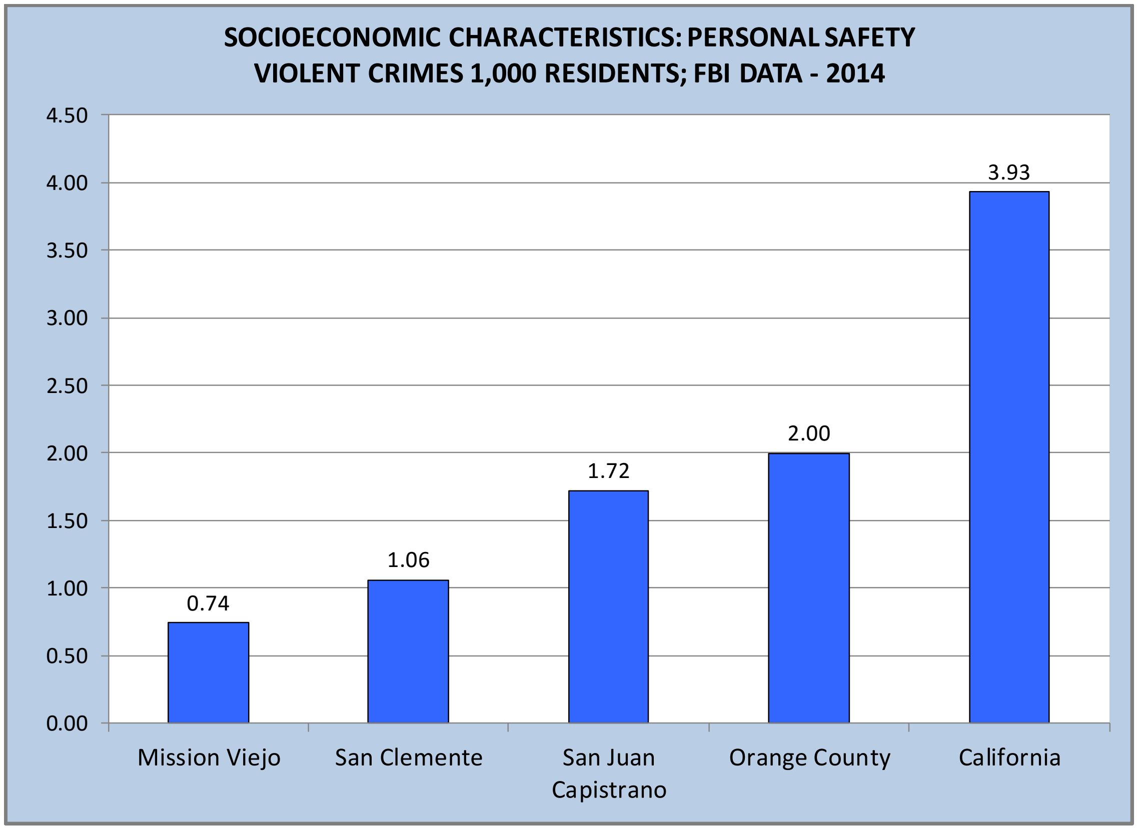
ECONOMIC BASES IN SOUTH ORANGE COUNTY THAT GENERATE A DEMAND FOR HOUSING FOR CFD NO. 2016-1

B. SOCIOECONOMIC CHARACTERISTICS: CRIME LEVELS AND THE QUALITY OF SCHOOLS

When households consider the purchase of a home, the primary factors are the location of the residence relative to their place of employment and also the prices that they can afford. Furthermore, secondary socioeconomic factors that are significant include the neighborhood safety as well as the educational quality of the schools; accordingly, these are now discussed.

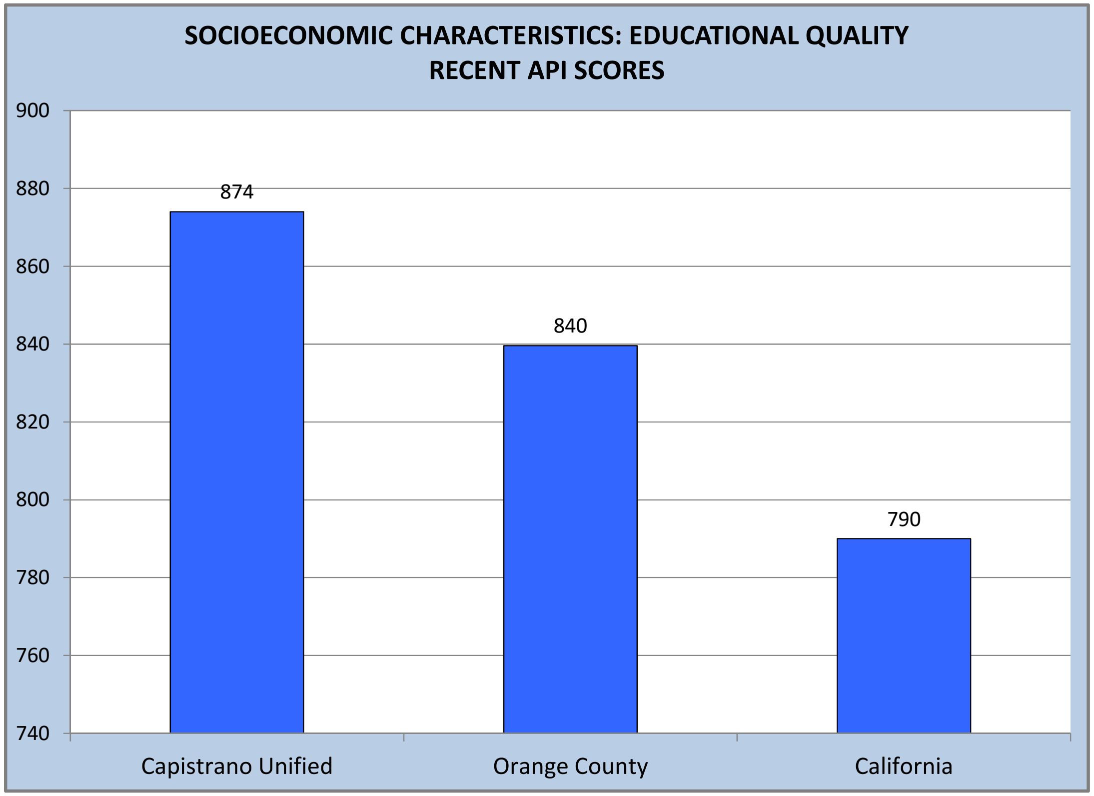
Crime Levels and Safety in the County of Orange

To gauge the safety of the cities in the vicinity of CFD No. 2016-1, information on crime levels was obtained utilizing the most recent data available (the 2014 calendar year) from the Federal Bureau of Investigation (FBI) Index, with a focus on "Violent Crimes." Accordingly, the County of Orange had a violent crime rate of 2.00, below that of California, which amounted to 3.93. Furthermore, the cities in the vicinity of CFD No. 2016-1 all had lower crime rates than the County of Orange, and these ranged from 0.74 for Mission Viejo to 1.72 for San Juan Capistrano.



Quality of Schools and Education

To gauge the quality of schools in the vicinity of CFD No. 2016-1, information was compiled on educational achievement for Capistrano Unified School District utilizing the Academic Performance Index Scores (API), published by the California Department of Education; the most recent report available. Accordingly, the Capistrano Unified School District has an API of 874, higher than the overall average for Orange County of 840 and also higher than for California of 790 as a whole.



Conclusions

From a socioeconomic perspective, the cities in the vicinity of CFD No. 2016-1 have a significantly lower crime rate and the school district has a higher educational achievement level than for Orange County and California; accordingly, these positive socioeconomic factors support the demand for the forthcoming homes in CFD No. 2016-1.

SECTION IV

COMPETITIVE MARKET ANALYSIS OF THE RESIDENTIAL PROJECTS IN THE CFD NO. 2016-1 COMPETITIVE MARKET AREA

The purpose of this section is to perform an analysis of the product types, prices, living areas and special taxes for the forthcoming homes in CFD No. 2016-1 as compared to other comparable/competing projects in various Planned Communities in the Competitive Market Area (south Orange County), in order to evaluate their competitiveness in the marketplace.

A. IDENTIFICATION OF NEWLY DEVELOPING PLANNED COMMUNITIES WITH MARKET COMPARABLE PROJECTS

Market surveys were performed to identify the newly developing Planned Communities in the Competitive Market Area (CMA) and then information was compiled on the characteristics of their projects.

Identification of currently active comparable projects offering **"attached as well as single-family detached"** homes.

- ✓ Projects that are situated in Planned Communities (PCs).
- ✓ Projects that have similar products types and sizes of living areas to CFD No. 2016-1, both for attached and detached homes.

Compilation of information on the projects:

- ✓ Product Type
- ✓ Number of homes planned and number of escrows closed
- ✓ Current base prices
- ✓ Living Areas
- ✓ Special Taxes/Assessments

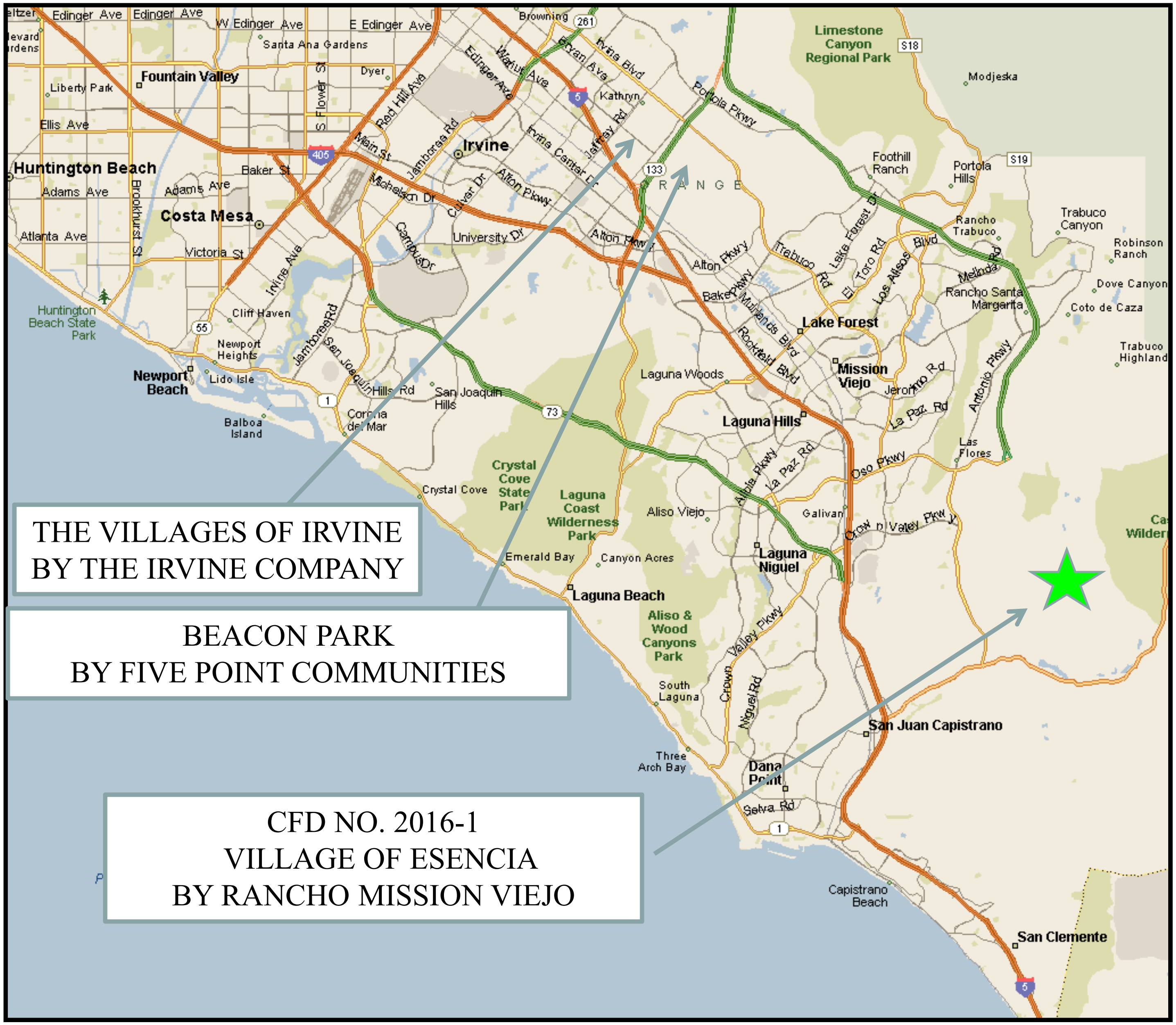
Based upon Empire's market surveys, there are three major Planned Community Areas (PCs) that have currently active projects with attached as well as detached housing products that are located in the CMA; these are as follows:

- ✓ CFD 2015-1, the first phase of Villages of Esencia, also developed by Rancho Mission Viejo and located just south of CFD 2016-1
- ✓ Villages of Irvine: PCs being developed by The Irvine Company, located in easterly Irvine
- ✓ Beacon Park: PC by Five Point Communities, also located in easterly Irvine

(Note: Baker Ranch: PC by Shea/Toll Brothers located in Lake Forest is NOT included since it is a smaller PC and it does not have a CFD.)

Please refer to the map on the following page for locations of these Planned Community Areas.

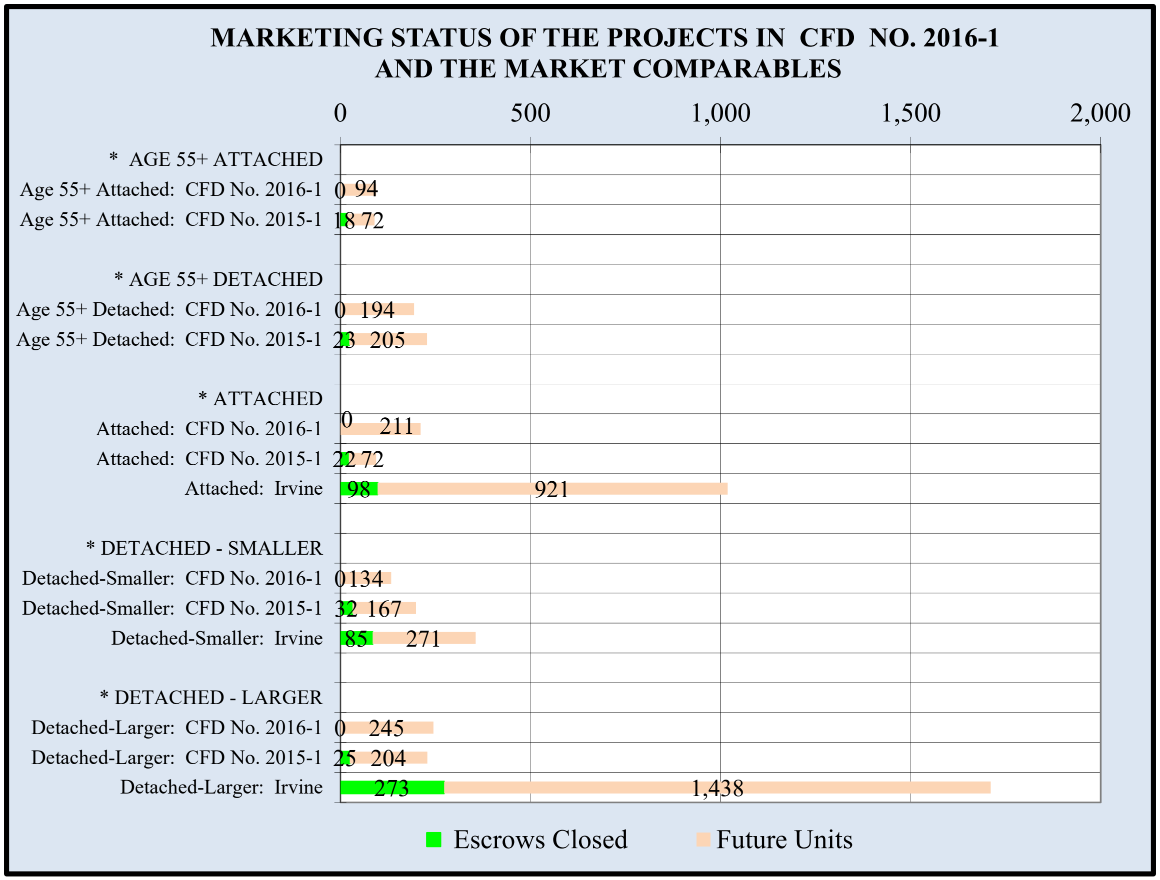
CFD NO. 2016-1 COMPETITIVE MARKET ANALYSIS
COMPARABLE PLANNED COMMUNITIES



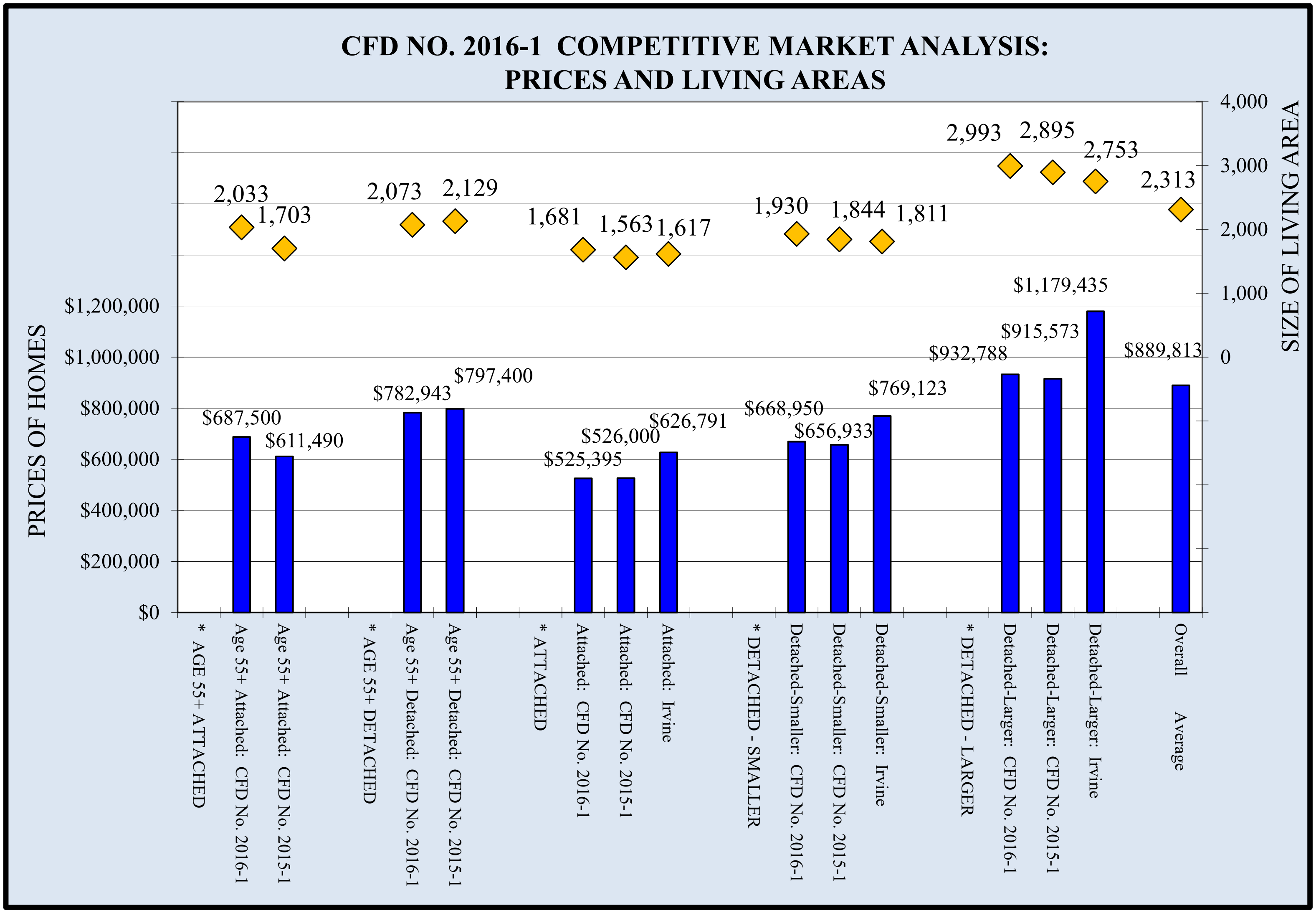
B. COMPETITIVE MARKET ANALYSIS FOR THE FORTHCOMING FOR-SALE PROJECTS IN THE CFD NO. 2016-1 MARKET AREA

A Competitive Market Analysis of the projects in CFD No. 2016-1 is now performed, by comparing their expected characteristics to the currently active comparable projects in the Competitive Market Area (CMA), which includes CFD No. 2015-1 as well as The Villages of Irvine and Beacon Park.

There are a total of 54 active/near-term projects in the CMA, including 12 in CFD No. 2016-1, and these were categorized by the five market segments for age-qualified 55+ attached, age-qualified 55+ detached, all ages attached, all ages smaller detached, and all ages larger detached. These projects have a total of 4,804 homes of which 576 (12%) have closed escrows, and so here are another 4,228 (88%) for future escrow closings; their development status by market segments are as follows:



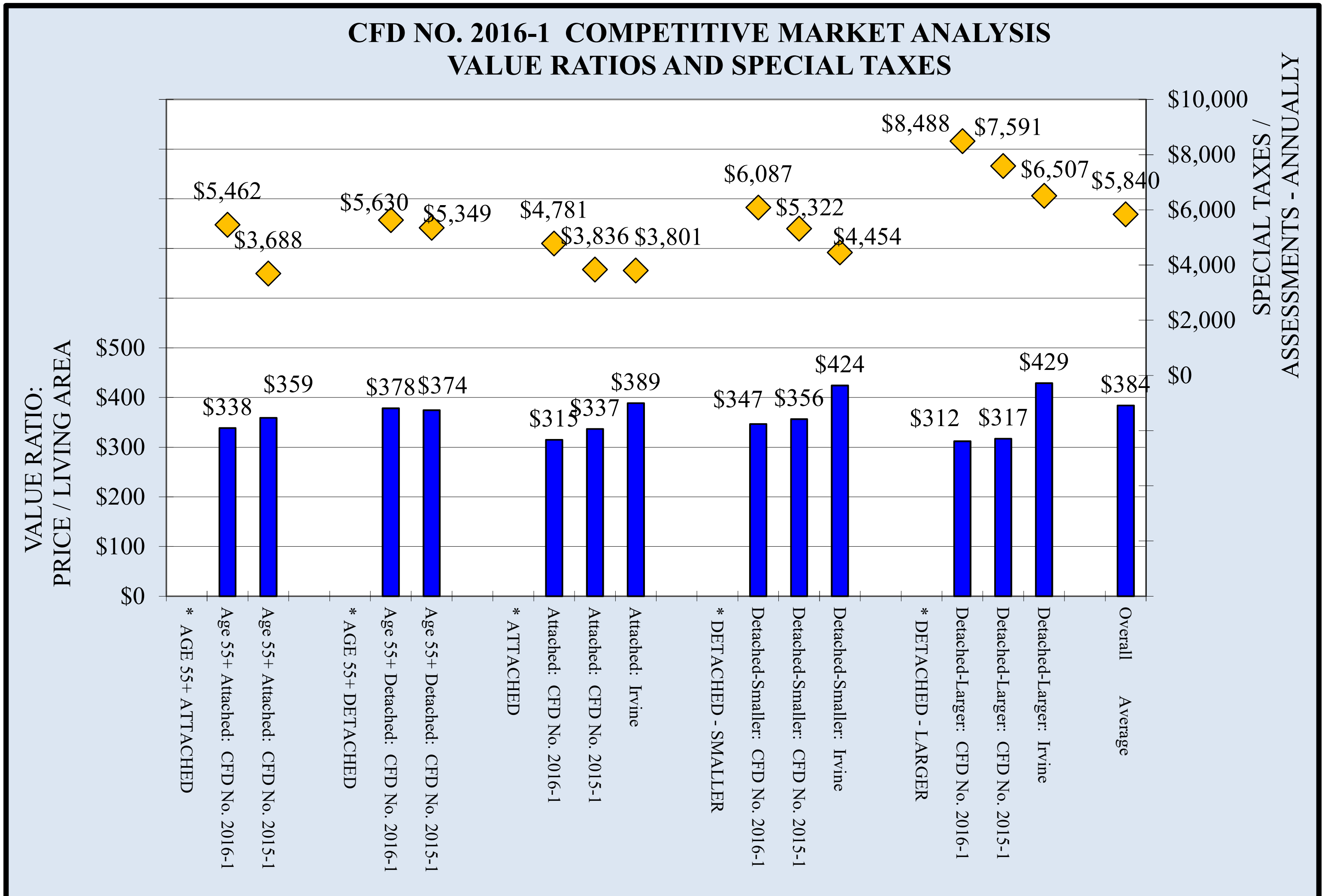
For the forthcoming projects in CFD No. 2016-1 as well as the currently active projects, their prices amount to about $889,113, on the average, and their living areas amount to 2,313 sq.ft., on the average; their pricing and living area characteristics by the various market segments are as follows:



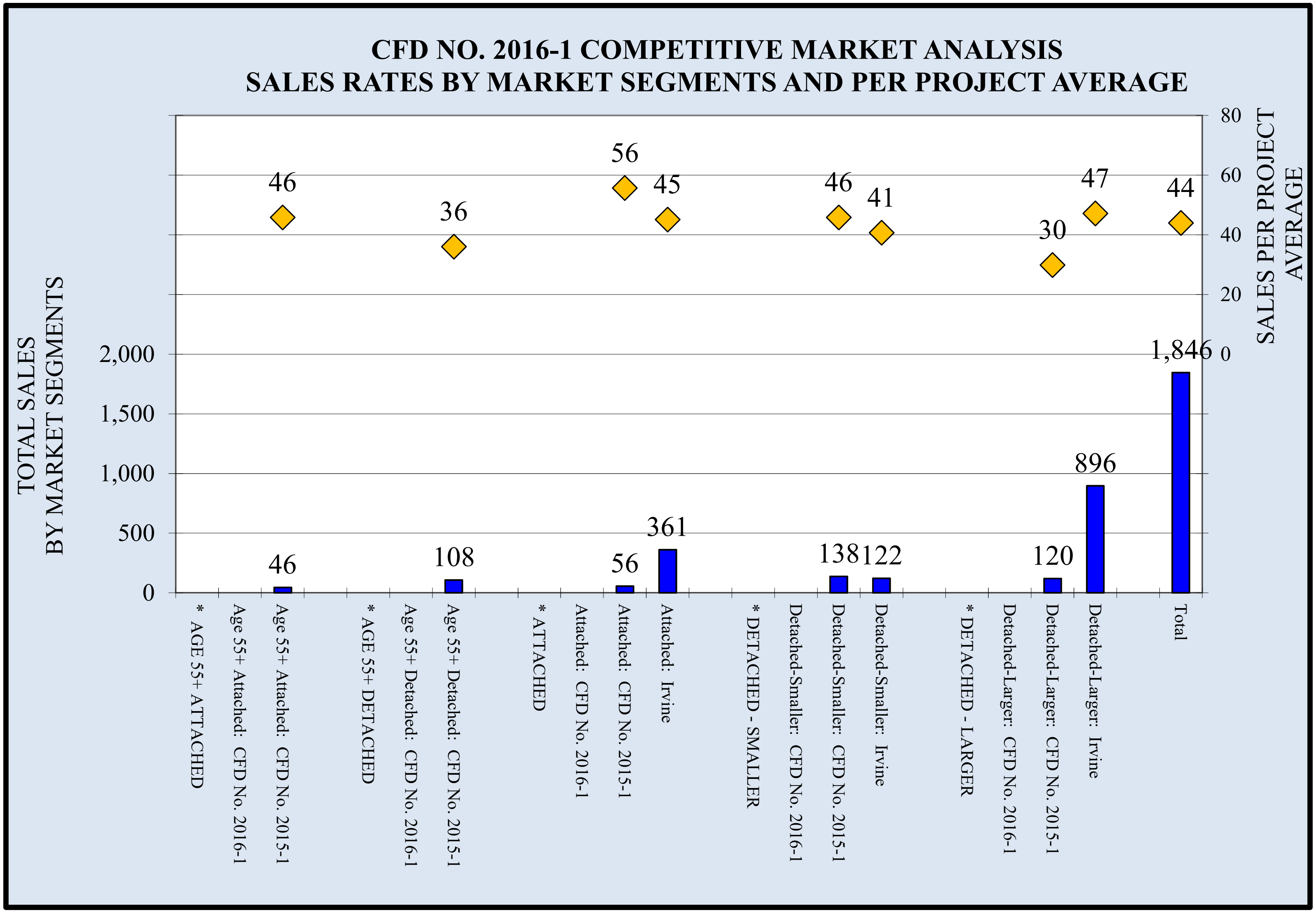
For all of the projects as a whole, their value ratio (price/living area) amounts to $384/sq.ft., and their Special Taxes amount to $5,840 per year, or 0.67% of the housing price, on the average; their value ratios and special taxes by the various market segments are on the following graph.

The price differential between active projects in Irvine and Esencia CFD No. 2015-1 for the various market segments are as follows:

- Attached Products: Esencia lower by -13%
- Detached Smaller (about 2,000) sq.ft.: Esencia is lower by -16%
- Detached Larger (about3,000) sq.ft.: Esencia is lower by -26%



For all of the active comparable projects in the relevant PCs (excluding the CFD No. 2016-1 projects), their overall sales rate amounts to 1,846 homes per year, or some 44 homes per year per project, on the average; their sales by the various market segments are as follows:



The culmination of the Competitive Market Analysis involves a statistical comparison of the currently active comparable projects (CFD 2015-1 as well as the PCs in Irvine: Villages of Irvine and Beacon Park) to the forthcoming projects in CFD No. 2016-1, using their total housing prices (base price plus Special Tax liens and excluding options/upgrades) and their sizes of living area; this is performed for the following:

- ✓ 1. Attached Product: Both Age-Qualified and All Ages: Prices tends to be similar for both age groups.
- ✓ 2. Detached Products: Age Qualified 55+: Prices tend to be higher since these are often single-story.
- ✓ 3. Detached Products: All Ages: This encompasses all of the non age-qualified detached homes.

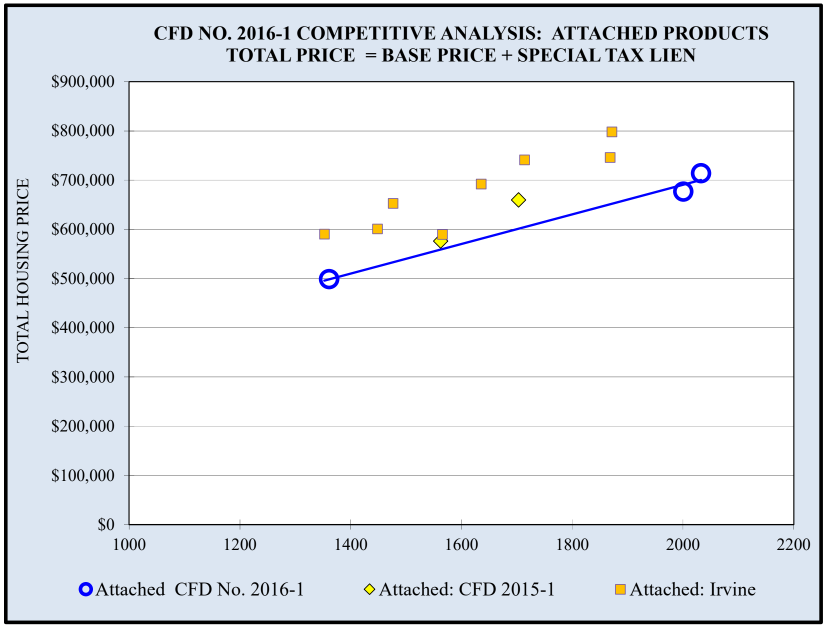
The projects in CFD No. 2016-1 are represented by Blue circles, and Blue line on the graph represents the best fit for these projects.
The other symbols on the graph represent the currently active projects in the comparable PCs:
Yellow for CFD 2015-1 Orange for Irvine (Villages of Irvine and Beacon Park)

The "Total Housing Price" represents the base price of the home, excluding options/upgrades, and the amounts of the special tax lien.
Note: The lender takes into consideration total housing costs in qualifying prospective homeowners for a mortgage loan.

1. Attached Housing Products: Age-Qualified and All Ages

The projects in CFD No. 2016-1 have a blue trendline which shows that their total housing prices are lower than the market comparables, and so they are regarded as being competitive in the marketplace.

- ✓ CFD 2016-1 has lower prices as compared to CFD No. 2015-1.
- ✓ Most of the attached projects in the PCs in Irvine, Villages of Irvine and Beacon Park, have established premiums reflecting more desirable locations in closer proximity to a major employment center, the City of Irvine.

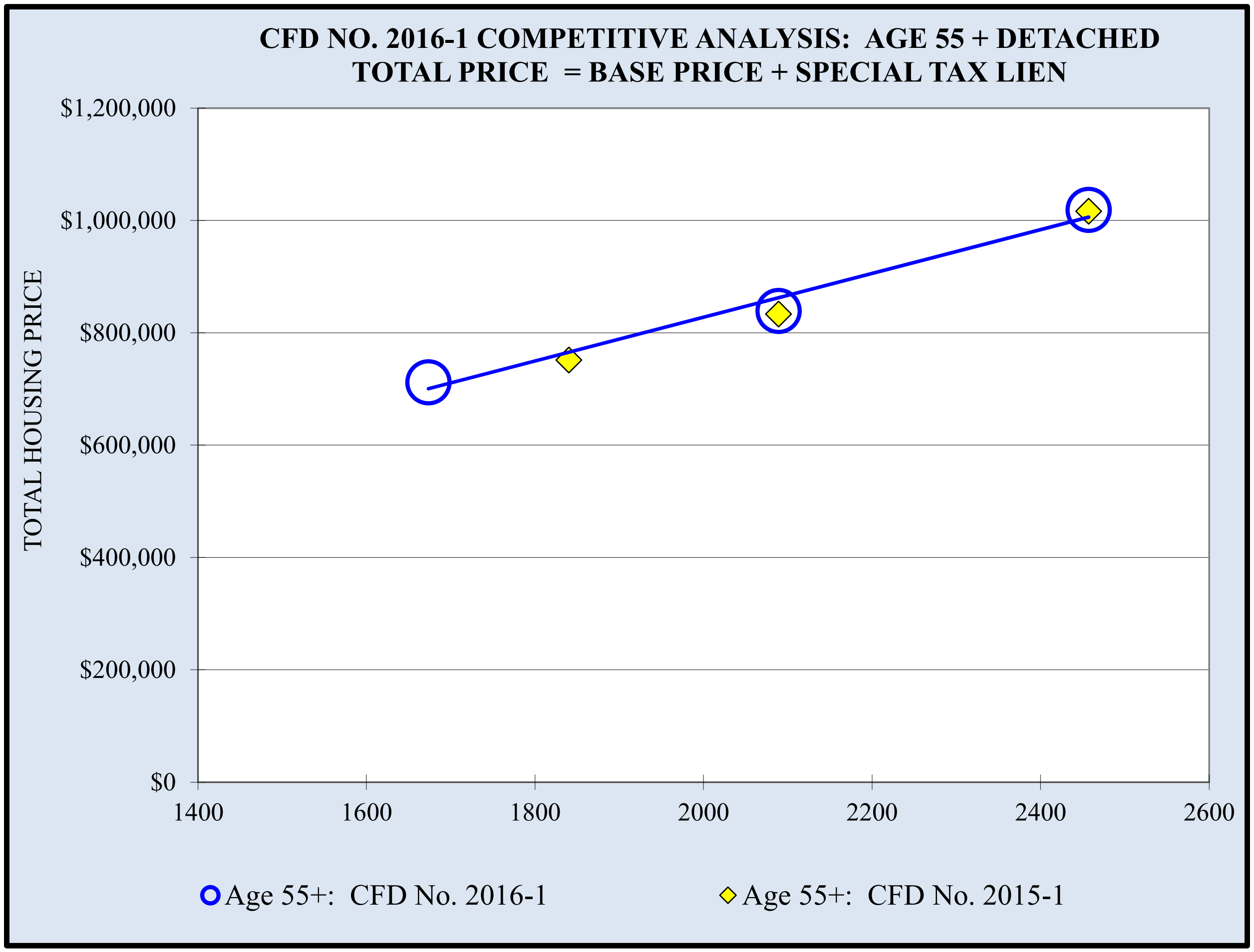


2. Age-Qualified Detached Housing Products:

The projects in CFD No. 2016-1 have a blue trendline which shows that their total housing prices are generally similar/slightly higher than the market comparable projects in CFD 2015-1, and so they are regarded as being competitive in the marketplace.

✓ CFD 2016-1 generally has similar total housing prices as compared to the projects in CFD No. 2015-1.

(Note: The PCs in Irvine, Villages of Irvine and Beacon Park, do not currently offer age qualified detached housing products.)

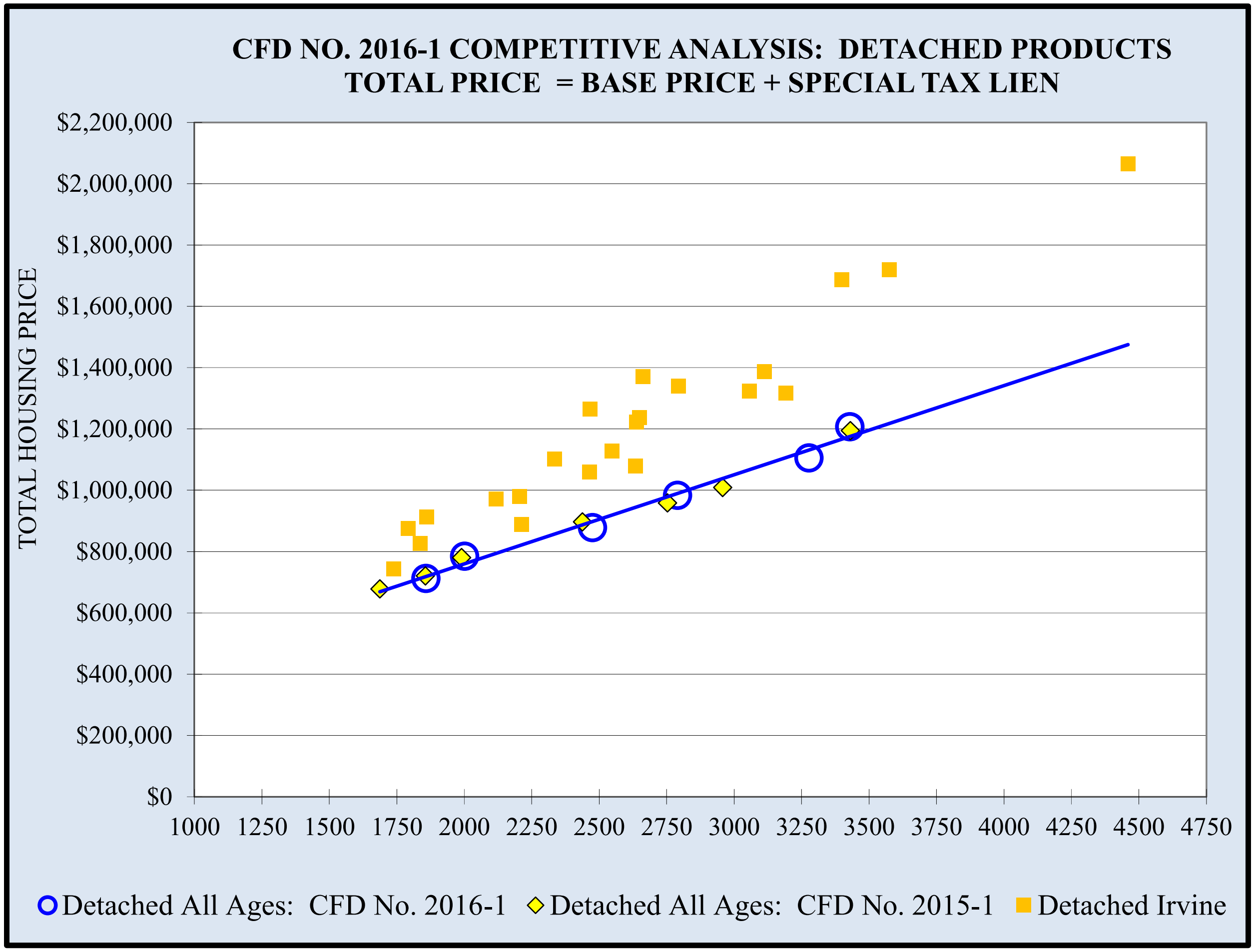


3. Detached Housing Products: All Ages and Sizes

The projects in CFD No. 2016-1 have a blue trendline which shows that their total housing prices are as follows:

✓ CFD 2016-1 generally has similar/slightly lower total housing prices as compared to CFD No. 2015-1.

✓ While the PCs in Irvine, Villages of Irvine and Beacon Park have established premiums reflecting more desirable locations in closer proximity to a major employment center, the City of Irvine, and so the projects in CFD No. 2016-1 are lower.



CHARACTERISTICS OF THE PROJECTS IN CFD NO. 2016-1
AND ALSO THE PROJECTS IN THE COMPARABLE PCs BY MARKET SEGMENTS

Project	Planned	Project	Builder	Product	Project Size and Sales				Housing Prices			Incentives	Size of Living Area			Value	Special Taxes (Base Rate FOR CFD = 1.09%)	
Locations	Community			Type	Total	Escrows Closed	Future	Sales Rate/Yr.	Lower	Average	Upper		Lower	Average	Upper	Ratio	Tax Amount/ Year	Ratio: Tax / Price
Age Qualified (55+) - Attached																		
CFD No. 2016-1	Village of Esencia	AQ-2	Cal Atlantic Homes	Attached	94	0	94	N/A	$639,000	$687,500	$736,000	$0	1,729	2,033	2,336	$338	$5,462	0.79%
CFD No. 2015-1	Village of Esencia	Vireo	William Lyon Homes	Attached	90	18	72	46	$577,990	$611,490	$644,990	$0	1,456	1,703	1,950	$359	$3,688	0.60%
Age Qualified (55+) - Detached																		
CFD No. 2016-1	Village of Esencia	AQ-11	Pulte Group	Detached	71	0	71	N/A	$570,532	$648,530	$726,527	$0	1,472	1,674	1,875	$388	$4,848	0.75%
CFD No. 2016-1	Village of Esencia	AQ-13	Shea Homes AQ-13	Detached	72	0	72	N/A	$727,900	$767,900	$807,900	$0	1,816	2,089	2,362	$368	$5,424	0.71%
CFD No. 2016-1	Village of Esencia	AQ-21	Shea Homes AQ-21	Detached	51	0	51	N/A	$904,900	$932,400	$959,900	$0	2,325	2,457	2,589	$379	$6,618	0.71%
CFD No. 2015-1	Village of Esencia	Avocet	Cal Atlantic Homes	Detached	95	10	85	28	$633,900	$691,900	$749,900	$0	1,473	1,840	2,207	$376	$4,577	0.66%
CFD No. 2015-1	Village of Esencia	Cortesa	Shea Homes (AQ-13)	Detached	63	6	57	44	$727,900	$767,900	$807,900	$0	1,816	2,089	2,362	$368	$5,013	0.65%
CFD No. 2015-1	Village of Esencia	Alondra	Shea Homes(AQ-21)	Detached	70	7	63	36	$904,900	$932,400	$959,900	$0	2,325	2,457	2,589	$379	$6,459	0.69%
All Ages - Attached																		
CFD No. 2016-1	Village of Esencia	MR-2	Meritage Homes	Attached	125	0	125	N/A	$365,990	$445,990	$525,990	$0	931	1,361	1,791	$328	$4,059	0.91%
CFD No. 2016-1	Village of Esencia	MR-3	MBK Homes	Attached	86	0	86	N/A	$554,800	$604,800	$654,800	$0	1,681	2,001	2,320	$302	$5,504	0.91%
CFD No. 2015-1	Village of Esencia	Aurora	William Lyon Homes	Attached	94	22	72	56	$461,000	$526,000	$591,000	$0	1,340	1,563	1,785	$337	$3,836	0.73%
Easterly Irvine; Beacon Park	Beacon Park	Brio	Shea Homes	Attached-Flats	76	9	67	35	$635,830	$679,365	$722,900	$0	1,465	1,714	1,963	$396	$4,744	0.70%
Easterly Irvine; Beacon Park	Beacon Park	Primrose	D.R. Horton	Attached-Condos	105	17	88	42	$709,990	$732,990	$755,990	$0	1,709	1,872	2,034	$392	$4,991	0.68%
Easterly Irvine; Beacon Park	Beacon Park	Rowland	Lennar Homes	Attached-Townhomes	107	14	93	35	$629,990	$673,990	$717,990	$0	1,661	1,869	2,076	$361	$5,513	0.82%
Easterly Irvine; Villages of Irvine	Portola Springs	Indigo	California Pacific Homes	Attached	171	0	171	35	$515,000	$609,500	$704,000	$0	1,178	1,477	1,775	$413	$3,300	0.54%
Easterly Irvine; Villages of Irvine	Portola Springs	The Vine	William Lyon Homes	Attached	106	0	106	50	$487,990	$553,990	$619,990	$0	1,234	1,449	1,663	$382	$3,600	0.65%
Easterly Irvine; Villages of Irvine	Portola Springs	Willow	KB Home	Attached	156	58	98	49	$502,990	$547,990	$592,990	$0	1,263	1,566	1,868	$350	$3,208	0.59%
Easterly Irvine; Villages of Irvine	Eastwood Village	Avalon	Irvine Pacific	Attached	156	0	156	70	$490,000	$554,500	$619,000	$0	1,161	1,353	1,544	$410	$2,750	0.50%
Easterly Irvine; Villages of Irvine	Eastwood Village	Helena	Irvine Pacific	Attached	142	0	142	45	$645,000	$662,000	$679,000	$0	1,557	1,636	1,714	$405	$2,300	0.35%

CHARACTERISTICS OF THE PROJECTS IN CFD NO. 2016-1
AND ALSO THE PROJECTS IN THE COMPARABLE PCs BY MARKET SEGMENTS

Project Locations	Planned Community	Project	Builder	Product Type	Project Size and Sales				Housing Prices			Incentives	Size of Living Area			Value Ratio	Special Taxes (Base Rate FOR CFD = 1.09%)	
					Total	Escrows Closed	Future	Sales Rate/Yr.	Lower	Average	Upper		Lower	Average	Upper		Tax Amount/ Year	Ratio: Tax / Price
All Ages - Detached - Smaller																		
CFD No. 2016-1	Village of Esencia	MR-15	TRI Pointe Homes	Detach-Small	64	0	64	N/A	$615,000	$636,500	$658,000	$0	1,779	1,858	1,937	$343	$5,792	0.91%
CFD No. 2016-1	Village of Esencia	MR-17	Cal Atlantic Homes	Detach-Small	70	0	70	N/A	$658,900	$701,400	$743,900	$0	1,797	2,002	2,206	$350	$6,383	0.91%
CFD No. 2015-1	Village of Esencia	Trellis	Warmington	Detach-Small	62	12	50	52	$582,000	$611,000	$640,000	$0	1,512	1,688	1,863	$362	$5,144	0.84%
CFD No. 2015-1	Village of Esencia	Aria	TRI Pointe Homes	Detach-Small	87	8	79	39	$615,900	$652,400	$688,900	$0	1,763	1,856	1,948	$352	$5,222	0.80%
CFD No. 2015-1	Village of Esencia	Citron	Cal Atlantic Homes	Detach-Small	50	12	38	46	$674,900	$707,400	$739,900	$0	1,775	1,990	2,205	$355	$5,599	0.79%
Easterly Irvine; Beacon Park	Beacon Park	Harper	Lennar Homes	Detach-Small	84	20	64	34	$799,990	$839,990	$879,990	$0	1,701	1,860	2,019	$452	$5,556	0.66%
Easterly Irvine; Villages of Irvine	Portola Springs	Silverleaf	California Pacific Homes	Detach-Small	147	0	147	50	$660,000	$697,500	$735,000	$0	1,636	1,738	1,839	$401	$3,450	0.49%
Easterly Irvine; Villages of Irvine	Portola Springs	Sage	KB Home	Detach-Small	125	65	60	38	$736,380	$769,880	$803,380	$0	1,697	1,836	1,975	$419	$4,355	0.57%
All Ages - Detached - Larger																		
CFD No. 2016-1	Village of Esencia	MR-19	Cal Atlantic Homes	Detach - Large	41	0	41	N/A	$781,900	$878,900	$975,900	$0	2,345	2,790	3,235	$315	$7,998	0.91%
CFD No. 2016-1	Village of Esencia	MR-18	Warmington	Detach - Large	97	0	97	N/A	$715,000	$785,000	$855,000	$0	2,153	2,476	2,798	$317	$7,144	0.91%
CFD No. 2016-1	Village of Esencia	MR-23	William Lyon	Detach - Large	50	0	50	N/A	$950,000	$988,250	$1,026,500	$0	3,069	3,278	3,486	$302	$8,993	0.91%
CFD No. 2016-1	Village of Esencia	MR-24	TRI Pointe Homes	Detach - Large	57	0	57	N/A	$1,023,000	$1,079,000	$1,135,000	$0	3,097	3,429	3,761	$315	$9,819	0.91%
CFD No. 2015-1	Village of Esencia	Ventana	Shea Homes	Detach - Large	60	6	54	41	$769,900	$809,900	$849,900	$0	2,207	2,438	2,669	$332	$6,660	0.82%
CFD No. 2015-1	Village of Esencia	Heirloom	Cal Atlantic Homes	Detach - Large	45	1	44	20	$789,900	$868,400	$946,900	$0	2,305	2,753	3,201	$315	$6,919	0.80%
CFD No. 2015-1	Village of Esencia	Cirrus	Meritage Homes	Detach - Large	58	13	45	31	$844,990	$904,990	$964,990	$0	2,698	2,958	3,217	$306	$7,965	0.88%
CFD No. 2015-1	Village of Esencia	Aubergine	TRI Pointe Homes	Detach - Large	66	5	61	28	$1,023,000	$1,079,000	$1,135,000	$0	3,097	3,431	3,765	$314	$8,822	0.82%
Easterly Irvine; Beacon Park	Beacon Park	Ellwood	Richmond American	Detach - Large	71	11	60	114	$865,990	$896,490	$926,990	$0	2,081	2,205	2,329	$407	$6,367	0.71%
Easterly Irvine; Beacon Park	Beacon Park	Welton	Taylor Morrison	Detach - Large	53	12	41	38	$871,000	$968,500	$1,066,000	$0	2,188	2,464	2,739	$393	$6,944	0.72%
Easterly Irvine; Beacon Park	Beacon Park	Rosemont	K. Hovnanian	Detach - Large	76	9	67	30	$1,071,990	$1,169,490	$1,266,990	$0	1,902	2,467	3,031	$474	$7,296	0.62%
Easterly Irvine; Beacon Park	Beacon Park	Melody	Lennar Homes	Detach - Large	62	23	39	54	$979,990	$1,034,990	$1,089,990	$0	2,321	2,548	2,774	$406	$7,226	0.70%
Easterly Irvine; Beacon Park	Beacon Park	Larkspur	Lennar Homes	Detach - Large	69	23	46	46	$1,214,900	$1,269,900	$1,324,900	$0	2,165	2,663	3,160	$477	$7,767	0.61%
Easterly Irvine; Beacon Park	Beacon Park	Oakmont	Cal Atlantic Homes	Detach - Large	49	8	41	21	$1,147,900	$1,232,400	$1,316,900	$10,000	2,524	2,794	3,064	$441	$8,250	0.67%
Easterly Irvine; Beacon Park	Beacon Park	Juniper	Pulte Homes	Detach - Large	55	4	51	38	$1,205,880	$1,268,380	$1,330,880	$0	2,897	3,113	3,328	$408	$9,167	0.72%
Easterly Irvine; Beacon Park	Beacon Park	Silvermist	K. Hovnanian	Detach - Large	51	7	44	35	$1,424,990	$1,547,490	$1,669,990	$0	2,796	3,399	4,002	$455	$10,715	0.69%
Easterly Irvine; Beacon Park	Beacon Park	Torrey	Cal Atlantic Homes	Detach - Large	63	14	49	37	$1,491,900	$1,578,900	$1,665,900	$7,500	3,314	3,575	3,836	$442	$10,777	0.68%
Easterly Irvine; Beacon Park	Beacon Park	Legend	Cal Atlantic Homes	Detach - Large	48	0	48	8	$1,799,900	$1,893,400	$1,986,900	$10,000	4,337	4,460	4,582	$425	$13,167	0.70%
Easterly Irvine; Villages of Irvine	Portola Springs	Legado	Brookfield Residential	Detach - Large	103	0	103	35	$789,305	$832,953	$876,600	$0	2,040	2,212	2,383	$377	$4,231	0.51%
Easterly Irvine; Villages of Irvine	Portola Springs	Cressa	New Home Company	Detach - Large	95	0	95	50	$966,800	$1,013,400	$1,060,000	$0	2,440	2,634	2,828	$385	$5,000	0.49%
Easterly Irvine; Villages of Irvine	Eastwood Village	Petaluma	Irvine Pacific	Detach - Large	107	0	107	65	$806,000	$836,500	$867,000	$0	1,684	1,791	1,898	$467	$2,979	0.36%
Easterly Irvine; Villages of Irvine	Eastwood Village	Marin	Irvine Pacific	Detach - Large	157	0	157	60	$860,000	$929,000	$998,000	$0	1,948	2,118	2,288	$439	$3,250	0.35%
Easterly Irvine; Villages of Irvine	Eastwood Village	Belvedere	Irvine Pacific	Detach - Large	134	0	134	45	$1,114,000	$1,179,000	$1,244,000	$0	2,402	2,638	2,873	$447	$3,400	0.29%
Easterly Irvine; Villages of Irvine	Eastwood Village	Piedmont	Irvine Pacific	Detach - Large	159	0	159	55	$999,000	$1,054,500	$1,110,000	$0	2,165	2,334	2,502	$452	$3,700	0.35%
Easterly Irvine; Villages of Irvine	Stonegate	Lafayette	Richmond American	Detach - Large	111	41	70	79	$1,141,990	$1,179,990	$1,217,990	$0	2,443	2,648	2,853	$446	$4,400	0.37%
Easterly Irvine; Villages of Irvine	Stonegate	Arcadia	Tri Pointe Homes	Detach - Large	127	108	19	42	$1,250,000	$1,265,000	$1,280,000	$0	2,909	3,056	3,202	$414	$4,556	0.36%
Easterly Irvine; Villages of Irvine	Stonegate	Palo Alto	KB Home	Detach - Large	121	13	108	44	$1,212,990	$1,258,990	$1,304,990	$0	3,002	3,191	3,380	$395	$4,444	0.35%

CHARACTERISTICS OF THE PROJECTS IN CFD NO. 2016-1
AND ALSO THE PROJECTS IN THE COMPARABLE PCs BY MARKET SEGMENTS

Project Locations	Planned Community	Project	Builder	Product Type	Project Size and Sales: Total	Escrows Closed	Future	Sales Rate/Yr.	Housing Prices: Lower	Average	Upper	Incentives	Size of Living Area: Lower	Average	Upper	Value Ratio	Special Taxes (Base Rate FOR CFD = 1.09%): Tax Amount/ Year	Ratio: Tax / Price
Statistical Summary																		
* AGE 55+ ATTACHED				**Projects**														
Age 55+ Attached: CFD No. 2016-1				1	94	0	94	0	$639,000	$687,500	$736,000	$0	1,729	2,033	2,336	$338	$5,462	0.79%
Age 55+ Attached: CFD No. 2015-1				1	90	18	72	46	$577,990	$611,490	$644,990	$0	1,456	1,703	1,950	$359	$3,688	0.60%
* AGE 55+ DETACHED																		
Age 55+ Detached: CFD No. 2016-1				3	194	0	194	0	$734,444	$782,943	$831,442	$0	1,871	2,073	2,275	$378	$5,630	0.72%
Age 55+ Detached: CFD No. 2015-1				3	228	23	205	108	$755,567	$797,400	$839,233	$0	1,871	2,129	2,386	$374	$5,349	0.67%
* ALL AGES - ATTACHED																		
Attached: CFD No. 2016-1				2	211	0	211	0	$460,395	$525,395	$590,395	$0	1,306	1,681	2,056	$315	$4,781	0.91%
Attached: CFD No. 2015-1				1	94	22	72	56	$461,000	$526,000	$591,000	$0	1,340	1,563	1,785	$337	$3,836	0.73%
Attached: Irvine				8	1,019	98	921	361	$577,099	$626,791	$676,483	$0	1,404	1,617	1,830	$389	$3,801	0.60%
* ALL AGES - DETACHED - SMALLER																		
Detached-Smaller: CFD No. 2016-1				2	134	0	134	0	$636,950	$668,950	$700,950	$0	1,788	1,930	2,072	$347	$6,087	0.91%
Detached-Smaller: CFD No. 2015-1				3	199	32	167	138	$624,267	$656,933	$689,600	$0	1,683	1,844	2,005	$356	$5,322	0.81%
Detached-Smaller: Irvine				3	356	85	271	122	$732,123	$769,123	$806,123	$0	1,678	1,811	1,944	$424	$4,454	0.57%
* ALL AGES - DETACHED - LARGER																		
Detached-Larger: CFD No. 2016-1				4	245	0	245	0	$867,475	$932,788	$998,100	$0	2,666	2,993	3,320	$312	$8,488	0.91%
Detached-Larger: CFD No. 2015-1				4	229	25	204	120	$856,948	$915,573	$974,198	$0	2,577	2,895	3,213	$317	$7,591	0.83%
Detached-Larger: Irvine				19	1,711	273	1,438	896	$1,116,554	$1,179,435	$1,242,317	$1,447	2,503	2,753	3,003	$429	$6,507	0.54%
Totals/Averages				54	4,804	576	4,228	1,846	$835,942	$889,813	$943,684	$509	2,070	2,313	2,555	$384	$5,840	0.67%

SECTION V

ESTIMATED ABSORPTION SCHEDULES FOR PROJECTS IN CFD NO. 2016-1

The purpose of this section is to estimate the absorption schedules for the forthcoming residential projects in CFD No. 2016-1 (Village of Esencia), based upon a consideration of the recent/expected economic and housing market demand/supply conditions.

A. METHODOLOGY UNDERLYING THE ABSORPTION FORECASTS

Empire Economics estimated the expected absorption schedules for the residential projects in CFD No. 2016-1 through a comprehensive analysis of the following factors:

- The anticipated development schedule for the projects: their Grand Opening of the for-sale homes is expected in September 2016.
- The competitive market analysis of the projects in CFD No. 2016-1 with currently active comparable projects, based upon their prices, sizes of living areas and special taxes, revealed that the projects in CFD No. 2016-1 are competitive in the marketplace.
- Six of the twelve forthcoming projects in CFD 2016-1 are also currently active in CFD No. 2015-1, and so their sales are expected to commence only after their corresponding projects in CFD 2015-1 have been completely sold out. Consequently, some of these will experience delays of a year or more before beginning to close escrows.
- The expected market demand for homes in the CFD Market Area is based upon recent/expected economic and real estate factors according to the Most Probable Economic Scenario.
- The estimated absorption schedule for each of the for-sale projects takes into consideration their market entry during September 2016 and their anticipated schedule for move-ins starting in early 2017.
- Furthermore, consideration is given to the potential for higher mortgage rates during the foreseeable future; however, this is somewhat offset by the strong rates of employment growth.

B. SAFEGUARDS UNDERLYING THE ABSORPTION FORECASTS

Empire's absorption schedules, based upon numerous market absorption studies for CFDs over the past thirty years, reflect various conservative safeguards, in order to provide more accurate/reliable forecasts, and these include the following:

- **Potential Economic Risk Factors:**

  - ✓ As the economy recovers, interest rates are likely to rise; however, the adverse effect of this will be offset by higher levels of employment; such a scenario would result in a gradual upward trend in mortgage rates over time, and so these factors counter-balance each other.
  - ✓ By comparison, a "sudden spike" in interest/mortgage rates would be a significant potential risk factor.

- **Potential CFD Development Risk Factors:**

  - ✓ CFD No. 2015-1 Extension Projects: The homes in the original projects in CFD No. 2015-1 are assumed to be absorbed first, and then the homes in the extension projects in CFD No. 2016-1 commence their absorption, for each of the six projects.
  - ✓ Market-Entry – Allow time for dealing with unforeseen delays due to completing infrastructure and securing final entitlements.
  - ✓ Construction of Homes: Allow time for the construction of homes, especially the first phase.

- **Project-Related Marketing Risk Factors:**

  - ✓ For the Age-Qualified projects, the expected total tax burden amount to 1.88% for the attached and ranges from about 1.80% to 1.84% for the detached products. So some of these are above the initial target rate of 1.80% since prices have declined.
  - ✓ Total tax burdens of 1.80% or more are regarded as being relatively high tax burdens for seniors, and as such may adversely impact the marketing of the homes. Additionally, some of the homeowners that purchase homes may eventually have concerns about the relatively high tax levels, especially since seniors tend to rely on their Social Security and pensions, the amounts of which tend to be "fixed".

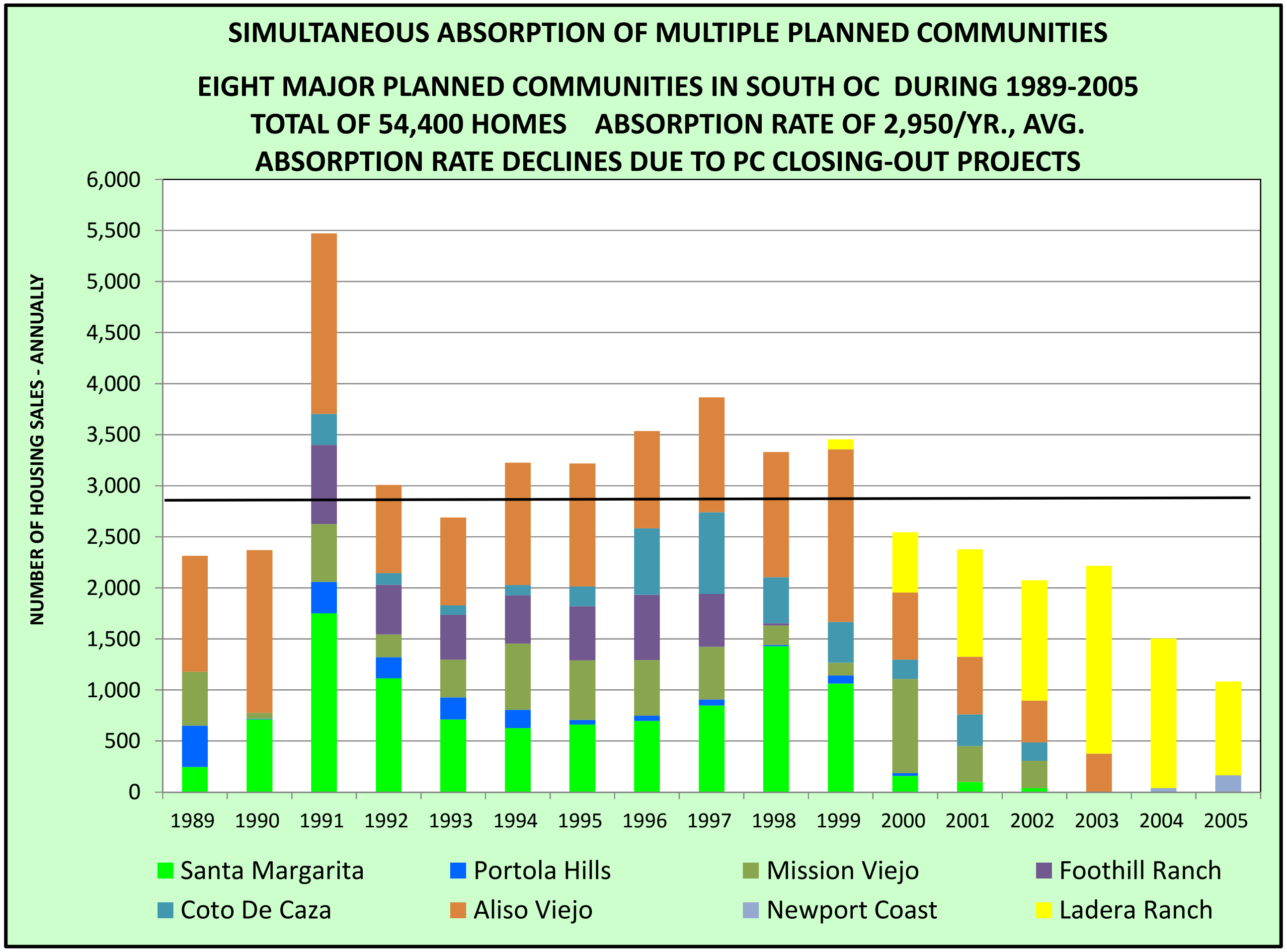
- **Housing Prices: Builder Current Expectations versus Market Comparables:**

  - ✓ The builders of the forthcoming projects/plans in CFD No. 2016-1 recently provided their current price point estimates. Based upon Empire's analysis of their current price estimates, they appear to be generally below the prices of the currently active market comparable projects. However, these builders may further revise their prices once they enter the marketplace, as each of them adjusts to the actual market conditions.
  - ✓ Accordingly, for purposes of estimating the absorption schedules for the forthcoming projects in CFD No. 2016-1, Empire assumes that the prices for the homes in the projects will be consistent with the currently active market comparables, those in CFD No. 2015-1.

Since CFD No. 2016-1 and CFD No. 2015-1 will be marketing their housing products simultaneously, it is worthwhile to provide some background information on prior situations where various Planned Communities (PCs) in south Orange County have been on the marketplace simultaneously.

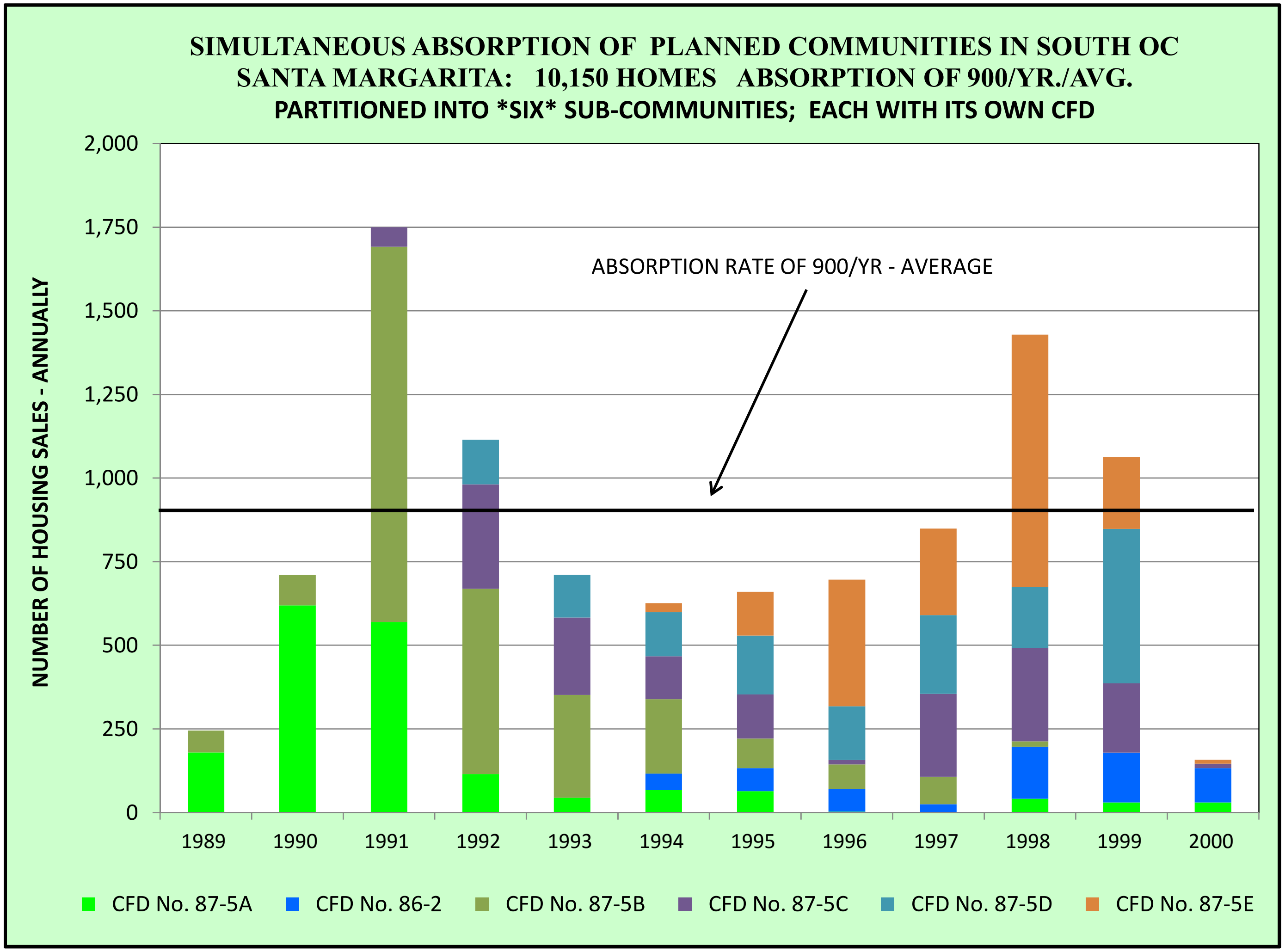
The following graph shows that during 1989 to 2000, when market conditions were robust, there were numerous PCs that were on the marketplace simultaneously. Together, the aggregate level of sales in the PCs amounted to about 3,000 homes per year, on the average. By comparison, the current level of sales activity including the projects in Irvine, Lake Forest, Tustin and Esencia amount to only about 2,250 for sales homes.

Starting in 2000, the level of sales activity declined, even though housing market conditions were still strong, due to a reduction in the supply of new homes available.



The Planned Community of Rancho Santa Margarita has some similar characteristics to the Village of Esencia: the same developer – Rancho Mission Viejo, as well as the PC being partitioned into various CFDs.

Rancho Santa Margarita has a total of about 10,150 homes that were marketed during 1989-2000, for a sales rate of about 900 homes per year, on the average.



C. ESTIMATED ABSORPTION SCHEDULES FOR THE FORTHCOMING RESIDENTIAL PROJECTS IN CFD NO. 2016-1

Empire's absorption schedules, which reflect escrow closings, for the homes in each of the five market segment, from their market-entry to their close-out are as follows**:**

Synopsis of Primary Conclusions: Overall Absorption Rates

Grand Opening: September 2016

As a safeguard, absorption/escrow closings of the for-sale homes is assumed to start in early 2017, although they may be some closings in late 2016

Expected Closing –Annually

2017: 267 homes (four of the six extension projects do not have escrow closing, since the original projects still have homes)

2018: 378 homes (all of the six extension projects have escrow closings, since the original projects are all closed-out)

2019: 220 homes

2020: 13 homes

Expected Close-Out: Early 2020

Synopsis of Primary Conclusions: Absorption Rates by Market Segments

- **January 2017 – December 2017:** Empire expects 267 home closings during this time period, based upon all of the for-sale projects being on the marketplace for the entire year; this appears reasonable considering that the Grand Opening is occurring in September 2016.

  - ✓ Ages 55+ Attached: 35 homes
  - ✓ Ages 55+ Detached: 41 homes

    (The absorption rates for age 55+ have been modified to reflect the relatively high levels of Special Taxes for seniors.)

  - ✓ All-Ages Attached: 92 homes
  - ✓ All-Ages: Detached - Smaller: 38 homes
  - ✓ All-Ages: Detached - Larger: 61 homes

➢ **January 2018 – December 2018:** Empire expects 378 for-sale home closings during this time period, based upon stronger economic conditions and most of the projects being on the marketplace for the entire year.

- ✓ Ages 55+ Attached: 38 homes; closed -out
- ✓ Ages 55+ Detached: 96 homes

- ✓ All-Ages Attached: 99 homes
- ✓ All-Ages: Detached - Smaller: 60 homes
- ✓ All-Ages: Detached - Larger: 85 homes

➢ **January 2019 – December 2019:** Empire expects an additional 220 home closings during 2019, as some of the remaining projects close out.

- ✓ Ages 55+ Detached: 57 homes; closed-out

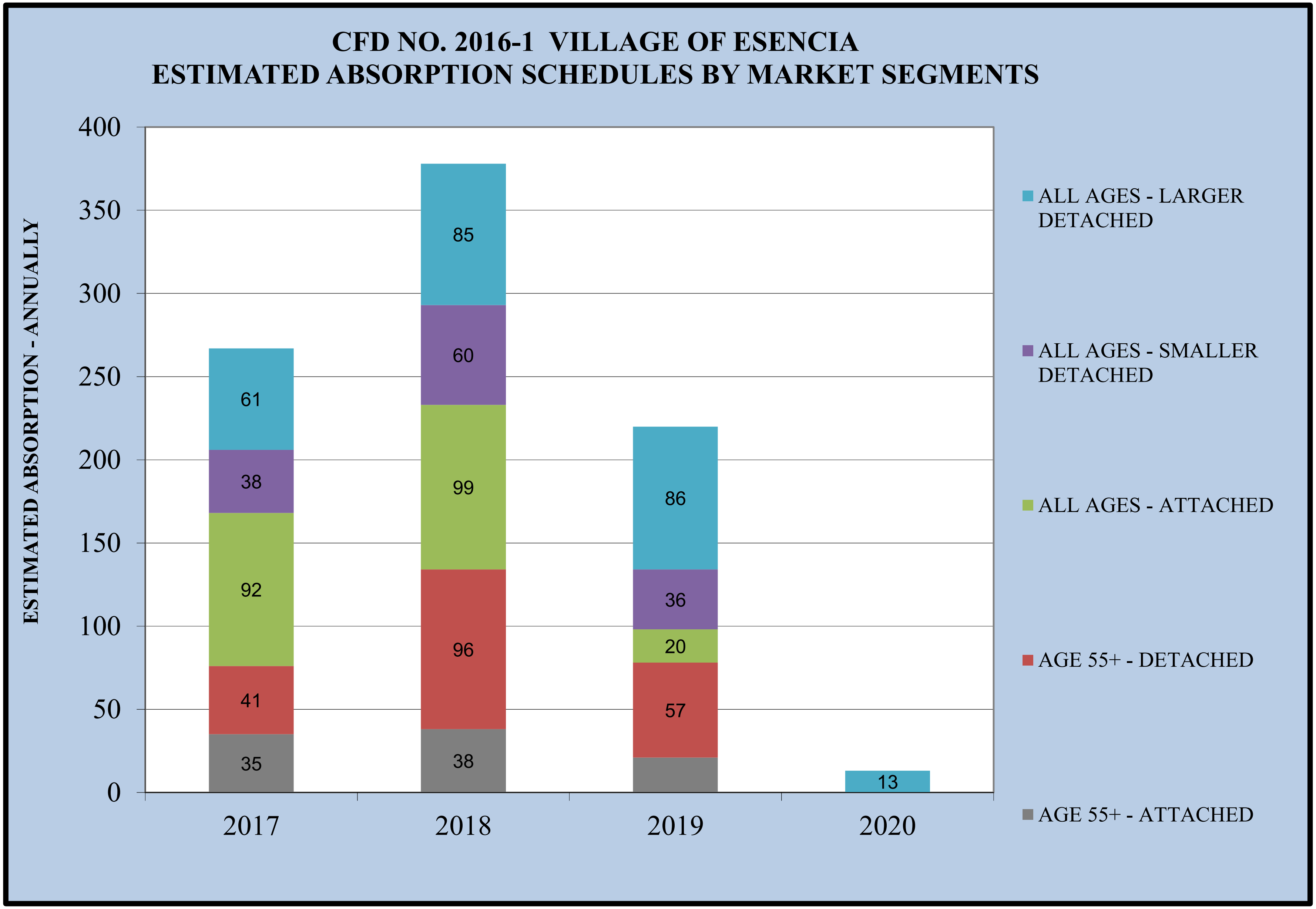
- ✓ All-Ages Attached: 20 homes; closed-out
- ✓ All-Ages: Detached - Smaller: 36 homes; closed-out
- ✓ All-Ages: Detached - Larger: 86 homes

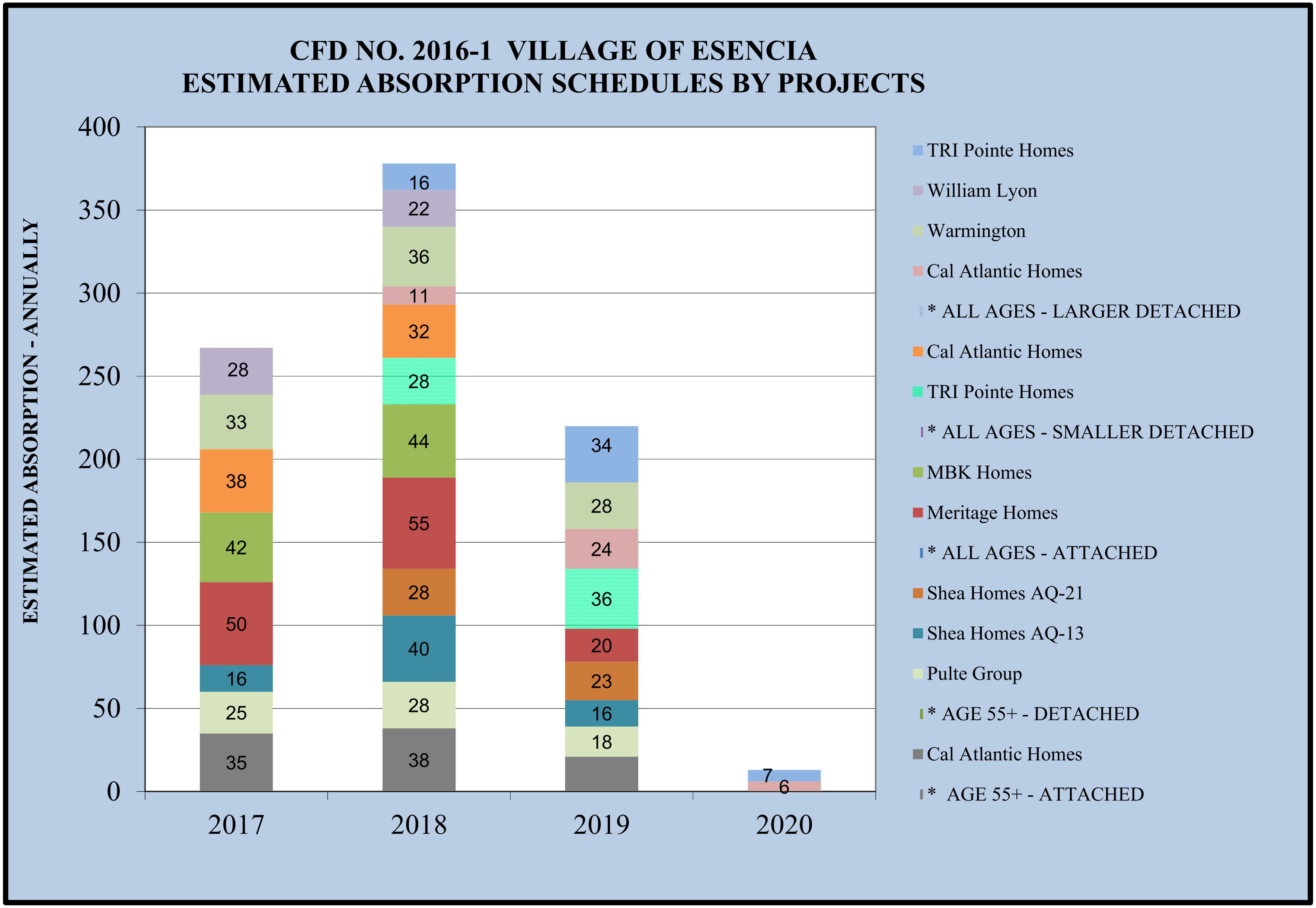
➢**January 2020 – April 2020:** Empire expects the final 13 home closings during 2020, as the remaining projects close out.

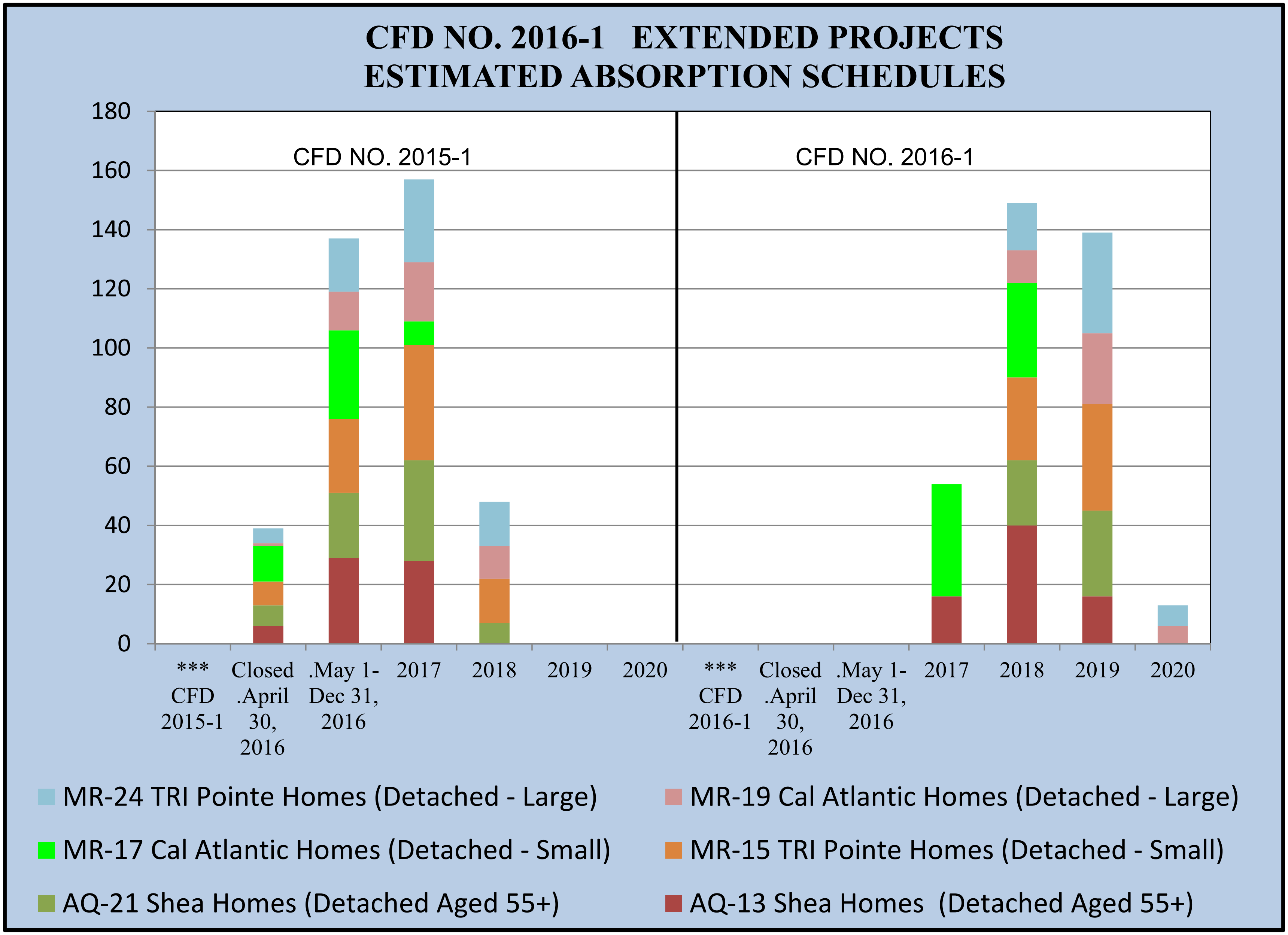
- ✓ All-Ages: Detached - Larger: 13 homes

Finally, the estimated absorption schedules are subject to the additional Assumptions and Qualifications set-forth in the next section.

Please refer to the graphs and table on the following pages for additional information on the estimated absorption schedules.


CFD NO. 2016-1 VILLAGE OF ESENCIA
ESTIMATED ABSORPTION SCHEDULES BY MARKET SEGMENTS
ESTIMATED ABSORPTION - ANNUALLY
400
350
300
250
200
150
100
50
0
2017
2018
2019
2020
61
38
92
41
35
85
60
99
96
38
86
36
20
57
13
ALL AGES - LARGER DETACHED
ALL AGES - SMALLER DETACHED
ALL AGES - ATTACHED
AGE 55+ - DETACHED
AGE 55+ - ATTACHED


CFD NO. 2016-1 VILLAGE OF ESENCIA
ESTIMATED ABSORPTION SCHEDULES BY PROJECTS
ESTIMATED ABSORPTION - ANNUALLY
400
350
300
250
200
150
100
50
0
2017
2018
2019
2020
28
33
38
42
50
16
25
35
16
22
36
11
32
28
44
55
28
40
28
38
34
28
24
36
20
23
16
18
7
6
TRI Pointe Homes
William Lyon
Warmington
Cal Atlantic Homes
* ALL AGES - LARGER DETACHED
Cal Atlantic Homes
TRI Pointe Homes
* ALL AGES - SMALLER DETACHED
MBK Homes
Meritage Homes
* ALL AGES - ATTACHED
Shea Homes AQ-21
Shea Homes AQ-13
Pulte Group
* AGE 55+ - DETACHED
Cal Atlantic Homes
* AGE 55+ - ATTACHED


CFD NO. 2016-1 EXTENDED PROJECTS
ESTIMATED ABSORPTION SCHEDULES
CFD NO. 2015-1
CFD NO. 2016-1
180
160
140
120
100
80
60
40
20
0
*** CFD 2015-1
Closed .April 30, 2016
.May 1- Dec 31, 2016
2017
2018
2019
2020
*** CFD 2016-1
Closed .April 30, 2016
.May 1- Dec 31, 2016
2017
2018
2019
2020
MR-24 TRI Pointe Homes (Detached - Large)
MR-19 Cal Atlantic Homes (Detached - Large)
MR-17 Cal Atlantic Homes (Detached - Small)
MR-15 TRI Pointe Homes (Detached - Small)
AQ-21 Shea Homes (Detached Aged 55+)
AQ-13 Shea Homes (Detached Aged 55+)

ESTIMATED ABSORPTION SCHEDULES
CFD NO. 2016-1 VILLAGE OF ESENCIA

	Age Qualified (Age 55+)				All Ages								Overall	
Market Segments >	**Attached**	**Detached**	**Detached**	**Detached**	**Attached**	**Attached**	**Detach-Small**	**Detach-Small**	**Detach - Large**	**Detach - Large**	**Detach - Large**	**Detach - Large**	**Totals**	**Totals**
Planning Area >	AQ-2	AQ-11	AQ-13	AQ-21	MR-2	MR-3	MR-15	MR-17	MR-19	MR-18	MR-23	MR-24		
Builder >	Cal Atlantic Homes	Pulte Group	Shea Homes	Shea Homes	Meritage Homes	MBK Homes	TRI Pointe Homes	Cal Atlantic Homes	Cal Atlantic Homes	Warmington	William Lyon	TRI Pointe Homes		
Model Complex> On-Site or Off-Site	On-Site	On-Site	Off-Site	Off-Site	On-Site	On-Site	Off-Site	Off-Site	Off-Site	On-Site	On-Site	Off-Site		
Housing Units														
Totals	94	71	72	51	125	86	64	70	41	97	50	57	878	
Share	10.7%	8.1%	8.2%	5.8%	14.2%	9.8%	7.3%	8.0%	4.7%	11.0%	5.7%	6.5%	100.0%	
Marketing Status:														
Closed	0	0	0	0	0	0	0	0	0	0	0	0	0	
Future Closings	94	71	72	51	125	86	64	70	41	97	50	57	878	
Market Segment-Totals>	94		194		211		134			245				
Expected Product Mix														
Totals	94	71	72	51	125	86	64	70	41	97	50	57		878
Living Areas (Sq. Ft.)														
Averages	1,844	1,759	2,026	2,410	1,458	1,918	1,841	1,969	2,753	2,383	3,256	3,371		2,128
Market Segment-Averages >	1,844		2,029		1,645		1,908			2,853				
Current Prices														
Averages	$661,096	$681,788	$776,636	$927,449	$468,870	$609,760	$632,797	$692,043	$862,778	$761,845	$983,830	$1,068,684		$721,113
Market Segment-Averages >	$661,096		$781,570		$526,295		$663,746			$895,426				
Value Ratios : (Price / Living Area)	$359	$387	$383	$385	$322	$318	$344	$352	$313	$320	$302	$317		$339
Market Segment-Averages >	$359		$385		$320		$348			$314				
Tax Burdes - Estimated														
Ad Valorem - Percent of Price	1.09%	1.09%	1.09%	1.09%	1.09%	1.09%	1.09%	1.09%	1.09%	1.09%	1.09%	1.09%		1.09%
Special Taxes $/Yr - Avg.	$5,252	$5,097	$5,486	$6,583	$4,267	$5,549	$5,758	$6,298	$7,851	$6,933	$8,953	$9,725		$6,152
*** Total Tax Burden %/Price**	1.88%	1.84%	1.80%	1.80%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%		1.94%

`	**Cal Atlantic Homes**	**Pulte Group**	**Shea Homes AQ-13**	**Shea Homes AQ-21**	**Meritage Homes**	**MBK Homes**	**TRI Pointe Homes**	**Cal Atlantic Homes**	**Cal Atlantic Homes**	**Warmington**	**William Lyon**	**TRI Pointe Homes**	**Annually**	**Cumulative**
Market Segments >	**Age Qualified (Age 55+) Attached**	**Age Qualified (Age 55+) Detached**	**Age Qualified (Age 55+) Detached**	**Age Qualified (Age 55+) Detached**	**All Ages Attached**	**All Ages Attached**	**All Ages Detach-Small**	**All Ages Detach-Small**	**All Ages Detach - Large**	**All Ages Detach - Large**	**All Ages Detach - Large**	**All Ages Detach - Large**		
ESTIMATED ABSORPTION														
Annual Absorption Rates														
2017	35	25	16	**0**	50	42	**0**	38	**0**	33	28	**0**	267	
2018	38	28	40	28	55	44	28	32	11	36	22	16	378	
2019	21	18	16	23	20	0	36	0	24	28	0	34	220	
2020	0	0	0	0	0	0	0	0	6	0	0	7	13	
Cumulative Absorption Rates														
2017	35	25	16	**0**	50	42	**0**	38	**0**	33	28	**0**		267
2018	73	53	56	28	105	86	28	70	11	69	50	16		645
2019	94	71	72	51	125	86	64	70	35	97	50	50		865
2020	94	71	72	51	125	86	64	70	41	97	50	57		878
Totals	**94**	**71**	**72**	**51**	**125**	**86**	**64**	**70**	**41**	**97**	**50**	**57**	**878**	**878**

ASSUMPTIONS AND LIMITING CONDITIONS

The Market Absorption Study is based upon various assumptions and limiting conditions; accordingly, these are as follows:

Property Boundaries

No survey or engineering analysis of CFD No. 2016-1 property has been made by the market analyst; the District Engineer's report utilized for the Bond is deemed to be reliable. The market analyst assumes the existing boundaries to be correct, that no encroachments exist and assumes no responsibility for any condition not readily observable from customary investigation and inspection of the premises, which might affect the valuation, excepting those items which were specifically mentioned in the report.

Maps and Exhibits

Maps and exhibits included in this report are for illustration only as an aid in visualizing matters discussed within the report. They should not be considered as surveys, or relied upon for any other purpose, nor should they be removed from, reproduced, or used apart from the report.

Title to Property

No opinion as to title is rendered. Data related to ownership and legal description, obtained from governmental records related to the formation of the District that forms the basis for identifying the boundaries of CFD No. 2016-1 are considered reliable. Title is assumed to be marketable and free and clear of all liens, encumbrances, easements and restrictions except those specifically discussed in the report. The property is evaluated assuming to be under responsible ownership and competent management and available for development to highest and best use.

Earthquakes and Seismic Hazards

The property which is the subject of this market analysis is within a geographic area prone to earthquakes and seismic disturbances. Except as specifically indicated in the report, no seismic or geologic studies have been provided to the market analyst concerning the geologic and/or seismic condition of the subject property. The market analyst assumes no responsibility for the possible effect on the subject property of seismic activity and/or earthquakes.

Soil and Geological Studies

No detailed soil studies or geological studies or reports were made available to the market analyst. Assumptions employed in this report regarding soils and geologic qualities of the subject property have been provided to the client. However, such assumptions are not conclusive and the market analyst assumes no responsibility for soils or geologic conditions discovered to be different from the conditions assumed unless otherwise stated in this report.

Presence and Impact of Hazardous Material

Unless otherwise stated in the report, the market analyst did not become aware of the presence of any hazardous material or substance during the market analyst's general inspection of the subject property. However, the market analyst is not qualified to investigate or test for the presence of such materials or substances. The presence of such materials or substances may adversely affect the evaluation of the subject property. The market analyst assumes no responsibility for the presence of any such substance or material on or in the subject property, nor for any expertise or engineering knowledge required to discover the presence of such substance or material.

Structural Deficiencies of Improvements

The market analyst has not performed a thorough inspection of the subject property, and except as noted in this report has not found obvious evidence of structural deficiencies in any improvements located on the subject property. Consequently, the market analyst assumes no responsibility for hidden defects or nonconformity with specific governmental requirements, such as fire, building and safety, earthquake or occupancy codes, unless inspections by qualified independent professions or governmental agencies were provided to the market analyst. Further, the market analyst is not a licensed engineer or architect and assumes no responsibility for structural deficiencies not apparent to the market analyst at the time of their inspection.

Environmental and Other Regulations

The property is evaluated assuming it to be in full compliance with all applicable federal, state and local environmental regulations and laws, unless otherwise stated, and that there are no lawsuits that may adversely impact the rate of development.

Required Permits and Other Governmental Authority

Unless otherwise stated, the property evaluated is assumed to have all required licenses, permits, certificates, consents or other legislative and/or administrative authority from any local, state or national government or private entity or organization that have been or can be obtained or renewed for any use on which the evaluation analysis contained in this report is based upon.

Designated Economic Scenario

The Market Absorption Study focuses upon the expected absorption schedule for the products in CFD No. 2016-1 according to the designated economic scenario. Specifically, this scenario represents the economic and real estate conditions for the Market Region and also the Market Area during the foreseeable future according to the most probable conditions, and this is regarded as being appropriate for the Bond Financing. However, the economic and market conditions which actually materialize on a year by year basis may differ from those presented according to the designated economic scenario, as a result of exogenous factors which are difficult to forecast/quantify. Accordingly, the designated scenario should be utilized as an economic framework for evaluating the marketing prospects of the properties within CFD No. 2016-1 rather than a "literal" representation of what is expected to occur on a year/year basis during the foreseeable future.

Provision of the Infrastructure

The Market Absorption Study assumes that the governmental agencies that supply public facilities and services, including water, provide these in a timely manner so that the proposed products/projects in CFD No. 2016-1 can respond to the expected market demand for their products. Otherwise, if the required infrastructure is not available in a timely manner, then the absorption of the products/projects could be adversely impacted.

Developer/Builders Responsiveness to Market Conditions

The Market Absorption Study assumes that the developer/builders in CFD No. 2016-1 respond to the market conditions with products that are competitively priced and have the features/amenities that are desired by the purchasers. Specifically, the homes in CFD No. 2016-1 have not yet entered the marketplace, and so the specific characteristics of their product types cannot be identified until they actually offer products on the marketplace. Consequently, to the extent that future products/projects have prices/features that differ from the competitive market standards, then their absorption schedule would need to be modified from those presented according to the designated economic scenario.

Financial Strength of the Projects' Developer/Builders

The Market Absorption Study assumes that the developer/builders in CFD No. 2016-1 (and also their lenders) have sufficient financial strength to adequately fund their projects, including paying their Special Taxes/Assessments, and that they have sufficient financial reserves which could be utilized to supplement their cash flow positions, in the event that adverse economic or market conditions occur.

Accuracy of Information from Others

In preparing this report, the market analyst was required to rely on information furnished by other individuals or found in previously existing records and/or documents. Unless otherwise indicated, such information is presumed to be reliable. However, no warranty, either expressed or implied, is given by the market analyst for the accuracy of such information and the market analyst assumes no responsibility for information relied upon and later found to have been inaccurate. The market analyst reserves the right to make such adjustments to the analyses, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

Liability of Market Analyst

The liability of Empire Economics, the market analyst responsible for this report, is limited to the client only and to the fee actually received by the market analyst. Further, there is no accountability, obligation or liability to any third party. If this report is placed in the hands of anyone other than the client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussion. The market analyst is in no way to be responsible for any costs incurred to discover or correct any deficiencies or any type present in the property--physical, financial, and/or legal.

Testimony or Court Attendance

Testimony or attendance in court or at any other hearing is not required by reason of rendering this market analysis, unless such arrangements are made a reasonable time in advance of said hearing. Separate arrangements would need to be made concerning compensation for the market analyst's time to prepare for and attend any such hearing.

Right of Publication of Report

Possession of this report, or a copy of it, does not carry with it the right of publication except for the party to whom it is addressed. Without the written consent of the market analyst, this report may not be used for any purpose by any person other than the party to whom it is addressed. In any event, this report may be used only with properly written qualification and only in its entirety for its stated purpose which is being published in the Official Statement.

Timeliness of the Market Absorption Study

The Market Absorption Study performs a comprehensive analysis of the relevant land-use, economic, residential and commercial market conditions that are expected to influence the marketing success of the products/projects in CFD No. 2016-1. Nevertheless, the Study should be dated within six-months of the Bond Sale, or even sooner, should these land-use and/or economic market as well as real estate conditions change significantly.

APPENDIX: CREDENTIALS/QUALIFICATIONS OF EMPIRE ECONOMICS

Empire Economics is an economic and real estate consulting firm that specializes in conducting market absorption studies on behalf of public entities for residential, commercial, and industrial projects located throughout California, with an emphasis on Master Planned Communities, Business Parks and Retail Centers situated in Southern California, including Orange County, in particular.

During the past thirty years, Empire Economics has performed consulting services on behalf of numerous Issuers for approximately 500 municipal tax-exempt bond issues amounting to more than $14+ billion.

Empire Economics' experience with municipal tax-exempt issues during the past thirty years has been as follows:

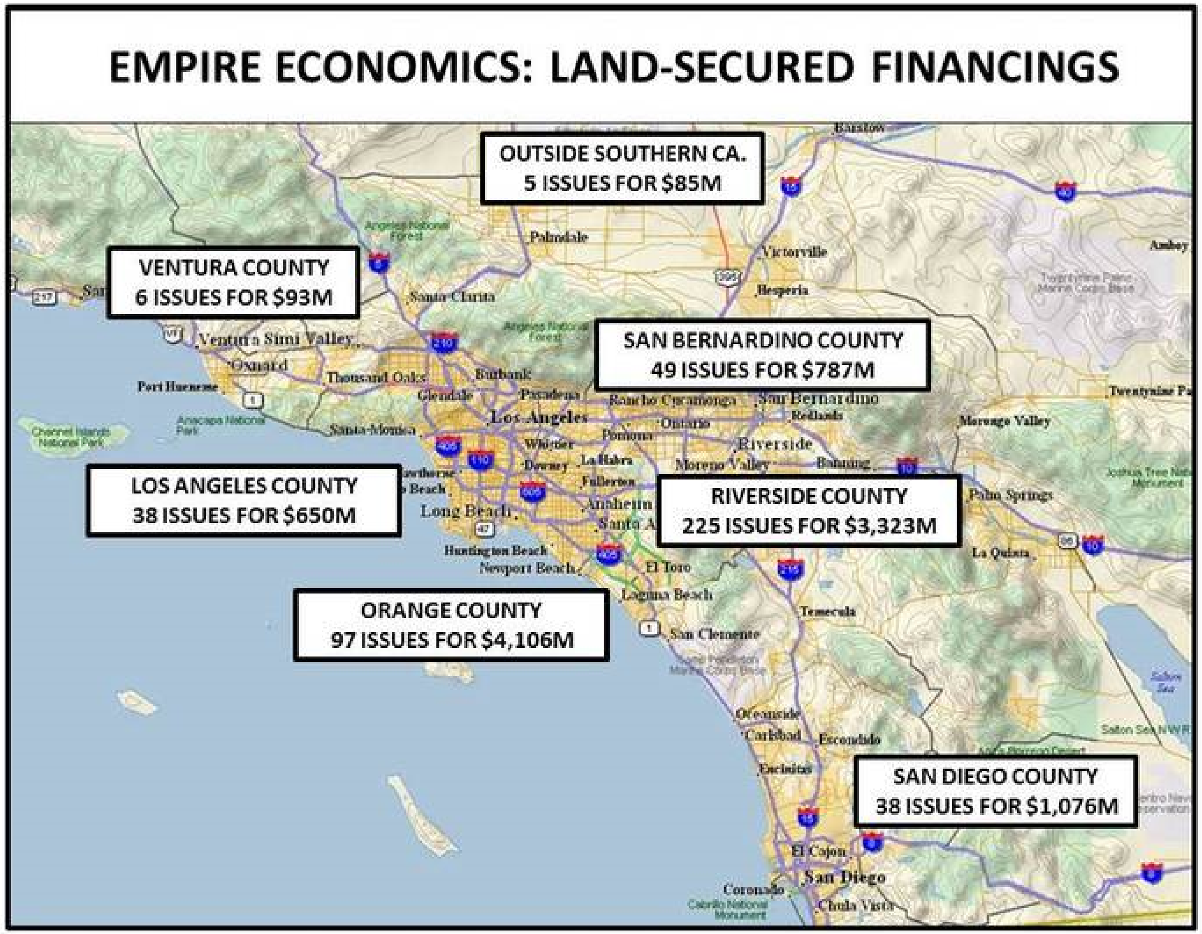
- ✓ Mello-Roos/Assessment District Financings in which bonds have been sold: Over four hundred Bond Issues amounting to more than $7.5+ billion. Empire Economics' Market Studies are typically for Planned Communities and Business Parks which have 500-2,000+ housing units and/or 50-100+ commercial-industrial acres.
- ✓ Mortgage Revenue Bond Financings: Fifty+ issues with bonds amounting to more than $1.7 billion.
- ✓ Socioeconomic Forecast/Market Studies for the $2.75 billion refundings for the San Joaquin Hills and Foothill/Eastern Transportation Corridors' Toll Roads located in Orange County; the latter was designated as the Municipal Bond Issue of the Year for 1999.
- ✓ Mello-Roos/Assessment District Financings that are presently in their formative stages: over thirty CFDs that have forthcoming Bond Issues amounting to $500+ million.

Empire Economics has taken an active role in the municipal bond industry by participating in numerous events; some examples are as follows:

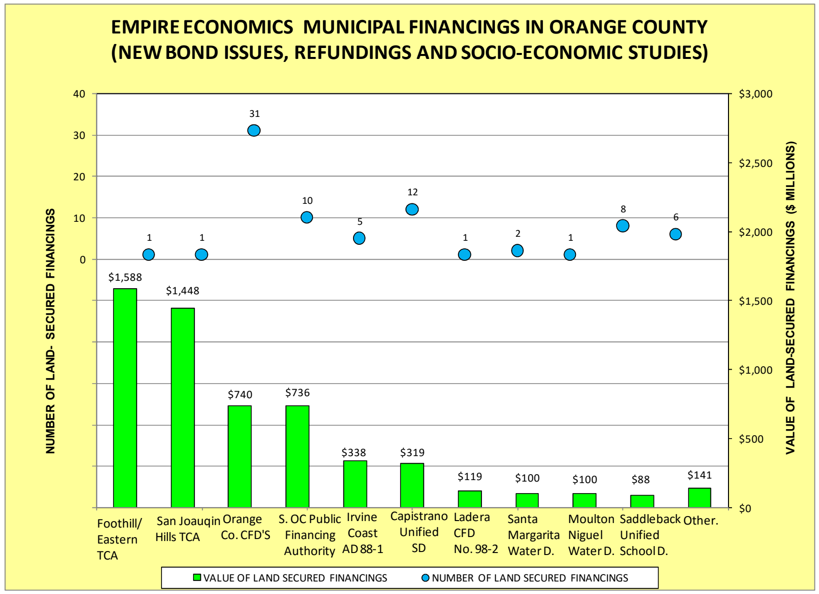
- ✓ Treasurer John Chiang, Council of Economic Advisors
- ✓ California Debt Advisory Commission: Land Secured Practices and Policies, Speaker/Panelist
- ✓ League of Cities: Most Recently in Anaheim and Monterey: Speaker/Panelist
- ✓ UCLA Municipal Bond Financing Seminars: Featured Speaker
- ✓ Municipal Bond Industry Association - Panelist
- ✓ Best Practices for Continuing Disclosure – Panelist
- ✓ Appraisal Standards for Land Secured Financing by CDIAC – Panelist/Contributor
- ✓ Rating Agency and Bond Insurer Presentations – More than 15 Trips to New York City
- ✓ Meetings with Municipal Bond Funds:
  - Mello-Roos Bond Issues – Site Tours
  - San Joaquin Hills and Foothill Eastern Corridors: Bond Buyer Seminar Presentations in New York, Boston, and Chicago to 50+ Bond Funds

Consequently, the Municipal Bond Funds and Rating Agencies are familiar with Empire Economics and also the Price Point and Market Absorption studies that it has conducted for Planned Communities, Business Parks and Retail Centers in Southern California. This is beneficial to the forthcoming Bond Issues since these Market Studies have enabled Empire Economics to establish a high degree of credibility with the municipal Bond Funds and Rating Agencies. At such events, Empire Economics focuses upon discussing emerging trends/patterns in the economy and real estate markets.

Empire Economics has participated in numerous land secured financings throughout Southern California counties; the distribution of these by counties has been as follows:



During the past thirty years, Empire Economics has completed about ninety studies for land secured municipal bond financing for various Districts located in Orange County.



Consequently, the Municipal Bond Funds are familiar with Empire Economics and also the Market Studies that it has conducted for Planned Communities, Business Parks and Retail Centers in Southern California, in general, and Orange County, in particular. This is beneficial to the forthcoming Bond Issues for the County of Orange since these Price Point and Market Absorption studies have enabled Empire Economics to establish a high degree of credibility with the municipal Bond Funds and Rating Agencies.

The following represent some of the major Planned Communities and Business Parks in Orange County for which Empire has provided Market Absorption Consulting Services:

- ✓ City of Irvine: Columbus Grove and Great Park Neighborhoods: Pavilion Park and Beacon Park
- ✓ Aliso Viejo: 18,500 homes and 600 acres of business-retail.
- ✓ Rancho Santa Margarita: 15,000 homes and 500 acres of business-retail
- ✓ Ladera Ranch: 8,100 homes and 150 acres of commercial-retail
- ✓ Talega: 4,000 homes and 75 acres of business-retail
- ✓ Newport Coast: 2,000+ luxury homes and custom lots
- ✓ Heritage Fields by Five Point Communities in easterly Irvine, with an expected 9,500 homes
- ✓ Rancho Mission Viejo 14,000 planned homes; Sendero and Esencia 2.1

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APPENDIX K

RMV PA 2 DEVELOPMENT, LLC UNAUDITED FINANCIAL INFORMATION

RMV PA2 Development, LLC
Balance Sheets
(Unaudited)

ASSETS

		July 31, 2016	December 31, 2015
Cash and Cash Equivalents	Note 1	$ 228,761,890	$ 242,019,307
Land and Land Improvements	Note 2	104,645,512	76,687,254
Total Assets		$ 333,407,402	$ 318,706,561

LIABILITIES AND MEMBERS' EQUITY

		July 31, 2016	December 31, 2015
Accounts Payable & Accrued Liabilities	Note 3	$ 2,479,795	$ 4,151,778
Option Payments	Note 4	32,706,511	10,219,367
Builder Sales Deferred Income		31,864,919	35,527,305
		67,051,225	49,898,450
Member's Equity			
RMV Community Development, LLC		198,066,293	210,066,293
Retained Earnings		68,289,884	58,741,818
		266,356,177	268,808,111
Total Liabilities & Member's Equity		$ 333,407,402	$ 318,706,561

Statements of Operations
For The Current Month and Year to Date Period Ended July 31, 2016
(Unaudited)

	Current Month	Year to Date
Revenue		
Land Sales	$ 0	$ 43,467,004
Profit Participation	217,085	1,765,038
Total Income	217,085	45,232,042
Cost of Sales		
Land Sales	0	35,891,250
Total Cost of Sales	0	35,891,250
Other Income:		
Marketing Reimbursement	286,666	1,634,924
Interest and Other Income	171,648	1,115,440
Total Other Income	458,314	2,750,364
Other Expenses:		
Marketing Expense	272,807	1,847,391
Other G&A	97,362	695,699
Total Other Expenses	370,169	2,543,090
Net Other	88,145	207,274
Net Income/(Loss)	$ 305,230	$ 9,548,066

RMV PA2 Development, LLC
Notes to Financial Statements
July 31, 2016
(Unaudited)

Note 1 Cash and Cash Equivalents

Union Bank Checking	$6,279,854
Union Bank Money Market	4,196,294
County of Orange Trust-PA2	55,531
County of Orange Trust-PA3	61,633
Temporary Investments*	218,168,578
Total	$228,761,890

* Temporary Investments represent Commercial Paper with maturities ranging from 30 days to 165 days.

Note 2 Land and Land Improvements

Land and Land Improvements are carried at cost which, in management's opinion, is not in excess of that which will be realized from the orderly development and disposition of the Project.

Land and Land Improvements includes direct and indirect land costs, offsite and onsite improvement costs, as well as carrying charges during such time as a portion of the Project is under active development.

Selling and marketing costs are generally expensed as incurred unless future benefit from such expenditures can be demonstrated.

The allocation of Land and Land Improvements to Cost of Sales is determined based on the relative sales value.

Land and Land Improvements at July 31, 2016 consist of:

Land	$ 248,614,663
Land improvements	275,830,259
	524,444,922
Less amount allocated to cost of sales	(419,799,410)
	$ 104,645,512

Note 3 Accounts Payable & Accrued Liabilities

	07/31/16	12/31/15
Accounts Payable	$2,453,148	$4,151,778
Property Taxes	26,647	0
	$2,479,795	$4,151,778

Note 4 Option Payments

Option payments represent deposits received for PA2.3 builder land sales scheduled to occur in late 2016.

EXHIBIT B

COMPREHENSIVE ANNUAL FINANCIAL REPORT

County of Orange, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
JUNE 30, 2016

GARDEN GROVE BRANCH LIBRARY 1956


CIVIC CENTER RENDERING 1952

JOHN WAYNE AIRPORT (OC AIRPORT) 1952


JOHN WAYNE AIRPORT 2013

PCH, HUNTINGTON BEACH 1938


GOLDEN AVE., PLACENTIA, 1962


DANA COVE 1966

ERIC H. WOOLERY, CPA, AUDITOR-CONTROLLER

County of Orange

State of California

Comprehensive Annual Financial Report

For the Year Ended June 30, 2016

Eric H. Woolery, CPA
Auditor-Controller

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FINANCIAL SECTION (Continued)

FINANCIAL SECTION (Continued)

STATISTICAL SECTION

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CALIFORNIA

ORANGE COUNTY AUDITOR-CONTROLLER

CALIFORNIA

AUDITOR-CONTROLLER
COUNTY OF ORANGE

HALL OF FINANCE AND RECORDS
12 CIVIC CENTER PLAZA, ROOM 200
POST OFFICE BOX 567
SANTA ANA, CALIFORNIA 92702-0567

(714) 834-2450 FAX: (714) 834-2569

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COUNTY EXECUTIVE OFFICE
COUNTY OF ORANGE

ROBERT E. THOMAS HALL OF ADMINISTRATION
333 W. SANTA ANA BLVD.
SANTA ANA, CALIFORNIA 92701

(714) 834-2345 FAX: (714) 834-3018

www.oc.ca.gov

December 15, 2016

The Citizens of Orange County:

The Comprehensive Annual Financial Report (CAFR) of the County of Orange, State of California (County), for the year ended June 30, 2016, is hereby submitted in accordance with the provisions of Sections 25250 and 25253 of the Government Code of the State of California. The report contains financial statements that have been prepared in conformity with United States generally accepted accounting principles (GAAP) prescribed for governmental entities. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the County. A comprehensive framework of internal controls has been designed and established to provide reasonable assurance that the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and changes in financial position of County funds. Because the cost of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatements.

The CAFR has been audited by the independent certified public accounting firm of Macias Gini & O'Connell LLP (MGO). The goal of the independent audit was to provide reasonable assurance about whether the basic financial statements of the County for the year ended June 30, 2016, are free of material misstatement. The independent certified public accounting firm has issued an unmodified ("clean") opinion on the County's basic financial statements as of and for the year ended June 30, 2016. The independent auditor's report is located at the front of the financial section of this report.

This letter of transmittal is designed to complement and should be read in conjunction with Management's Discussion and Analysis (MD&A) that immediately follows the independent auditor's report. MD&A provides a narrative introduction, overview, and analysis of the basic financial statements.

PROFILE OF THE GOVERNMENT

The County, incorporated in 1889 and located in the southern part of the State of California, is one of the major metropolitan areas in the state and nation. The County occupies a land area of 798 square miles with a coastline of 42 miles serving a population of over 3 million. It represents the third most populous county in the state and ranks sixth in the nation.

The County is a charter county as a result of the March 5, 2002, voter approval of Measure V, which provides for an electoral process to fill mid-term vacancies on the Board of Supervisors. Before Measure V, as a general law county, mid-term vacancies would otherwise be filled by gubernatorial appointment. In November 2008, voters approved Measure J, which added Article III, Section 301 to the Charter of Orange County requiring voter approval for increases in future retirement system benefits of any employee, legislative officer, or elected official of the County in the Orange County Employees Retirement System (OCERS) or any successor retirement system, with the exception of statutorily-established cost of living adjustments, salary increases, and annual leave or compensatory time cash-outs. In June 2012, voters approved Measure B, which requires that any Orange County Supervisors elected or appointed on or after June 5, 2012 can enroll only in the minimum pension option, i.e., the least lucrative pension plan, offered to Orange County employees. At present, the minimum pension plan is a 1.62% at 65 pension plan. This measure amends the County Charter and applies to any current or previous Supervisor. In June 2016, voters approved Measure B, which requires the County Auditor-Controller to review any countywide measure placed on the ballot and prepare a fiscal impact statement.

The County is like a general law county and governed by a five-member Board of Supervisors (the Board), who each serve four-year terms, and annually elect a Chairman and Vice-Chairman. The supervisors represent districts that are each approximately equal in population. The district boundaries were revised effective September 6, 2011, incorporating the results of the 2010 census. A County Executive Officer (CEO) oversees 15 County departments, and elected department heads oversee six County departments. The Supervisorial Districts map below shows the boundaries of Orange County and the areas governed by each member of the Board.

The County provides a full range of services countywide, for the unincorporated areas, and contracted services for cities. These services are outlined in the following table:

Countywide Services	
Affordable Housing (Housing Authority)	Veterans Services
Agricultural Commissioner	Indigent Medical Services
Airport	Jails & Juvenile Facilities
Child Protection & Social Services	Juvenile Justice Commission
Child Support Services	Landfills & Solid Waste Disposal
Clerk-Recorder	Law Enforcement
Coroner & Forensic Services	Probationary Supervision
District Attorney	Public Assistance
Elections & Voter Registration	Public Defender/ Alternate Defense
Environmental / Regulatory Health	Public & Mental Health
Flood Control & Transportation	Senior Services
OC Parks	Collection & Appeals
Disaster Preparedness	Weights & Measures
Grand Jury	Property Tax Assessment, Apportionment & Collection

Unincorporated Area Services	
Animal Care & Control	Libraries
Flood Control	Parks
Land Use	Waste Disposal Collection
Law Enforcement	

Contract Services for Cities	
Animal Care & Control	Libraries
Law Enforcement	Public Works & Engineering
Utility Billing and Check Remittance Processing	

Sources: County departments

In addition to these services, the County is also financially accountable for the reporting of component units. Blended and fiduciary component units, although legally separate entities, are, in substance, part of the County's operations and, therefore, data from these units are combined with data of the County. The County has two component units, the Children and Families Commission of Orange County (CFCOC) and CalOptima, which require discrete presentation in the government-wide financial statements. The County’s fiduciary component unit, County of Orange Redevelopment Successor Agency (Successor Agency), was established as a result of the dissolution of the former Orange County Development Agency. The following entities are presented as blended component units in the basic financial statements for the year ended June 30, 2016: the Orange County Flood Control District, Orange County Housing Authority, Orange County Public Financing Authority, South Orange County Public Financing Authority, Orange County Public Facilities Corporation, County Service Areas, Special Assessment Districts, Community Facility Districts, and In-Home Supportive Services Public Authority. Additional information on these entities can be found in Note 1, Summary of Significant Accounting Policies, in the Notes to the Basic Financial Statements.

The County maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board. Activities of the General Fund and most of the Special Revenue, Debt Service, Capital Projects and Permanent funds are included in the annual appropriated budget. The level of budgetary control (that level which cannot be exceeded without action by the Board) is at the legal fund-budget control unit level, which represents a department or an agency. Budget-to-actual comparisons are provided in this report for each governmental fund for which an appropriated annual budget has been adopted. The Budgetary Comparison Statements for the General Fund and major Special Revenue Funds are part of the Basic Financial Statements. The Budgetary Comparison Schedules for the nonmajor Governmental Funds with appropriated annual budgets are presented in the Supplemental Information section for governmental funds. The County also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered appropriations do not lapse at year-end; outstanding encumbrances are carried forward to the following year's budget. Additional information on the budgetary process can be found in Note 1, Summary of Significant Accounting Policies, in the Notes to the Basic Financial Statements.

(Dollar Amounts in Thousands)

The County's eGovernment website portal at http://www.ocgov.com provides online services and extensive information about the County government to Orange County residents, businesses, partners, and visitors. It includes information about the Board, County job listings, purchasing bid solicitations, assessment appeals, links to court information and local court rules, voter information, County permits and forms, public safety, health and human services programs and financial information. The site also provides several online services, including live and archived Board meeting videos, the ability to order birth, death and marriage certificates, search fictitious business names, find polling locations and election results, license pets, pay property taxes, and subscribe to receive emergency alerts. The County continuously strives to improve our constituent's ability to conduct business online.

FACTORS AFFECTING ECONOMIC CONDITION

Local Economy

Two indicators of the Orange County economy are: how well the local economy performs relative to surrounding counties, the state, and the nation (external indicators); and how well the local economy performs relative to its own historical trends (internal indicators). This section provides various external and internal indicators that describe the current and projected outlook of the Orange County economy.

In terms of the external indicators, Orange County's economy continues to out-perform local surrounding counties, the state and national economies (in annual percentage growth), and, in fact, ranks higher (in absolute growth rate dollars) than the economies of the majority of the world's countries.

Orange County's unemployment rate continues to be below that of all surrounding Southern California counties, the State of California and the National level (see Table 1).

According to Chapman University, inflation, as measured by the increase of the Consumer Price Index (CPI) in 2016, is expected to be 2.2% for Orange County, which equals the State of California and is higher than the U.S. at 1.4% (see Table 2).

Table 1: Unemployment Rate Comparison

Primary Government Entity	August 2016 Unemployment Rate
United States	4.9%
California	5.6%
Los Angeles County	5.3%
Riverside County	6.9%
San Bernardino County	6.2%
San Diego County	5.0%
Orange County	**4.4%**

Unemployment Rate

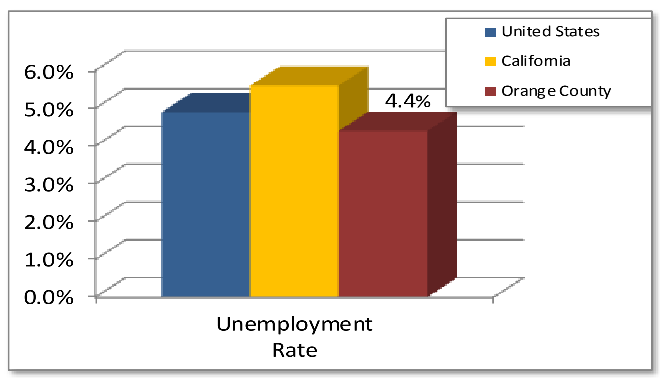


Table 2: 2016 – Projected Increase of the CPI

United States	California	Orange County
1.4%	2.2%	2.2%

Sources: State of California, Employment Development Department
Economic & Business Review, Chapman University, June 2016
Note: Unemployment rates are for the month of August 2016

(Dollar Amounts in Thousands)

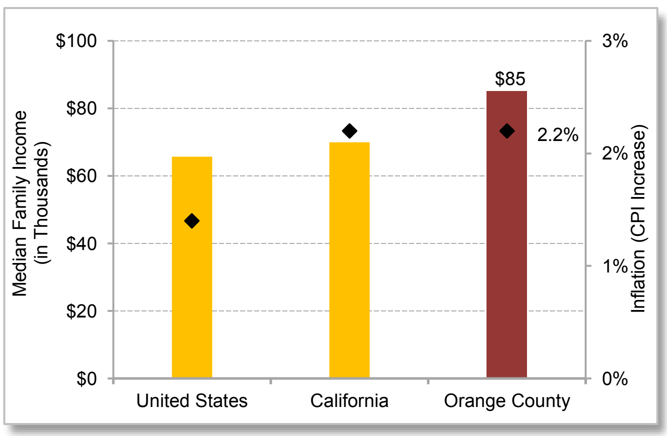
According to the Department of Housing and Urban Development, Orange County's median family income is expected to be $85,000 (absolute dollars) in 2016, compared to $85,900 (absolute dollars) in 2015. Median family incomes in Orange County continue to exceed all surrounding Southern California counties, the State of California and the nation (see Table 3).

Table 3: Median Family Income Comparison

Primary Government Entity	Median Family Income (absolute dollars)
United States	$65,700
California	$70,000
Orange County	**$85,000**
San Diego County	$73,500
Los Angeles County	$62,400
Riverside County	$61,400

Sources: U.S. Department of Housing and Urban Development, 2016

Comparisons of Inflation and Median Family Income



Sources: Economic & Business Review, Chapman University, June 2016
U.S. Department of Housing and Urban Development, 2016

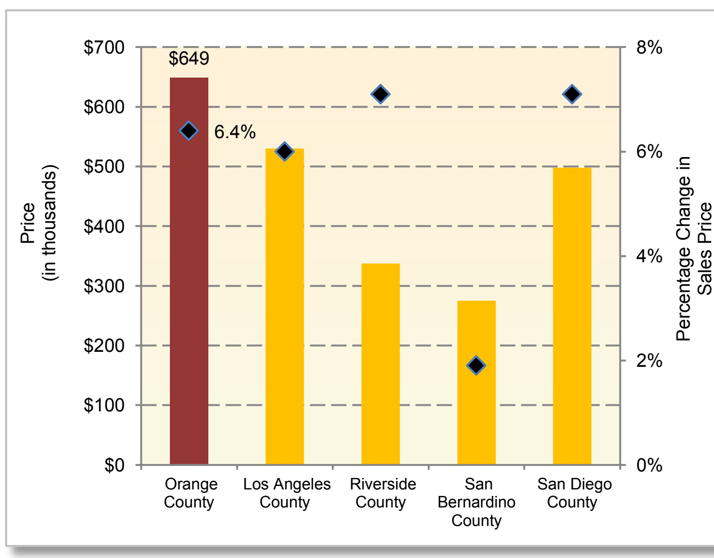
According to CoreLogic Information Systems, the median home sales price for new and existing homes in Orange County was $649,000 (absolute dollars) in August 2016, representing a 6.4% increase relative to August 2015. The median sales price in Orange County continues to exceed all surrounding counties (see Table 4).

In terms of internal trends, current and projected indicators suggest that the Orange County economy will continue to gradually improve with job growth expected to be 2.6% in 2016.

Table 4: Median Home Sales Price Comparison- Southern California Counties – August 2016

Primary Government Entity	Median Home Sales Price Change increase	Median Home Sales Price (absolute dollars)
Orange County	**6.4%**	**$649,000**
Los Angeles County	6.0%	$530,000
San Diego County	7.1%	$498,000
Riverside County	7.1%	$337,500
San Bernardino County	1.9%	$275,000

Table 4: Comparison of Median Home Sales Price and Price Changes Among Counties



Sources: CoreLogic Information System, August 2016

(Dollar Amounts in Thousands)

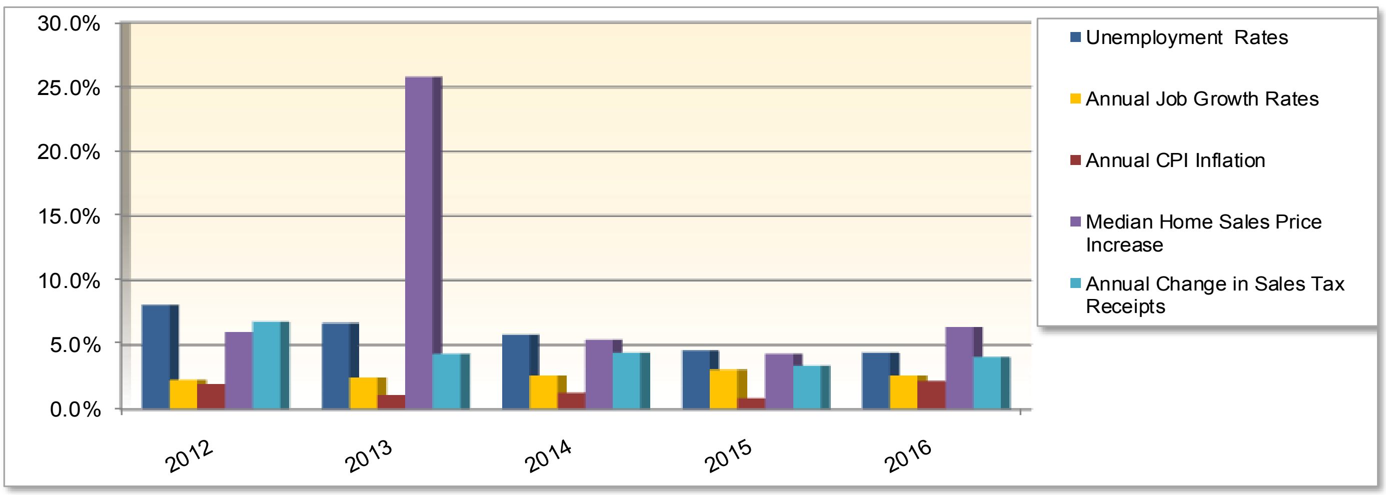
Table 5 shows various internal indicators reflecting steady growth of Orange County's economy. The unemployment rate decreased to 4.4% for the month of August 2016 relative to 4.6% for the month of August 2015. Job growth is expected to decrease to 2.6% in 2016 compared to 3.1% for 2015. Median home prices increased by 6.4% in August 2016, relative to 4.3% in August 2015. Annual change in sales tax receipts is forecasted to be 4.1% in 2016.

Table 5: Orange County Historical Data

Historical Indicators	2012	2013	2014	2015	2016
Unemployment Rates	8.1%	6.7%	5.4%	4.6%	4.4%
Annual Job Growth Rates	2.3%	2.5 %	2.6%	3.1%	2.6%
Annual CPI Inflation	2.0%	1.1%	1.3%	0.9%	2.2%
Median Home Sales Price Increase	6.0%	25.8%	5.4%	4.3%	6.4%
Annual Change in Sales Tax Receipts	6.8%	4.3%	4.4%	3.4%	4.1%

Data in Table 5 for prior years may be different from previous years CAFR due to the timing of obtaining data.
Data for 2016 is based on forecasted data

Orange County Historical Data Comparison
(Shown as a year-to-year percentage increase/decrease)



Sources: State of California, Employment Development Department
Economic & Business Review, Chapman University, June 2016
Corelogic Information Systems, August 2016
California Board of Equalization

In summary, the economy in Orange County continues to show signs of slow but steady growth.

Long–Term Financial Planning

Strategic Plan: In March 1997, the Board initiated a financial planning process that is a key component of the County's commitment to fiscal responsibility, accountability, and efficiency. The plan includes projections of County general purpose revenues, departmental projections of operating costs, revenues and capital needs for current programs and services and anticipated caseload changes. New programs, services and capital projects are identified and prioritized on a countywide basis with financial impacts identified over the plan period. The plan covers a five-year period and includes a ten-year analysis of operating costs in cases where new programs and facilities are assessed to ensure the ability to pay for long-term operational costs.

The 2016 Strategic Financial Plan (SFP) was presented to the Board on December 6, 2016. The 2016 SFP is the foundation in planning for continued financial stability and will be augmented by the monitoring and establishment of budgetary control via the quarterly budget reporting process and adoption of the Annual Budget. The five-year SFP projections indicate that General Purpose Revenue growth will be in the range of 2.8% for the first year of the plan with growth rates averaging 2.3% in years two through five. The moderate growth rate for revenue, coupled with the increasing cost of doing business, will require the County to carefully manage programs and services levels. The

County continues to believe that sustained job growth and reduced unemployment are the key indicators for economic recovery.

In order to address identified budget issues and prepare for the continued uncertainty of the general and local economy, the following represent some of the actions taken or identified as options for early planning. Early action is critical to ensure baseline services are met and that the County continues to experience financial stability.

- The 2016 SFP reflects only a 1% increase in Net County Cost limits in Fiscal Years (FY) 2017-18 and 2018-19, increasing to 2% in FYs 2019-20 through 2021-22, with the remaining excess funds distributed and/or set-aside to address the most critical strategic needs for the County
- Continuation of the policy to not backfill State budget reductions
- Position Policy: delete aged vacant positions
- Internal financing program to support major capital and information technology projects
- Maintaining prudent levels of General Fund and Contingency Reserves

The County continues to move forward on several large projects identified below. In addition, the County is in various stages of planning and implementing several other projects. Financial plans are in place for the 800 MHz Countywide Coordinated Communications System, replacement of Central Utility Facility infrastructure, new Animal Care Center, Homeless Shelter and the first phase of the Civic Center Master Plan. Development of the County property at the former Marine Corps Air Station El Toro in Irvine and other various County-owned properties will require up-front financial planning and investment in order to generate revenue in future years on a long-term basis.

Santa Ana River Mainstem Project: The Santa Ana River Mainstem Project (SARMP) was initiated in 1964, in partial response to a resolution of the United States House Committee on Public Works adopted May 8, 1964. A survey report was completed by the Orange County Flood Control District in 1975. The report was reviewed and submitted to Congress in September 1978. In September 1980, the United States Army Corps of Engineers completed the General Design Memorandum for the SARMP. Construction for the SARMP was authorized by the Water Resources Development Act of 1986. Construction for the SARMP was initiated in 1989, and completion is scheduled for December 2022.

The SARMP is designed to provide flood protection to the growing urban communities in Orange, Riverside and San Bernardino Counties. The proposed improvements to the system cover 75 miles, from the headwater of the Santa Ana River, east of the city of San Bernardino to the mouth of the river at the Pacific Ocean between the cities of Newport Beach and Huntington Beach. The project will increase levels of flood protection to more than 3.35 million people within the three county areas. The project includes seven independent features: Seven Oaks Dam, Mill Creek Levee, San Timoteo Creek, Oak Street Drain, Prado Dam, Santiago Creek and the Lower Santa Ana River. More information on the SARMP is available in Note 14, Construction and Other Significant Commitments. To learn more about the SARMP, visit the Orange County Flood Control Division's website at http://www.ocflood.com.

OC Dana Point Harbor Revitalization Plan: The OC Dana Point Revitalization Plan (Plan) includes revitalization of Dana Point Harbor's commercial core, marinas, and hotel. The Plan is a multi-phased and long-term public-private partnership project, where total development costs have been estimated in excess of $150,000 pending final project design approvals. The Plan is a phased and systematic long-term rehabilitation and/or replacement of the commercial core, hotel, and waterside elements. The initial phases of improvement have begun with phase one focusing on infrastructure elements being funded by the Dana Point Tidelands Fund. County Executive Office staff are managing the process for selection of a potential private partner for the project and will work with OC Parks staff to finalize the financial strategy for the complete Plan that will meet the long-term needs and expectations of the community and the County.

In addition, OC Dana Point Harbor continues to budget for the maintenance dredging of the Dana Point Harbor, with the most recent dredging occurring in FY 2015-16. In general, the dredging takes place every seven years and is budgeted from the reserves each year.

James A. Musick Facility Expansion: On March 8, 2012, the State approved $100,000 in funds for the County for expansion of the James A. Musick Facility (AB900). This project is currently in the final stage of design with construction estimated for completion in FY 2019-20. The County must front costs initially until the notice to proceed for construction is approved by the State. At that time, all past eligible costs incurred can be invoiced for reimbursement by the State in full, and all future costs will be invoiced for reimbursement by the State on an ongoing basis until construction completion and occupancy. It is anticipated that costs will be reimbursed beginning in FY 2017-18.

On March 13, 2014, the State approved $80,000 in funds for the County for further expansion of the James A. Musick Facility (Senate Bill 1022). This project is also in the final stage of design and will be completed in parallel with the AB900 project. Because of schedule compaction during design, the State approved executing both project phases into a single construction project. The financial requirements for this second phase are consistent with those described above.

La Pata Avenue Gap Closure and Camino Del Rio Extension Project: The County has begun the construction of the La Pata Avenue Gap Closure Project (Project) that will widen La Pata Avenue and implement a gap closure between the cities of San Juan Capistrano and San Clemente. This is a cooperative project between the City of San Clemente, City of San Juan Capistrano, OC Waste & Recycling, and OC Public Works, with the County acting as the lead agency. The total Project cost is estimated at $127,000 and is funded from State 1B, Measure M1 and M2, gas tax, La Pata Fee Program, OC Waste & Recycling, developer agreement, and community facility district revenues. A construction contract for $72,741 was awarded by the Board to Sukut Construction, Inc. on December 10, 2013. A construction management contract for $7,706 was awarded to Hill International, Inc. on February 4, 2014. The groundbreaking ceremony was held on April 4, 2014. The ribbon cutting ceremony for the initial phase took place on August 13, 2016, and the roadway opened to the public on August 14, 2016. The tentative completion date for this phase is December of 2016. The remaining two phases, La Pata Widening and Camino Del Rio Extension, began construction in August 2016. Completion of the Camino Del Rio Extension Phase is anticipated in April 2017. Completion of the La Pata Widening Phase is anticipated in February 2018.

Homeless Shelter: On November 17, 2015, the Board approved the acquisition of 1000 N. Kraemer Place for $4,250 as the site of a new 200-bed Year Round Emergency Shelter and Multi-Service Center to serve the homeless with $1,100 in funding support from the cities of Anaheim, Fullerton, and Brea.

Animal Shelter: In December 2015, the Board approved negotiated terms for a land swap between the County, the South Orange County Community College District, and the City of Tustin regarding ten acres of land for the construction of a new, state-of-the-art animal shelter to replace the existing shelter in the City of Orange. A preliminary cost estimate for the new shelter is $35,000, with up to $7,200 paid by the County, and the remaining cost paid by fourteen contract cities. The expected opening date of the new shelter is in late 2017.

Relevant Financial Policies

To achieve the goal of providing outstanding and cost-effective regional public services, the County applies sound management practices and policies that enhance the quality of life of its citizens. Such financial management practices have been identified by the Government Finance Officers Association of the United States and Canada (GFOA) and recognized by Fitch Ratings as best practices that promote financial soundness, efficiency in government and solvency in public finance.

General Fund Reserves Policy

The County General Fund Reserves Policy provides guidance in the creation, maintenance and use of reserves. The policy covers formal and informal reserves, and includes provisions for reserves such as appropriations for contingencies, reserve-like appropriations, and reserve-like funds held by others such as the OCERS Investment Account. The policy also recognizes whether funds are legally required or discretionary or have special restrictions. The reserves policy is maintained and updated, as needed, through the County's annual SFP process. The reserves policy targets and balances are included in the annual SFP document.

The General Fund Reserves policy is designed to provide flexibility to the County as well as the following:

- Resources to address unanticipated or cyclical economic conditions
- Resources for emergencies and/or catastrophic events
- Mitigation of the volatility of revenues and expenditures in managing temporary cash flow shortages
- Capacity to cover unexpected large one-time expenses and opportunities

- Capacity to fund capital investments
- Capacity to minimize borrowing costs
- Capacity to provide some level of protection against statutory changes to County revenues and impacts from federal and state actions

The County has a variety of reserve funds available to both the General Fund and Non-General Funds including:

- Fund Balance Assigned for Contingencies
- Fund Balance Assigned for Operations
- Fund Balance Assigned for Construction and Maintenance
- Fund Balance Assigned for Capital Projects
- Fund Balance Assigned for Teeter Loss Reserve
- Fund Balance Assigned for Reserve Target
- Reserve-Like Funds
- Reserve-Like Appropriations
- Department-Type Reserves

All of the above are reserves normally modified at the time of budget adoption (Government Code Section 29085) or at fiscal year-end. Changes to reserve amounts at other times require a 4/5 vote of the Board. A 4/5 vote is also required to make such reserves available for appropriation to expend the funds, if needed, during the fiscal year (Government Code Section 29130).

Reserve Targets and Descriptions

Under GFOA recommended practice, the County establishes an overall reserve target, and allocates the calculated target among the classes of obligated fund balances as appropriate. The County may fund more or less to each reserve class for a variety of reasons, such as its current financial condition, the need to set aside for particular goals or directives, the need to bridge one-time gaps, etc. The goal is to ensure a prudent reserve balance that is maintained and replenished on a regular basis.

In implementing the GFOA's best practice, the County elected to establish a funding target based upon two months of General Fund operating revenues. Analysis of the historical average of two months of operating revenues, as well as FY 2016-17 adopted budgeted revenues, yielded a funding target of approximately 17% of General Fund operating revenues.

Contingencies

The purpose and use of this reserve is to cover unanticipated and severe economic downturns, major emergencies, or catastrophes that cannot be covered with existing appropriations. In particular, continued drought conditions with the attendant risk of wildfires, highlights the potential for catastrophic events within the County. A significant event could create the need for a higher funding level of this reserve. The target amount for this reserve is 15% of ongoing annual General Purpose Revenues (excluding fund balance unassigned and one-time amounts and transfers).

The following table summarizes the County's financial management practices:

(Dollar Amounts in Thousands)

Relevant Financial Policies	
Multi-Year SFP	The County's SFP is based on a five-year financial forecast and includes a 10-year analysis of operating costs in cases where new programs and facilities are recommended to ensure the ability to pay for long-term operational costs. Performance measures and strategies are key elements of the SFP process.
Five-Year Capital Improvement Plan	The County's five-year Capital Improvement Plan (CIP) is a long-term list of significant projects funded by the General Fund in the Capital Projects budget. It also includes the five-year capital program for Non-General Fund agencies. The CIP aids the County in its assessment of the best use of funds available in order to establish and prioritize its capital asset goals, while maintaining long-term financial stability.
Information Technology Projects	The five-year Information Technology Plan (ITP) is a compilation of significant IT projects including upgrades or replacements of existing systems, greater or equal to $150 and less than $1,000 in any one fiscal year of the five years in the plan. Costs for ongoing system support and maintenance are included. The ITP is a tool used by the County to assess IT projects, leverage overlap, and prioritize the use of County General Funds available to IT projects.
Quarterly Budget Report	The County Executive Office issues quarterly budget reports that provide the Board, County departments, members of the public, and other interested parties with an overview of the current status of budgeted revenues and expenditures, total budgeted positions and various departmental issues requiring adjustments to the County's budget.
Annual Budget Policies and Guidelines	The Annual Budget reflects the County's disciplined approach to fiscal management and is consistent with the County's SFP process. Department budgets are consistent with the priorities and operations plans contained in the SFP. Departments use these planning processes, along with outcome indicators, to evaluate programs and redirect existing resources as needed for greater efficiency to reduce costs and minimize the need for additional resources.
Fund Balance Reserve Policy	The County General Fund currently contains formal and informal reserves, appropriations for contingencies, appropriated reserve-type funds, and reserves held by others. The purpose of these reserves is to protect community programs and services from temporary revenue shortfalls and provide for unpredicted, sudden and unavoidable one-time expenditures.
Contingency Planning Policy	The County's General Fund maintains a reserve for contingencies, which was established through the SFP process. The target amount for this reserve is 15% of ongoing annual General Purpose Revenues (excludes fund balance unassigned and one-time amounts and transfers), or $108,438. This compares to the GFOA guidelines for funding contingencies at 15% or higher. The November 29, 2016 balance is $62,300, approximately $46,138 below the target. In addition to the reserve for contingencies, the County budgets an annual appropriation for significant unanticipated emergencies, catastrophes, one-time expenditures and opportunities of no less than $5,000 in the General Fund.
Debt Disclosure Practices	The County presents a set of debt disclosures in the County's adopted Budget document and the CAFR, as well as Continuing Disclosure Annual Reports on its website and the Electronic Municipal Market Access (EMMA) repository.

Relevant Financial Policies (Continued)	
Pay-as–you-go Capital Funding	The County's long-term practice has been to use pay-as-you-go funding for capital projects whenever possible. The use of systematic long range financial planning assists in making fiscal decisions such as debt vs. pay-as-you-go capital project financing. The SFP forecasts sources of the County's revenue and operating expenses and incorporates a list of previously identified and prioritized projects that will benefit the citizens of the County. The financial planning for capital projects considers the County's limited funding sources, the capital and operating costs, useful life of projects, and good business practices.
Credit and Debt Management Policy	The County's long-term practice has been to rapidly repay debt when practicable. The Policy is intended to maintain long-term financial stability by ensuring that its long-term financing commitments are affordable and do not create undue risk or burden, achieve and maintain high credit ratings, minimize debt service interest expense and issuance costs, provide accurate and timely financial disclosure and reporting, and comply with applicable State and Federal laws and financing covenants.
Public Financing Advisory Committee	The Public Financing Advisory Committee (PFAC) is responsible for the review, approval, modification or denial of debt financing proposals. No debt financing proposal is considered by the Board unless recommended in writing by the PFAC. The PFAC membership consists of the following: five public voting members, each representing a district, and three Ex-Officio County government members (the County Executive Officer (non-voting), the elected Treasurer-Tax Collector, and the elected Auditor-Controller).
Audit Oversight Committee	The Audit Oversight Committee (AOC) is an advisory committee to the Board that provides oversight of the activities of the County Auditor-Controller's Internal Audit Division and the County's external audit coverage, including financial reporting and federal and state audit activities, and discusses the adequacy of the County's internal control structure. The AOC membership includes the Chair and Vice-Chair of the Board, the County Executive Officer, and five private sector members appointed by the Board. The private sector members shall be appointed by the Board for a term of four years and may be reappointed or removed by the Board.
Treasury Oversight Committee	The Treasury Oversight Committee (TOC) is responsible for reviewing and monitoring the annual Investment Policy Statement (IPS) prepared by the Treasurer. In addition, the TOC causes an annual audit of the Treasurer's compliance with the IPS. The TOC shall also investigate any and all irregularities in the Treasurer's operations, which become known to the TOC. The TOC will develop and document policy and procedures to investigate and report such irregularities. Annually, the TOC reviews the Treasurer's IPS, including all proposed amendments or modifications to the policy. The Treasurer then submits the IPS to the Board for approval, including any additions or amendments thereto. The TOC membership consists of the following: The elected Auditor-Controller, the County Executive Officer, the elected County Superintendent of Schools, or their respective designees, and four members of the public. The public members shall be nominated by the Treasurer and confirmed by the Board.
24/7 Fraud Hotline	The Fraud Hotline is part of an ongoing fraud detection and prevention effort. The Fraud Hotline is intended for use by County employees, the general public, or vendors for reporting suspected waste, fraud, violations of County policy or misuse of County resources by vendors, contractors or County employees.

Major Initiatives

Funding Equity: The County hovers at the bottom of funding for counties statewide, receiving the lowest percentage of property taxes in California to support services-about 6 cents on the dollar; the state average is 17 cents. The formula for returning local property taxes to the counties where they were collected was set in 1978 and has not been updated since. This systematically disadvantages the County's ability to provide services to its diverse population.

The County's predicament does not have easy fixes. Shifting funding formulas could affect other counties receiving more of their share of taxes, as well as other taxing entities such as cities, special districts, and schools, which have constitutional protections for state funding. Therefore, the answer to assuring funding equity for Orange County lies in increasing funding, programs, and partnerships that specifically benefit County programs and services. When the state shifts or adds responsibilities at the county level, the County will seek enough funding for those programs to ensure their success. The County's robust legislative agenda seeks creative and substantive ways to assure our residents are provided with their fair share of the taxes they pay to support the programs and services they deserve.

State Prison Realignment: With the passage of Assembly Bill 109 in 2011, California ordered the realignment of certain state prisoners to serve their sentences in county jails instead of state prisons to comply with court-ordered overcrowding reductions. The County accounts for 8.1% of the state's population and 6.4% of the total prison population. In FY 2015-16, the County spent $72,100 and carried over $0 surplus to FY 2016-17.

Realignment has led to multiple challenges, including: the need for more in-custody housing options and bed space, additional case-management resources, inmate screening and medical/psychiatric programs. Felony caseloads have increased substantially with a corresponding increase in the need for additional court hearings and appearances. On November 4, 2014, voters passed Proposition 47, "The Safe Neighborhood and Schools Act," which reduced the classification of most non-serious, non-violent property and drug crimes from felonies to misdemeanors. This change reduced the number of new felony cases and permitted re-sentencing for anyone currently serving a sentence for those offenses, ultimately reducing the AB 109 and general jail populations. This change resulted in lower felony caseloads and a temporary increase in workloads due to the large number of re-sentencing hearings.

Labor Agreements: Most County employees are represented by one of 17 bargaining units, which are separated into eight labor organizations. The principal organization is the Orange County Employees Association (OCEA), which represents eight bargaining units totaling about 10,684 permanent filled employee positions. The next largest unions are the Association of County Deputy Sheriffs at about 1,871 members and the American Federation of State and Municipal Employees at about 1,419 members. All but one contract have been successfully negotiated and County employees continue to work under their contract terms with no interruption.

AWARDS AND ACKNOWLEDGEMENTS

GFOA Awards: The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the County for its CAFR for the year ended June 30, 2015; this represents the County's 21st consecutive award. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such a CAFR must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the County issued its 13th consecutive Popular Annual Financial Report (PAFR) titled the "OC Citizens' Report" for the year ended June 30, 2015. The County received the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting for this PAFR. The award is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. In order to be awarded, a government must publish a PAFR that reflects the program standards of creativity, presentation, understandability and reader appeal. The "OC Citizens' Report" is available for viewing at http://acdcweb01.ocgov.com/acInternet/Reports/CitizensReports.aspx

Counties Financial Transactions Reporting Award: The County received the Financial Transactions Reporting Award from the State Controller's Office for its Year-End Financial Transaction Report for the fiscal year ended June 30, 2015. The award is in recognition of the professionalism demonstrated by Counties in preparing accurate and timely financial reports and for those counties that meet the review criteria of the award program.

Acknowledgments: We would like to express our sincere appreciation to County staff and the staff of the certified public accounting firm of MGO. We hope this report will be of interest and use to those in county government, other governmental agencies, and the public interested in the financial activities of the County of Orange.

Respectfully submitted,

Eric H. Woolery

Eric H. Woolery, CPA
Auditor-Controller

MAguirre

Michelle Aguirre
Chief Financial Officer

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Orange

California

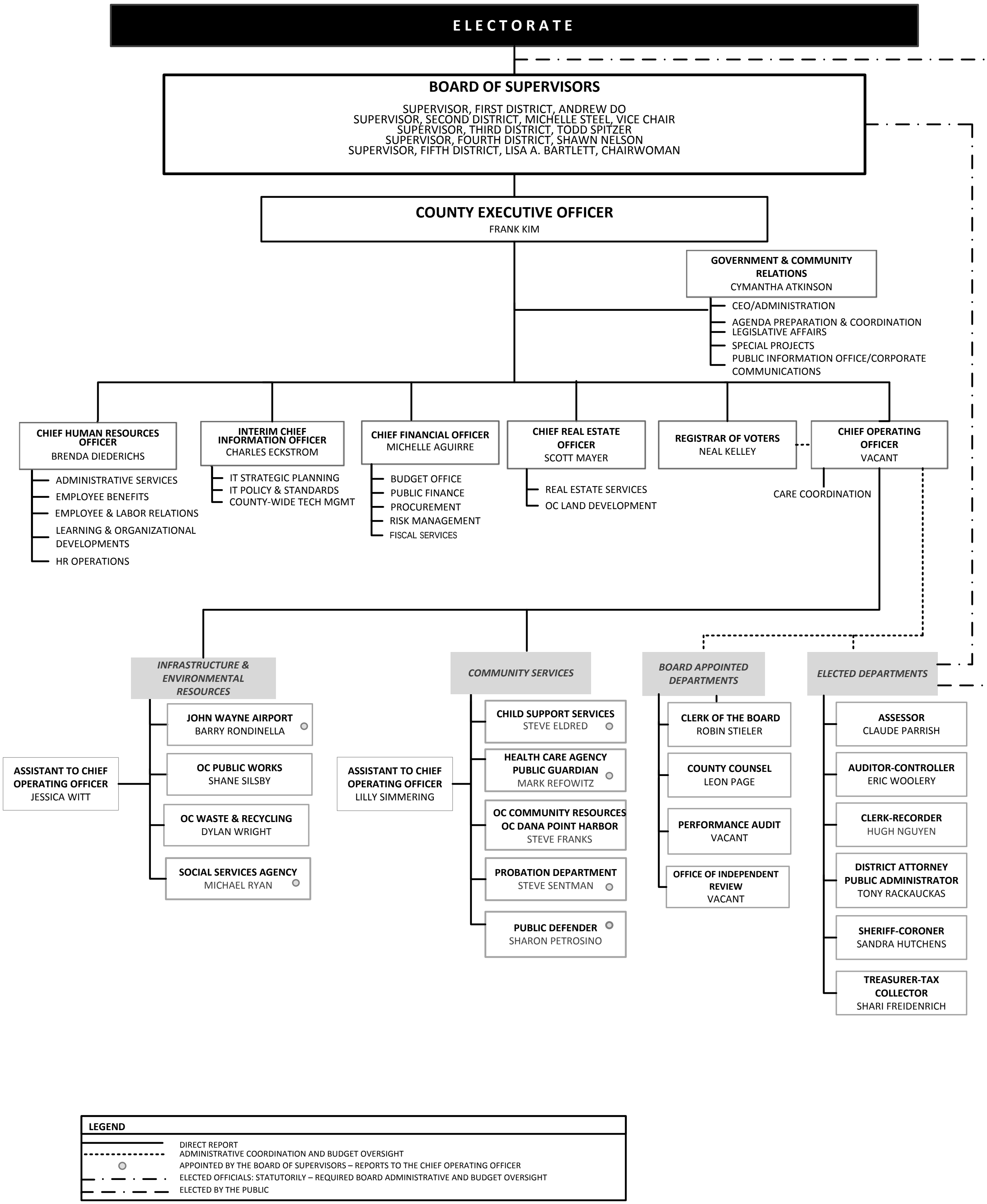
For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

ORGANIZATIONAL CHART

(As of September 30, 2016)



Civic Center Plan 1952

ORANGE COUNTY AUDITOR-CONTROLLER

CALIFORNIA

Independent Auditor's Report

The Honorable Board of Supervisors
County of Orange, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Orange, California (County), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County'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 did not audit the financial statements of the Children and Families Commission of Orange County (CFCOC) and the Orange County Health Authority, a Public Agency/dba Orange Prevention and Treatment Integrated Medical Assistance (CalOptima), which collectively represent 100% percent of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for CFCOC and CalOptima, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, Flood Control District Fund, Other Public Protection Fund, and Mental Health Services Act Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, effective July 1, 2015, the County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

As discussed in Note 17 to the basic financial statements, the total net pension liability of the County as of June 30, 2016, which was measured as of December 31, 2015, was $4.4 billion for the Orange County Employees Retirement System (OCERS). The fiduciary net position as a percentage of the total pension liability as of December 31, 2015, was 65.66% for OCERS. The actuarial valuation is very sensitive to the underlying actuarial assumptions, including a discount rate of 7.25%, which represents the long-term expected rate of return for OCERS. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules related to the Orange County Extra-Help Defined Benefit Plan, schedules related to the OCERS, and schedule related to the Orange County Retiree Medical Plan as listed 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 consistency with management's responses to our inquiries, the basic financial 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 Information

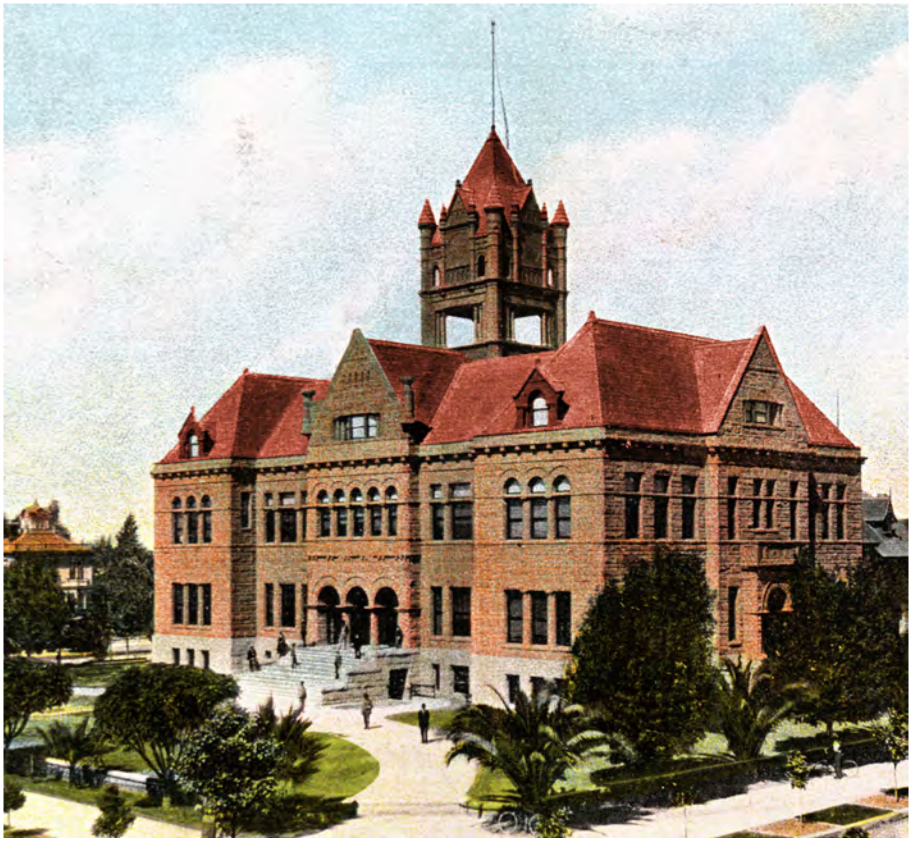
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and budgetary comparison schedules included in supplemental information in the financial section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Macias Gini & O'Connell LLP

Newport Beach, California
December 15, 2016



Courthouse 1901

ORANGE COUNTY AUDITOR-CONTROLLER

CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(UNAUDITED)

This section of the County's Comprehensive Annual Financial Report (CAFR) provides a narrative overview and analysis of the financial activities of the County for the year ended June 30, 2016. We hope that the information presented here, in conjunction with the Letter of Transmittal, provides a clear picture of the County's overall financial status. Unless otherwise indicated, all amounts in this section are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- The total change in net position, which is the difference between total revenues (including transfers in) and expenses (including transfers out), was $177,959 for the fiscal year and it increased net position by 9% from the prior year.
- Long-term bonded debt decreased by $6,722 or 1% during the current fiscal year.
- The County's governmental funds reported combined ending fund balances of $2,357,526, an increase of $170,835, or 8% in comparison with the prior year.
- General Fund revenues and other financing sources ended the year 5% below budget.
- General Fund expenditures and other financing uses ended the year 7% below budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements presented in the County's CAFR are divided into three different sections:

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

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The following table summarizes the major features of the basic financial statements:

	Government-wide Financial Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Type of Financial Statement	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balances Budgetary Comparison Statements	Statement of Net Position Statement of Revenues, Expenses, and Changes in Fund Net Position Statement of Cash Flows	Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position
Scope	Entire entity (except fiduciary funds)	Day-to-day operating activities for basic services	Day-to-day operating activities for business-type services	Resources on behalf of others
Accounting Basis and Measurement Focus	Accrual accounting and economic resources measurement focus	Modified accrual accounting and current financial resources measurement focus	Accrual accounting and economic resources measurement focus	Accrual accounting and economic resources measurement focus (except for agency funds)
Type of Asset, Deferred Outflows of Resources, Liability, and Deferred Inflows of Resources Information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term	Current assets, liabilities, and deferred inflows of resources that come due during the year or soon thereafter	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources both financial and capital, short-term and long-term	All assets, deferred outflows of resources, and deferred inflows of resources held in a trustee or agency capacity for others
Type of Inflow and Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-wide Financial Statements

The government-wide financial statements consist of the following two financial statements: the Statement of Net Position and the Statement of Activities. Both of these statements were prepared using an accounting method and a measurement focus similar to those used by private-sector companies, the accrual basis of accounting and the economic resources measurement focus. The ***Statement of Net Position*** provides information regarding all of the County's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating. The ***Statement of Activities***, on the other hand, provides information on how the government's net position changed during the most recent fiscal year regardless of the period when the related cash or cash equivalent is received or paid. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

The Statement of Net Position and the Statement of Activities distinguish functions of the County that are principally supported by taxes (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include (1) general government, (2) public protection, (3) public ways and facilities, (4) health and sanitation, (5) public assistance, (6) education, and (7) recreation and cultural services. The business-type activities of the County include airport, waste management, and compressed natural gas.

The government-wide financial statements also provide information regarding the County's component units, entities for which the County (the primary government) is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations and, therefore, data from these component units are combined with data of the primary government. Financial information for the CFCOC and CalOptima, discretely presented component units, are reported separately from the financial information presented for the primary government itself. A separate stand-alone annual financial report can be obtained for the CFCOC by accessing the County's website at the following address: http://acdcweb01.ocgov.com/acInternet/. A separate stand-alone annual financial report can be obtained for CalOptima by accessing the website at http://wpso.dmhc.ca.gov/fe/search/, and select the Health Plan "Orange County Health Authority" and Statement Type "Annual Audit Reports."

Fund Financial Statements

- **Fund** - a separate accounting entity with a self-balancing set of accounts.
- Focus is on **major funds**.
- Provides information regarding the three major categories of all County funds: **governmental, proprietary, and fiduciary**.

The fund financial statements report on groupings of related funds that are used to maintain control over resources that have been segregated for specific activities or objectives. A fund is a separate accounting entity with a self-balancing set of accounts. Like other state and local governments, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of governmental and proprietary fund financial statements is on major funds as determined by the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 34, *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,"* and GASB Statement No. 65, *"Items previously Reported as Assets and Liabilities."* All of the County funds can be divided into three major categories of funds: governmental, proprietary, and fiduciary.

Governmental Funds **-** Governmental funds include most of the County's basic services and 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 funds financial statements are prepared using the modified accrual basis of accounting and current financial resources measurement focus.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliations are prepared for the governmental funds' Balance Sheet and the governmental funds' Statement of Revenues, Expenditures, and Changes in Fund Balances to facilitate comparisons between governmental funds and governmental activities. The primary differences between the government-wide and fund financial statements relate to noncurrent assets, such as land and structures and improvements, and noncurrent liabilities, such as bonded debt and amounts owed for compensated absences and capital lease obligations, which are reported in the government-wide statements but not in the fund financial statements.

The County maintains several individual governmental funds organized according to their type (General Fund, Special Revenue, Debt Service, Capital Projects and Permanent Funds). Information is presented separately in the governmental funds' Balance Sheet and in the Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, which is always a major fund, and all other major funds. Information for nonmajor funds is presented in the aggregate in these statements. Individual fund data for each of the nonmajor governmental funds is presented in the Supplemental Information Section of this report. The County adopts an annual appropriated budget for its governmental funds. Budgetary comparison statements and schedules have been provided for these funds to demonstrate compliance with the budget.

Proprietary Funds **-** The County maintains two different types of proprietary funds: Enterprise Funds and Internal Service Funds. **Enterprise Funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its Airport, Waste Management, and Compressed Natural Gas activities. **Internal Service Funds** are used to accumulate and allocate costs internally among the County's various functions such as insurance, transportation, publishing, and information technology. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Airport and Waste Management operations, which are both considered to be major funds of the County. Conversely, the Internal Service Funds are combined into a single, aggregated presentation in the proprietary fund financial statements with the individual fund data provided in combining statements, which can be found in the Supplemental Information Section of this report.

Fiduciary Funds - Fiduciary funds include the **Trust** and **Agency** funds and are used to account for assets held on behalf of outside parties, including other governments. Financial information for fiduciary funds are not reported in the government-wide financial statements because the resources of these funds are not available to support the County's programs. The combining statements for fiduciary funds are included in the Supplemental Information Section of this report.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. To find a specific note, refer to the Table of Contents.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the County's financial position. At June 30, 2016, the County's combined net position (governmental and business-type activities) totaled $2,185,709 an increase of 9% from FY 2014-15.

The largest component of the County's net position, which totals $3,370,773, was **net investment in capital assets,** which represents the County's investment in capital assets, less any related outstanding debt used to acquire those assets and debt-related deferred outflows and inflows of resources. The County's capital assets are used to provide needed services to its citizens. Since the capital assets themselves cannot be used to liquidate the associated debt, the resources needed to repay the debt must be provided from other sources.

COMPONENTS OF NET POSITION

- Net Investment in Capital Assets
- Restricted
- Unrestricted

(Dollar Amounts in Thousands)

The County's **restricted** net position totals $1,329,878. Restricted net position represents resources that are subject to external restrictions on their use and are available to meet the County's ongoing obligations for programs with external restrictions. External restrictions include those imposed by grantors, contributors, laws/regulations of other governments, or restrictions imposed by law through constitutional provisions or legislation, including those passed by the County itself.

The final component of net position is **unrestricted** net position. Unrestricted net position is resources that the County may use to meet its ongoing obligations to citizens and creditors. As of June 30, 2016, the County's unrestricted net position totals a deficit of $2,514,942. Among governmental activities the deficit was $2,979,945 in unrestricted net position, compared to its deficit of $2,991,814 at June 30, 2015. The main contributor of the deficit continues to be the reporting of the County's proportionate share of net pension liability on the financial statements.

The following table presents condensed financial information derived from the government-wide Statement of Net Position:

NET POSITION – Primary Government
June 30, 2016 and 2015

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
ASSETS						
Current and Other Assets	$ 3,451,250	$ 3,216,086	$ 878,991	$ 827,258	$ 4,330,241	$ 4,043,344
Capital Assets	2,808,923	2,783,675	848,929	835,176	3,657,852	3,618,851
Total Assets	**6,260,173**	**5,999,761**	**1,727,920**	**1,662,434**	**7,988,093**	**7,662,195**
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Charge on Refunding	3,871	6,225	--	--	3,871	6,225
Deferred Outflows of Resources Related to Pension	1,093,168	652,309	22,951	14,275	1,116,119	666,584
Total Deferred Outflows of Resources	**1,097,039**	**658,534**	**22,951**	**14,275**	**1,119,990**	**672,809**
LIABILITIES						
Long-term Liabilities	5,197,639	4,724,559	466,575	462,586	5,664,214	5,187,145
Other Liabilities	724,748	666,496	78,920	79,365	803,668	745,861
Total Liabilities	**5,922,387**	**5,391,055**	**545,495**	**541,951**	**6,467,882**	**5,933,006**
DEFERRED INFLOWS OF RESOURCES						
Deferred Inflows of Resources Related to Pension	444,828	385,819	9,664	8,429	454,492	394,248
Total Deferred Inflows of Resources	**444,828**	**385,819**	**9,664**	**8,429**	**454,492**	**394,248**
NET POSITION						
Net Investment in Capital Assets	2,707,493	2,670,577	663,280	642,427	3,370,773	3,313,004
Restricted	1,262,449	1,202,658	67,429	121,356	1,329,878	1,324,014
Unrestricted	(2,979,945)	(2,991,814)	465,003	362,546	(2,514,942)	(2,629,268)
Total Net Position	**$ 989,997**	**$ 881,421**	**$ 1,195,712**	**$ 1,126,329**	**$ 2,185,709**	**$ 2,007,750**

As of June 30, 2016, the County's total assets and deferred outflows of resources increased by 9% or $773,079 during the current fiscal year. Deferred outflows of resources related to pension increased by $449,535 due to the changes in net pension liability measurements as required by GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*," (GASB Statement No. 68) and employer pension contributions made after the measurement date as required by GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*" (GASB Statement No. 71). In addition, an increase of $231,765 in cash and equivalents is another contributing factor. This increase was primarily due to increased passenger facility charge revenues, receipt of grants for capital improvement projects, and bond proceeds to construct the new community facility district (CFD), Village of Esencia; the debt will be paid by a special tax levied on properties within the CFD.

Total liabilities and deferred inflows of resources for FY 2015-16 increased by 9% or $595,120. Long-term liabilities increased by 9% or $477,069, as a result of recording the County's proportionate share of the net pension liability. Deferred inflows of resources related to pension increased $60,244 due to the changes in the net pension liability measurements used in the actuarial study as required by GASB Statement No. 68.

(Dollar Amounts in Thousands)

The following table provides summarized data of the government-wide Statement of Activities:

CHANGES IN NET POSITION – Primary Government
For the Years Ended June 30, 2016 and 2015

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
REVENUES						
Program Revenues:						
Charges for Services	$ 557,450	$ 563,013	$ 297,293	$ 281,368	$ 854,743	$ 844,381
Operating Grants and Contributions	2,037,311	1,996,861	171	255	2,037,482	1,997,116
Capital Grants and Contributions	105,776	33,241	2,174	9,215	107,950	42,456
General Revenues:						
Property Taxes	500,507	505,189	--	--	500,507	505,189
Property Taxes in Lieu of Motor Vehicle License Fees	333,595	314,957	--	--	333,595	314,957
Other Taxes	78,184	71,613	72	109	78,256	71,722
Grants and Contributions not Restricted to Specific Programs	4,583	49,476	--	--	4,583	49,476
State Allocation of Motor Vehicle License Fees	1,100	764	--	--	1,100	764
Other General Revenues	80,857	76,585	8,696	4,639	89,553	81,224
Total Revenues	**3,699,363**	**3,611,699**	**308,406**	**295,586**	**4,007,769**	**3,907,285**
EXPENSES						
General Government	203,394	191,793	--	--	203,394	191,793
Public Protection	1,433,421	1,326,028	--	--	1,433,421	1,326,028
Public Ways and Facilities	142,071	114,398	--	--	142,071	114,398
Health and Sanitation	554,872	537,580	--	--	554,872	537,580
Public Assistance	1,097,129	1,049,665	--	--	1,097,129	1,049,665
Education	46,170	43,314	--	--	46,170	43,314
Recreation and Cultural Services	115,136	102,069	--	--	115,136	102,069
Interest on Long-Term Debt	20,112	23,560	--	--	20,112	23,560
Airport	--	--	120,921	124,778	120,921	124,778
Waste Management	--	--	96,301	69,307	96,301	69,307
Compressed Natural Gas	--	--	283	331	283	331
Total Expenses	**3,612,305**	**3,388,407**	**217,505**	**194,416**	**3,829,810**	**3,582,823**
Excess before Transfers	87,058	223,292	90,901	101,170	177,959	324,462
Transfers	21,518	19,959	(21,518)	(19,959)	--	--
Change in Net Position	**108,576**	**243,251**	**69,383**	**81,211**	**177,959**	**324,462**
Net Position - Beginning of the Year	881,421	638,170	1,126,329	1,045,118	2,007,750	1,683,288
Net Position - End of the Year	**$ 989,997**	**$ 881,421**	**$ 1,195,712**	**$ 1,126,329**	**$ 2,185,709**	**$ 2,007,750**

The County's net position increased by $177,959 during the current fiscal year. Revenues for the year totaled $4,007,769, an increase of $100,484 from prior year's total revenues. Expenses totaled $3,829,810, an increase of $246,987 from the previous year's total expenses.

Governmental Activities

The County's governmental activities rely on several sources of revenue to finance ongoing operations. Operating Grants and Contributions comprised the largest revenue source for the County, followed by Charges for Services. Operating grants and contributions are monies received from parties outside the County and are generally restricted to one or more specific programs such as State and Federal revenues for public assistance and for health care. Charges for services are revenues that arise from charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. Examples of the types of services that fall under this category include engineering services provided to cities under contract, park and recreation fees, and law enforcement services provided to other governmental agencies under contract.

At the end of FY 2015-16, total revenues for governmental activities, including transfers from the business-type activities, were $3,720,881, an increase of $89,223 from the previous year. Expenses totaled $3,612,305, an increase of $223,898 from the prior year. During the current fiscal year, net position for governmental activities increased by $108,576 from the prior fiscal year for an ending balance of $989,997. Key elements of the increase are as follows:

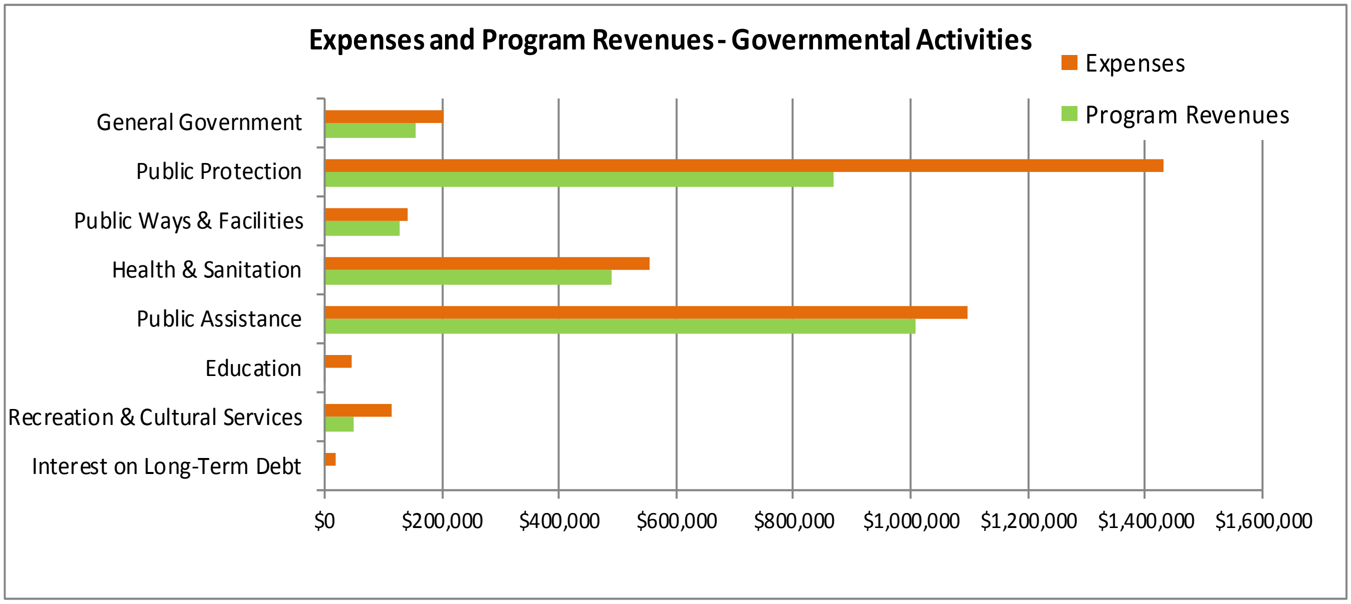
Revenues

- Operating Grants and Contributions increased by $40,450, due primarily to a $29,822 increase in revenues for social services related to the Medi-Cal program, CalFresh program, and In-Home Supportive Services.
- Capital Grants and Contributions increased by $72,535, primarily due to increase of $88,700 for the development of CFD, Village of Esencia, to provide acquisition and construction of public facilities and improvements. Offsetting this was a $20,653 decrease in revenues related to construction projects due to the completion of construction for projects such as Cow Camp Road.
- Partially offsetting the increase in revenue was a decrease in Grants and Contributions not restricted to Specific Programs of $44,893, primarily for a one-time windfall that was only received by the County in FY 2014-15 where the State fully paid pre-2004 Senate Bill 90 (SB90) mandated cost claims.

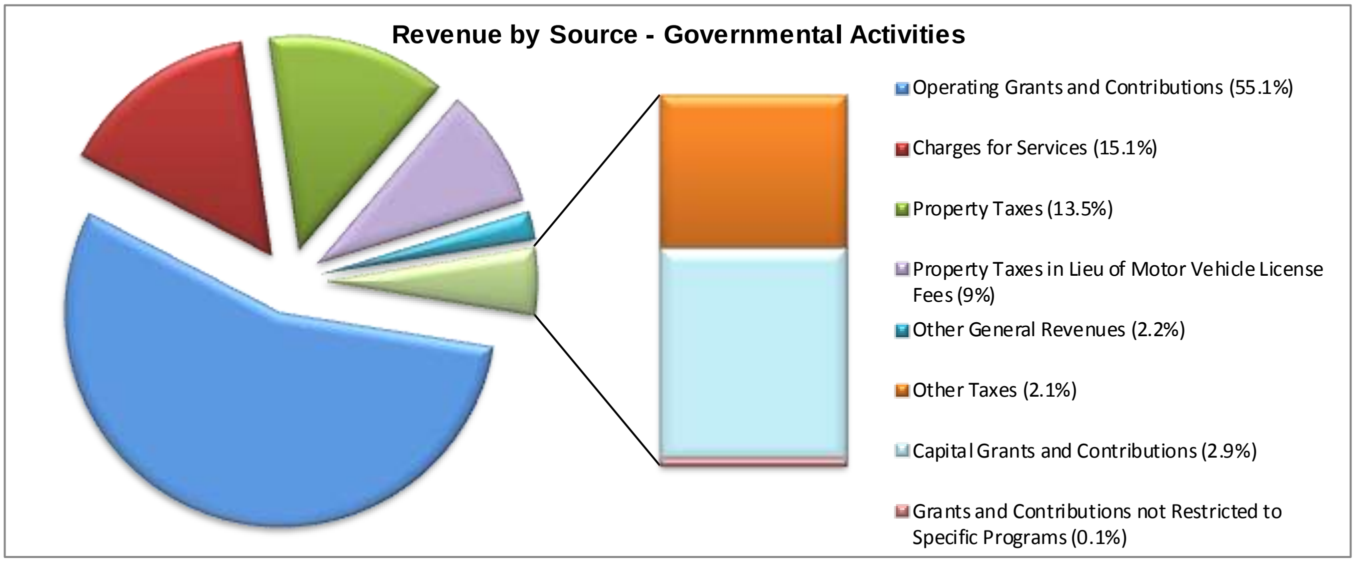
Expenses

- Expenses in public protection increased by $107,393, primarily due to an increase in Salaries and Employee Benefits (S&EB) which was the result of salary adjustments based on contracts, additional positions added to support ongoing operations and increases in pension related expense items. The increase was partially offset by a reduction in employer paid pickup contributions of the safety members retirement plan (3% at 50) that is now being 100% paid by employees. In addition, there were increases in utility costs and a negative adjustment made to an infrastructure capital asset project due to a settlement for the Los Alamitos Pump Station project.
- Expenses in public assistance increased by $47,464, primarily due to an increase in S&EB which include salary adjustments based on contracts, additional positions added to support new and ongoing demands in social services programs and increases in pension expense. In addition, there was an increase in Services and Supplies (S&S) due to new office rent expenses, increases in contract services, facility improvements and other services required to ensure continued and more efficient operations.
- Expenses in public ways and facilities increased by $27,673, which was primarily attributable to the issuance of South County Roadway Improvement Program (SCRIP) fee credits paid to the developer.
- Expenses in health and sanitation increased by $17,292 due to an increase in S&EB for additional positions to support ongoing services, pension related expense items, and increases in the Mental Health Services Act (MHSA) program expenses. Partially offsetting the increase was a continued decrease in expenses related to the Medical Services Initiative and a decrease in the loss on disposition of assets in FY 2015-16.

The following chart presents a comparison of expenses by function and the associated program revenues for governmental activities:

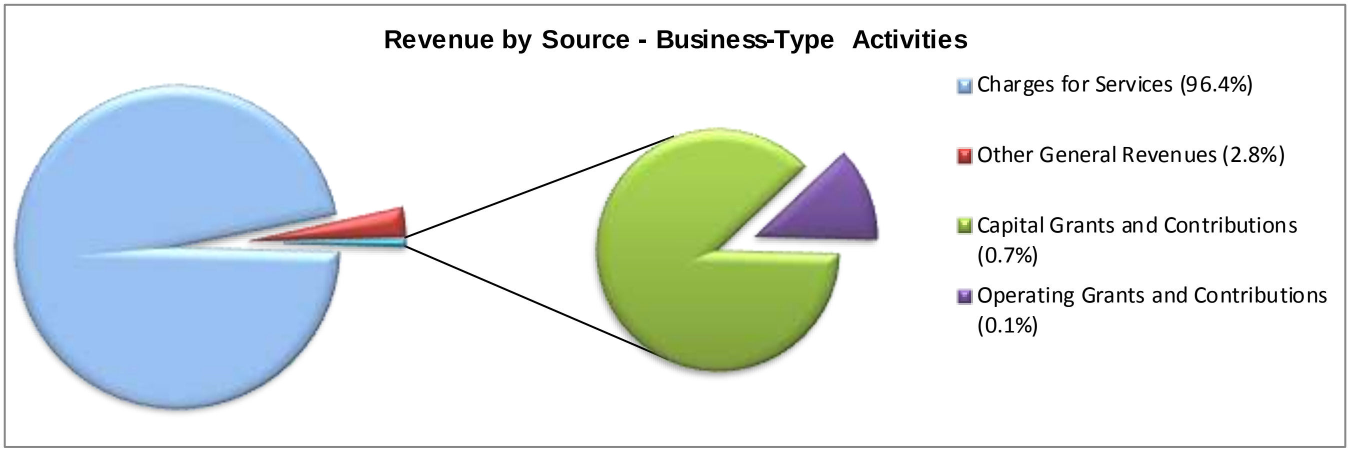


The chart below presents the percentage of total revenues by source for governmental activities:



Business-Type Activities

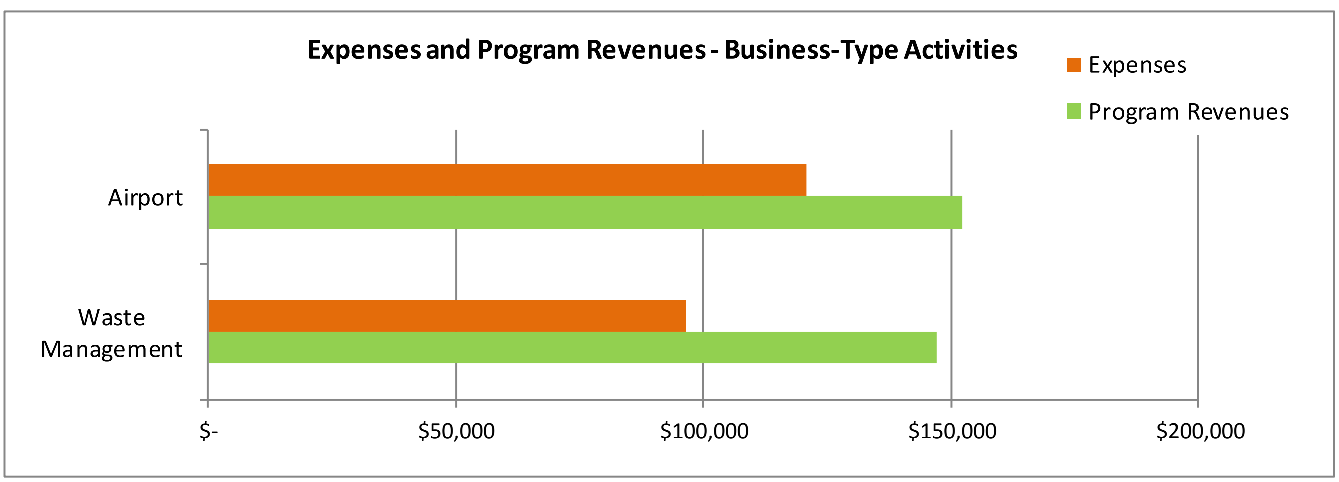
The County has three business-type activities: Airport, Waste Management, and Compressed Natural Gas. In keeping with the intent of recovering all or a significant portion of their cost through user fees and charges, business-type activities reported charges for services as their largest source of revenues.



At the end of FY 2015-16, the business-type activities' total revenues exceeded expenses and transfers resulting in an increase of $69,383 in net position compared to the prior year's increase in net position of $81,211. Revenues totaled $308,406, an increase of $12,820 from the previous fiscal year, which is attributable to a $6,737 increase in revenues received by the Airport for terminal space rental, concessions, landing fees and use of property and also an increase of $2,847 for interest income and Passenger Facilities Charges (PFC). Another contributing factor to the increase in revenue was Waste Management's importation disposal tonnage and fees which increased by $2,863 and in-county disposal tonnage and fees which increased by $4,738. Partially offsetting the increase in revenue was a decrease of $7,041 in capital grants related to the Airport's Terminal A and B Baggage Handling System project which was completed in FY 2014-15.

Expenses, including transfers to governmental activities, totaled $239,023, representing an increase of $24,648 from the previous year. This increase is primarily due to Waste Management's one-time adjustment in FY 2014-15 to decrease the closure and postclosure care costs relating to Frank R. Bowerman, Olinda Alpha, and Coyote Landfills. In FY 2015-16, there was an additional $2,729 in closure and postclosure care costs. These resulted in a total increase in expenses of $24,772 between the two fiscal years. However, partially offsetting the increase was a decrease for the Airport of $3,857 for non-operating expenses and a decrease in expenses for capital asset impairment loss due to a one-time impairment that occurred in FY 2014-15 for the Common Use Passenger Processing System (CUPPS). Other factors concerning the finances of the County's two major enterprise funds are discussed in the Proprietary Funds section of the "Financial Analysis of the County's Funds."

The following chart displays expenses and the associated program revenues by function for the business-type activities (major enterprise funds):



(Dollar Amounts in Thousands)

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

The County uses fund accounting to demonstrate legal compliance and aid financial management by segregating transactions related to certain government functions or activities.

Governmental Funds

Governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets, current liabilities, and deferred inflows of resources related to unavailable revenue generally are included on the balance sheet, with the difference reported as fund balance. Fund balance, excluding nonspendable and restricted fund balances, may serve as a valuable measure of the government's available financial resources for spending at the end of a fiscal year. This amount is available for spending at the discretion of the Board in order to achieve the established function of the respective funds.

At June 30, 2016, the County's governmental funds reported total fund balances of $2,357,526, which is an increase of $170,835 in comparison with prior year ending fund balances.

Comparative Analysis of Changes in Fund Balances

The following schedule presents a summary of revenues and other financing sources, expenditures and other financing uses, and the net change in fund balances for the governmental funds for the current and previous fiscal year:

GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES, OTHER FINANCING SOURCES (USES) AND CHANGES IN FUND BALANCES
For the Years Ended June 30, 2016 and 2015

	Revenues and Other Financing Sources		Expenditures and Other Financing Uses		Net Change in Fund Balances	
	2016	2015*	2016	2015*	2016	2015*
General Fund	$ 3,038,491	$ 3,001,243	$ 2,975,161	$ 2,853,121	$ 63,330	$ 148,122
Flood Control District	128,929	163,096	116,206	121,287	12,723	41,809
Other Public Protection	63,506	66,846	63,656	66,747	(150)	99
Mental Health Services Act	116,978	141,713	115,244	104,115	1,734	37,598
Other Governmental Funds	904,098	641,234	810,900	649,795	93,198	(8,561)
Total	**$ 4,252,002**	**$ 4,014,132**	**$ 4,081,167**	**$ 3,795,065**	**$ 170,835**	**$ 219,067**

* The balances shown in FY 2014-15 reflect the change of major funds in FY 2015-16.

In addition to the effects of expenditure-driven grants, the following information provides explanations for the significant changes in fund balance:

General Fund
The General Fund is the chief operating fund of the County. At the end of FY 2015-16, revenues and other financing sources exceeded expenditures and other financing uses resulting in an increase in fund balances of $63,330 compared to last year's increase in fund balances of $148,122. Revenues and other financing sources increased by $37,248 and expenditures and other financing uses increased by $122,040. The following is a brief summary of the primary factors that contributed to the increase in the net change in fund balance for the General Fund in FY 2015-16:

Revenues

- Tax revenue increased by $41,760, which was primarily due to increases in secured property taxes and property taxes in-lieu of vehicle license fees (VLF) resulting from an increase in secured assessed values. Additionally, there was an increase in supplemental and other property tax revenues.

- Fines, Forfeitures, and Penalties revenue decreased by $37,688, primarily due to the adoption of Board Resolution 14-096 that changed the minimum reserve requirements for the Teeter Plan Loss Reserve. The change resulted in a significant one-time increase in revenues in FY 2014-15.
- Use of Money and Property increased by $13,046, primarily due to the revenue distribution for the recognition of interest paid by the State related to the SB90 State Mandated Cost Program reimbursement.
- Transfers to the General Fund increased by $13,575, due to transfers for multi-year capital projects, reimbursements for Shelter Costs, and increases in Proposition 63 drawdowns from the MHSA. The increase in transfers to the General Fund was partially offset by a decrease in transfers in from the Facilities Development and Maintenance Fund for General Relief Assistance. There was also a decrease in transfers in from the Juvenile Justice Reform fund due to its prior year closure.

Expenditures

- Expenditures in public protection increased by $55,580. Factors contributing to this increase in expenditures were ongoing operational cost increases in the Sheriff-Coroner's Department for S&EB, Workers' Compensation Insurance, Property & Liability Insurance, and S&S due to expenditures for utilities.
- Transfers from the General Fund increased by $43,386 due to higher expenditures related to the new Animal Care Shelter, Central Utility Facility (CUF) infrastructure upgrades, Probation's hot red radio mobile expenditures, and Sheriff-Coroner's Department one-time equipment purchases. The increase in transfers was partially offset by lower transfers to the Plan of Adjustment Available Cash fund used to amortize bankruptcy related losses to County administered accounts.

Flood Control District

This fund accounts for the planning, construction, and operation of flood control and water conservation works, such as dams, basins, and trunk channels, and for the retardation, conservation, and controlled discharge of storm waters. At the end of FY 2015-16, there was an increase in fund balance of $12,723, compared to last year's increase of $41,809. Revenues and other financing sources decreased by $34,167, mainly due to a decrease in intergovernmental revenues related to a reduction in SAR Subvention claims and a reduction in revenue from the Department of Water Resources for the Santa Ana River Interceptor (SARI) Line project claims. Refer to Note 10 for detailed information regarding the SARI project and financing agreement. Expenditures and other financing uses decreased by $5,081, primarily due to a decrease in capital outlay expenditures related to property acquisitions for the Prado Dam and a decrease in the repayment of SARI Line Project loans to the Orange County Sanitation District (OCSD) and Santa Ana Watershed Project Authority (SAWPA).

Other Public Protection

This group of funds is used to account for safety and law enforcement activities. At the end of FY 2015-16, there was a decrease in fund balance of $150 compared to last year's increase in fund balance of $99. Revenues and other financing sources decreased by $3,340, which was attributable to a decrease in fines, forfeitures and penalties of $6,788, primarily for penalty and settlement collections in the District Attorney's Consumer Protection funds. Offsetting the decrease in revenues and other financing sources was an increase in transfers in of $4,479, mainly to fund a mass notification system. Expenditures and other financing uses decreased by $3,091 primarily due to transfers out of $4,774 from the DA Consumer Prosecution Fund and the James A. Musick Facility construction costs. Offsetting the decrease in expenditures and other financing uses was an increase in capital outlay and public protection of $1,683, which was primarily due to public protection expenses incurred by program members for services rendered in support of the Regional Narcotics Suppression Program (RNSP) and payments for charges related to the preservation of County Archival Property Records.

Mental Health Services Act

This fund accounts for MHSA revenues earned by the Health Care Agency (HCA) that are purpose restricted. At the end of FY 2015-16, fund balance increased by $1,734 compared to last year's increase in fund balances of $37,598. Revenues and other financing sources decreased by $24,735, primarily due to a decreased allocation of the Mental Health Services Fund apportionments from the State. Expenditures increased by $11,129, primarily due to an increase in transfers out to the General Fund for reimbursement of eligible expenditures.

(Dollar Amounts in Thousands)

Other Governmental Funds

Other governmental funds encompass nonmajor funds, which include special revenue funds, debt service funds, capital projects funds, and a permanent fund. At the end of FY 2015-16, fund balances increased by $93,198 in comparison to prior year's decrease in fund balances of $8,561. Revenues and other financing sources increased by $262,864 primarily due to an increase in intergovernmental revenues caused by the reclass of transfers for debt service activity related to the Village of Esencia, an increase in transfers in from the General Fund for multi-year countywide capital projects, an increase in bonds issued to finance the new Central Utilities Facility (CUF) Lease Revenue Bonds, Series 2016 and the issuance of the Teeter Plan Obligations Notes, Series B. Expenditures and other financing uses increased by $161,105 primarily due to an increase in construction costs for Cow Camp Road Phase 1A & 1B Bridge project, the La Pata Avenue Gap Closure project, the Central Utilities Facility Infrastructure Upgrade and reimbursements to Santa Margarita Water District for construction of water facilities for CFD, Village of Esencia. In addition, there were increased SCRIP fee credits paid to the developer for the I-5/Ortega Highway Interchange project and La Pata Avenue Improvements and increased debt service costs for principal retirement of Teeter Plan Obligations Notes, Series B.

The following chart shows the fund balances, and percentage change in fund balances for governmental funds for the current and previous fiscal year:

COMPARATIVE FUND BALANCE
Governmental Funds
June 30, 2016 and 2015

		2016		2015 *	Increase/(Decrease) %
General Fund	$	727,838	$	664,508	10 %
Flood Control District		431,668		418,945	3 %
Other Public Protection		145,810		145,960	--
Mental Health Services Act		241,958		240,224	1 %
Other Governmental Funds		810,252		717,054	13 %
Total	$	**2,357,526**	$	**2,186,691**	8 %

* The balances shown in FY 2014-15 reflect the change of major funds in FY 2015-16.

Proprietary Funds

The proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the Airport and Waste Management funds, which are considered to be major funds of the County, and Compressed Natural Gas fund. Internal Service Funds are combined into a single, aggregated presentation in the proprietary funds financial statements.

Comparative Analysis of Changes in Fund Net Position

The following table presents the enterprise funds' revenues, expenses, contributions, transfers, and changes in fund net position for the current and previous fiscal year:

ENTERPRISE FUNDS
COMPARATIVE SCHEDULE OF REVENUES, EXPENSES, CONTRIBUTIONS, TRANSFERS AND CHANGES IN FUND NET POSITION
For the Years Ended June 30, 2016 and 2015

	Revenues, Contributions and Transfers				Expenses and Transfers				Change in Fund Net Position			
		2016		2015		2016		2015		2016		2015
Airport	$	155,495	$	152,732	$	121,023	$	125,072	$	34,472	$	27,660
Waste Management		152,630		142,250		117,667		89,117		34,963		53,133
Compressed Natural Gas		345		423		534		480		(189)		(57)
Total	$	**308,470**	$	**295,405**	$	**239,224**	$	**214,669**	$	**69,246**	$	**80,736**

Airport
This fund accounts for major construction and self-supporting aviation related activities rendered at John Wayne Airport, Orange County (JWA). At the end of FY 2015-16, there was an increase in fund net position of $34,472, which was a higher increase when compared to the prior year increase of $27,660. Revenues and contributions increased by $2,763 primarily due to an increase in revenues received for terminal space rental, concessions, landing fees, use of property, interest income, and PFC revenue, partially offset by a decrease in capital grant contributions. Expenses decreased by $4,049 primarily due to a decrease in other nonoperating expense and a decrease in loss on disposition of capital assets compared to the prior year increase which was due to an impairment loss of a capital asset related to the Common Use Passenger Processing System (CUPPS) hardware and software. The Airport reported expense of capital asset impairment loss in FY 2014-15, but no asset impairment in FY 2015-16.

Waste Management
This fund is used to account for the operation, expansion, closing of existing landfills and the opening of new landfills. Monies are collected through gate tipping fees, which users pay based primarily on tonnage. At the end of FY 2015-16, there was an increase in fund net position of $34,963, which was a smaller increase when compared to the prior year increase of $53,133. Revenues and transfers increased by $10,380 which was primarily due to an increase in sanitation and landfill disposal fees collected for waste, recycling, and importation, as well as importation tonnage and in-county disposal tonnage. Expenses and transfers increased by $28,550 primarily due to an increase in provision for closure and postclosure care costs and pollution remediation expenses.

Compressed Natural Gas (CNG)
This fund accounts for the operation and maintenance of the CNG facility. Revenues consist primarily of compressed natural gas sales to both the County and the public. At the end of FY 2015-16, there was a decrease in fund net position of $189, which was a decrease when compared to the prior year increase of $57. Revenues decreased by $78 due to a decrease in CNG fuel sales and CNG/Propane tax refunds and credits. Expenditures increased by $54 due to an increase in transfers out to reimburse the OC Flood Control District Fund for the annual payment for the construction of the compressed natural gas station. This increase in expenses was partially offset by decreases in utility charges, fuel excise taxes, and vendor use fuel tax.

For further comparative analysis of changes in Fund Net Position, please see the Business-Type Activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

This section provides a summary of the primary factors involved in the variances between: 1) the Original Budget and the Final Amended Budget; and 2) the Final Amended Budget and the Actual Amounts for the General Fund. In addition to the effects of expenditure-driven grants, the following information provides explanations for significant variances. Refer to the Budgetary Comparison Statement for details on this budgetary comparison.

Original Revenue Budget vs. Final Amended Revenue Budget

The following provides a summary of the primary factors attributable to the increase or decrease in the General Fund final amended budget revenues compared to the original budget revenues:

Intergovernmental Revenue
- An increase of $8,682 in the Social Services Agency (SSA) in anticipation of the FY 2015-16 State and Federal allocations received for various programs, such as Medi-Cal, CalFresh, Non-Medical Out-of-Home Care, Work Incentive Nutrition Supplement.
- An increase of $4,340 in the Probation Department for the funding of Probation's maintenance projects and the multipurpose rehabilitation center.
- An increase of $1,696 in the Sheriff-Coroner department, primarily from an increase in federal revenues for expenditures eligible for reimbursement from carryover grant funds as well as an increase in Federal monies from the Homeland Security Grant for the purchase of equipment for the Air Support Unit.

Transfers In

- An increase of $8,235 in the 2005 Lease Revenue Refunding due to an agreement with the OC Waste and Recycling (OCWR) Department to transfer net imported waste revenue to the General Fund in support of the County Bankruptcy Recovery Plan.
- An increase of $5,430 in the HCA to cover increased eligible program costs and to also account for increased monies from the Tobacco Settlement Fund.
- An increase of $1,797 is primarily due from the DNA Identification Fund to the District Attorney for DNA Database software and sample collection site upgrades.
- A decrease of $3,463 in Capital Projects due to funding for the year-round homeless shelter being reallocated to the Countywide Capital Projects Non-General Fund.

Use of Money and Property

- An increase of $10,193 to recognize interest payments received from the State for the Mandated Costs Reimbursement program.

Charges for Services

- An increase of $6,314 in the Sheriff-Coroner department as a result of an increase in law enforcement services provided to various cities and under the Selective Traffic Enforcement program.

Final Revenue Budget vs. Actual Revenue Amounts

The following information provides a summary of the primary factors that caused significant variances in the General Fund actual revenues compared to the final revenue budget:

Transfers In

- A $98,354 less than budgeted amount was primarily comprised of the following:
  - $43,288 lower than budgeted amount in HCA caused by a lower amount received for eligible expenditures associated with the MHSA Fund and a delay in transfers from the OC Tobacco Settlement Revenue Fund.
  - $21,488 less than budgeted in SSA was largely due to lower amounts claimed for eligible expenditures as a result of higher than anticipated vacancy rate, as well as deferrals of IT and facility projects. In addition, there was lower than budgeted spending in the Wraparound program, which provides a process to connect and support youth who have emotional health needs and their families with community-based services and other valuable resources.
  - $11,000 lower than budget from the Teeter Tax Loss Reserve Fund which was determined to be unnecessary.
  - $10,737 lower than budgeted amount in Capital Projects was mainly due to redirection of money for the year-round emergency shelter to another governmental fund where the expenditures were incurred. In addition, there were higher than anticipated transfers for carryover projects to the Countywide Capital Projects Non-General Fund.

Intergovernmental

- A $42,354 less than budgeted amount was primarily comprised of the following:
  - A $33,115 less than budget amount in SSA is due to a lower amount of monies claimed from State and Federal assistance programs such as CalWorks, Work Incentive Nutritional Supplement and Low Income Energy Assistance Program.
  - A $8,377 less than budgeted amount in the Sheriff-Coroner was caused by monies received for Prop 172 for Public Safety Sales Tax.

Charges for Services

- A $37,267 less than budgeted amount was primarily comprised of the following:
  - A $9,030 variance in OC Community Resources due to lower revenues for computer aided architectural designs (CAAD).
  - A $6,898 less than budgeted amount for revenues received for mental health services under the Short-Doyle/Medi-Cal program.
  - A $6,416 less than budgeted amount in OC Public Works for monies received from the quarterly indirect cost billings to other County units.

- A $5,120 less than budgeted amount in billings for utility and maintenance services performed by Utilities.

Original Expenditure Budget vs. Final Amended Expenditure Budget

The following provides a brief summary of the primary factors attributable to the increase in the General Fund final amended budget expenditures compared to what was originally budgeted:

Sheriff-Coroner
- An increase of $15,560 in budgeted appropriations primarily due to higher costs associated with providing law enforcement services to cities, traffic safety, forensic science and homeland security, as well as an increase in budget appropriations for transportation vehicles to carry out law enforcement activities.

Social Services Agency
- An increase of $8,813 in budgeted appropriations due to anticipated higher costs for Medi-Cal, CalWORKs and various other State programs, as well as added positions to support new federal overtime regulations per the provisions of the Fair Labor Standards Act.

2005 Lease Revenue Refunding
- An increase of $8,325 in budgeted appropriations to transfer the anticipated increase in importation revenues that will be used to amortize bankruptcy related losses to County Administered Accounts in accordance with the Bankruptcy Second Amended Modified Plan of Adjustment.

Health Care Agency
- An increase of $5,770 which mostly consisted of an increase to transfers out for multi-year projects and the purchase of the former Santa Ana Transit Terminal.

Final Expenditure Budget vs. Actual Expenditure Amounts

The following provides a summary of the primary factors that caused significant variances in the General Fund actual expenditures as compared to the final budget:

Social Services Agency
- A $66,642 lower than budgeted amount due to lower than anticipated caseloads and associated assistance payments, as well as lower S&S due to lower contracts, IT expenditures and facility projects.

Health Care Agency
- A $67,425 lower than budgeted amount caused by lower costs of contracted services associated with MHSA programs. Additionally, expenditures for Medical Services Network claims and contract pharmacy expenditures were lower than anticipated and there was a decrease in expenditures in the Emergency Medical Services fund due to lower funding.

OC Community Resources
- A $14,441 lower than budgeted amount mostly as a result of keeping positions vacant throughout the year in support services and lower professional service contracts. Furthermore, there was a delay in the timing of operation for the emergency and homeless shelter.

Capital Projects
- A $11,504 lower than budgeted amount was primarily the result of various structure and improvement projects being delayed to future fiscal years, such as the year-round shelter and HCA lab and clinic facilities.

Sheriff-Coroner
- A $11,269 lower than budgeted amount was primarily the result of less expenditures in S&EB benefits. In addition, there were less expenditures than anticipated for the purchase of a helicopter and IT equipment costs.

(Dollar Amounts in Thousands)

Capital Assets

At June 30, 2016, the County's capital assets for both the governmental and business-type activities amounted to $3,657,852, net of accumulated depreciation. The investment in capital assets includes land, structures and improvements, land improvements, equipment, intangibles (software, land use rights, water and mineral rights), infrastructure (roads, bridges, flood channels, trails, traffic signals, and harbors), intangible in progress, and construction in progress. The total increase in the County's investment in capital assets for the current year was 1%.

Capital assets for the governmental and business-type activities are presented below to illustrate changes:

CAPITAL ASSETS
(Net of Depreciation)
June 30, 2016 and 2015

	Governmental Activities		Business-Type Activities		Total		Increase (Decrease)
	2016	2015	2016	2015	2016	2015	% Change
Land	$ 834,406	$ 823,484	$ 37,842	$ 37,842	$ 872,248	$ 861,326	1 %
Structures and Improvements	572,331	585,638	499,151	507,111	1,071,482	1,092,749	(2)%
Land Improvements	2,436	473	--	--	2,436	473	415 %
Equipment	109,997	96,094	23,898	21,998	133,895	118,092	13 %
Software	38,713	46,589	1,126	891	39,839	47,480	(16)%
Infrastructure	1,121,121	1,113,759	244,289	192,367	1,365,410	1,306,126	5 %
Intangible in Progress	3,453	857	2,068	879	5,521	1,736	218 %
Land Use Rights	7,602	6,992	--	--	7,602	6,992	9 %
Construction in Progress	118,864	109,789	40,555	74,088	159,419	183,877	(13)%
Total	**$ 2,808,923**	**$ 2,783,675**	**$ 848,929**	**$ 835,176**	**$ 3,657,852**	**$ 3,618,851**	**1 %**

The following lists the significant expenditures for capital assets in FY 2015-16:

General Fund
- $3,317 for the acquisition of Santa Ana Transit Terminal that was converted into a transitional center for the Civic Center homeless
- $3,154 for the purchase of property in Anaheim, to use as a year-round temporary shelter and multi-service center
- $3,039 for the purchase of the Airbus helicopter for the Sheriff-Coroner
- $1,309 for the replacement of the roof, heating, ventilation, and air conditioning units of a Social Services Agency building located in the City of Orange

Flood Control District
- $7,242 for the Newland Storm Channel Improvement Project
- $6,641 for the purchase of two properties for the Prado Dam Project to support flood control protection for the residents of Orange County
- $2,284 for the Glassell Yard Campus Stormwater Low Impact Development Retrofit Project
- $1,704 for the Fletcher Basin Improvement Project

Other Public Protection
- $3,717 for the replacement of obsolete radio equipment
- $3,560 for the purchase of communications equipment
- $2,786 for the purchase of laptops, tablets, and integrated control systems to provide better equipped vehicles

Other Governmental Funds

- $22,592 for the construction of La Pata Avenue Gap Closure/Camino Del Rio Extension
- $9,355 for the Central Utility Facility Infrastructure Upgrade Project
- $6,965 for the Sunset/Huntington Harbor Maintenance Dredging & Waterline Installation Project
- $3,385 for the Cow Camp Road Construction Project
- $2,957 for the Dana Point Harbor Maintenance & Dredging Project
- $2,682 for the Musick master plan and design services at James A. Musick facility
- $2,674 for the renovation project at Los Pinos Conservation Camp
- $2,406 for the Gilbert Street Improvements Project

Airport

- $12,162 for the Terminals A and B Improvements Project
- $3,929 for system upgrades, equipment and support of the Common Use Passenger Processing Project which will provide improved customer service and ensure compliance with new credit card processing and fraud-protection standards
- $3,042 for the Main Street & Employee Parking Lot Project

Waste Management

- $8,149 for Phase VIIB-1 Soil Buttress and Composite Liner Construction Project
- $6,800 for Olinda Alpha Landfill Front Slope Improvement Project Phase I Partial Final Closure
- $2,477 for heavy equipment at the South Regional Landfill
- $2,163 for East Flank Landside Remediation Project at Frank R. Bowerman Landfill
- $2,138 for heavy equipment at the North Regional Landfill

Additional information on the County's capital assets can be found in Note 4, Changes in Capital Assets.

Commitments for Capital Expenditures
At the end of FY 2015-16, significant commitments for capital expenditures included the following:

- $94,053 for the Airport's Terminals A and B Improvements
- $31,034 for the Animal Care Shelter
- $19,637 for the La Pata Avenue Gap Closure/Widening
- $11,158 for the purchase of law enforcement vehicles
- $7,150 for the Civic Center Building 16-Phase 1A project
- $6,282 for the Santa Ana River Interceptor Line Project
- $4,968 for the Greenville-Banning Channel Improvement Project
- $4,893 for the Airport's Common Use Passenger Processing System Hardware and Software
- $4,475 for the County Operations Center-Building A-Replace Air Handlers 1-3
- $3,900 for the Edinger Storm Channel Improvement
- $3,338 for the Los Alamitos Pump Station and Pump House
- $3,043 for the Frank R. Bowerman Landfill Soil Buttress and Liner project
- $2,652 for the Airport's Parking Structure C, Phase 2 project

Additional information on the County's commitments for capital expenditures can be found in Note 14, Construction and Other Significant Commitments.

Long-Term Debt

At June 30, 2016, the County had total debt obligations outstanding of $460,791 excluding capital lease obligations, compensated absences and other liabilities. During the year, the County's outstanding bond obligations decreased by 1%, which is attributable to the retirement of $154,652, of bond obligations. The decrease primarily is due to the redemption of $74,561 of the Teeter Plan Notes, the redemption of $37,545 of the revenue bonds, and a decrease of $31,089 in Interest Accretion on Capital Appreciation Bonds (CAB). Partially offsetting the decrease was the addition of $56,565 in Revenue Bonds, primarily due to the issuance of the CUF Lease Revenue Bonds, Series 2016, and the addition of $70,929 in Teeter Plan Notes.

(Dollar Amounts in Thousands)

The County is limited by law in issuing general obligation bonded debt to 1.25 percent of the last equalized assessment property tax roll. However, this does not affect the financing of any of the County's planned facilities or services. As of the end of the fiscal year, the County had no net general obligation bonded debt. The County's debt obligations are in the form of revenue bonds, certificates of participation (COPs), and other forms of debt not covered by the general obligation bonded debt limitation.

The following table summarizes the County's outstanding bonds at June 30, 2016:

LONG-TERM DEBT BOND OBLIGATIONS
June 30, 2016 and 2015

	Governmental Activities		Business-Type Activities		Total		(Decrease)
	2016	2015	2016	2015	2016	2015	% Change
Revenue Bonds	$ 122,870	$ 96,645	$ 197,069	$ 204,274	$ 319,939	$ 300,919	6 %
Certificates of Participation	1,262	1,744	--	--	1,262	1,744	(28)%
Pension Obligation Bonds	19,140	27,227	--	--	19,140	27,227	(30)%
Teeter Plan Notes	30,191	33,823	--	--	30,191	33,823	(11)%
Add: Premium/(Discount) on Bonds Payable	18,275	9,235	(1,942)	(1,738)	16,333	7,497	118 %
Add: Interest Accretion on CABs	73,926	96,303	--	--	73,926	96,303	(23)%
Total	**$ 265,664**	**$ 264,977**	**$ 195,127**	**$ 202,536**	**$ 460,791**	**$ 467,513**	**(1)%**

The following summarizes the County's long-term debt issuance during FY 2015-16:

Central Utility Facility Lease Revenue Bonds, Series 2016 On June 2, 2016, the SOCPFA issued its $56,565 Lease Revenue Bonds, Series 2016 at a premium of $11,724. The Lease Revenue Bonds, payable through April 2036, were issued to finance the acquisition, construction and installation of certain capital improvements to be owned by the County, and pay costs relating to the issuance of the bonds. As of June 30, 2016, the outstanding principal amount, including the premium of the Series 2016 Bonds, and remaining interest were $68,289 and $33,190, respectively.

The bonds are special obligations of the SOCPFA payable from and secured by the base rental payments to be made by the County under the lease and the amounts held in all funds and accounts (other than the rebate fund) under the indenture.

Teeter Plan Notes On July 15, 2015, the County issued an additional $30,542 in Teeter Plan Notes to finance the purchase of the delinquent property tax receivables associated with the Teeter Plan. On December 30, 2015, the County used all of the accumulated base taxes to redeem $23,978 of the Teeter Plan Notes. On January 29, 2016, the Note Purchase and Reimbursement Agreement was extended. Teeter Plan Obligation Notes, Series B were issued for $40,387 to retire the old Teeter Notes maturing January 29, 2016.

On June 28, 2016, the County used all of the accumulated base taxes to redeem $10,196 of the Teeter Plan Notes. As of June 30, 2016, the outstanding principal amount of the Teeter Plan Notes was $30,191.

Additional information on the County's long-term debt activity can be found in Note 10, Long-Term Obligations and Note 20, Subsequent Events.

Bond Ratings

The County maintained its issuer rating of Aa1 from Moody's Investors Service and currently Fitch Ratings does not provide issuer ratings. In FY 2015-16, the following changes occurred in the County's underlying debt:

On December 28, 2015, Standard & Poor's Global Ratings (S&P) raised its issuer credit rating for the County to AA+ from AA. S&P also raised its long-term rating and underlying rating on the County's 2005 Lease Revenue Bonds, 2006 Lease Revenue Bonds, and 2012 Lease Revenue Bonds to AA from AA-.

(Dollar Amounts in Thousands)

On June 2, 2016, the County issued the 2016 Lease Revenue Bonds with an AA rating from S&P.

The County has the following long-term underlying debt ratings:

LONG-TERM DEBT RATINGS
June 30, 2016

	Standard & Poor's	Moody's	Fitch
2005 Lease Revenue Bonds	AA	Aa3	AA
2006 Lease Revenue Bonds	AA	Aa3	AA
2012 Lease Revenue Bonds	AA	Aa3	NR
2016 Lease Revenue Bonds	AA	NR	NR
1991 Parking COPs	NR	Aa3	NR
Teeter Plan Notes	NR	NR	NR
1996A Pension Obligation Bonds	NR	Aa1	AA
1997A Pension Obligation Bonds	NR	Aa1	AA
Airport 2009A Revenue Bonds	AA-	Aa3	AA-
Airport 2009B Revenue Bonds	AA-	Aa3	AA-

OTHER POTENTIALLY SIGNIFICANT MATTERS

The County's management has determined that the following are significant matters that have a potential impact on the County's financial position or changes in financial position:

State Legislation and Budget

Orange County Vehicle License Fees (VLF)
On June 30, 2011, the Governor signed SB 89, which redirected the County's annual receipt of approximately $49,000 in VLF revenue (Revenue & Taxation Code Section 11001.5(a)(1) and 11005(a)).

All counties in California receive property taxes in lieu of VLF pursuant to Section 97.70 of the Revenue and Taxation Code as a result of the VLF for property tax swap of 2004. However, in 2004, the County's share of property tax in lieu of VLF, which is also known as its "vehicle license fee adjustment amount (VLFAA)," was reduced by approximately $54,000. This reduction was to offset the amount of VLF the County received until the passage of SB 89, and that had been pledged for the service of bankruptcy related indebtedness at the time that Section 97.70 was adopted in 2004.

The elimination of the County's VLF revenue required the Orange County Auditor-Controller to calculate the County's allocation of property taxes in lieu of VLF in a manner consistent with the other 57 counties in the State. Due to the growth in property valuation since 2005, when the VLF Swap was enacted, the calculated property tax in lieu of VLF was $73,500 for FY 2012-13. This amount was included in the County's budget for FY 2011-12 and 2012-13. In an attempt to deprive the County not only of the $54,000 in VLF revenue, but also the $73,500 of annual property tax revenue that was legally owed, the State Department of Finance initiated litigation to challenge the County's calculation of the VLFAA. Ultimately, the Court ruled in favor of the State.

The Court's ruling resulted in the loss of the $73,500 VLFAA revenue and a requirement for the County to repay $150,000 to the State ($147,000 retained in FYs 2011-12 and 2012-13, plus interest). On September 27, 2013, Assembly Bill (AB) 701 was signed by the Governor to resolve the dispute between the State and the County. AB 701 provides for an additional $53,000 in annual VLFAA beginning in FY 2013-14, including growth, in lieu of the $50,000 in property tax revenue previously provided by SB 8 X3, which was a flat amount with no growth. AB 701 provides stability for the County by securing the property tax revenues, including growth, and by allowing for repayment of the $150,000 over five years. The $150,000 due to the State was formally set aside in reserve in the FY 2013-14 First Quarter Budget Report. As of June 30, 2016, the remaining obligation to the state is $130,000.

Long-Term Financial Planning

Property Tax Management System Upgrade
The County's property tax assessment, collection and allocation system processes property taxes and special assessments for the county, cities, school districts and special districts within the County. The current system was developed in the late 1980's in a now obsolete programming language. Maintenance of the system requires specialized knowledge that is hard to obtain. The Auditor-Controller, Clerk of the Board, and Treasurer-Tax Collector embarked on a multi-year phased implementation of the new Property Tax Management System (PTMS).

In January 2006, a contract was awarded to a vendor to conduct a needs assessment and to document the requirements of the new PTMS, with the needs assessment project being completed in July 2007. On July 15, 2008, the Board approved a contract to develop and implement the new PTMS based on the requirement specifications documented during the needs assessment. However, only two out of twenty-seven modules were implemented and remain in partial operation. The software development vendor tried to complete the remaining modules until their contract expired and the project was placed on hold on January 9, 2013. The County filed charges against the vendor a few months later.

In August 2016, the PTMS development vendor settled the litigation and the County received $26,000 in litigation settlement revenue.

In looking into the solution for Property Tax Management, the PTMS Steering Committee directed its staff to issue a Request for Proposal (RFP) to re-platform the current legacy system. As opposed to a complete development from new specifications, this would take the existing system and transform it to operate on an open system platform with similar functionality. An RFP was issued on September 14, 2016.

Funding Progress of the County's Retirement System (System)
The funded ratio of the System is a measure of the ability of the System to make obligated payments to current retirees and future retirees. The funded ratio (actuarial value of plan assets divided by actuarial accrued liability) dropped from 82.76% in 2002 to 70.85% in 2004. Since 2004, the funded ratio increased to 74.08% in 2007 before dropping to 62.52% as of December 31, 2012. As of December 31, 2015, the funded ratio was 71.72%. An increase in funding status is caused by multiple factors, including: (1) additional UAAL (Unfunded Actuarial Accrued Liability) payments by certain plan sponsors, (2) lower than expected salary growth, and (3) lower than expected cost of living adjustment (COLA) increases, offset slightly by (1) actual contributions less than expected, (2) unfavorable investment returns (after smoothing), and (3) higher than expected retirement experience.

On November 4, 2008, the voters in Orange County approved Measure J, which requires voter approval for any future pension benefit enhancements. The County carefully monitors the activities at OCERS and regularly provides input to OCERS management, as well as providing input at OCERS Board meetings as deemed appropriate.

Reduction in OCERS Assumed Investment Rate of Return
The assumed investment rate of return is the rate of investment yield that the Plan will earn over the long-term future.

On December 5, 2012, the OCERS Board voted to reduce the assumed investment rate of return from 7.75% to 7.25%. The reduction was phased in over a two-year period beginning July 2014 at 7.5% and further reducing to 7.25% effective July 2015. The assumed rate of return reduction had the impact of increasing contribution rates of members and plan sponsors.

Actuarial Funding Policy (Amortization)
On November 18, 2013, the OCERS Board adopted the actuarial funding policy to reduce the amortization period for future Unfunded Actuarial Accrued Liability (UAAL) from 30 years to 20 years, which included combining and re-amortizing the entire outstanding UAAL balance as of December 31, 2012, over a single 20-year period. This will allow for future UAAL to be paid off in a shorter period of time and will ultimately reduce retirement rates and costs over time.

Actuarial Assumptions

The 2012 and 2013 valuations were impacted by economic assumption changes, which flowed from the 2012 Review of Economic Actuarial Assumptions. These changes included a decrease in inflation assumptions from 3.50% to 3.25% per annum and an increase in the current real "across the board" salary assumption increase from .25% to .50%. These two assumptions had a cancelling effect on one another.

Requests for Information

We hope that the preceding information provided a general overview of the County's overall financial status. For questions or comments concerning information contained in this report, please contact the Auditor-Controller's Office, County of Orange, 12 Civic Center Plaza, Santa Ana, CA 92702 or you can access our website at http://acdcweb01.ocgov.com/acInternet/Default.aspx.

Orange County's Finance Building, 1970

ORANGE COUNTY AUDITOR-CONTROLLER

CALIFORNIA

(Dollar Amounts in Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental CFCOC	Proprietary CalOptima
ASSETS					
Cash and Cash Equivalents	$ 2,156,927	$ 646,860	$ 2,803,787	$ 53,178	$ 268,978
Restricted Cash and Cash Equivalents	226,814	141,632	368,446	--	300
Investments	221,856	25,246	247,102	--	1,484,979
Deposits In-Lieu of Cash	25	48,000	48,025	--	--
Internal Balances	11,207	(11,207)	--	--	--
Due from Component Unit	375	--	375	--	--
Due from Primary Government	--	--	--	2	--
Prepaid Costs	287,051	3,935	290,986	144	23,296
Inventory of Materials and Supplies	1,986	--	1,986	--	--
Receivables, Net of Allowances					
Accounts	8,275	17,842	26,117	--	470,264
Taxes	32,336	--	32,336	4,647	--
Interest/Dividends	4,230	1,372	5,602	36	--
Deposits	4,667	100	4,767	6,998	--
Advances	30	--	30	--	--
Due from Other Governmental Agencies, Net	424,464	5,211	429,675	1,474	--
Notes Receivable, Net	27,900	--	27,900	--	--
Net Other Postemployment Benefits	43,107	--	43,107	--	--
Capital Assets					
Not Depreciable/Amortizable	964,325	80,465	1,044,790	--	12,132
Depreciable/Amortizable, Net	1,844,598	768,464	2,613,062	--	42,864
Total Capital Assets	2,808,923	848,929	3,657,852	--	54,996
Total Assets	6,260,173	1,727,920	7,988,093	66,479	2,302,813
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Charge on Refunding	3,871	--	3,871	--	--
Deferred Outflows of Resources Related to Pension	1,093,168	22,951	1,116,119	863	5,003
Total Deferred Outflows of Resources	1,097,039	22,951	1,119,990	863	5,003

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental CFCOC	Proprietary CalOptima
LIABILITIES					
Accounts Payable	$ 117,760	$ 13,983	$ 131,743	$ 5,044	$ 10,607
Salaries and Employee Benefits Payable	111,546	2,430	113,976	78	11,837
Retainage Payable	4,366	1,183	5,549	1,401	--
Interest Payable	3,074	5,090	8,164	--	--
Deposits from Others	63,141	49,405	112,546	--	--
Due to Primary Government	--	--	--	375	--
Due to Component Unit	2	--	2	--	--
Due to Other Governmental Agencies	36,118	3,246	39,364	3,665	179
Unearned Revenue	54,466	3,583	58,049	--	586,186
Short-Term Bonds Payable	334,275	--	334,275	--	--
Long-Term Liabilities					
Due Within One Year					
SARI Line Loans	5,365	--	5,365	--	--
Estimated Liability - Litigation and Claims	25,000	--	25,000	--	--
Interest Accretion on Capital Appreciation Bonds Payable	33,355	--	33,355	--	--
Insurance Claims Payable	60,214	--	60,214	--	--
Medical Claims Payable	--	--	--	--	598,695
Capitation and Withholds	--	--	--	--	401,826
Compensated Employee Absences Payable	103,758	2,550	106,308	50	--
Capital Lease Obligations Payable	12,098	--	12,098	--	--
Bonds Payable	61,164	7,656	68,820	--	--
Pollution Remediation Obligation	--	449	449	--	--
Capital Asset Obligation	--	108	108	--	--
Landfill Site Closure/Postclosure Liability	--	2,659	2,659	--	--
Due in More than One Year					
SARI Line Loans	22,657	--	22,657	--	--
Estimated Liability - Litigation and Claims	105,000	--	105,000	--	--
Interest Accretion on Capital Appreciation Bonds Payable	40,571	--	40,571	--	--
Insurance Claims Payable	159,282	--	159,282	--	--
Compensated Employee Absences Payable	81,190	2,243	83,433	14	--
Arbitrage Rebate Payable	233	--	233	--	--
Capital Lease Obligations Payable	55,830	--	55,830	--	--
Notes Payable	30,191	--	30,191	--	--
Bonds Payable	100,383	187,471	287,854	--	--
Pollution Remediation Obligation	--	11,735	11,735	--	--
Capital Asset Obligation	71	153	224	--	--
Landfill Site Closure/Postclosure Liability	--	158,016	158,016	--	--
Net Pension Liability	--	--	--	4,067	6,537
Orange County Employees Retirement System	4,298,494	93,473	4,391,967	--	--
Extra-Help Defined Benefit Plan	2,783	62	2,845	--	--
Net Other Postemployment Benefit Obligation	--	--	--	--	27,327
Total Liabilities	5,922,387	545,495	6,467,882	14,694	1,643,194
DEFERRED INFLOWS OF RESOURCES					
Deferred Inflows of Resources Related to Pension	444,828	9,664	454,492	1,026	2,155
Total Deferred Inflows of Resources	444,828	9,664	454,492	1,026	2,155
NET POSITION					
Net Investment in Capital Assets	2,707,493	663,280	3,370,773	--	54,996
Restricted for:					
Expendable					
Pension Benefits	111,639	--	111,639	--	--
Capital Projects	10,836	--	10,836	--	--
Debt Service	36,380	8,499	44,879	--	--
Legally Segregated for Grants and Other Purposes	1,103,257	--	1,103,257	--	--
Regional Park Endowment	144	--	144	--	--
CalOptima	--	--	--	--	89,283
Passenger Facility Charges Approved Capital Projects	--	14,705	14,705	--	--
Capital Projects - Replacements and Renewals	--	1,000	1,000	--	--
Landfill Closure/Postclosure	--	33,997	33,997	--	--
Landfill Corrective Action	--	8,245	8,245	--	--
Wetland	--	879	879	--	--
Prima Deshecha/La Pata Closure	--	104	104	--	--
Nonexpendable					
Regional Park Endowment	193	--	193	--	--
Unrestricted (Deficit)	(2,979,945)	465,003	(2,514,942)	51,622	518,188
Total Net Position	$ 989,997	$ 1,195,712	$ 2,185,709	$ 51,622	$ 662,467

(Dollar Amounts in Thousands)

	Expenses		Program Revenues		
Functions/Programs	**Direct Expenses**	**Indirect Expenses Allocation**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government					
Governmental Activities					
General Government	$ 254,490	$ (51,096)	$ 34,048	$ 32,091	$ 88,700
Public Protection	1,402,113	31,308	288,185	564,282	15,782
Public Ways and Facilities	144,713	(2,642)	63,487	63,984	--
Health and Sanitation	547,847	7,025	85,392	403,332	--
Public Assistance	1,086,488	10,641	37,975	970,212	--
Education	45,227	943	1,426	444	--
Recreation and Cultural Services	113,325	1,811	46,937	2,966	1,294
Interest on Long-Term Debt	20,112	--	--	--	--
Total Governmental Activities	3,614,315	(2,010)	557,450	2,037,311	105,776
Business-Type Activities					
Airport	120,025	896	149,894	153	2,174
Waste Management	95,207	1,094	147,130	18	--
Compressed Natural Gas	263	20	269	--	--
Total Business-Type Activities	215,495	2,010	297,293	171	2,174
Total Primary Government	$ 3,829,810	$ --	$ 854,743	$ 2,037,482	$ 107,950
Component Units					
Children and Families					
Commission of Orange County	$ 32,598	$ --	$ --	$ 28,877	$ --
CalOptima	3,145,426	--	3,163,753	13,881	--
Total Component Units	$ 3,178,024	$ --	$ 3,163,753	$ 42,758	$ --

General Revenues
Taxes
Property Taxes, Levied for General Fund
Property Taxes, Levied for Flood Control District
Property Taxes, Levied for OC Parks
Property Taxes, Levied for OC Public Libraries
Property Taxes in-Lieu of Motor Vehicle License Fees
Other Taxes
Grants and Contributions Not Restricted to Specific Programs
State Allocation of Motor Vehicle License Fees
Unrestricted Investment Earnings
Miscellaneous
Transfers
Total General Revenues and Transfers
Change in Net Position
Net Position - Beginning of Year
Net Position - End of Year

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

Net (Expense) Revenue and Change in Net Position					
Primary Government			Component Units		
Governmental Activities	Business-Type Activities	Total	Governmental CFCOC	Proprietary CalOptima	Functions/Programs
					Primary Government
					Governmental Activities
$ (48,555)	$ --	$ (48,555)	$ --	$ --	General Government
(565,172)	--	(565,172)	--	--	Public Protection
(14,600)	--	(14,600)	--	--	Public Ways and Facilities
(66,148)	--	(66,148)	--	--	Health and Sanitation
(88,942)	--	(88,942)	--	--	Public Assistance
(44,300)	--	(44,300)	--	--	Education
(63,939)	--	(63,939)	--	--	Recreation and Cultural Services
(20,112)	--	(20,112)	--	--	Interest on Long-Term Debt
(911,768)	--	(911,768)	--	--	Total Governmental Activities
					Business-Type Activities
--	31,300	31,300	--	--	Airport
--	50,847	50,847	--	--	Waste Management
--	(14)	(14)	--	--	Compressed Natural Gas
--	82,133	82,133	--	--	Total Business-Type Activities
(911,768)	82,133	(829,635)	--	--	Total Primary Government
					Component Units
					Children and Families
			(3,721)	--	Commission or Orange County
			-	32,208	CalOptima
			(3,721)	32,208	Total Component Units
					General Revenues
					Taxes
311,902	--	311,902	--	--	Property Taxes, Levied for General Fund
82,193	--	82,193	--	--	Property Taxes, Levied for Flood Control District
61,048	--	61,048	--	--	Property Taxes, Levied for OC Parks
45,364	--	45,364	--	--	Property Taxes, Levied for OC Public Libraries
333,595	--	333,595	--	--	Property Taxes in-Lieu of Motor Vehicle License Fees
78,184	72	78,256	--	--	Other Taxes
4,583	--	4,583	--	--	Grants and Contributions Not Restricted to Specific Programs
1,100	--	1,100	--	--	State Allocation of Motor Vehicle License Fees
17,032	6,526	23,558	442	--	Unrestricted Investment Earnings
63,825	2,170	65,995	429	304	Miscellaneous
21,518	(21,518)	--	--	--	Transfers
1,020,344	(12,750)	1,007,594	871	304	Total General Revenues and Transfers
108,576	69,383	177,959	(2,850)	32,512	Change in Net Position
881,421	1,126,329	2,007,750	54,472	629,955	Net Position - Beginning of Year
$ 989,997	$ 1,195,712	$ 2,185,709	$ 51,622	$ 662,467	Net Position - End of Year

(Dollar Amounts in Thousands)

	General Fund	Flood Control District	Other Public Protection
ASSETS			
Pooled Cash/Investments	$ 419,457	$ 439,245	$ 182,014
Imprest Cash Funds	1,834	--	--
Restricted Cash and Investments with Trustee	15	--	--
Investments	221,772	--	--
Deposits In-Lieu of Cash	--	--	--
Receivables			
Accounts	10,486	500	76
Taxes	10,367	1,798	--
Interest/Dividends	1,454	723	343
Deposits	562	1,946	--
Advances	30	--	--
Allowance for Uncollectible Receivables	(4,844)	(191)	--
Due from Other Funds	78,793	1,787	5,174
Due from Component Unit	375	--	--
Due from Other Governmental Agencies, Net	353,668	37,724	2,042
Inventory of Materials and Supplies	891	393	290
Prepaid Costs	327,198	4,358	1,180
Advances to Other Funds	3,800	--	--
Notes Receivable, Net	--	--	--
Total Assets	$ 1,425,858	$ 488,283	$ 191,119
LIABILITIES			
Accounts Payable	$ 56,689	$ 2,351	$ 2,819
Retainage Payable	1,495	450	--
Salaries and Employee Benefits Payable	103,724	1,523	381
Interest Payable	1,671	--	--
Deposits from Others	1,615	6,127	16,335
Due to Other Funds	35,954	7,026	18,474
Due to Component Unit	--	--	--
Due to Other Governmental Agencies	20,410	499	5,908
Unearned Revenue	25,450	986	1,102
Bonds Payable	334,275	--	--
Advances from Other Funds	1,567	--	--
Total Liabilities	582,850	18,962	45,019
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Intergovernmental Revenues	68,501	36,545	290
Unavailable Revenue - Senate Bill 90 Mandated Claims, Net	28,404	--	--
Unavailable Revenue - Property Taxes	8,878	1,108	--
Unavailable Revenue - Long-Term Notes Receivables	--	--	--
Unavailable Revenue - Other	9,387	--	--
Total Deferred Inflows of Resources	115,170	37,653	290
FUND BALANCES			
Nonspendable	331,889	4,751	1,470
Restricted	49,230	426,917	144,340
Assigned	321,064	--	--
Unassigned	25,655	--	--
Total Fund Balances	727,838	431,668	145,810
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 1,425,858	$ 488,283	$ 191,119

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

Mental Health Services Act	Other Governmental Funds	Total Governmental Funds	
			ASSETS
$ 240,571	$ 642,887	$ 1,924,174	Pooled Cash/Investments
--	--	1,834	Imprest Cash Funds
--	226,789	226,804	Restricted Cash and Investments with Trustee
--	84	221,856	Investments
--	25	25	Deposits In-Lieu of Cash
			Receivables
--	2,276	13,338	Accounts
--	20,171	32,336	Taxes
404	923	3,847	Interest/Dividends
--	2,159	4,667	Deposits
--	--	30	Advances
--	(84)	(5,119)	Allowance for Uncollectible Receivables
--	29,316	115,070	Due from Other Funds
--	--	375	Due from Component Unit
18,904	11,471	423,809	Due from Other Governmental Agencies, Net
--	--	1,574	Inventory of Materials and Supplies
--	14,087	346,823	Prepaid Costs
--	--	3,800	Advances to Other Funds
--	27,900	27,900	Notes Receivable, Net
$ 259,879	$ 978,004	$ 3,343,143	Total Assets
			LIABILITIES
$ --	$ 34,889	$ 96,748	Accounts Payable
--	2,418	4,363	Retainage Payable
--	4,764	110,392	Salaries and Employee Benefits Payable
--	24	1,695	Interest Payable
--	39,064	63,141	Deposits from Others
10,466	42,882	114,802	Due to Other Funds
--	2	2	Due to Component Unit
248	9,048	36,113	Due to Other Governmental Agencies
7,207	19,721	54,466	Unearned Revenue
--	--	334,275	Bonds Payable
--	7,800	9,367	Advances from Other Funds
17,921	160,612	825,364	Total Liabilities
			DEFERRED INFLOWS OF RESOURCES
--	5,140	110,476	Unavailable Revenue - Intergovernmental Revenues
--	--	28,404	Unavailable Revenue - Senate Bill 90 Mandated Claims, Net
--	1,620	11,606	Unavailable Revenue - Property Taxes
--	368	368	Unavailable Revenue - Long-Term Notes Receivables
--	12	9,399	Unavailable Revenue - Other
--	7,140	160,253	Total Deferred Inflows of Resources
			FUND BALANCES
--	14,280	352,390	Nonspendable
241,958	666,190	1,528,635	Restricted
--	129,782	450,846	Assigned
--	--	25,655	Unassigned
241,958	810,252	2,357,526	Total Fund Balances
$ 259,879	$ 978,004	$ 3,343,143	Total Liabilities, Deferred Inflows of Resources and Fund Balances

(Dollar Amounts in Thousands)

The governmental funds Balance Sheet includes a reconciliation between fund balances – total governmental funds and net position – governmental activities as reported in the government-wide Statement of Net Position. The difference in fund balances of ($1,367,529) is due to the long-term economic focus of the Statement of Net Position versus the short-term economic focus of the governmental funds. The components of the difference are described below.

Total Fund Balances - Governmental Funds		$ 2,357,526
Capital assets used in the operations of the County are not reported in the governmental funds financial statements:		
Land	834,406	
Structures and Improvements	1,223,825	
Equipment	297,992	
Software	110,156	
Infrastructure	1,687,354	
Land Use Rights	7,602	
Land Improvements	2,629	
Construction/Intangible in Progress	121,418	
Accumulated Depreciation/Amortization	(1,528,778)	2,756,604
Other assets used in governmental activities do not consume current financial resources, and therefore, are not reported in the governmental funds:		
Prepaid Pension Investment with OCERS	111,639	
Prepaid Bond Insurance	199	111,838
The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.		9,840
Deferred outflows of resources are similar to assets, but they do not meet the definition of an asset at June 30, 2016. When all the recognition criteria are met, the deferred outflows of resources will become an expense. The counterpart to deferred outflows of resources are deferred inflows of resources, which are not technically liabilities at June 30, 2016. When all recognition criteria are met, the deferred inflows of resources will become revenue or an increase to net position. The County reports the different types of deferred outflows and inflows of resources in the Statement of Net Position as follows:		
Deferred Outflows of Resources:		
Deferred Charge on Refunding		3,871
Employer retirement contribution subsequent to measurement date and deferred recognition of changes to the net pension liability		908,461
Reclassification of prepaid pension contribution from prepaid costs to deferred outflows of resources for the portion to be recognized in the next measurement period. Refer to Note 17, Retirement Plans for futher information.		
Prepaid Pension Contribution		(173,223)
Deferred Outflows of Resources		173,223

(Dollar Amounts in Thousands)

Deferred Inflows of Resources:		
Deferred Inflows of Resources that have been earned but not available to finance expenditures in the current period		160,253
Deferred Inflows of Resources Related to Pension		(440,418)
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds and COPs Payable, Net	(161,547)	
SARI Line Loans Payable	(28,022)	
Teeter Plan Notes Payable	(30,191)	
Compensated Employee Absences Payable	(182,834)	
Capital Lease Obligations Payable	(54,128)	
Capital Asset Obligation	(71)	
Arbitrage Rebate Payable	(233)	
Interest Payable on Bonds	(1,379)	
Interest Accreted on Capital Appreciation Bonds	(73,926)	
Estimated Liability - Litigation and Claims	(130,000)	
County's Net Pension Liability	(4,258,754)	(4,921,085)
Governmental Accounting Standards Board (GASB) Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions"* requires an employer to record a net Other Postemployment Benefits (OPEB) obligation (asset) for the difference between the annual required contribution (ARC) and the amounts actually contributed to the OPEB Plan.		43,107
Net Position of Governmental Activities		$ 989,997

(Dollar Amounts in Thousands)

	General Fund	Flood Control District	Other Public Protection
Revenues			
Taxes	$ 671,363	$ 90,748	$ --
Licenses, Permits, and Franchises	25,154	159	361
Fines, Forfeitures and Penalties	44,375	14	4,821
Use of Money and Property	18,318	4,981	5,779
Intergovernmental	1,626,855	11,041	17,768
Charges for Services	386,117	14,103	14,362
Other	18,648	7,162	8,874
Total Revenues	2,790,830	128,208	51,965
Expenditures			
Current			
General Government	176,002	--	--
Public Protection	1,182,458	80,970	23,949
Public Ways and Facilities	30,792	--	--
Health and Sanitation	526,216	--	--
Public Assistance	881,261	--	--
Education	--	--	--
Recreation and Cultural Services	--	--	--
Capital Outlay	20,794	22,468	10,724
Debt Service			
Principal Retirement	4,530	8,305	--
Interest	7,451	10	--
Total Expenditures	2,829,504	111,753	34,673
Excess (Deficit) of Revenues Over Expenditures	(38,674)	16,455	17,292
Other Financing Sources (Uses)			
Transfers In	247,661	467	11,541
Transfers Out	(145,657)	(4,453)	(28,983)
Debt Issued	--	--	--
Premium on Debt Issued	--	--	--
Capital Leases	--	254	--
Total Other Financing Sources (Uses)	102,004	(3,732)	(17,442)
Net Change in Fund Balances	63,330	12,723	(150)
Fund Balances - Beginning of Year	664,508	418,945	145,960
Fund Balances - End of Year	$ 727,838	$ 431,668	$ 145,810

(Dollar Amounts in Thousands)

Mental Health Services Act	Other Governmental Funds	Total Governmental Funds	
			Revenues
$ --	$ 114,697	$ 876,808	Taxes
--	1,985	27,659	Licenses, Permits, and Franchises
--	12,459	61,669	Fines, Forfeitures and Penalties
2,121	57,012	88,211	Use of Money and Property
114,852	354,620	2,125,136	Intergovernmental
--	52,077	466,659	Charges for Services
5	34,747	69,436	Other
116,978	627,597	3,715,578	Total Revenues
			Expenditures
			Current
--	85,385	261,387	General Government
--	2,525	1,289,902	Public Protection
--	92,348	123,140	Public Ways and Facilities
163	1,103	527,482	Health and Sanitation
--	180,386	1,061,647	Public Assistance
--	43,928	43,928	Education
--	100,381	100,381	Recreation and Cultural Services
--	62,583	116,569	Capital Outlay
			Debt Service
--	113,484	126,319	Principal Retirement
--	35,578	43,039	Interest
163	717,701	3,693,794	Total Expenditures
116,815	(90,104)	21,784	Excess (Deficit) of Revenues Over Expenditures
			Other Financing Sources (Uses)
--	137,283	396,952	Transfers In
(115,081)	(93,199)	(387,373)	Transfers Out
--	127,494	127,494	Debt Issued
--	11,724	11,724	Premium on Debt Issued
--	--	254	Capital Leases
(115,081)	183,302	149,051	Total Other Financing Sources (Uses)
1,734	93,198	170,835	Net Change in Fund Balances
240,224	717,054	2,186,691	Fund Balances - Beginning of Year
$ 241,958	$ 810,252	$ 2,357,526	Fund Balances - End of Year

(Dollar Amounts in Thousands)

The Net Change in Fund Balances for governmental funds of $170,835 in the Statement of Revenues, Expenditures, and Changes in Fund Balances differs from the Change in Net Position for governmental activities of $108,576 reported in the government-wide Statement of Activities. The differences arise primarily from the long-term economic focus of the Statement of Activities versus the current financial resources focus of the governmental funds. The main components of the difference are described below.

Net Change in Fund Balances – Total Governmental Funds		$ 170,835
When capital assets used in governmental activities are purchased or constructed in the current fiscal year, the resources expended for those assets are reported as expenditures in the governmental funds. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation or amortization expense. In addition, donations, transfers, gains or losses from sales and other disposals/acquisitions of capital assets are not reported in governmental funds. These assets, and their associated depreciation/amortization expense, must be reported or removed in the government-wide financial statements. The details of the expenditures for capital outlay, capital contributions, depreciation /amortization and other disposals/acquisitions of capital assets are as follows:		
Expenditures for Capital Outlay:		
Land	10,922	
Structures and Improvements and Construction in Progress	75,380	
Equipment	23,179	
Software	4,173	
Net of Gains/Losses on Capital Assets Dispositions	(10,013)	
Depreciation/Amortization Expense	(83,796)	
Capital Contributions	4,497	24,342
The issuance of long-term debt (e.g. bonds) is recorded as an other financing source in the governmental funds because it provides current financial resources. Similarly, the repayment of principal on long–term debt or the payment of other long-term liabilities is reported as an expenditure in the governmental funds because current financial resources have been consumed. Bond proceeds, net of payments to escrow agents and principal payments, are reported as financing sources in governmental funds and thus contribute to the change in fund balance. These transactions do not have any effect on net position in the government-wide financial statements. The details of the principal and other long-term liability payments and other financing sources are as follows:		
Teeter Plan Notes Proceeds	(70,929)	
Proceeds From Issuance of Bonds Payable	(68,289)	
Capital Lease Addition	(254)	
Principal and Other Long-Term Liability Payments:		
Bonds Payable	38,909	
Teeter Plan Notes Payable	74,561	
SARI Line Loans Payable	8,255	
Capital Lease Obligations	4,594	
Arbitrage Rebate Payable	623	(12,530)

(Dollar Amounts in Thousands)

Revenues related to prior years that are available in the current fiscal year are reported as revenue in the governmental funds. In contrast, revenues that are earned, but unavailable in the current year are deferred in the governmental funds. For government-wide reporting, revenue is recognized when earned, regardless of availability. The following amounts reflect the net effect of the timing differences for revenue recognition:		
Government Mandated and Voluntary Nonexchange	(17,619)	
Property Tax Revenues	2,217	(15,402)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds until paid. The following amounts represent the net effect of these differences in the treatment of long-term liabilities:		
Accrued Interest Expense on Bonds Payable	346	
Amortization of Deferred Charges	31,292	
Compensated Employee Absences Expense	(10,552)	
OCERS Investment Loss	(905)	
Estimated Litigation and Claims Expense	15,000	
Interest Accretion on Capital Appreciation Bonds	(8,712)	26,469
Internal service funds (ISF) are used by management to charge the costs of certain activities, such as insurance, transportation, and telephone services to individual governmental funds. The loss of internal service funds is eliminated in the Statement of Activities as an adjustment to the various functions to arrive at a break-even basis. Also, general or non-program revenues and expenses of the internal service funds are recorded in governmental activities.		
Allocation of ISF's Operating Loss to Governmental Activities, net of Business-Type Activities	(2,986)	
Consolidation of Nonoperating Revenues, Expenses and Transfers to Governmental Activities	19,941	16,955
For FY 2015-16, the OPEB cost was $44,439, and the County contributed $42,490, which was deposited in the Retiree Medical Trust. The County contributed less than the required OPEB cost. Cumulatively, the County still has a net OPEB Asset.		(1,949)
GASB Statement No. 68 requires an employer to record pension expense and employer contribution that affects the County's proportionate share of the net pension liability.		(100,144)
Change in Net Position of Governmental Activities		$ 108,576

(Dollar Amounts in Thousands)

BUDGETARY COMPARISON STATEMENT
MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance Positive (Negative)
Revenues and Other Financing Sources				
Taxes	$ 652,756	$ 652,756	$ 671,490	$ 18,734
Licenses, Permits, and Franchises	23,776	24,802	24,451	(351)
Fines, Forfeitures and Penalties	33,974	33,974	44,981	11,007
Use of Money and Property	5,768	15,961	17,295	1,334
Intergovernmental	1,631,370	1,648,932	1,606,578	(42,354)
Charges for Services	431,861	441,372	404,105	(37,267)
Other	24,067	25,639	23,790	(1,849)
Transfers In	328,549	343,503	245,149	(98,354)
Bond Issuance Proceeds	1,185	1,735	--	(1,735)
Total Revenues and Other Financing Sources	3,133,306	3,188,674	3,037,839	(150,835)
Expenditures and Other Financing Uses				
General Government:				
Assessor	37,855	38,205	37,185	1,020
Auditor-Controller	16,581	18,148	17,340	808
Board of Supervisors - 1st District	984	1,172	1,138	34
Board of Supervisors - 2nd District	984	1,172	930	242
Board of Supervisors - 3rd District	984	1,172	1,037	135
Board of Supervisors - 4th District	984	1,172	1,017	155
Board of Supervisors - 5th District	984	1,172	972	200
Capital Acquisition Financing	5,853	5,853	5,845	8
Capital Projects	43,405	47,512	36,008	11,504
CAPS Program	17,021	17,021	13,252	3,769
Clerk of the Board	4,377	4,377	4,245	132
County Counsel	12,251	16,007	13,628	2,379
County Executive Office	21,651	21,878	18,505	3,373
Data Systems Development Project	9,320	10,320	5,193	5,127
Employee Benefits	1,793	2,133	1,482	651
Human Resources	6,112	6,112	5,564	548
Internal Audit	2,818	995	1,010	(15)
IBM Mainframe	3,171	3,171	3,171	--
IT Support Services	--	972	967	5
Miscellaneous	35,989	36,695	32,935	3,760
Prepaid Pension Obligation	--	550	1	549
Property Tax System Centralized O & M Support	3,426	3,426	3,158	268
Registrar of Voters	13,993	14,739	13,664	1,075
The Office of the Performance Audit	795	795	259	536
Treasurer-Tax Collector	13,503	13,503	12,555	948
Utilities	18,690	18,690	13,967	4,723
2005 Lease Revenue Refunding Bonds	43,721	51,956	51,623	333
Public Protection:				
Alternate Defense	5,702	5,698	4,362	1,336
Building & Safety	11,167	12,567	12,295	272
Child Support Services	57,500	57,500	55,384	2,116
Clerk-Recorder	14,567	14,567	12,740	1,827
Detention Release	1,666	1,666	1,272	394
District Attorney	132,040	135,439	131,724	3,715
District Attorney - Public Administrator	3,161	3,161	2,393	768
Emergency Management Division	3,164	4,364	3,717	647
Grand Jury	529	529	529	--
HCA Public Guardian	6,133	6,133	5,288	845
Juvenile Justice Commission	177	179	177	2
Office of Independent Review	450	450	259	191
Probation	175,157	179,512	174,035	5,477
Public Defender	74,203	74,240	72,008	2,232
Sheriff-Coroner	597,735	613,295	602,026	11,269
Sheriff-Coroner Communications	11,483	13,868	12,987	881
Sheriff Court Operations	56,354	57,633	57,473	160
Trial Courts	64,109	64,867	64,187	680
Public Ways and Facilities:				
OC Public Works	48,955	49,595	43,933	5,662
Health and Sanitation:				
Health Care Agency	583,192	588,962	521,537	67,425
OC Watersheds	14,491	15,691	11,333	4,358
Public Assistance:				
OC Community Resources	67,806	69,709	55,268	14,441
Social Services Agency	904,229	913,042	846,400	66,642
Total Expenditures and Other Financing Uses	3,151,215	3,221,585	2,987,978	233,607
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(17,909)	(32,911)	49,861	$ 82,772
Fund Balances - Beginning of Year	638,796	638,796	638,796	
Fund Balances - End of Year	$ 620,887	$ 605,885	$ 688,657	

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

BUDGETARY COMPARISON STATEMENT
MAJOR GOVERNMENTAL FUNDS - FLOOD CONTROL DISTRICT

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance Positive (Negative)
Revenues and Other Financing Sources				
Taxes	$ 88,346	$ 88,346	$ 90,737	$ 2,391
Licenses, Permits, and Franchises	168	168	159	(9)
Fines, Forfeitures and Penalties	12	12	14	2
Use of Money and Property	2,170	2,170	4,014	1,844
Intergovernmental	30,522	30,585	30,120	(465)
Charges for Services	14,133	14,042	14,389	347
Other	1,797	1,797	7,161	5,364
Capital Contributions	--	--	100	100
Transfers In	467	467	467	--
Total Revenues and Other Financing Sources	137,615	137,587	147,161	9,574
Expenditures and Other Financing Uses				
Public Protection:				
OC Flood	166,627	170,215	88,571	81,644
OC Santa Ana River	75	75	--	75
OC Flood - Capital	54,830	54,830	27,687	27,143
Total Expenditures and Other Financing Uses	221,532	225,120	116,258	108,862
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(83,917)	(87,533)	30,903	$ 118,436
Fund Balances - Beginning of Year	414,940	414,940	414,940	
Fund Balances - End of Year	$ 331,023	$ 327,407	$ 445,843	

(Dollar Amounts in Thousands)

BUDGETARY COMPARISON STATEMENT
MAJOR GOVERNMENTAL FUNDS - OTHER PUBLIC PROTECTION

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance Positive (Negative)
Revenues and Other Financing Sources				
Licenses, Permits, and Franchises	$ --	$ 500	$ 361	$ (139)
Fines, Forfeitures and Penalties	2,702	2,650	2,739	89
Use of Money and Property	4,863	4,863	5,312	449
Intergovernmental	17,433	15,471	17,780	2,309
Charges for Services	9,167	13,620	14,362	742
Other	10,016	10,048	8,861	(1,187)
Transfers In	4,085	12,537	13,714	1,177
Total Revenues and Other Financing Sources	48,266	59,689	63,129	3,440
Expenditures and Other Financing Uses				
Public Protection:				
Orange County Methamphetamine Lab Investigation Team	436	436	278	158
County Automated Fingerprint Identification	1,382	1,364	1,300	64
Building and Safety - Operating Reserve	852	1,352	5	1,347
Narcotic Forfeiture and Seizure	371	572	572	--
Sheriff-Regional Narcotics Suppression Program	4,266	5,228	3,843	1,385
Motor Vehicle Theft Task Force	3,023	3,023	2,807	216
Regional Narcotic Suppression Program-Dept of Treasury	42	321	145	176
Regional Narcotic Suppression Program-Other	1,799	2,409	1,018	1,391
Clerk Recorder Special Revenue	20,831	20,831	6,015	14,816
Clerk Recorder Operating Reserve	1,919	1,919	1	1,918
Real Estate Prosecution	1,364	1,719	1,627	92
Proposition 64 - Consumer Protection	3,559	3,559	2,678	881
Proposition 69 - DNA Identification	1,257	2,017	808	1,209
Traffic Violator	1,211	1,211	210	1,001
Sheriff Narcotics Program-Dept of Treasury	16	--	--	--
Sheriff Narcotics Program-Dept of Justice	5,421	5,421	4,622	799
Sheriff Narcotics Program-Other	171	419	56	363
Orange County Jail	2,214	2,214	752	1,462
Sheriff Narcotics Program-CALMMET-DOJ	510	510	--	510
Sheriff Narcotics Program-CALMMET-Treasury	397	998	139	859
Sheriff's State Criminal Alien Assistance Program	2,441	1,978	1,419	559
California Automated Fingerprint Identification Operational Costs	1,015	1,015	995	20
California Automated Fingerprint Identification Systems Costs	19,885	19,885	358	19,527
Sheriff's Supplemental Law Enforcement Services	3,115	3,115	1,164	1,951
District Attorney's Supplemental Law Enforcement Services	942	990	990	--
Excess Public Safety Sales Tax	8,409	8,609	6,935	1,674
Sheriff-Coroner Replacement and Maintenance	13,051	15,012	3,282	11,730
Ward Welfare	179	179	156	23
Court Facilities	1,352	1,352	--	1,352
Sheriff's Substations Fee Program	3,343	3,343	3	3,340
Jail Commissary	9,533	9,533	7,616	1,917
Inmate Welfare	11,560	11,631	3,992	7,639
Child Support Program Development	1,309	1,926	1,068	858
800 MHz County-Wide Coordinated Communications System	9,467	15,227	10,998	4,229
Delta Special Revenue	28	28	2	26
Total Expenditures and Other Financing Uses	136,670	149,346	65,854	83,492
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(88,404)	(89,657)	(2,725)	$ 86,932
Fund Balances - Beginning of Year	131,857	131,857	131,857	
Fund Balances - End of Year	$ 43,453	$ 42,200	$ 129,132	

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS - MENTAL HEALTH SERVICES ACT

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance Positive (Negative)
Revenues and Other Financing Sources				
Use of Money and Property	$ 800	$ 815	$ 1,600	$ 785
Intergovernmental	119,325	119,325	114,852	(4,473)
Other	--	--	5	5
Total Revenues and Other Financing Sources	120,125	120,140	116,457	(3,683)
Expenditures and Other Financing Uses				
General Government:				
Mental Health Services Act	141,263	141,278	115,244	26,034
Total Expenditures and Other Financing Uses	141,263	141,278	115,244	26,034
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(21,138)	(21,138)	1,213	$ 22,351
Fund Balances - Beginning of Year	240,044	240,044	240,044	
Fund Balances - End of Year	$ 218,906	$ 218,906	$ 241,257	

(Dollar Amounts in Thousands)

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Airport	Waste Management	Compressed Natural Gas (Nonmajor)	Total	
ASSETS					
Current Assets					
Pooled Cash/Investments	$ 213,207	$ 398,008	$ 543	$ 611,758	$ 230,786
Cash Equivalents/Specific Investments	24,845	--	--	24,845	--
Cash/Cash Equivalents	10,208	--	--	10,208	--
Imprest Cash Funds	14	35	--	49	133
Restricted Cash and Investments with Trustee	13,589	--	--	13,589	10
Restricted Pooled Cash/Investments	14,274	547	--	14,821	--
Deposits In-Lieu of Cash	31,429	16,571	--	48,000	--
Receivables					
Accounts	4,966	10,475	--	15,441	118
Passenger Facility Charges	2,141	--	--	2,141	--
Interest/Dividends	564	806	2	1,372	383
Deposits	--	100	--	100	--
Pollution Remediation Obligation Recoveries	261	--	--	261	--
Allowance for Uncollectible Receivables	--	(1)	--	(1)	(62)
Due from Other Funds	--	3,388	2	3,390	2,583
Due from Other Governmental Agencies	2,314	2,897	--	5,211	655
Inventory of Materials and Supplies	--	--	--	--	412
Prepaid Costs	1,898	2,037	--	3,935	1,613
Total Current Assets	319,710	434,863	547	755,120	236,631
Noncurrent Assets					
Restricted Cash and Investments with Trustee	13,027	--	--	13,027	--
Restricted Pooled Cash/Investments	--	9,347	--	9,347	--
Restricted Pooled Cash/Investments - Closure and Postclosure Care Costs	--	90,848	--	90,848	--
Specific Investments	25,246	--	--	25,246	--
Advances to Other Funds	--	5,567	--	5,567	--
Capital Assets:					
Land	15,678	22,164	--	37,842	--
Construction in Progress	27,318	13,237	--	40,555	899
Intangible Assets in Progress	1,833	235	--	2,068	--
Structures and Improvements	757,825	24,409	--	782,234	11,788
Accumulated Depreciation	(271,625)	(11,458)	--	(283,083)	(6,110)
Equipment	12,444	69,533	--	81,977	119,648
Accumulated Depreciation	(9,596)	(48,483)	--	(58,079)	(73,906)
Infrastructure	226,469	376,220	--	602,689	--
Accumulated Depreciation	(178,315)	(180,085)	--	(358,400)	--
Intangible Assets - Amortizable	781	626	--	1,407	--
Accumulated Amortization	(125)	(156)	--	(281)	--
Total Capital Assets	582,687	266,242	--	848,929	52,319
Total Noncurrent Assets	620,960	372,004	--	992,964	52,319
Total Assets	940,670	806,867	547	1,748,084	288,950
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Outflows of Resources Related to Pension	10,126	12,825	--	22,951	11,484
Total Deferred Outflows of Resources	10,126	12,825	--	22,951	11,484

(Dollar Amounts in Thousands)

	Business-Type Activities - Enterprise Funds				
	Airport	Waste Management	Compressed Natural Gas (Nonmajor)	Total	Governmental Activities - Internal Service Funds
LIABILITIES					
Current Liabilities					
Accounts Payable	$ 7,526	$ 6,457	$ --	$ 13,983	$ 21,012
Retainage Payable	439	744	--	1,183	3
Salaries and Employee Benefits Payable	1,047	1,383	--	2,430	1,154
Unearned Revenue	3,463	120	--	3,583	--
Due to Other Funds	2,647	2,335	272	5,254	987
Due to Other Governmental Agencies	178	3,068	--	3,246	5
Insurance Claims Payable	--	--	--	--	60,214
Compensated Employee Absences Payable	1,133	1,417	--	2,550	1,151
Pollution Remediation Obligation	--	449	--	449	--
Capital Asset Obligation	101	7	--	108	--
Landfill Site Closure/Postclosure Liability	--	2,659	--	2,659	--
Bonds Payable	7,656	--	--	7,656	--
Capital Lease Obligations Payable	--	--	--	--	6,900
Interest Payable	5,090	--	--	5,090	--
Deposits from Others	32,139	17,266	--	49,405	--
Total Current Liabilities	61,419	35,905	272	97,596	91,426
Noncurrent Liabilities					
Insurance Claims Payable	--	--	--	--	159,282
Compensated Employee Absences Payable	909	1,334	--	2,243	963
Pollution Remediation Obligation	994	10,741	--	11,735	--
Capital Asset Obligation	140	13	--	153	--
Landfill Site Closure/Postclosure Liability	--	158,016	--	158,016	--
Bonds Payable	187,471	--	--	187,471	--
Capital Lease Obligations Payable	--	--	--	--	6,900
Net Pension Liability	41,486	52,049	--	93,535	42,523
Total Noncurrent Liabilities	231,000	222,153	--	453,153	209,668
Total Liabilities	292,419	258,058	272	550,749	301,094
DEFERRED INFLOWS OF RESOURCES					
Deferred Inflows of Resources Related to Pension	4,287	5,377	--	9,664	4,410
Total Deferred Inflows of Resources	4,287	5,377	--	9,664	4,410
NET POSITION					
Net Investment in Capital Assets	397,058	266,222	--	663,280	38,519
Restricted for:					
Debt Service	8,499	--	--	8,499	--
Passenger Facility Charges Approved Capital Projects	14,705	--	--	14,705	--
Capital Projects - Replacements and Renewals	1,000	--	--	1,000	--
Landfill Closure/Postclosure	--	33,997	--	33,997	--
Landfill Corrective Action	--	8,245	--	8,245	--
Wetland	--	879	--	879	--
Prima Deshecha/La Pata Closure	--	104	--	104	--
Unrestricted	232,828	246,810	275	479,913	(43,589)
Total Net Position	$ 654,090	$ 556,257	$ 275	1,210,622	$ (5,070)
Adjustment to Reflect the Consolidation of Internal Service Funds' Activities Related to Enterprise Funds				137	
Cumulative Effect of Prior Years' Internal Service Funds Allocation				(15,047)	
Net Position of Business-Type Activities				$ 1,195,712	

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
(Dollar Amounts in Thousands)

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Airport	Waste Management	Compressed Natural Gas (Nonmajor)	Total	
Operating Revenues					
Use of Money and Property	$ 110,260	$ 3,859	$ --	$ 114,119	$ 1,770
Licenses, Permits, and Franchises	--	76	--	76	--
Charges for Services	18,926	143,132	269	162,327	92,115
Insurance Premiums	--	--	--	--	304,693
Total Operating Revenues	129,186	147,067	269	276,522	398,578
Operating Expenses					
Salaries and Employee Benefits	19,711	25,845	--	45,556	20,563
Services and Supplies	24,751	19,938	219	44,908	28,963
Professional Services	38,377	17,501	63	55,941	59,447
Operating Leases	145	918	1	1,064	1,787
Insurance Claims and Premiums	--	--	--	--	284,500
Pollution Remediation Expense	--	18	--	18	--
Other Charges	--	--	--	--	363
Taxes and Other Fees	--	12,623	--	12,623	21
Landfill Site Closure/Postclosure Costs	--	4,288	--	4,288	--
Depreciation/Amortization	28,934	15,269	--	44,203	5,783
Total Operating Expenses	111,918	96,400	283	208,601	401,427
Operating Income (Loss)	17,268	50,667	(14)	67,921	(2,849)
Nonoperating Revenues (Expenses)					
Fines, Forfeitures and Penalties	186	63	--	249	--
Intergovernmental Revenues	153	18	--	171	1,062
Interest Revenue	2,189	4,333	4	6,526	1,882
Interest Expense	(9,105)	--	--	(9,105)	--
Gain (Loss) on Disposition of Capital Assets	1	226	--	227	150
Passenger Facility Charges Revenue	20,522	--	--	20,522	--
Other Taxes	--	--	72	72	--
Other Revenue, Net	1,084	923	--	2,007	4,908
Total Nonoperating Revenues	15,030	5,563	76	20,669	8,002
Income Before Contributions and Transfers	32,298	56,230	62	88,590	5,153
Capital Grant Contributions	2,174	--	--	2,174	--
Transfers In	--	--	--	--	13,008
Transfers Out	--	(21,267)	(251)	(21,518)	(1,069)
Change in Net Position	34,472	34,963	(189)	69,246	17,092
Net Position - Beginning of Year	619,618	521,294	464		(22,162)
Net Position - End of Year	$ 654,090	$ 556,257	$ 275		$ (5,070)
Adjustment to Reflect the Consolidation of Internal Service Funds' Activities Related to Enterprise Funds				137	
Increase in Net Position of Business-Type Activities				$ 69,383	

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(Dollar Amounts in Thousands)

	Business-Type Activities - Enterprise Funds				
	Airport	Waste Management	Compressed Natural Gas (Nonmajor)	Total	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers	$ 128,296	$ 145,784	$ 269	$ 274,349	$ 26,321
Cash Received for Premiums within the County's Entity	--	--	--	--	304,693
Payments to Suppliers for Goods and Services	(62,416)	(38,477)	(283)	(101,176)	(366,461)
Payments to Employees for Services	(18,416)	(25,620)	--	(44,036)	(19,418)
Payments for Interfund Services	--	(5,545)	256	(5,289)	(946)
Receipts for Interfund Services Used	11	--	--	11	68,688
Landfill Site Closure/Postclosure Care Costs	--	(2,659)	--	(2,659)	--
Taxes and Other Fees	--	(12,623)	--	(12,623)	(21)
Other Operating Receipts	1,685	2,716	--	4,401	4,907
Other Operating Payments	(202)	(1,485)	--	(1,687)	(2,161)
Net Cash Provided by Operating Activities	48,958	62,091	242	111,291	15,602
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers In	--	--	--	--	13,008
Transfers Out	--	(21,267)	(251)	(21,518)	(1,069)
Intergovernmental Revenues	153	18	--	171	1,062
Other Taxes	--	--	72	72	--
Advances to Other Funds	--	(3,216)	--	(3,216)	--
Net Cash Provided (Used) by Noncapital Financing Activities	153	(24,465)	(179)	(24,491)	13,001
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of Capital Assets	(24,293)	(37,584)	--	(61,877)	(6,619)
Capital Asset Obligation	--	20	--	20	--
Principal Paid on Bonds	(7,205)	--	--	(7,205)	--
Interest Paid on Long-Term Debt	(10,338)	--	--	(10,338)	--
Capital Grant Contributions	3,716	--	--	3,716	--
Passenger Facility Charges Received	20,287	--	--	20,287	--
Principal Paid on Capital Lease Obligations	--	--	--	--	(6,900)
Proceeds from Sale of Capital Assets	15	406	--	421	--
Net Cash Used by Capital and Related Financing Activities	(17,818)	(37,158)	--	(54,976)	(13,519)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on Investments	2,058	4,219	4	6,281	1,797
Sale of Investments	4,730	--	--	4,730	--
Net Cash Provided by Investing Activities	6,788	4,219	4	11,011	1,797
Net Increase in Cash and Cash Equivalents	38,081	4,687	67	42,835	16,881
Cash and Cash Equivalents - Beginning of Year	238,056	494,098	476	732,630	214,048
Cash and Cash Equivalents - End of Year	$ 276,137	$ 498,785	$ 543	$ 775,465	$ 230,929

(Dollar Amounts in Thousands)

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Airport	Waste Management	Compressed Natural Gas (Nonmajor)	Total	
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities					
Operating Income (Loss)	$ 17,268	$ 50,667	$ (14)	$ 67,921	$ (2,849)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Depreciation/Amortization	28,934	15,269	--	44,203	5,783
Fines, Forfeitures and Penalties	186	63	--	249	--
Other Revenue	1,499	923	--	2,422	4,908
(Increases) Decreases In:					
Deposits In-Lieu of Cash	(3,903)	45	--	(3,858)	--
Accounts Receivable (Net of Allowances)	(922)	(949)	--	(1,871)	(9)
Due from Other Funds	11	(2,328)	--	(2,317)	74
Due from Other Governmental Agencies	(184)	(355)	--	(539)	(69)
Inventory of Materials and Supplies	--	--	--	--	41
Prepaid Costs	25	186	--	211	44
Deferred Outflows of Resources Related to Pension	(3,825)	(4,851)	--	(8,676)	(5,067)
Increases (Decreases) In:					
Accounts Payable	738	27	--	765	(5,727)
Retainage Payable	157	(1,151)	--	(994)	174
Salaries and Employee Benefits Payable	151	210	--	361	253
Unearned Revenue	--	27	--	27	--
Due to Other Funds	395	(3,218)	256	(2,567)	167
Due to Other Governmental Agencies	(17)	86	--	69	--
Insurance Claims Payable	--	--	--	--	11,919
Compensated Employee Absences Payable	(111)	15	--	(96)	10
Pollution Remediation Obligation	--	(548)	--	(548)	--
Deposits from Others	3,539	(24)	--	3,515	--
Net Pension Liability	4,473	5,677	--	10,150	5,303
Landfill Site Closure/ Postclosure Liability	--	1,630	--	1,630	--
Deferred Inflows of Resources Related to Pension	544	690	--	1,234	647
Total Adjustments	31,690	11,424	256	43,370	18,451
Net Cash Provided by Operating Activities	$ 48,958	$ 62,091	$ 242	$ 111,291	$ 15,602
Reconciliation of Cash and Cash Equivalents to Statement of Net Position Accounts					
Pooled Cash/Investments	$ 213,207	$ 398,008	$ 543	$ 611,758	$ 230,786
Cash Equivalents/Specific Investments	24,845	--	--	24,845	--
Cash/Cash Equivalents	10,208	--	--	10,208	--
Imprest Cash Funds	14	35	--	49	133
Restricted Cash and Investments with Trustee	13,589 (1)	--	--	13,589	10
Restricted Pooled Cash/Investments	14,274	9,894	--	24,168	--
Restricted Pooled Cash/Investments - Closure and Postclosure Care Costs	--	90,848	--	90,848	--
Total Cash and Cash Equivalents	$ 276,137	$ 498,785	$ 543	$ 775,465	$ 230,929

Schedule of Noncash Investing, Capital, and Financing Activities:
- The Internal Service Funds gained $150 on disposition of capital assets.
- Airport had a $1 gain on disposition of capital assets.
- Waste Management gained $226 on disposition of capital assets.
- The Internal Service Funds' acquisition of capital assets with accounts payable is $9,241.
- Airport's acquisition of capital assets with accounts payable is $3,289.
- Waste Management's acquisition of capital assets with accounts payable is $3,678.

(1) Does not include $13,027 from Airport's nonliquid Restricted Cash and Investments with Trustee.

(Dollar Amounts in Thousands)

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

	Private-Purpose Trust Funds	Investment Trust Funds	Pension and Other Post-Employment Benefit Trust Funds	Agency Funds
ASSETS				
Pooled Cash/Investments	$ 54,761	$ 4,562,313	$ 8,655	$ 274,484
Cash/Cash Equivalents	--	--	--	270
Restricted Cash and Investments				
Restricted Investments with Trustee				
Money Market Mutual Funds	4,647	--	92,406	29,465
Mutual Bond Funds	--	--	4,948	--
Stable Value Fund	--	--	7,299	--
Restricted Cash with Orange County Employees Retirement System (OCERS)	--	--	214,769	--
Total Restricted Cash and Investments	4,647	--	319,422	29,465
Investments	--	--	--	1,082
Deposits In-Lieu of Cash	--	--	--	19,454
Receivables				
Accounts	--	--	--	28
Taxes	--	--	--	340,178
Interest/Dividends	186	10,724	65	9,022
Allowance for Uncollectible Receivables	--	--	--	(167,621)
Due from Other Governmental Agencies	--	--	3,948	3,266
Land and Improvements Held for Resale	133	--	--	--
Notes Receivable	--	--	--	29,674
Total Assets	59,727	4,573,037	332,090	539,302
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Charge on Refunding	394	--	--	--
Total Deferred Outflows of Resources	394	--	--	--
LIABILITIES				
Bonds Payable	30,041	--	--	--
Interest Payable	386	--	--	8,269
Deposits from Others	--	--	--	14,505
Monies Held for Others	--	--	--	147,095
Due to Other Governmental Agencies	350	585	--	61,324
Unapportioned Taxes	--	--	--	308,109
Total Liabilities	30,777	585	--	539,302
DEFERRED INFLOWS OF RESOURCES				
Deferred Charge on Refunding	132	--	--	--
Total Deferred Inflows of Resources	132	--	--	--
NET POSITION				
Restricted for Pension Benefits and Other Purposes	29,212	4,572,452	332,090	--
Total Net Position	$ 29,212	$ 4,572,452	$ 332,090	$ --

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Private-Purpose Trust Funds	Investment Trust Funds	Pension and Other Post-Employment Benefit Trust Funds
Additions:			
Contributions to Pension and Other Postemployment Benefit Trust Funds:			
Employer	$ --	$ --	$ 53,860
Employee	--	--	3,261
Contributions to Pooled Investments	--	8,247,444	--
Contributions to Private-Purpose Trust	64,627	--	--
Intergovernmental Revenues	300	--	--
Other Revenues	1,191	446	7
Interest and Investment Income/(Loss)	699	38,835	(2,023)
Less: Investment Expense	(8)	(2,905)	(269)
Total Additions	66,809	8,283,820	54,836
Deductions:			
Benefits Paid to Participants	--	--	34,687
Distributions from Pooled Investments	--	7,816,943	--
Distributions from Private-Purpose Trust	59,924	--	--
Professional Services	182	--	90
Other Expenses	712	--	--
Tax Pass-Throughs	4,000	--	--
Interest Expense	1,141	--	--
Total Deductions	65,959	7,816,943	34,777
Change in Net Position:			
Private-Purpose Trust	850	--	--
External Investment Pool	--	466,877	--
Employees' Pension and Other Post-Employment Benefits	--	--	20,059
Net Position, Beginning of Year	28,362	4,105,575	312,031
Net Position, End of Year	$ 29,212	$ 4,572,452	$ 332,090

The notes to the basic financial statements are an integral part of this statement.

ORANGE COUNTY AUDITOR-CONTROLLER
CALIFORNIA

W 4th St, Santa Ana

ORANGE COUNTY AUDITOR-CONTROLLER

CALIFORNIA

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant accounting policies of the County of Orange:

A. Reporting Entity

The County is a legal subdivision of the State of California charged with general governmental powers. The County's powers are exercised through an elected five-member Board of Supervisors (the Board), which, as the governing body, is responsible for the legislative and executive control of the County. The County provides a full range of general government services, including police protection, detention and correction, public assistance, health and sanitation, recreation, library, flood control, public ways and facilities, waste management, airport management, and general financial and administrative support.

As required by generally accepted accounting principles (GAAP) in the United States of America, these financial statements present financial information for both the County (the primary government) and its component units, entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the County's operations, and the Board is typically their governing body. Therefore, data from these component units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. Management applied the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity,*" Statement No. 39, *"Determining Whether Certain Organizations are Component Units – An Amendment of GASB Statement No. 14*," and Statement No. 61*, "The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34,"* to determine whether the component units should be reported as blended or discretely presented component units. The criteria included whether the County appoints the voting majority, there is a financial benefit/burden relationship, the County is able to impose its will, the component unit is fiscally dependent on the County, the component unit's governing body is substantially the same as the County, and management of the County have operational responsibility for the activities of the component unit. These criteria were used to determine the following:

Blended Component Units

Orange County Flood Control District The governing body of the District is the County's governing body. Among its duties, it approves the District's budget, determines the District's tax rates, approves contracts, and appoints the management. The District is reported in governmental fund types.

Orange County Housing Authority The governing body of the Authority is the County's governing body. Among its duties, it approves the Authority's budget and policies that govern the administration of housing assistance programs and appoints the management. The Authority is reported in governmental fund types.

Orange County Public Financing Authority The Authority is a joint powers authority of the County and the Orange County Development Agency (OCDA), formed to provide financial assistance to the County by financing the acquisition, construction and improvement of public facilities in the County. The governing body of the Authority is the County's governing body. The Authority is reported in governmental fund types. With the passage of ABX1 26 dissolving redevelopment agencies statewide effective February 1, 2012, the Authority will not issue any new debt.

South Orange County Public Financing Authority The Authority is a joint powers authority of the County and Community Facilities District 88-2 of the County of Orange (Lomas Laguna), formed to provide for the financing of public capital improvements. The governing body of the Authority is the County's governing body. The Authority is reported in governmental fund types.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Blended Component Units (Continued)

Orange County Public Facilities Corporation The Corporation has its own five member governing body appointed by the County's governing body and provides services entirely to the primary government, the County, through the purchases, construction or leasing of land and/or facilities, which are then leased back to the County. The Corporation is reported in governmental fund types.

County Service Areas, Special Assessment Districts, and Community Facilities Districts The governing body of County Service Areas, Special Assessment Districts, and Community Facilities Districts (special districts) is the County's governing body. Among its duties, it approves the special districts' budgets, and approves parcel fees, special assessments and special taxes. The special districts are reported in governmental fund types.

In-Home Supportive Services (IHSS) Public Authority The governing body of the Authority is the County's governing body. The Authority was established by the Board to act as the employer of record for the individual providers for the IHSS program. The duties of the Authority include collective bargaining for the individual providers, establishing a registry of providers, investigating the background of providers and providing training to both IHSS providers and consumers. The Authority is reported in governmental fund types.

Fiduciary Component Unit

County of Orange Redevelopment Successor Agency (Successor Agency) The Successor Agency was established when Orange County Development Agency (OCDA) was dissolved effective February 1, 2012 in accordance with ABX1 26 and Health and Safety Code 34172. An Oversight Board was appointed to oversee the dissolution process. A Private-Purpose Trust Fund, administered by the County of Orange, was established to account for the assets and liabilities of the former OCDA. For additional information related to the activities of the Successor Agency and its on-going Enforceable Obligations, please refer to its separate financial statements. Copies of the Successor Agency's financial statements can be obtained from the OC Community Resources Department or by accessing Orange County's website at the following address: http://ocgov.com/gov/auditor/info/financial/.

Discretely Presented Component Units

Children and Families Commission of Orange County The Commission is administered by a governing board of nine members, who are appointed by the Board. Its purpose is to develop, adopt, promote and implement early childhood development programs in the County. It is funded by additional State taxes on tobacco products and approved by California voters via Proposition 10 in November 1998. The Commission is presented as a discretely presented component unit of the County because, although the County Board has no control over the revenues, budgets, staff, or funding decisions made by the Commission, the appointed Commission members serve at the will of the Board members who appoint them. A separate stand-alone annual financial report can be obtained by writing to the Children and Families Commission of Orange County, 1505 E. 17th Street, Suite 230, Santa Ana, CA 92705, or by accessing Orange County's website at the following address: http://ocgov.com/gov/auditor/info/financial/

Orange County Health Authority, a Public Agency/dba Orange Prevention and Treatment Integrated Medical Assistance (CalOptima) The Board established CalOptima in 1993. The governing board of CalOptima is comprised of nine voting members and includes two County Board members and one County Board member alternate; all other members are appointed by the Board. This is a County organized health system whose purpose is to administer health insurance programs for low-income families, children, seniors, and persons with disabilities throughout the County. These programs include

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Discretely Presented Component Units (Continued)

Orange County Health Authority, a Public Agency/dba Orange Prevention and Treatment Integrated Medical Assistance (CalOptima) (Continued)

Medi-Cal, OneCare (HMO SNP), OneCare-Connect Cal MediConnect Plan, and Program of All-Inclusive Care for the Elderly (PACE). CalOptima is presented as a discretely presented component unit of the County because, although the County Board has no control over the revenues, budgets, staff, or funding decisions made by CalOptima, the appointed CalOptima members serve at the will of the Board members who appoint them. CalOptima will continue until such time as the Board takes action to terminate CalOptima. A separate stand-alone annual financial report can be obtained by writing to CalOptima, 505 City Parkway West, Orange, CA 92868. Alternately, you can access the website http://wpso.dmhc.ca.gov/dashboard/finances.aspx, from the bottom select “Financial Statements” and select the Health Plan “Orange County Health Authority” and statement type “Annual Audit Reports.”

B. Government-Wide and Fund Financial Statements

The basic financial statements include both the government-wide and fund financial statements. The government-wide financial statements are prepared using the accrual basis of accounting and the economic resources measurement focus. The government-wide financial statements report long-term liabilities and capital assets. Depreciation/amortization expense and accumulated depreciation/amortization are displayed on the government-wide financial statements. The capital assets and related depreciation include the costs and depreciation of infrastructure assets.

The fund financial statements for the governmental funds are prepared under the modified accrual basis of accounting and the current financial resources measurement focus. Fund financial statements are shown separately for specific major governmental fund and in total for all other governmental funds. Fund financial statements for proprietary funds are reported under the accrual basis of accounting and the economic resources measurement focus. Major enterprise funds are shown separately, with internal service funds shown in total. Financial data for the internal service funds is included with the governmental funds for presentation in the government-wide financial statements. Fiduciary funds are displayed by category in the fund financial statements, but are not reported in the government-wide financial statements, because the assets of these funds are not available to the County.

Government-Wide Financial Statements

GASB Statement No. 34, *“Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”* (GASB Statement No. 34), as amended by GASB Statement No. 63 *“Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”* (GASB Statement No. 63), mandates the presentation of two basic government-wide financial statements:

- *Statement of Net Position*
- *Statement of Activities*

The scope of the government-wide financial statements is to report information on all of the non-fiduciary activities of the primary government and its component units.

Governmental activities, which are normally supported by taxes, intergovernmental revenues, other nonexchange revenues, and business-type activities, which are financed by fees charged to external parties for goods or services, are reported in separate columns with a combined total column presented for the primary government. Likewise, the primary government is reported separately from the legally separate component units, Children and Families Commission of Orange County and CalOptima, for which the

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Government-Wide Financial Statements (Continued)

primary government is financially accountable. The government-wide Statement of Net Position displays the financial position of the primary government, in this case, the County and its discretely presented component units. The Statement of Net Position reports the County's financial and capital resources, including infrastructure, as well as the County's long-term obligations. The difference between the County's assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources is its net position. Net position represents the resources that the County has available for use in providing services after its debt is settled.

These resources may not be readily available or spendable and consequently are classified into the following categories of net position in the government-wide financial statements:

- Net Investment in Capital Assets This amount is derived by subtracting the outstanding debts incurred by the County, including debt-related deferred outflows and inflows of resources, to buy or construct capital assets shown in the Statement of Net Position, net of depreciation.
- Restricted Net Position This category represents restrictions imposed on the use of the County's resources by parties outside of the government or by law through constitutional provisions or enabling legislation. All of the County's net position restrictions are externally imposed by outside parties, constitutional provisions or enabling legislation. Examples of restricted net position include federal and state grants that are restricted by grant agreements for specific purposes and restricted cash set aside for debt service payments. At June 30, 2016, the County's governmental activities reported restricted net position of $1,262,449 and is restricted for pension benefits related to the Orange County Retirement System (OCERS) Investment Account, capital projects, debt service, legally segregated funds restricted for grants and other purposes, and regional park endowment. Restricted Net Position for business-type activities amounted to $67,429 and is restricted for the use of Airport and Waste Management activities, including debt service, passenger facility charges (PFC), capital projects replacements and renewals, landfill closure/postclosure, and landfill corrective action. At June 30, 2016, the County reported $14,705 of net position restricted by enabling legislation related to the Airport's PFC.
- Unrestricted Net Position These assets are resources of the County that can be used for any purpose, though they may not necessarily be liquid. In addition, assets in a fund that exceed the amounts required to be restricted by external parties or enabling legislation are reported as unrestricted net position. When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, and then unrestricted resources as they are needed.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues and the extent to which the function or segment is supported by general government revenues, such as property taxes, local unrestricted sales taxes, and investment earnings. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are allocated to the programs where the revenue is earned. Program revenues include:

- *Charges and fees to customers or applicants for goods, services, or privileges provided, including fines, forfeitures, and penalties related to the program*
- *Operating grants and contributions*
- *Capital grants and contributions, including special assessments*

Taxes and other items such as unrestricted investment earnings not properly included among program revenues are reported instead as general revenues.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Fund Financial Statements

Separate fund financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of governmental and proprietary fund financial statements is on major funds. The financial information of each major fund is shown in a separate column in the fund financial statements, with the data for all nonmajor governmental funds aggregated into a single column and all nonmajor proprietary funds aggregated into a single column. GASB Statement No. 34, as amended by GASB Statement No. 65 "*Items Previously Reported as Assets and Liabilities*" (GASB Statement No. 65), sets forth minimum criteria (specified minimum percentages of the assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, revenues or expenditures/expenses of a fund category and of the governmental and enterprise funds combined) for the determination of major funds. In addition to funds that meet the minimum criteria, any other governmental or enterprise fund that the government believes is of particular importance to financial statement users may be reported as a major fund.

The County reports the following major governmental funds:

General Fund This fund accounts for resources traditionally associated with government and all other resources, which are not required legally, or by sound financial management, to be accounted for in another fund. Revenues are primarily derived from taxes; licenses, permits and franchises; fines, forfeitures and penalties; use of money and property; intergovernmental revenues; charges for services; and other revenues. Expenditures are primarily expended for functions of general government, public protection, public ways and facilities, health and sanitation, public assistance, capital outlay, and debt service.

Flood Control District This fund accounts for the planning, construction, operation, and maintenance of regional flood protection and water conservation works, such as dams, control channels, retarding basins, and other flood control infrastructure, charges for services revenue, along with property taxes restricted for flood control activities, provide most of this fund's revenues.

Other Public Protection This fund accounts for revenues restricted for safety and law enforcement activities such as the child support program, automated fingerprint identification systems, and investigation team. Revenues consist primarily of federal grants, state grants, fines, use of money and property, and charges for services.

Mental Health Services Act This fund accounts for the County's mental health programs for children, transition age youth, adults, older adults and families pursuant to the State of California Mental Health Services Act. Revenues consist primarily from a one percent income tax on personal income in excess of one million.

The County reports the following proprietary enterprise funds:

Airport This major fund accounts for major construction and for self-supporting aviation-related activities rendered at John Wayne Airport, Orange County. The airport's staff coordinates and administers general business activities related to the Airport, including concessions, commercial and general aviation operations, leased property, auto parking, and aircraft tie-down facilities.

Waste Management This major fund accounts for the operation, expansion, and closing of existing landfills. Monies are collected through landfill disposal fees, which users pay based primarily on tonnage.

Compressed Natural Gas (CNG) This nonmajor fund accounts for the operation and maintenance of the CNG facility. Revenues consist primarily of CNG sales to both the County and the public.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

Internal Service Funds The County reports nine Internal Service Fund types. These proprietary funds are used to report activities that provide goods or services to other funds of the County. These funds account for fleet services, publishing services, and risk management services (including claims for workers' compensation, property damage, Information & Technology, Insurance and various health programs) provided to other County departments or agencies, or other governmental entities. The Internal Service Funds receive revenues on a cost-reimbursement basis.

Fiduciary Fund Types The County has a total of 351 individual trust and agency funds for FY 2015-16. These trust and agency funds are used to account for assets held on behalf of outside parties or employees, including other governments. When these assets are held under the terms of a formal trust agreement, a private-purpose trust, pension trust or Other Post-Employment Benefits (OPEB) trust fund is used. An investment trust fund is used for the portion of the County investment pool representing external pool participants. Agency funds are used to account for assets that the County holds on behalf of others as their agent.

The County reports the following trust and agency funds:

Private-Purpose Trust These funds are used to account for trust arrangements where the principal and income benefit individuals, private organizations, or other governments. Examples of private-purpose trusts include unidentified funds, unclaimed prisoner funds, and decedents' property held for escheatment. Also included are the County accounts for the former redevelopment agency as a fiduciary component unit for the Successor Agency.

Investment Trust

Orange County Investment Pool
These funds are used to account for assets, consisting primarily of cash and investments, of separate legal entities, other than school and community college districts, which participate in the County Treasurer's External Investment Pool.

Orange County Educational Investment Pool
These funds are used to account for assets, consisting primarily of cash and investments, of school and community college districts that participate in the County Treasurer's External Educational Investment Pool.

Pension and Other Employee Benefits Trust The County reports six Pension and Other Postemployment Benefit Trust funds. These trust funds are used to account for resources that are required to be held in trust for the members and beneficiaries of defined benefit and defined contribution pension and postemployment benefit plans.

Agency Funds These funds are custodial in nature and do not report operating results. These funds are used to account for assets held by the County as an agent for various local governments and individuals, such as unapportioned taxes for other local government agencies, monies collected for the Redevelopment Property Tax Trust funds, civil filing fees, and special assessment districts debt service funds. Accordingly, assets reported in the statements are offset by a liability for resources held on behalf of others.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets, deferred outflows of resources and all liabilities, deferred inflows of resources, associated with the operation of these funds are included on the Statement of Net Position. Receivables are reported net of allowances for uncollectible receivables in the Statement of Net Position. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

For purposes of not overstating the true costs and program revenues reported for the various functions, interfund activities (e.g. interfund transfers and interfund reimbursements) have been eliminated from the government-wide Statement of Activities. Exceptions to the general rule are interfund services provided and used between functions, such as charges for auditing and accounting fees between the general government function and various other functions of the primary government. Elimination of these interfund activities would distort the direct costs and program revenues reported for the various functions concerned. When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, and then unrestricted resources as they are needed. Additionally, only the interfund transfers between governmental and business-type activities are reported in the Statement of Activities.

Governmental Fund Financial Statements

Governmental funds are used to report all governmental activities that are not primarily self-funded by fees or charges to external users or other funds and are not fiduciary activities. These activities include the County's basic services to its citizenry and to other agencies, including general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreation and cultural services. There are five types of governmental funds:

- *General Fund*
- *Special Revenue Funds*
- *Capital Projects Funds*
- *Debt Service Funds*
- *Permanent Fund*

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues and other governmental fund type financial resources (i.e., bond issuance proceeds) are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after the end of the current fiscal period.

Revenues that are accrued include real and personal property taxes, sales taxes, property taxes in-lieu of motor vehicle license fees, fines, forfeitures and penalties, interest, federal and state grants and subventions, charges for current services, and the portion of long-term sales contracts and leases receivable that are measurable and available and where collectability is assured. Revenues that are not considered susceptible to accrual include penalties on delinquent property taxes and minor licenses and permits. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met, provided that the revenues are also available. If intergovernmental revenues are expected to be received later than 60 days following the end of the fiscal year, then a receivable is record along with deferred inflows of resources. Once the grant reimbursement is received, revenue and cash are recorded, and the receivable and deferred inflows of resources are eliminated. Receipts that have

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Governmental Fund Financial Statements (Continued)

not met all of the earning requirements are reported as unearned revenue received. As of June 30, 2016, the County reported $160,253 of deferred inflows of resources and $54,466 of unearned revenue received in the governmental funds' Balance Sheet.

Most expenditures are recorded when the related fund liabilities are incurred. However, inventory type items are considered expenditures at the time of use and principal and interest expenditures on bonded debt and capital leases are recorded in the year they become due for payment. Costs of claims, judgments, compensated employee absences and employer pension contributions are recorded as expenditures at fiscal year-end if they are due and payable. The related long-term obligation is recorded in the government-wide financial statements. Commitments such as purchase orders and contracts for materials and services are recorded as encumbrances.

Because the fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, a reconciliation is presented to explain the adjustments necessary to reconcile fund financial statements to the government-wide financial statements.

Proprietary Fund Financial Statements

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds are used to account for business-type activities, which are financed mainly by fees and charges to users of the services provided by the funds' operations. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

There are two types of proprietary funds:

- *Enterprise Funds*
- *Internal Service Funds*

The County has three enterprise funds: Airport, Waste Management, and CNG. The principal operating revenues of the Airport, Waste Management, and CNG enterprise funds are charges to customers for (1) landing fees, terminal space rental, auto parking, concessions, and aircraft tie-down fees, (2) disposal fees charged to users of the waste disposal sites, and (3) natural gas sales, respectively.

Internal Services Funds are used to report activities that provide goods or services to other funds of the County. The internal service funds receive revenues through cost-reimbursements of the goods and services provided to other County departments and agencies. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Fiduciary Fund Financial Statements

Fiduciary funds are used to account for assets held in a trustee or agency capacity and cannot be used to support the County's own programs. Trust funds are accounted for using the economic resources measurement focus and accrual basis of accounting. Agency funds report only assets and liabilities and therefore, do not have a measurement focus; however, agency funds use the accrual basis of accounting to recognize receivables and payables.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budget Adoption and Revision

No later than October 2nd of each year, after conducting public hearings concerning the recommended budget, the Board adopts a budget in accordance with Government Code Sections 29000-29144 and 30200. The County publishes the results of this initial budgeting process in a separate report, the "Adopted Budget," which specifies all accounts established within each fund/department/budget control (a collection of account numbers necessary to fund a certain division or set of goal-related activities).

Throughout the year, the original budget is adjusted to reflect increases or decreases in revenues and changes in fund balance, offset by an equal amount of adjustments to appropriations. Department heads are authorized to approve appropriation transfers within a fund/department/budget control. However, appropriation transfers between funds/departments/budget controls require approval of the Board. Accordingly, the lowest level of budgetary control exercised by the County's governing body is the fund/department/budget control level.

Annual budgets are adopted on a basis consistent with GAAP except for the general fund and major special revenue funds as detailed in the Budgetary Comparison Statement reconciliation between the budgetary basis and GAAP basis. Budgeted governmental funds consist of the general fund, major funds, and other nonmajor governmental funds. Budgetary comparison statements are prepared only for the general fund and major special revenue funds (listed below) for which the County legally adopts annual budgets, and are presented as part of the basic financial statements. The County did not legally adopt annual budgets for the OC Public Facilities Corporation Bonds, Master Lease Fund, the South OC Public Financing Authority Fund, and the Orange County Public Financing Authority Fund. The budgetary comparison statements provide three separate types of information: (1) the original budget, which is the first complete appropriated budget; (2) the final amended budget, which includes all legally authorized changes regardless of when they occurred; and (3) the actual revenues and expenditures during the year for budget-to-actual comparisons.

The major special revenue fund Budgetary Comparison Statements reported by the County in the Basic Financial Statements are:

- *Flood Control District*
- *Other Public Protection*
- *Mental Health Services Act*

The intent of preparing the Budgetary Comparison Statement reconciliation is to provide the reader with a more complete understanding and appreciation for the difference between budgetary revenues and other financing sources and expenditures and other financing uses presented in the Budgetary Comparison Statements and the revenues, expenditures, and other financing sources (uses) reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, which is prepared in accordance with GAAP. The major areas of difference are as follows:

- Under the budgetary basis, investment income is recognized on an amortized cost basis. In accordance with GASB Statement No. 31, *"Accounting and Financial Reporting for Certain Investments and for External Investment Pools"* (GASB Statement No. 31), all investment income, including changes in fair value (gains/losses) of investments, are recognized as investment income.
- Under the budgetary basis, redirected investment income is recognized as investment income in the recipient fund. In accordance with GASB Statement No. 31, investment income assigned to another fund due to management decision is recognized in the fund that reports the investment and reported as a transfer to the recipient fund in the GAAP financial statements.
- Under the budgetary basis, revenues are recorded when earned. For GAAP basis, in accordance with GASB Statement No. 33, "*Accounting and Financial Reporting for Nonexchange Transactions*" (GASB Statement No. 33), and GASB Statement No. 65, it states that all nonexchange transactions,

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budget Adoption and Revision (Continued)

such as government-mandated nonexchange transactions and voluntary nonexchange transactions, can be accrued only if they are measurable and "available." "Available" has been defined by GASB Statement No. 33 as "collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period." The County has established the availability period as 60 days after the end of the fiscal year. In order to ensure all transactions for the current fiscal year meet this criterion, the County analyzes revenue receipts through August 30 and records adjustments to deferred inflows of resources for transactions that are not collected.

- GASB Statement No. 34 states, "Fiduciary funds should be used to report assets held in a trustee or agency capacity for others and therefore, cannot be used to support the government's own programs." For the GAAP financial statements, an adjustment to record public purpose trust monies as revenue in the benefitting funds is recorded for funds, which continue to be accounted for as fiduciary funds on a budgetary basis but no longer meet the definition of a fiduciary fund.
- Under the budgetary basis, intrafund transfers are recognized as other financing sources (uses). For the GAAP financial statements, intrafund transfers are eliminated to minimize the "grossing-up" of interfund transfers.
- The County reclassified to the General Fund all the activities of certain special revenue funds, which no longer meet the definition of a special revenue fund in accordance with GASB Statement No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions"* (GASB Statement No. 54).
- For budgetary purposes, the loan from Waste Management to the General Fund was recognized as other financing sources (uses). In accordance with GASB Statement No. 34, an adjustment to record the interfund loan as an interfund receivable in the lender fund and interfund payable in the borrower fund was recorded for the GAAP financial statements.
- Under the budgetary basis, interfund reimbursements or repayments from funds responsible for particular expenditures or expenses to the funds that initially paid for them are recorded as revenues in the payer fund. In accordance with GASB Statement No. 34, an adjustment to eliminate interfund reimbursements is recorded for the GAAP financial statements.
- In accordance with GAAP, the County has established guidelines for recording accruals. In order to reasonably ensure that accruals for current fiscal year transactions are materially accurate, the County performs an analysis to identify expenditure accruals for the GAAP financial statements.
- Per GAAP, a rental rebate should be recorded as a reduction to rental expense.
- Per GAAP, at the inception of a capital lease, both expenditure and other financing source should be recorded with the amounts equal to the present value of the minimum lease payment.
- The General Fund revenue adjustment was recorded due to the overbilling to OCWR for the Republic Services and LA Sanitation District importation proceeds.
- The OC Animal Care uses cash basis to record money receives from invoicing due to the low collection rate. Per GAAP, the receivables and the amount of the allowance for the doubtful accounts should be recorded.

(Dollar Amounts in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budget Adoption and Revision (Continued).

The following schedule shows the Budgetary Comparison Statement reconciliation between the budgetary basis and GAAP basis for the General Fund and major special revenue funds:

Revenues and Other Financing Sources	General Fund	Flood Control District	Other Public Protection	Mental Health Services Act
Total Revenues and Other Financing Sources from the Budgetary Comparison Statements	$ 3,037,839	$ 147,161	$ 63,129	$ 116,457
Differences-budget to GAAP:				
Change in unrealized gain on investment	1,349	961	352	521
GASB 31 adjustment to report redirected investment income as transfers	--	--	10	--
GASB 33/65 adjustment of revenue accruals for 60 day recognition period	16,103	(19,162)	(15)	--
GASB 34 adjustment to record Public Purpose Trust Fund's monies as revenue in benefitting fund	(1,286)	2	--	--
Adjustment to eliminate intrafund transfers	--	--	(2,175)	--
Record new equipment lease	--	254	--	
Reclassification of direct billing reimbursements paid by fund for the benefit of other funds	(13,223)	(287)	--	--
Certain budgeted special revenue funds do not meet the criteria for separate reporting and are reported within the General Fund in the GAAP financial statements	33	--	--	--
Revenues and Other Financing sources for non-budgeted funds are excluded in the Budgetary Comparison Statements	--	--	2,205	--
Recognition of outstanding invoices for OC Animal Care	702	--	--	--
Adjustment of importation overpayment to the General Fund	(2,976)	--	--	--
Rent rebate for HCA	(50)	--	--	--
Total Revenues and Other Financing Sources as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances	$ 3,038,491	$ 128,929	$ 63,506	$ 116,978

Expenditures and Other Financing Uses	General Fund	Flood Control District	Other Public Protection	Mental Health Services Act
Actual expenditures and Other Financing Uses from the Budgetary Comparison Statements	$ 2,987,978	$ 116,258	$ 65,854	$ 115,244
Differences-budget to GAAP:				
GASB 31 adjustment to report redirected investment income as transfers	--	--	10	--
Adjustment of expenditure accruals for timing differences	1,237	(19)	(57)	--
Adjustment to eliminate intrafund transfers	--	--	(2,175)	--
Reclassification of direct billing reimbursements paid by fund for the benefit of other funds	(13,223)	(287)	--	--
Record new equipment lease	--	254	--	--
Expenditures and Other Financing Uses for non-budgeted funds are excluded in the Budgetary Comparison Statements	--	--	24	--
Certain budgeted special revenue funds do not meet the criteria for separate reporting and are reported within the General Fund in the GAAP financial statements	3	--	--	--
Rent rebate for HCA	(50)	--	--	--
Reclassification of loan repayment from General Fund to OC Waste Management	(784)	--	--	--
Total Expenditures and Other Financing Uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	$ 2,975,161	$ 116,206	$ 63,656	$ 115,244

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Balance

The County applies GASB Statement No. 54 for financial statement purposes. The intent of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

The balance sheet reports the following five different classifications of fund balance:

Nonspendable Fund Balance Amounts that are not in a spendable form, such as long-term receivables, inventory or prepaid costs, or that are required to be maintained intact, such as the corpus of an endowment fund. The County's Regional Park Endowment Permanent Fund reports the original donation as nonspendable in accordance with donor requirements.

Restricted Fund Balance Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed Fund Balance Amounts constrained to specific purposes by a formal action of the highest level of decision making authority. The constraint remains binding unless the government takes the same highest-level action to remove or change the constraint. The Board is the County's highest level of decision-making authority. The highest level of formal action to commit resources is an ordinance.

Assigned Fund Balance Amounts a government intends to use for a specific purpose that are neither restricted nor committed; intent can be expressed by the governing body (Board) or by an official or body to which the governing body delegates authority (County Executive Officer (CEO), County Department Heads, and County Purchasing Agent). The County's budget development guidelines provide the policy that is used by all County departments to determine the designation of assigned fund balance. Assigned fund balance includes the aggregation of resources for capital projects, which are expected to develop in future periods and fund balance reserved for outstanding contractual obligations for which goods and services have not yet been received or approved by the Board for appropriation in FY 2015-16, through the County's budget process.

Unassigned Fund Balance Residual amounts within the General Fund in excess of what can be properly classified in one of the four other fund balance classifications. Within all other governmental funds, unassigned fund balance is comprised of the negative residual in excess of what can be properly classified as nonspendable, restricted, or committed.

In the hierarchy for spending, when expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the County's policy is to spend restricted fund balance before unrestricted fund balance. When committed, assigned, and unassigned fund balance is available for the same specific purpose, the County's policy is to expend fund balance according to the following priority: committed, assigned, and then unassigned.

Following are detailed descriptions within each fund balance classification reported in the balance sheet:

(Dollar Amounts in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Balance (Continued)

	General Fund	Flood Control District	Other Public Protection	Mental Health Services Act	Other Governmental Funds	Total Governmental Funds
Nonspendable:						
Inventory	$ 891	$ 393	$ 290	$ --	$ --	$ 1,574
Prepaid costs	327,198	4,358	1,180	--	14,087	346,823
Endowment	--	--	--	--	193	193
Long-Term Advances to Other Funds	3,800	--	--	--	--	3,800
Total Nonspendable Fund Balance	331,889	4,751	1,470	--	14,280	352,390
Restricted for:						
Court Operations	10,552	--	--	--	--	10,552
Tobacco and CHIP Programs	146	--	--	--	--	146
Public Safety Realignment	38,532	--	--	--	--	38,532
Civic Center Parking/Maintenance	--	--	--	--	2,207	2,207
Roads	--	--	--	--	47,266	47,266
Public Libraries	--	--	--	--	30,034	30,034
Flood Control District	--	123,813	--	--	--	123,813
Flood Control District - Construction & Maintenance	--	29,765	--	--	--	29,765
Flood Control District - Project Management	--	90,439	--	--	--	90,439
Flood Control District Capital Projects	--	136,226	--	--	--	136,226
Flood Control District Capital Projects Management	--	33,261	--	--	--	33,261
Flood Control District Capital Projects Acquisition	--	13,334	--	--	--	13,334
Santa Ana River Projects	--	79	--	--	--	79
OC Parks	--	--	--	--	41,400	41,400
OC Parks - Capital Projects	--	--	--	--	29,687	29,687
County Tidelands - Newport Bay	--	--	--	--	5,755	5,755
Service Areas, Lighting, Maintenance and Assessment Districts	--	--	--	--	37,365	37,365
Other Environmental Management	--	--	--	--	1,869	1,869
Building & Safety Operating Reserve	--	--	21,288	--	--	21,288
Child Support Program Development	--	--	13,201	--	--	13,201
Clerk Recorder Special Revenue	--	--	16,209	--	--	16,209
Sheriff-Coroner Replacement & Maintenance	--	--	11,784	--	--	11,784
CAL-ID System Costs	--	--	26,525	--	--	26,525
Excess Public Safety Sales Tax	--	--	5,843	--	--	5,843
Inmate Welfare	--	--	7,535	--	--	7,535
Prop 64 - Consumer Protection	--	--	6,744	--	--	6,744
Regional Narcotics Suppression Program	--	--	5,708	--	--	5,708
Other Public Safety Programs	--	--	29,503	--	--	29,503
OC Dana Point Harbor Projects	--	--	--	--	65,097	65,097
Community and Welfare Services	--	--	--	--	58,663	58,663
Low and Moderate Income Housing Program	--	--	--	--	31,868	31,868
Health Care Programs	--	--	--	--	20,350	20,350
Mental Health Services Adults/Children	--	--	--	167,876	--	167,876
Mental Health Services General	--	--	--	74,082	--	74,082
Bankruptcy Litigation	--	--	--	--	15	15
Bankruptcy Recovery	--	--	--	--	13,604	13,604
Tobacco Settlement Programs	--	--	--	--	12,510	12,510
Housing Programs	--	--	--	--	15,471	15,471
Technological and Capital Acquisitions/Improvements	--	--	--	--	1,195	1,195
Endownment	--	--	--	--	144	144
OC Public Facilities Corporation Bonds, Master Lease	--	--	--	--	3,154	3,154
Pension Obligation Bonds	--	--	--	--	100,598	100,598
South OC Public Financing Authority	--	--	--	--	60,944	60,944
Orange County Public Financing Authority	--	--	--	--	55,564	55,564
Teeter Note	--	--	--	--	20,935	20,935
Capital Projects: Criminal Justice Facilities Improvement	--	--	--	--	10,495	10,495
Total Restricted Fund Balance	$ 49,230	$ 426,917	$ 144,340	$ 241,958	$ 666,190	$ 1,528,636

(Dollar Amounts in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Balance (Continued)

	General Fund	Flood Control District	Other Public Protection	Mental Health Services Act	Other Governmental Funds	Total Governmental Funds
Assigned to:						
General Services:						
Contingencies	$ 61,300	$ --	$ --	$ --	$ --	$ 61,300
Operations	158,960	--	--	--	--	158,960
Imprest Cash	1,834	--	--	--	--	1,834
Public Safety	21,314	--	--	--	--	21,314
Public Works	1,194	--	--	--	--	1,194
Health Care Programs	2,430	--	--	--	13,588	16,018
Watershed Programs	897	--	--	--	--	897
Social Services Programs	4,293	--	--	--	--	4,293
Community Resources Programs	688	--	--	--	--	688
Teeter Note	--	--	--	--	27,697	27,697
Tax Loss Reserve	58,273	--	--	--	--	58,273
Debt Service	3,863	--	--	--	--	3,863
Capital Projects:						
County-wide Projects	--	--	--	--	31,613	31,613
Property Tax Software Development	731	--	--	--	--	731
Criminal Justice Facilities	4,445	--	--	--	--	4,445
Central Utilities Facility	842	--	--	--	--	842
Parking Facilities	--	--	--	--	840	840
OC Parks	--	--	--	--	11,999	11,999
Air Quality Improvement	--	--	--	--	2,841	2,841
Community and Welfare Services	--	--	--	--	41,204	41,204
Total Assigned Fund Balance	321,064	--	--	--	129,782	450,846
Unassigned	25,655	--	--	--	--	25,655
Total Unassigned Fund Balance	25,655	--	--	--	--	25,655
Total Fund Balances	$ 727,838	$ 431,668	$ 145,810	$ 241,958	$ 810,252	$ 2,357,526

Annually, the Board adopts a five-year Strategic Financial Plan (SFP). The County of Orange 2016 SFP includes a policy for Fund Balance Unassigned (FBU) that eliminates FBU as a funding source for the next year's budget as a significant step toward reducing structural reliance on one-time funds. Positive variances in estimated FBU are to be added to Strategic Reserves, consistent with the Board policy.

The County prepays its pension contribution and reports the prepaid amount as Nonspendable Fund Balance rather than Unassigned Fund Balance as required by GASB Statement No. 54. For FY 2015-16, the proceeds of $334,275 was for short-term Taxable Pension Obligation Bonds to prepay its FY 2016-17 pension contribution at a discount. Of this amount $326,820 is the prepaid costs for General Fund and is Nonspendable. Refer to Note 9, Short-Term Obligations and Note 17, Retirement Plans for additional information.

F. Deposits and Investments

The County maintains two cash and investment pools: the Orange County Investment Pool (OCIP) and the Orange County Educational Investment Pool (OCEIP), the latter of which is utilized exclusively by the County's public school and community college districts. These pools are maintained for the County and other Non-County entities for the purpose of benefitting from economies of scale through pooled investment activities. In addition, the County maintains certain other non-pooled specific investments.

The County has stated required investments at fair value in the accompanying financial statements, using the fair value measurement within the fair value hierarchy established by GAAP.

Other than proceeds held by the County in the OCIP, proceeds from County-issued bonds are held by trustees and are invested in instruments authorized by the respective trust agreements including medium-term notes, money market mutual funds, investment agreements, repurchase agreements, and U.S. Government securities. Short-term debt investments are reported at amortized cost, while long-term investments, such as U.S. Government securities, are stated at fair value. The trustee uses an independent service to value those securities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Deposits and Investments (Continued)

The Pools value participants' shares using an amortized cost basis. Specifically, the Pools distribute income to participants based on their relative participation during the period. Income is calculated based on (1) realized investment gains and losses calculated on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and reduced by (4) investment and administrative expenses. This method differs from the fair value method used to value investments in this statement because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values of the Pools' investments. The total difference between the fair values of the investments in the Pools and the values distributed to pool participants using the amortized cost method described above is reported in the equity section of the condensed Statement of Net Position of the County Pool as undistributed and unrealized gains. Refer to Note 3, Deposits and Investments for additional information.

The investments in the Retiree Medical Defined Benefit Trust are managed by OCERS and are reported at fair value. Refer to Note 17, Retirement Plans, to obtain OCERS stand-alone annual financial statements.

G. Inventory of Materials and Supplies

Inventories consist of expendable materials and supplies held for consumption. Inventories are valued at cost, which is determined on a moving weighted average basis. Applicable fund balances are nonspendable for amounts equal to the inventories on hand at the end of the fiscal year, as these amounts are not available for appropriation and expenditure. The costs of inventory items are recorded as expenditures/expenses when issued to user departments/agencies.

H. Prepaid Costs

The County pays for certain types of services in advance, such as pension costs and rents, and recognizes these costs in the period during which services are provided. Prepaid costs in the governmental funds Balance Sheet include $346,823, which primarily consist of $346,444 for the County's FY 2016-17 pension contribution at a discount.

Prepaid costs in the government-wide financial statements include the prepaid costs reported in the fund financial statements, reduced for 50% of the prepaid asset related to the pension contribution after the measurement date in accordance with GASB Statement No. 68 and GASB Statement No. 71. Refer to Note 17, Retirement Plans for additional information.

I. Land and Improvements Held for Resale

These assets, held by the Successor Agency, are valued at the lower of cost or estimated net realizable value.

J. Capital Assets

Capital assets are defined as assets of a long-term character that are intended to be held or used in operations, such as land, structures and improvements, equipment, intangible, and infrastructure. Infrastructure assets are grouped by networks consisting of flood channels, roads, bridges, trails, traffic signals, and harbors.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Capital assets with an original unit cost equal to or greater than the County's capitalization threshold shown in the table below are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

(Dollar Amounts in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets (Continued)

Asset Type	Capitalization Threshold
Land	$ 0
Land Improvements	$150
Structures and Improvements	$150
Equipment	$ 5
Intangible:	
Software	$5
All Other	$150
Infrastructure	$150

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the related assets. No depreciation or amortization is provided on construction in progress or intangible assets in progress, respectively, until the project is completed and the asset is placed into service. Estimated useful lives of structures and improvements, equipment, intangible, and infrastructure are as follows:

Structures and Improvements	10 to 60 years
Land Improvements	10 to 20 years
Equipment	2 to 20 years
Intangibles:	
Computer Software	3 to 15 years
Infrastructure:	
Flood Channels	20 to 100 years
Roads	10 to 20 years
Bridges	50 to 75 years
Trails	20 years
Traffic Signals	15 to 20 years
Harbors	20 to 50 years
Airport – Runways, Taxis, and Aprons	15 to 60 years
Waste Management – Cell Development, Drainage Channels, Facility Improvements, Habitat, Landfill Gas/Environmental, Closure/Other Earthwork	3 to 71 years

Maintenance and repair costs are expensed in the period incurred. Expenditures that materially increase the capacity or efficiency or extend the useful life of an asset are capitalized and depreciated. Upon the sale or retirement of the capital asset, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the Statement of Activities and Proprietary Funds' Statement of Revenues, Expenses and Changes in Fund Net Position.

For business-type activities, interest is capitalized on construction in progress. Capitalized interest is the total interest expense of the borrowing net of related interest earnings on the reinvested unexpended tax-exempt debt proceeds and amortization of premium or discount. For governmental activities, interest is not capitalized as a cost of the capital asset in accordance with GAAP.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the government-wide Statement of Net Position reports a separate section for deferred outflows of resources, which represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County only has two items that qualify for reporting in this category. They are the deferred charge on refunding and deferred outflows of resources related to pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the

(Dollar Amounts in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Deferred Outflows/Inflows of Resources (Continued)

shorter of the life of the refunded or refunding debt. The deferral of resources related to pension results from the net difference between projected and actual investment earnings on pension plan investments, changes of assumptions and changes in proportion and differences between employer contributions and the proportionate share of contributions calculated by actuarial study. The deferred outflows of resources related to pensions also include employer contributions made after the measurement date and a portion of the County's prepaid retirement contribution.

In addition to liabilities, the Statement of Net Position sometimes reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, which represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has two items that qualify for reporting in this category. They are the deferred inflows of resources related to unavailable revenues and deferred inflows of resources related to pension. The County has deferred inflows of resources related to unavailable revenues reported under the modified accrual basis of accounting in the governmental funds Balance Sheet. The governmental funds report unavailable revenues from property taxes, intergovernmental revenues, SB90, and other sources as appropriate. These amounts are deferred and recognized as an inflow of resources in the period that amounts become available. The SB90 deferred inflows of resources amount of $28,404 is net of an allowance for the estimated uncollectible of $13,045.

The table below details out all deferred outflows/inflows of resources related to pension. Please refer to Note 17, Retirement Plans, for further information.

	Governmental Activities	Airport	Waste Management	Total
Deferred Outflows of Resources Related to Pension per Actuarial Studies				
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	$ 607,808	$ 5,699	$ 7,207	$ 620,714
Changes of Assumptions	91,935	901	1,125	93,961
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	5,648	53	66	5,767
Deferred Outflows of Resources Related to Pension - Employer Contributions after Measurement date	212,943	1,885	2,390	217,218
Deferred Outflows of Resources Related to Prepaid Contribution	174,834	1,588	2,037	178,459
Total Deferred Outflows of Resources Related to Pension	**$ 1,093,168**	**$ 10,126**	**$ 12,825**	**$ 1,116,119**
Deferred Inflows of Resources Related to Pension per Actuarial Studies				
Difference Between Expected and Actual Experience	$ 295,410	$ 2,822	$ 3,549	$ 301,781
Changes of Assumptions	149,314	1,464	1,827	152,605
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	104	1	1	106
Total Deferred Inflows of Resources Related to Pension	**$ 444,828**	**$ 4,287**	**$ 5,377**	**$ 454,492**

L. Self-Insurance

The County is self-insured for general and automobile liability claims, workers' compensation claims, and for claims arising under the County self-insured PPO Health Plans, short-term disability plans, dental plan, Reserve Deputy Sheriff accidental death and dismemberment plan, and unemployment benefits program. Liabilities are accrued based upon case reserves, development of known claims, incurred but not reported claims and allocated and unallocated loss adjustment expenses. For additional information, refer to Note 15, Self-Insurance.

M. Property Taxes

The provisions of the California Constitution and Revenue and Taxation Code govern assessment, collection, and apportionment of real and personal property taxes. Real and personal property taxes are computed by applying approved property tax rates to the assessed value of properties as determined by the County Assessor, in the case of locally assessed property and as determined by the State Board of

(Dollar Amounts in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Property Taxes (Continued)

Equalization in the case of state-assessed properties. Property taxes are levied annually, with the exception of the supplemental property taxes, which are levied when supplemental assessment events, such as sales of property or new construction, take place.

The County collects property taxes on behalf of all property tax-receiving agencies in Orange County. Property tax-receiving agencies include the school districts, cities, independently governed special districts not governed by the Board, special districts governed by the Board, redevelopment successor agencies, and the County General Fund.

Property taxes receivables are recorded as of the date levied in property tax unapportioned funds, which are classified as agency funds. When collected, the property taxes are deposited into the County Treasury in the property tax unapportioned funds, where they are held in the unapportioned taxes liability accounts pending periodic apportionment to the tax-receiving agencies. The property tax unapportioned funds are included in the agency funds category of the County's fund financial statements because the unapportioned taxes are collected and held on behalf of other governmental agencies.

Property tax collections are apportioned (disbursed) to the tax-receiving agencies periodically from the tax unapportioned funds based on various factors including statutory requirements, materiality of collections received, tax delinquency dates, the type of property tax roll unapportioned fund (secured, unsecured, supplemental, delinquent secured, delinquent unsecured, delinquent supplemental, homeowners' property tax subvention, or state-assessed properties), and cash flow needs of the tax-receiving agencies.

Property tax revenues are recognized in the fiscal year for which they are levied, provided they are due within the fiscal year and collected within 60 days after the fiscal year-end. Property tax revenues are also recognized for unsecured and supplemental property taxes that are due at year-end, and are collected within 60 days after the fiscal year-end, but will not be apportioned until the next fiscal year due to the timing of the tax apportionment schedule. The County's portion of the unapportioned taxes at June 30, 2016 is allocated to and recorded in the corresponding funds for reporting purposes.

Unsecured and supplemental property tax levies that are due within the fiscal year but are unpaid at fiscal year-end, are recorded as deferred inflows of resources in the fund-level financial statements, and recognized as revenue in the government-wide financial statements. The County uses the direct write-off method to recognize uncollectible taxes receivable.

The County maintains records of disputed property taxes, such as those properties for which the values have been appealed to the local Assessment Appeals Boards. Upon final disposition of the appeals and disputes, the amounts are either refunded to taxpayers or the tax bills are corrected. As of June 30, 2016, tax refunds and assessed value tax roll corrections resulting from property tax appeals and other disputes represented approximately 0.85% of the combined beginning secured and unsecured property tax roll charge.

The following are significant dates on the property tax calendar:

	California Revenue & Taxation Code Section
Supplemental assessments are effective on the 1st day of the month following the new construction or ownership change.	75.41
Property tax lien date is January 1.	2192
Unsecured taxes on the roll as of July 31 are delinquent August 31.	2922
Assessor delivers roll to Auditor-Controller July 1.	616, 617
Tax roll is delivered to the Tax Collector on or before the levy date (the 4th Monday in September).	2601

(Dollar Amounts in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Property Taxes (Continued)

	California Revenue & Taxation Code Section
Secured tax payment due dates are:	
1st Installment - November 1, and	2605
2nd Installment - February 1.	2606
Declaration of default for unpaid taxes occurs July 1.	3436
Power to sell is effective five years after tax default.	3691

N. Compensated Employee Absences

Compensated employee absences (vacation, compensatory time off, performance incentive plan time off, annual leave, and sick leave) are accrued as an expense and liability in the proprietary funds when incurred. In the governmental funds, only those amounts that are due and payable at year-end are accrued. Compensated employee absences that exceed this amount represent a reconciling item between the fund and government-wide presentations.

O. Pensions

The County recognizes a net pension liability to reflect the County's proportionate share of the excess of the total pension liability over the fiduciary net position of the County's retirement plans. The actuarial valuation for the retirement plans through OCERS is based on the December 31, 2015 measurement date for the County reporting as of June 30, 2016. The actuarial valuation for the Extra-Help Defined Benefit Plan is based on the June 30, 2016 measurement date for the County reporting as of June 30, 2016.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the OCERS and the Extra-Help Defined Benefit Plan and additions to/deductions to OCERS and the Extra-Help Defined Benefit Plan fiduciary net position have been determined on the same basis as they are reported by OCERS and the Extra-Help Defined Benefit Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

At June 30, 2016, the County's net pension liability from OCERS was measured as of December 31, 2015, and the total pension liability (TPL) used to calculate the net pension liability was determined by rolling forward the December 31, 2014 valuation to December 31, 2015. The County's net pension liability from Extra-Help Defined Benefit Plan was measured as of June 30, 2016; the plan's TPL was calculated using the data and assets as of June 30, 2015, rolled forward to June 30, 2016 using actual benefit payments for the FY 2015-16.

P. Statement of Cash Flows

A Statement of Cash Flows is presented for proprietary fund types. Cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less. Pooled cash and investments in the County's Treasury represent monies in a cash management pool and such accounts are similar in nature to demand deposits.

Q. Indirect Costs

County indirect costs are allocated to benefitting departments in the "Indirect Expenses Allocation" column of the government-wide Statement of Activities. Allocated costs are from the County's FY 2015-16 County-Wide Cost Allocation Plan (CWCAP), which was prepared in accordance with the Code of Federal

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Indirect Costs (Continued)

Regulation, Title 2, Part 200. The County has elected to allocate indirect costs to departments within the General Fund that are not charged through CWCAP in order to match the reimbursement of indirect costs recorded as program revenues to the same function that the related expense is recorded in.

R. Effects of New Pronouncements

The following lists recent GASB pronouncements implemented or are effective in FY 2015-16:

In February 2015, GASB issued Statement No. 72, "*Fair Value Measurement and Application*." This statement addresses accounting and financial reporting standards related to fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For some assets and liabilities, observable market information might not be available. The objective of fair value measurement is to determine the price that would take place between market participants at the measurement date under current market conditions. Valuation techniques used to determine fair value are one or more of three approaches to measure fair value: the market approach, cost approach, and income approach. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2015, which requires the County to implement this statement in FY 2015-16. The statement was implemented without a fiscal impact to the County's financial statements. However, more disclosures are presented in the note as a result of this GASB statement. Refer to Note 3, Deposits and Investments, for additional information.

In June 2015, GASB issued Statement No. 73, *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68."* This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing useful information, supporting assessments of accountability and interperiod equity and creating additional transparency. This statement establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 *"Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27,"* as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of GASB Statement No. 67, *"Financial Reporting for Pension Plans,"* GASB Statement No. 68 for pension plans, and pensions that are within their respective scopes. The provisions of this statement will be analyzed on an annual basis. The statement was implemented without an impact to the County.

In June 2015, GASB issued Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*" The "GAAP hierarchy" identifies the sources of guidance that state and local governments follow when preparing financial statements in conformity with GAAP and lists the order of priority for pronouncements to which a government should look for guidance. The objective of this statement is to simplify the structure of the hierarchy of GAAP to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*" These changes are intended to improve financial reporting for governments by establishing a framework for the evaluation of accounting guidance with less variation. The provisions of this statement are effective for financial reporting for periods beginning after June 15, 2015, and should be applied retroactively, which requires the County to implement this statement in FY 2015-16. The statement was implemented without an impact to the County.

In December 2015, GASB issued Statement No. 79, "*Certain External Investment Pools and Pool Participants*." This statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Effects of New Pronouncements (Continued)

that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for reporting periods beginning after December 15, 2015. This requires the County to implement this statement in FY 2015-16. The statement was implemented without an impact to the County.

The following summarizes recent GASB Pronouncements and their future effective dates. The County is in the process of evaluating the impact of these statements on its financial statements:

In June 2015, GASB issued Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*" (GASB Statement No. 74). This statement replaces Statements No. 43, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*," as amended, and No. 57*, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans."* It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *"Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,"* as amended, Statement No. 43, and Statement No. 50, *"Pension Disclosures."* The provisions of this statement are effective for financial statements for periods beginning after June 15, 2016, which requires the County to implement this statement in FY 2016-17. The requirements of this statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria.

In June 2015, GASB issued Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."* This statement replaces the requirements of Statements No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*," as amended, and No. 57, "*OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*." Statement No. 74 establishes new accounting and financial reporting requirements for OPEB plans. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The provisions of this statement are effective for financial statement for periods beginning after June 15, 2017, which requires the County to implement this statement in FY 2017-18.

In August 2015, GASB issued Statement No. 77, "*Tax Abatement Disclosures*." This statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015, which requires the County to implement this statement in FY 2016-17.

In December 2015, GASB issued Statement No. 78, "*Pensions Provided through Certain Multiple- Employer Defined Benefit Pension Plans*." This statement amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Effects of New Pronouncements (Continued)

employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this statement are effective for reporting periods beginning after December 15, 2015, which requires the County to implement this statement in FY 2016-17.

In January 2016, GASB issued Statement No. 80, "*Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*." This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The requirements of this statement are effective for reporting periods beginning after June 15, 2016, which requires the County to implement this statement in FY 2016-17.

In March 2016, GASB issued Statement No. 81, "*Irrevocable Split-Interest Agreements*." This statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this statement are effective for financial statements beginning after December 15, 2016, which requires the County to implement this statement in FY 2017-18.

In March 2016, GASB issued Statement No. 82, "*Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73*." This statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this statement are effective for reporting periods beginning after June 15, 2016, which requires the County to implement this statement in FY 2016-17.

S. Use of Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates. Where significant estimates have been made in preparing these financial statements, they are described in the applicable footnotes.

T. Consolidation of Governmental Funds' Balance Sheet and Proprietary Funds' Statement of Net Position Line Items in Statement of Net Position

Several asset line items in the Governmental Funds' Balance Sheet and the Proprietary Funds' Statement of Net Position are combined into one line item in the Government-Wide Statement of Net Position for presentation purposes. In order to avoid any confusion, the following table lists the line items shown in the Governmental and Proprietary Fund financial statements that are condensed together in the Government-Wide Statement of Net Position

(Dollar Amounts in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

T. Consolidation of Governmental Funds' Balance Sheet and Proprietary Funds' Statement of Net Position Line Items in Statement of Net Position (Continued)

Government-Wide Statement of Net Position Line Item	***Corresponding Governmental and Proprietary Funds Balance Sheet or Statement of Net Position Line Item***
Cash and Cash Equivalents	Pooled Cash/Investments; Cash Equivalents/Specific Investments; Imprest Cash Funds; and Cash/Cash Equivalents
Restricted Cash and Cash Equivalents	Restricted Cash and Investments with Trustee; Restricted Pooled Cash/Investments; and Restricted Pooled Cash/Investments – Closure and Postclosure Care Costs
Capital Assets – Not Depreciable/Amortizable	Land; Land Use Rights; Construction in Progress; and Intangible Assets in Progress
Capital Assets – Depreciable/Amortizable (Net)	Structures and Improvements and Accumulated Depreciation; Equipment and Accumulated Depreciation; Infrastructure and Accumulated Depreciation; and Intangible Assets and Accumulated Amortization; Land Improvements

2. DEFICIT FUND EQUITY

The Workers' Compensation Internal Service Fund (ISF) reported a deficit net position balance of $93,451. The deficit results from the amount calculated in the annual actuarial study which includes case reserves, development of known claims, incurred but not reported claims, allocated and unallocated loss adjustment expenses, and a discount for anticipated investment income. The deficit increased by $2,222 from the previous fiscal year due to an increase in insurance expense and case reserves. Charges to County departments have not provided sufficient cash flows to entirely fund the deficit in the Workers' Compensation ISF. The County will continue to review charges to departments and manage the funding status of the Workers' Compensation Program.

Effective with OCDA's dissolution on February 1, 2012, the assets and liabilities (including bond debt) were transferred to and reported in a private-purpose trust fund of the County. This transfer and reporting structure reflect the custodial role accepted by the Successor Agency. The Successor Agency private-purpose trust fund reported a deficit net position of $17,238. The deficit for the Successor Agency increased by $4,419 from the previous fiscal year as a result of a decrease in intergovernmental revenues in the current fiscal year.

3. DEPOSITS AND INVESTMENTS

The Treasurer is responsible for authorizing all County bank accounts and pursuant to California Government Code (CGC) Sections 27000.1 – 27000.5, 27130 – 27137 and 53600 – 53686, and is responsible for conducting County investment activities of the County's investment pooled funds in addition to various individual investment accounts outside of the pooled funds. These public funds are called the Orange County Investment Fund (OCIF). Within the OCIF, the Treasurer maintains an Orange County Investment Pool (OCIP) and an Orange County Educational Investment Pool (OCEIP), which are "external investment pools" wherein monies of the County and other legally separate external entities, which are not part of the County reporting entity, are commingled (pooled) and invested on the participants' behalf. In addition, the Treasurer maintains the John Wayne Airport Investment Pool (JWA Pool) and other separately managed investments. The County's Investment Pools are not registered with the Securities and Exchange Commission (SEC) as an investment company.

The Treasurer further invests pooled funds from the OCIP and OCEIP into three funds, the Orange County Money Market Fund (OCMMF), the Orange County Educational Money Market Fund (OCEMMF), and the Extended Fund. On June 16, 2016, Standard & Poor's (S&P) reaffirmed an AAA Principal Stability Fund Rating (AAAm) for the OCMMF and the OCEMMF. The two money market funds are required to maintain a Net Asset

(Dollar Amounts in Thousands)

3. DEPOSITS AND INVESTMENTS (Continued)

Value (NAV) of between $0.995 (in absolute dollar amounts) and $1.005 (in absolute dollar amounts) to maintain an AAAm rating. Neither the Money Market Funds nor the Extended Fund have any legally binding guarantees of share values.

The maximum maturity of investments for the two Money Market Funds is 13 months with a maximum weighted average maturity (WAM) of 60 days. The maximum maturity of the Extended Fund is five years per CGC. The Investment Policy Statement (IPS) provides that the Extended Fund shall have a duration not to exceed a leading 1-3 Year index +25%.

Pursuant to CGC Sections 27130-27137, the Board has established a Treasury Oversight Committee (TOC) that monitors and reviews the IPS annually and also ensures that the Treasurer has an audit annually, which includes limited tests of compliance with laws and regulations. The TOC consists of the County Executive Officer, the elected County Auditor-Controller, the County Superintendent of Schools, or their respective designees, and four public members.

The investment practices and policies of the Treasurer are based on compliance with state law and prudent money management. The primary goal is to invest public funds in a manner which will provide maximum security of principal invested, with secondary emphasis on providing adequate liquidity to Pool Participants. The last goal is to achieve a market rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds.

Interest is allocated to individual funds monthly based on the average daily balances on deposit with the Treasurer. Interest assigned to another fund due to management decision is recognized in the fund that reports the investments and is reported as a transfer to the recipient fund.

Deposits and investments with the Treasurer, before timing differences, totaled $8,270,826 as of June 30, 2016, consisting of $3,692,694 for the OCIP, $4,269,894 for the OCEIP, and $308,238 for Specific Investments.

Total County deposits and investments at fair value as of June 30, 2016, are reported as follows:

Deposits:		
Imprest Cash	$	2,026
Deposits for OCIP with Treasurer		14,113
Deposits for OCEIP with Treasurer		21,163
Deposits with Trustees		17,139
All other Deposits and Timing Differences		(149,283)
Total Deposits and Timing Differences		(94,842)
Investments:		
With Treasurer		8,235,550
With Trustees		372,135
With External Orange County Employees Retirement System (OCERS)		214,769
Total Investments		8,822,454
Total Deposits and Investments	$	8,727,612

Total County deposits and investments are reported in the following funds:

Governmental Funds	$	2,374,668
Proprietary Funds		1,044,667
Fiduciary Funds		5,255,099
Component Unit - CFCOC		53,178
Total Deposits and Investments	$	8,727,612

A. Deposits

CGC 53652 et. seq. and the IPS prescribe the amount of collateral that is required to secure the deposit of public funds. The pledge to secure deposits is administered by the California Commissioner of Business Oversight. Collateral is required for demand deposits at 110% of all deposits not covered by Federal

(Dollar Amounts in Thousands)

3. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits (Continued)

Depository Insurance Corporation (FDIC) if obligations of the United States and its agencies, or obligations of the State or its municipalities, school districts, and district corporations are pledged. Collateral of 150% is required if a deposit is secured by first mortgages or first trust deeds upon improved residential real property located in California. All such collateral is considered to be held by the pledging financial institutions' trust departments or agents in the name of the County. Obligations pledged to secure deposits must be delivered to an institution other than the institution in which the deposit is made; however, the trust department of the same institution may hold them.

Written custodial agreements are required to provide, among other things, that the collateral securities are held separately from the assets of the custodial institution. FDIC is available for interest-bearing funds deposited at any one financial institution up to a maximum of $250.

Custodial Credit Risk – Deposits
The custodial credit risk for deposits is the risk that the County will not be able to recover deposits that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or collateralized. The County's deposits are not exposed to custodial credit risk, since all of its deposits are covered by FDIC or collateralized with securities held by the County or its agent in the County's name in accordance with CGC Section 53562.

B. Investments

The CGC Sections 53601 & 53635, Board ordinances and resolutions, the County's IPS, the bond indenture documents, trust agreements, and other contractual agreements govern the investments that may be purchased and may include certain restrictions on investment maturity, maximum portfolio percentages, term, value, credit quality and timing to minimize the risk of loss. The IPS adds further restrictions to permitted investments from the CGC. As of June 30, 2016, the Treasurer was in full compliance with the more restrictive IPS for the OCIP, OCEIP, and JWA Pool.

The following table provides a summary listing of the authorized investments as of June 30, 2016.

Type of Investment	CGC % of Funds Permitted	Orange County IPS (%)	CGC Maximum Final Maturity	Orange County IPS Maximum Final Maturity (All Pooled Funds Except Short-Term Funds)	Orange County IPS Maximum Final Maturity (Short-Term Fund)
U.S. Treasury Securities	100%	100%	5 Years	5 Years	397 Days
U.S. Government Agency Securities	100%	100% total, no more than 33% in one issuer excluding securities with final maturities of 30 days or less	5 Years	5 Years	397 Days
Municipal Debt	100%	30% total, no more than 5% in one issuer except 10%-County of Orange	5 Years	5 Years	397 Days
Medium-Term Notes	30%	30% total, no more than 5% in one issuer	5 Years	5 Years	397 Days
Bankers Acceptances	40%, 30% of a single issuer	40% total, no more than 5% in one issuer	180 Days	180 Days	180 Days
Commercial Paper	40%, 10% of a single issuer	40% total, no more than 5% in one issuer	270 Days	270 Days	270 Days

(Dollar Amounts in Thousands)

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Type of Investment	CGC % of Funds Permitted	Orange County IPS (%)	CGC Maximum Final Maturity	Orange County IPS Maximum Final Maturity (All Pooled Funds Except Short-Term Funds)	Orange County IPS Maximum Final Maturity (Short-Term Fund)
Negotiable Certificates of Deposits	30%	30% total, no more than 5% in one issuer	5 Years	5 Years	397 Days
State of California Local Agency Investment Fund	$50 million per account	$50 million per pool	N/A	N/A	N/A
Repurchase Agreements	100%	20% total, no more than 10% in one issuer	1 Year	1 Year	1 Year
Money Market Mutual Funds	20%	20% total	N/A	N/A	N/A
Investment Pools	100%	20% total, no more than 10% in one pool	N/A	N/A	N/A
Supranationals	30%	30% total, no more than 5% in one issuer	5 Years	5 Years	397 Days

The current IPS expressly prohibits leverage, reverse repurchase agreements as defined by CGC, structured notes, structured investment vehicles, and derivatives. All investments must be United States dollar denominated. No investment may be purchased from an issuer and all related entities, including parent and subsidiaries, that has been placed on credit watch-negative by any of the Nationally Recognized Statistical Rating Organizations (NRSROs), or whose credit rating by any of the NRSROs is less than the minimum rating required by the IPS for that class of security unless the issuer has a short-term rating of A-1+ or F1+ or a long-term rating of at least a AA or Aa2 by S&P, Fitch or Moody's; and the Treasurer has approved the purchase in writing prior to purchase.

Investments by the Treasurer are stated at fair value. Investments in the OCIF are marked to market on a daily basis. If the NAV of the OCMMF or OCEMMF is less than $0.995 (in absolute dollar amounts) or greater than $1.005 (in absolute dollar amounts), portfolio holdings may be sold as necessary to maintain the ratio between $0.995 (in absolute dollar amounts) and $1.005 (in absolute dollar amounts).

Unless otherwise required in a trust agreement or other financing document, assessment districts and public school and community college districts are required by legal provisions to deposit their funds with the County Treasurer. The OCEIP consists entirely of public school and community college districts' funds and therefore includes 100% involuntary participants. At June 30, 2016, the OCIP includes approximately 11.57% of involuntary participant deposits including funds for the Superior Court, certain assessment districts, and certain bond related funds for public school districts.

(Dollar Amounts in Thousands)

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment Disclosures

The following table presents a summary of the County's investments, the credit quality distribution, and concentration of credit risk by investment type as a percentage of each pool's fair value at June 30, 2016.

With Treasurer:	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)	Rating (1)	% of Portfolio
OCIP (2)							
U.S. Government Agencies							
FNMA Discount Notes	$ 45,115	$ 45,152	0.29 - 0.65%	08/12/16 - 01/05/17	0.230	A-1	1.23%
FNMA Bonds	447,622	445,125	0.30 - 1.18%	07/05/16 - 02/26/19	1.354	AA	12.17%
FFCB Discount Notes	63,971	64,096	0.47 - 0.59%	12/21/16 - 12/27/16	0.485	A-1	1.73%
FFCB Bonds	185,626	184,911	0.29 - 1.18%	08/11/16 - 04/26/19	1.626	AA	5.05%
FFCB Bonds - Floating Rate	60,021	60,000	0.29 - 1.18%	11/04/16 - 11/07/16	0.002	AA	1.63%
FHLB Discount Notes	411,243	411,312	0.24 - 0.50%	07/01/16 - 09/26/16	0.009	A-1	11.18%
FHLB Bonds	402,822	401,523	0.49 - 1.64%	08/26/16 - 12/20/18	1.240	AA	10.95%
FHLMC Bonds	611,477	607,522	0.37 - 1.14%	08/25/16 - 04/16/19	1.689	AA	16.62%
Negotiable Certificates of Deposit							
Fixed Rate	157,881	156,581	0.66 - 1.75%	08/26/16 - 03/29/19	0.439	AA	4.29%
Floating Rate	5,000	5,000	0.94%	07/28/16	0.077	A-1	0.14%
Medium-Term Corporate Notes							
Corporate Notes	68,617	67,110	0.55 - 1.35%	08/15/16 - 08/15/18	1.290	A	1.86%
Corporate Notes	116,087	113,568	0.65 - 1.49%	04/05/17 - 12/15/18	1.148	AA	3.16%
Corporate Notes - Floating Rate	15,008	15,000	0.65 - 0.66%	05/05/17 - 05/12/17	0.014	AA	0.41%
Corporate Notes	30,879	30,198	0.59 - 1.41%	11/28/16 - 12/05/18	1.904	AAA	0.84%
Municipal Debt	77,851	77,666	0.75 - 1.21%	08/01/16 - 06/30/17	0.237	AA	2.12%
U.S. Treasuries	850,805	845,879	0.24 - 1.12%	07/15/16 - 04/30/19	0.964	AA	23.13%
Money Market Mutual Funds	128,556	128,556	0.27 - 0.28%	07/01/16	0.003	AAA	3.49%
	$ 3,678,581	**$ 3,659,199**			**1.087** (4)		**100.00%**

With Treasurer:	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)	Rating (1)	% of Portfolio
OCEIP (2)							
U.S. Government Agencies							
FNMA Discount Notes	$ 42,983	$ 43,000	0.23 - 1.088%	08/24/16 - 09/19/16	0.157	A-1	1.02%
FNMA Bonds	454,050	451,766	0.28 - 1.18%	07/05/16 - 02/26/16	1.291	AA	10.69%
FNMA Bonds - Floating Rate	25,003	25,000	0.28%	07/05/16	0.004	AA	0.59%
FFCB Discount Notes	123,660	123,803	0.25 - 0.72%	07/01/16 - 12/27/16	0.309	A-1	2.92%
FFCB Bonds	186,293	185,467	0.29 - 1.18%	08/11/16 - 04/26/19	1.579	AA	4.38%
FFCB Bonds - Floating Rate	76,018	76,000	0.28 - 0.58%	07/20/16 - 11/07/16	0.003	AA	1.79%
FHLB Discount Notes	599,706	599,889	0.27 - 0.74%	07/06/16 - 03/10/17	0.115	A-1	14.11%
FHLB Bonds	453,828	452,522	0.37 - 1.64%	08/26/16 - 12/20/18	1.545	AA	10.68%
FHLMC Discount Notes	99,973	100,000	0.23 - 0.30%	07/07/16 - 09/15/16	0.112	A-1	2.35%
FHLMC Bonds	593,063	589,254	0.37 - 1.14%	08/25/16 - 04/16/19	1.679	AA	13.96%
Negotiable Certificates of Deposit							
Fixed Rate	138,652	137,419	0.58 - 1.75%	08/29/16 - 03/29/19	0.408	AA	3.26%
Floating Rate	16,702	16,700	0.58 - 0.98%	07/05/16 - 04/06/17	0.000	AA	0.39%
Medium-Term Corporate Notes							
Corporate Notes	73,668	72,151	0.55 - 1.35%	08/15/16 - 08/15/18	1.221	A	1.73%
Corporate Notes	110,896	108,453	0.65 - 1.49%	04/05/17 - 12/15/18	1.149	AA	2.61%
Corporate Notes - Floating Rate	15,153	15,145	0.65 - 0.67%	11/28/16 - 05/12/17	0.015	AA	0.36%
Corporate Notes	29,485	28,832	0.93 - 1.41%	08/15/17 - 12/05/18	1.911	AAA	0.69%
Corporate Notes - Floating Rate	500	500	0.67%	11/28/16	0.003	AAA	0.01%
Municipal Debt	75,477	75,299	0.75 - 1.21%	08/01/16 - 06/30/17	0.239	AA	1.78%
U.S. Treasuries	878,115	873,266	0.23 - 1.12%	07/15/16 - 04/30/19	0.913	AA	20.67%
Money Market Mutual Funds	255,506	255,506	0.27 - 0.28%	07/01/16	0.003	AAA	6.01%
	$ 4,248,731	**$ 4,229,972**			**0.929** (4)		**100.00%**

(Dollar Amounts in Thousands)

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment Disclosures (Continued)

With Treasurer:	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)	Rating (1)	% of Portfolio
Specific Investments (2)							
U.S. Government Agencies							
FNMA Discount Notes	$ 1,499	$ 1,500	0.30 - 0.36%	07/25/16 - 10/13/16	0.215	A-1	0.49%
FNMA Bonds	22,384	22,118	0.35 - 1.62%	07/05/16 - 05/06/21	1.902	AA	7.26%
FFCB Bonds	8,486	8,435	0.29 - 1.08%	07/12/16 - 06/25/18	0.918	AA	2.75%
FFCB Bonds - Floating Rate	5,061	5,060	0.29 - 0.58%	08/15/16 - 02/23/17	0.005	AA	1.64%
FHLB Discount Notes	9,117	9,121	0.28 - 0.53%	07/19/16 - 10/28/16	0.147	A-1	2.96%
FHLB Bonds	18,363	18,110	0.35 - 1.78%	07/20/16 - 07/29/20	1.726	AA	5.96%
FHLMC Discount Notes	1,671	1,672	0.33 - 0.54%	07/06/16 - 09/21/16	0.143	A-1	0.54%
FHLMC Bonds	6,562	6,547	0.35 - 0.94%	07/18/16 - 01/12/18	0.888	AA	2.13%
GNMA Bonds	87	84	6.25%	09/20/29	13.233	AA	0.02%
Negotiable Certificates of Deposit							
Fixed Rate	1,750	1,750	0.59 - 0.80%	07/25/16 - 09/29/16	0.094	A-1	0.57%
Floating Rate	1,600	1,600	0.24 - 0.28%	07/05/16	0.014	A-1	0.52%
Medium-Term Corporate Notes							
Corporate Notes - Floating Rate	402	401	0.69 - 0.71%	01/10/17 - 04/21/17	0.454	AA	0.13%
Corporate Notes - Floating Rate	100	100	0.61%	11/28/16	0.162	AAA	0.03%
Municipal Debt	6,501	6,500	4.81%	07/01/16	0.003	AA	2.11%
U.S. Treasuries	3,564	3,500	1.50%	01/31/21	4.592	AA	1.16%
Repurchase Agreements	1,082	1,082	6.20%	08/15/19	3.126	AA	0.35%
Money Market Mutual Funds	220,009	220,009	0.22 - 0.28%	07/01/16	0.093	AAA	71.38%
	$ 308,238	**$ 307,589**			**0.363** (4)		**100.00%**

With Trustees:	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)	Rating (1)	% of Portfolio
Restricted Investments with Trustees (2)							
U.S. Government Agencies							
FNMA Zero Coupon Bonds	$ 100,488	$ 46,234	0.00%	09/01/16-09/01/21	3.880	AA	27.00%
U.S. Treasuries	16,411	16,283	0.5% - 9.00%	09/15/16-11/15/18	0.590	AA	4.41%
U.S. Treasury Strips	359	54	0.00%	11/15/18	2.380	AA	0.10%
Investment Contracts	13,160	13,160	Variable	07/01/16-01/17/17	0.550	NR	3.54%
Money Market Mutual Funds							
Money Market Mutual Funds	144,363	144,363	Variable	07/01/16	0.000	AAA	38.79%
Money Market Mutual Funds	92,406	92,724	Variable	07/01/16	0.000	AAA	24.83%
Bond Mutual Funds	4,948	4,870	0.17% - 4.64%	07/01/16	0.000	NR	1.33%
	$ 372,135	**$ 317,688**			**1.04** (4)		**100.00%**
With External Orange County Retirement System (OCERS):							
Restricted Investments (3)	**$ 214,769**						

(1) The County obtains credit ratings from S&P, Moody's, and Fitch. The ratings indicative of the greatest degree of risk have been disclosed. NR means not rated

(2) Legend:
FNMA-Federal National Mortgage Association
FFCB-Federal Farm Credit Bank
FHLB-Federal Home Loan Bank
FHLMC-Federal Home Loan Mortgage Corporation
GNMA-Government National Mortgage Association

(3) The Retiree Medical Trust Reports $214,769 of restricted investments with OCERS. Refer to Note 18 on obtaining OCERS Financial Statements. For more information regarding investments with OCERS, refer to their most recently issued financial statements available at http://www.ocers.org/finance/finance.htm.

(4) Portfolio weighted average maturity

(Dollar Amounts in Thousands)

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment Disclosures (Continued)

The County categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments reflect prices based on quoted identical assets in an active market.
- Level 2: Investments reflect prices that are based on identical or similar assets in inactive markets or similar assets in active markets. Inputs other than quotes are observable.
- Level 3: Investments reflect prices based on significant unobservable inputs.

The County has multiple investments using Level 1 inputs and a single investment using Level 3 input. Fair value measurement is based on pricing received from the County's third party vendors. Money market mutual funds are priced using amortized cost, with a net asset value of $1 (in absolute dollar amounts) per share, and per GASB Statement No. 72 not subject to the fair value hierarchy. Additionally, guaranteed investment contracts are not subject to the fair value hierarchy.

The County uses the market approach method as a valuation technique in the application of GASB Statement No. 72. This method uses prices and other relevant information generated by market transactions involving identical or similar assets or groups of assets.

The following table presents a summary of the County's investments according to the assigned fair value hierarchy level as of June 30, 2016.

		Fair Value Measurement		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
OCIP				
U.S. Government Agencies	$ 2,227,897	$ --	$ 2,227,897	$ --
Negotiable Certificates of Deposit	162,881	--	162,881	--
Medium-Term Corporate Notes	230,591	--	230,591	--
Municipal Debt	77,851	--	77,851	--
U.S. Treasuries	850,805	--	850,805	--
Sub-total	3,550,025	**$ --**	**$ 3,550,025**	**$ --**
Investments Not Subject to Fair Value Hierarchy:				
Money Market Mutual Funds	128,556			
Total	**$ 3,678,581**			
OCEIP				
U.S. Government Agencies	$ 2,654,577	$ --	$ 2,654,577	$ --
Negotiable Certificates of Deposit	155,354	--	155,354	--
Medium-Term Corporate Notes	229,702	--	229,702	--
Municipal Debt	75,477	--	75,477	--
U.S. Treasuries	878,115	--	878,115	--
Sub-total	3,993,225	**$ --**	**$ 3,993,225**	**$ --**
Investments Not Subject to Fair Value Hierarchy:				
Money Market Mutual Funds	255,506			
Total	**$ 4,248,731**			

(Dollar Amounts in Thousands)

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment Disclosures (Continued)

	Total	Fair Value Measurement: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Specific Investments				
U.S. Government Agencies	$ 73,230	$ --	$ 73,230	$ --
Negotiable Certificates of Deposit	3,350	1,850	1,500	--
Medium-Term Corporate Notes	502	--	502	--
Municipal Debt	6,501	--	6,501	--
U.S. Treasuries	3,564	--	3,564	--
Repurchase Agreements	1,082	--	--	1,082
Sub-total	88,229	**$ 1,850**	**$ 85,297**	**$ 1,082**
Investments Not Subject to Fair Value Hierarchy:				
Money Market Mutual Funds	220,009			
Total	**$ 308,238**			
With Trustees				
U.S. Government Agencies	$ 100,488	$ --	$ 100,488	$ --
U.S. Treasuries	16,770	359	16,411	--
Bond Mutual Funds	4,948	4,948	--	--
Sub-total	122,206	**$ 5,307**	**$ 116,899**	**$ --**
Investments Not Subject to Fair Value Hierarchy:				
Money Market Mutual Funds	236,769			
Investment Contracts	13,160			
Total	**$ 372,135**			

Investment in County of Orange Taxable Pension Obligation Bonds 2016, Series A

On January 13, 2016, the OCIP and the OCEIP purchased a portion of the County issued Taxable Pension Obligation Bonds 2016, Series A (2016 POBs) in the principal amount of $152,965. The 2016 POBs were issued with a fixed coupon rate and with maturities from August 2016 to June 2017. The obligation of the County to pay principal and interest on the 2016 POBs is an obligation imposed by law and is absolute and unconditional. As of June 30, 2016, the outstanding principal amount of the 2016 POBs is $152,965. The bonds are rated AA by S&P. The County's investment in the 2016 POBs is disclosed herein as Municipal Debt. For additional information, refer to Note 9, Short-Term Obligations and Note 17, Retirement Plans.

Interest Rate Risk - Investments

This is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, investments of longer maturities are more sensitive to changes in market interest rates. Declines in the fair value of investments are managed by limiting the length of the maturity of the securities. In general, the maximum maturity allowed is five years unless the Board has granted express authority either specifically or as part of an investment policy. Actual weighted average days to maturity by investment type for the funds invested in the Pools are presented in the table in the Investment Disclosures section.

The OCIP funds of $3,678,581 and the OCEIP funds of $4,248,731 portfolio at June 30, 2016 have over 36.6% and 46.6%, respectively, of the investments maturing in six months or less, 63.4% and 53.4%, respectively, maturing between six months and three years.

(Dollar Amounts in Thousands)

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Interest Rate Risk – Investments (Continued)

As of June 30, 2016, variable-rate notes comprised 2.2% and 2.5% of the OCIP and the OCEIP, respectively. The notes are tied to the Federal Funds rate, 90-day Treasury Bill rate, one-month and three-month London Interbank Offered Rate (LIBOR) with daily, monthly and quarterly coupon resets. The fair value of variable-rate securities is generally less susceptible to changes in value because the variable-rate coupon resets back to a market rate on a periodic basis. Effectively, at each reset date, a variable-rate investment reprices back to par value, eliminating interest rate risk at each periodic reset. For purposes of computing weighted average maturity (WAM), the maturity date of variable-rate notes is the length of time until the next reset date rather than the stated maturity.

The annual average daily investment balance of the OCIP and the OCEIP was $3,820,526 and $3,833,613, respectively, with an annual net yield of 0.65% and 0.66% respectively for the pools, for the year ended June 30, 2016.

Interest Rate Risk-Weighted Average Maturity (Money Market Funds)
At June 30, 2016, the OCMMF and OCEMMF amounted to $928,469 and $1,611,312, respectively. In accordance with the Board formally approved IPS, the Treasurer manages the Pool's exposure to declines in fair value for deposits and investments by limiting the WAM to 60 days in the Money Market Funds. At June 30, 2016, the WAM of the OCMMF was 56 days and the OCEMMF was 57 days. At the same date, the NAV of the Money Market Funds for both pools was $1.00 (in absolute dollar amounts).

Interest Rate Risk-Duration (Extended Fund)
At June 30, 2016, the Extended Fund (which includes funds from both the OCIP and the OCEIP) balance was $5,387,531. Of this amount, the OCIP owned 51.1% and the OCEIP owned 48.9%. In accordance with the IPS, the Treasurer manages investment related risk for deposits and investments by limiting duration to +25% of a leading 1-3 Year index (2.35). The portfolio duration for the Extended Fund as of June 30, 2016 was 1.31 years. This was computed using the effective duration method, which takes into account the way in which changes in yield will affect the expected cash flows for callable bonds.

As of June 30, 2016, the Extended Fund had the following duration by investment type:

Investment Type		Fair Value	Portfolio %	Effective Duration (In Years)
Certificates Of Deposits	$	201,493	3.74%	2.25
Medium-Term Corporate Notes		362,354	6.73%	1.85
Municipal Debt		99,134	1.84%	0.78
U.S. Treasuries		1,568,807	29.12%	1.02
U.S. Government Agencies		3,155,743	58.57%	1.34
Total Fair Value	$	5,387,531		
Portfolio Duration				1.31

Custodial Credit Risk
For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The IPS does not permit investments in uninsured and unregistered securities not held by the County. The Treasurer utilizes third party delivery versus payment (DVP) which mitigates any custodial credit risk. Securities purchased by the Treasurer are held by third party custodians in their trust department to mitigate custodial credit risk. At year-end, in accordance with the IPS, the County's external investment pools and specific investments did not have any securities exposed to custodial credit risk, and the Treasurer did not have any securities lending during the year (or at year-end).

(Dollar Amounts in Thousands)

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Credit Risk - Investments

This is the risk that an issuer or other counterparty to an investment may not fulfill its obligations. The IPS sets forth the minimum acceptable credit ratings for investments from any two of the following NRSROs: S&P, Moody's, or Fitch. For an issuer of short-term debt, the rating must be no less than A-1 or SP-1 (S&P), P-1 or MIG 1/VMIG 1 (Moody's), or F1 (Fitch), while an issuer of long-term debt shall be rated no less than an A in the Money Market Funds and AA in the Extended Fund. Municipal debt issued by the County is exempt from the above credit rating requirements. As of June 30, 2016, the County's investments were in compliance with the IPS limits.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2016, all investments were in compliance with state law and the IPS single issuer limits. See the County's investments table for concentrations of holdings in U.S. government agencies.

Foreign Currency Risk

The IPS requires all securities to be U.S. dollar denominated. The County Pools are not exposed to foreign currency risk.

Condensed Financial Statements

In lieu of separately issued financial statements for the entire pools and the external portion of the pools, condensed financial statements for both pools are presented below as of and for the year ended June 30, 2016:

Entire Pool

Statement of Net Position

	OCIP	OCEIP	Total
Net Position Held for Pool Participants	$ 3,905,974	$ 4,229,524	$ 8,135,498
Equity of Internal Pool Participants	$ 3,563,573	$ --	$ 3,563,573
Equity of External Pool Participants	342,928	4,229,856	4,572,784
Undistributed and Unrealized (Loss)	(527)	(332)	(859)
Total Net Position	$ 3,905,974	$ 4,229,524	$ 8,135,498

Statement of Changes in Net Position

	OCIP	OCEIP	Total
Net Position at July 1, 2015	$ 3,630,316	$ 3,828,819	$ 7,459,135
Net Changes in Investments by Pool Participants	275,658	400,705	676,363
Net Position at June 30, 2016	$ 3,905,974	$ 4,229,524	$ 8,135,498

(Dollar Amounts in Thousands)

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Condensed Financial Statements (Continued)

External Pool Portion

Combining Statement of Fiduciary Net Position

	OCIP	OCEIP	Total
Assets			
Pooled Cash/Investments	$ 342,206	$ 4,220,107	$ 4,562,313
Receivables			
Interest/Dividends	1,231	9,493	10,724
Total Assets	343,437	4,229,600	4,573,037
Liabilities			
Due to Other Governmental Agencies	509	76	585
Total Liabilities	509	76	585
Net Position			
Restricted for Pool Participants	342,928	4,229,524	4,572,452
Total Net Position	$ 342,928	$ 4,229,524	$ 4,572,452

Combining Statement of Changes in Fiduciary Net Position

	OCIP	OCEIP	Total
Additions:			
Contributions to Pooled Investments	$ 589,885	$ 7,657,559	$ 8,247,444
Other Revenues	--	446	446
Interest and Investment Income	2,459	36,376	38,835
Less: Investment Expense	(149)	(2,756)	(2,905)
Total Additions	592,195	7,691,625	8,283,820
Deductions:			
Distributions from Pooled Investments	526,023	7,290,920	7,816,943
Total Deductions	526,023	7,290,920	7,816,943
Change in Net Position Held in Trust For External Investment Pool	66,172	400,705	466,877
Net Position, Beginning of Year	276,756	3,828,819	4,105,575
Net Position, End of Year	$ 342,928	$ 4,229,524	$ 4,572,452

C. Restricted Deposits and Investments with Trustees

All monies for restricted investments held by trustees are invested in “permitted investments” as defined in the various trust agreements. Restricted deposits with trustees are insured by FDIC up to $250 and the excess amounts are collateralized.

D. CalOptima’s Cash and Investments

The Organization categorizes its fair value investments within the fair value hierarchy established by GAAP. The hierarchy for fair value measurements is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

(Dollar Amounts in Thousands)

3. DEPOSITS AND INVESTMENTS (Continued)

D. CalOptima's Cash and Investments (Continued)

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly

Level 3 Significant unobservable inputs

The following is a description of the valuation methodologies used for instruments at fair value on a recurring basis and recognized in the accompanying consolidated statements of net position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Marketable Securities
Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. These securities are classified within Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following table presents the fair value measurements of assets recognized in the accompanying consolidated statements of net position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall:

	Investment Assets at Fair Value as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
U.S. Treasury Notes	$ 594,011	--	--	$ 594,011
Money Market Funds	14,232	34,972	--	49,203
Government	7,576	72,626	--	80,202
U.S. Agencies	--	202,911	--	202,911
Asset-backed Securities	--	115,567	--	115,567
Corporate Bonds	--	332,854	--	332,854
Mortgage-backed Securities	--	39,117	--	39,117
Municipal Bonds	--	67,822	--	67,822
Tax Exempt	--	70	--	70
	$ 615,819	$ 865,939	--	$ 1,481,758

Cash and investments are reported in the June 30 consolidated statements of net position as follows:

	2016
Current Assets:	
Cash and Cash Equivalents	$ 258,846
Investments	1,019,265
Board-Designated Assets and Restricted Cash:	
Cash and Cash Equivalents	10,132
Investments	465,714
Restricted Deposit	300
Total	$ 1,754,257

Custodial Credit Risk-Deposits
Custodial credit risk is the risk that in the event of a bank failure the Organization may not be able to recover its deposits or collateral securities that are in the possession of an outside party. The California Government Code requires that a financial institution secure deposits made by public agencies by pledging securities in an undivided collateral pool held by a depository regulated under the state law. At June 30, 2016, no deposits were exposed to custodial credit risk, as CalOptima has pledged collateral to cover the amounts.

(Dollar Amounts in Thousands)

3. DEPOSITS AND INVESTMENTS (Continued)

D. CalOptima's Cash and Investments (Continued)

Investments

CalOptima invests in obligations of the U.S. Treasury, other U.S. government agencies and instrumentalities, state obligations, corporate securities, money market funds, and mortgage or asset-backed securities.

Interest Rate Risk

In accordance with its Annual Investment Policy (investment policy), CalOptima manages its exposure to decline in fair value from increasing interest rates by matching maturity dates to the extent possible with CalOptima's expected cash flow draws. Its investment policy limits maturities to five years, while also staggering maturities. CalOptima maintains a low-duration strategy, targeting a portfolio duration of three years or less, with the intent of reducing interest rate risk. Portfolios with low duration are less volatile because they are less sensitive to interest rate changes.

As of June 30, 2016, CalOptima's investments, including cash equivalents, had the following modified duration:

			Investment Maturities (In Years)	
		Fair Value	Less Than 1	1-5
U.S. Agencies	$	207,912	$ 134,250	$ 73,661
Asset-Backed Securities		115,567	33,757	81,810
Corporate Bonds		342,562	182,151	160,411
Government		103,571	86,462	17,109
Money Market Funds		49,203	49,203	--
Mortgage-Backed Securities		39,117	4,572	34,545
Municipal Bonds		74,648	38,093	36,554
Tax Exempt		70	70	--
U.S. Treasury Notes		609,520	443,005	166,515
Cash Equivalents		145,777	102,544	43,233
Cash		2,435	2,435	--
Total	$	1,690,382	$ 1,076,544	$ 613,839
Accrued Interest Receivable		3,545		
	$	1,693,927		

Investment with Fair Values Highly Sensitive to Interest Rate Fluctuations

When interest rates fall, debt is refinanced and paid off early. The reduced stream of future interest payments diminishes the fair value of the investment. The mortgage-backed and asset-backed securities in the CalOptima portfolio are of high credit quality, with relatively short average lives that represent limited prepayment and interest rate exposure risk. CalOptima's investments include the following investments that are highly sensitive to interest rate and prepayment fluctuations to a greater degree than already indicated in the information provided above:

		Fair Value, June 30, 2016
Asset-Back Securities	$	115,567
Mortgage-Backed Securities		39,117
	$	154,684

(Dollar Amounts in Thousands)

3. DEPOSITS AND INVESTMENTS (Continued)

D. CalOptima's Cash and Investments (Continued)

Credit Risk
CalOptima's investment policy conforms to the California Government Code as well as to customary standards of prudent investment management. Credit risk is mitigated by investing in only permitted investments. The investment policy sets minimum acceptable credit ratings for investments from the three nationally recognized rating services: Standard and Poor's Corporation (S&P), Moody's Investor Service (Moody's) and Fitch Ratings (Fitch). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's) or F-1 (Fitch), while an issuer of long-term debt shall be rated no less than an "A."

As of June 30, 2016, following are the credit ratings of investments and cash equivalents:

Investment Type	Fair Value	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End AAA	Aa & Aa+	Aa-	A+	A/A-1	A-
U.S. Treasury Notes	$ 616,852	N/A	$ 616,852	$ -	$ -	$ -	$ -	$ -	$ -
U.S. Agency Notes	309,300	N/A	309,300	-	-	-	-	-	-
Corporate Bonds	291,879	A-	-	6,771	20,109	33,513	81,896	100,120	49,471
FRN Securities	109,241	A-	-	29,305	10,348	7,764	22,470	23,481	15,872
Asset-Backed Securities	124,658	AAA	-	87,933	15,579	15,523	1,836	3,787	-
Mortgage-Backed Securities	73,327	A	-	73,327	-	-	-	-	-
Municipal Bonds	36,798	AAA	-	4,763	17,751	12,010	2,274	-	-
Supranational	27,322	AAA	-	27,322	-	-	-	-	-
Commercial Paper	19,930	A1/P1	-	19,930	-	-	-	-	-
Money Market Mutual Funds	84,620	AAA	-	84,620	-	-	-	-	-
Total	$1,693,927		$ 926,152	$333,971	$ 63,787	$68,810	$108,476	$127,388	$65,343

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of CalOptima's investment in a single issuer. CalOptima's investment policy limits to no more than 5 percent of the total fair value of investments in the securities of any one issuer, except for obligations of the U.S. government, U.S. government agencies or government-sponsored enterprises; and no more than 10 percent may be invested in one money market mutual fund unless approved by the governing board. The investment policy also places a limit of 35 percent of the amount of investment holdings with any one government-sponsored issuer and 5 percent of all other issuers. At June 30, 2016, all holdings complied with the foregoing limitations. The following holdings exceeded 5 percent of the portfolio at June 30, 2016:

Investment Type	Issuer	Percentage of Portfolio 2016
U.S. Treasury Notes	United States Treasury	35.14

(Dollar Amounts in Thousands)

4. CHANGES IN CAPITAL ASSETS

Increases and decreases in the County's capital assets for governmental and business-type activities during the fiscal year were as follows:

	Primary Government				
	Balance July 1, 2015	Increases	Decreases	Adjustments	Balance June 30, 2016
Governmental Activities:					
Capital Assets Not Depreciated/Amortized:					
Land	$ 823,484	$ 10,922	$ --	$ --	$ 834,406
Land Use Rights (Permanent)	6,992	610	--	--	7,602
Construction in Progress	109,789	77,073	(67,998)	--	118,864
Intangible in Progress	857	3,058	--	(462)	3,453
Total Capital Assets Not Being Depreciated/Amortized	941,122	91,663	(67,998)	(462)	964,325
Capital Assets, Depreciable/Amortizable:					
Structures and Improvements	1,219,901	19,080	(3,368)	--	1,235,613
Land Improvements	485	2,144	--	--	2,629
Equipment	391,888	33,054	(6,836)	(466)	417,640
Software	109,737	419	--	--	110,156
Infrastructure:					
Flood Channels	1,215,274	38,617	(1,420)	(7,757)	1,244,714
Roads	230,161	8,417	--	--	238,578
Bridges	106,722	73	--	--	106,795
Trails	44,073	--	--	--	44,073
Traffic Signals	11,621	335	--	--	11,956
Harbors and Beaches	41,238	--	--	--	41,238
Total Capital Assets, Depreciable/Amortizable	3,371,100	102,139	(11,624)	(8,223)	3,453,392
Less Accumulated Depreciation/Amortization For:					
Structures and Improvements	(634,263)	(31,317)	2,298	--	(663,282)
Land Improvements	(12)	(181)	--	--	(193)
Equipment	(295,794)	(18,141)	6,292	--	(307,643)
Software	(63,148)	(8,295)	--	--	(71,443)
Infrastructure:					
Flood Channels	(302,465)	(16,022)	--	--	(318,487)
Roads	(123,557)	(10,976)	742	--	(133,791)
Bridges	(36,900)	(2,230)	--	--	(39,130)
Trails	(32,610)	(1,251)	--	--	(33,861)
Traffic Signals	(10,674)	(158)	--	--	(10,832)
Harbors and Beaches	(29,124)	(1,008)	--	--	(30,132)
Total Accumulated Depreciation/Amortization	(1,528,547)	(89,579)	9,332	--	(1,608,794)
Total Capital Assets, Depreciable/Amortizable (Net)	1,842,553	12,560	(2,292)	(8,223)	1,844,598
Governmental Activities Total Capital Assets, Net	$ 2,783,675	$ 104,223	$ (70,290)	$ (8,685)	$ 2,808,923

(Dollar Amounts in Thousands)

4. CHANGES IN CAPITAL ASSETS (Continued)

	Primary Government				
	Balance July 1, 2015	Increases	Decreases	Adjustments	Balance June 30, 2016
Business-Type Activities:					
Capital Assets Not Depreciated/Amortized:					
Land	$ 37,842	$ --	$ --	$ --	$ 37,842
Construction in Progress	74,088	48,128	(81,661)	--	40,555
Intangible in Progress	879	1,189	--	--	2,068
Total Capital Assets Not Being Depreciated/Amortized	112,809	49,317	(81,661)	--	80,465
Capital Assets, Depreciable:					
Structures and Improvements	766,047	16,187	--	--	782,234
Equipment	78,513	7,614	(4,150)	--	81,977
Software	1,010	397	--	--	1,407
Infrastructure	536,391	66,298	--	--	602,689
Total Capital Assets, Depreciable/Amortizable	1,381,961	90,496	(4,150)	--	1,468,307
Less Accumulated Depreciation/Amortization For:					
Structures and Improvements	(258,936)	(24,147)	--	--	(283,083)
Equipment	(56,515)	(5,518)	3,954	--	(58,079)
Software	(119)	(162)	--	--	(281)
Infrastructure	(344,024)	(14,376)	--	--	(358,400)
Total Accumulated Depreciation/Amortization	(659,594)	(44,203)	3,954	--	(699,843)
Total Capital Assets, Depreciable/Amortizable (Net)	722,367	46,293	(196)	--	768,464
Business-Type Activities Total Capital Assets, Net	$ 835,176	$ 95,610	$ (81,857)	$ --	$ 848,929

Depreciation/Amortization expense was allocated among functions of the primary government as follows:

Government Activities:	
General Government	$ 9,499
Public Protection	40,915
Public Ways and Facilities	15,653
Health and Sanitation	3,933
Public Assistance	4,710
Education	1,486
Recreation and Cultural Services	7,600
Internal Service Funds' Depreciation Expense Allocated to Various Functions	5,783
Total Governmental Activities Depreciation/Amortization Expense	89,579
Business-Type Activities:	
Airport	28,934
Waste Management	15,269
Total Business-Type Activities Depreciation/Amortization Expense	44,203
Total Depreciation/Amortization Expense	$ 133,782

4. CHANGES IN CAPITAL ASSETS (Continued)

Capital asset activity for the year ended June 30, 2016 includes the following adjustment amounts:

- Negative adjustment of $462 in Intangible Assets due to the capitalization of annual software support cost that should have been expensed in the prior year.
- Negative adjustment of $466 in Equipment due to prior years' accruals of non-capital expenses.
- Negative adjustment of $7,757 in Flood Channels Infrastructure due to a lawsuit settlement payout that resulted in the overstatement of a capital project.

Capital Asset Impairments:

The general governmental activity reported an impairment loss on the Statement of Activities related to the County building located at 601 N. Ross St., which is currently vacant. As part of the County of Orange Civic Center Facilities Master Plan, it is scheduled to be demolished in January 2017 during phase one. This building has a current net book value of $196. This amount was reported as a loss because the building's service utility has expired. No insurance recoveries were received for the building's impairment loss.

In addition, the general governmental activity reported an impairment loss of $765 on the Statement of Activities related to the County building located at 433 W. Civic Center Dr. This building was originally purchased to be used as the new Archives building; however, due to disrepair, the only use for the building has been to store records in the basement. Because only one of three floors is being utilized, the current value is impaired by 66%. No insurance recoveries were received for the building's impairment loss.

5. RECEIVABLES

GASB Statement No. 38, *"Certain Financial Statement Note Disclosures,"* requires identification of receivable balances not expected to be collected within one year. The details of the receivables reported in the government-wide Statement of Net Position that are not expected to be collected within the next fiscal year are identified below:

Accounts Receivable

Accounts Receivable had a balance of $26,117 as of June 30, 2016. Of this amount, $1,917 is not expected to be collected within the next fiscal year. This primarily consists of $1,513 for animal care delinquent invoices.

Deposits Receivable

Deposits Receivable had a balance of $4,767 as of June 30, 2016. Of this amount, $4,387 is not expected to be collected within the next fiscal year. This primarily consists of $2,883 in operating accounts for Dana Point Harbor operators and Green River Golf Course.

Due from Other Governmental Agencies

Due from Other Governmental Agencies had a balance of $429,675 as of June 30, 2016. Of this amount, $46,507 is not expected to be received within the next fiscal year, which primarily consists of $39,431 owed by the State of California to the County for various mandated cost reimbursements for programs and services the State requires the County to provide. $2,674 is for expected reimbursement for the Santa Ana River Subvention revenue claims to be submitted to the State Department of Water Resources and $3,295 is for behavioral health activities. In addition, $1,107 is owed by the City of Rancho Santa Margarita for amounts due under their Revenue Neutrality Agreement.

(Dollar Amounts in Thousands)

5. RECEIVABLES (Continued)

Notes Receivable

Notes Receivable had a balance of $27,900 as of June 30, 2016. Of this amount, $27,459 is not expected to be received within the next fiscal year. This primarily consists of $24,969 for loans to build affordable, low to moderate income, and senior housing and $2,030 is for housing loans for Mental Health Services Act (MHSA) programs. The remaining $460 is for loans provided to first time home buyers.

6. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables may result from services rendered by one fund to another fund, or from interfund loans. "Due from" and "due to" balances are generally used to reflect short-term interfund receivables and payables whereas "advance from" and "advance to" balances are long-term.

The composition of interfund balances as of June 30, 2016 is as follows:

Due from/to other funds:

	Receivable Funds							
Payable Funds	General Fund	Flood Control District	Other Public Protection	Other Governmental Funds	Waste Management	Compressed Natural Gas	Internal Service Funds	Total
General Fund	$ --	$ 723	$ 5,172	$ 24,763	$ 3,024	$ 2	$ 2,270	$ 35,954
Flood Control District	6,134	--	--	572	316	--	4	7,026
Other Public Protection	18,456	--	--	4	--	--	14	18,474
Mental Health Services Act	10,466	--	--	--	--	--	--	10,466
Other Governmental Funds	38,685	585	1	3,503	48	--	60	42,882
Airport	2,396	5	1	31	--	--	214	2,647
Waste Management	1,884	2	--	431	--	--	18	2,335
Compressed Natural Gas	20	252	--	--	--	--	--	272
Internal Service Funds	752	220	--	12	--	--	3	987
Total	$ 78,793	$ 1,787	$ 5,174	$ 29,316	$ 3,388	$ 2	$ 2,583	$ 121,043

Interfund transactions between the Primary Government and Component Unit:

Receivable Entity	Payable Entity	Amount
Primary Government – General Fund	Component Unit – Children and Families Commission of Orange County	$ 375
Component Unit – Children and Families Commission of Orange County	Primary Government – Other Governmental Funds	2

The majority of the interfund balances resulted from the time lag between the time that (1) goods and services were provided, (2) transactions were recorded in the accounting system, and (3) payments between the funds were made.

Advances to/from other funds:

Receivable Entity	Payable Entity	Amount
General Fund	Other Governmental Funds	$ 3,800
Waste Management	Other Governmental Funds	4,000
Waste Management	General Fund	1,567

(Dollar Amounts in Thousands)

6. INTERFUND RECEIVABLES AND PAYABLES (Continued)

The interfund loans represent an advance to the Courthouse Construction Fund from the General Fund to backfill the deficit as a result of a state audit of court revenues for FY 2003-04 through FY 2011-12. The Waste Management Fund made advances to the General Fund for various information technology capital projects and to Other Governmental Funds for the Sheriff-Coroner's James A. Musick Facility Expansion project, which was approved by the Board on December 11, 2012 to expand the Jame A. Musick Facility jail by more than 500 beds. The Sheriff-Coroner will repay all borrowed funds to the Waste Management Fund within the required three-year period.

7. COUNTY PROPERTY ON LEASE TO OTHERS

The County has noncancelable operating leases for certain buildings, which are not material to the County's general operations. The Airport Enterprise Fund derives a substantial portion of its revenues from noncancelable operating leases with air carriers and concessionaires, and the Waste Management Enterprise Fund derives revenue from landfill gas lease agreements, cell tower operators and a material recovery facility. The Enterprise Funds' property under operating leases, consisting primarily of structures and improvements, at June 30, 2016, approximates $57,273, net of accumulated depreciation.

The County leases real property to others under operating lease agreements for recreational boating, retail, restaurant, and other commercial operations. Future minimum rentals to be received under these noncancelable operating leases as of June 30, 2016 are as follows:

Fiscal Year Ending June 30	Governmental Activities	Business-type Activities
2017	$ 13,601	$ 28,610
2018	13,317	25,963
2019	12,469	16,991
2020	11,988	10,804
2021	10,945	10,690
	62,320	93,058
2022-2026	50,597	14,774
2027-2031	47,387	12,368
2032-2036	50,550	3,153
2037-2041	34,662	--
2042-2046	3,892	--
2047-2048	223	--
	187,311	30,295
Total future minimum rentals	$ 249,631	$ 123,353

Total contingent rentals, which arise primarily from a percentage of lessee's gross revenues, amounted to approximately $32,383 (Enterprise Funds), $5,597 (Other Governmental Funds), $631 (Internal Service Funds) and $336 (Flood Control District) for the year ended June 30, 2016.

(Dollar Amounts in Thousands)

8. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2016 were as follows:

	Transfer In Funds					
Transfer Out Funds	General Fund	Flood Control District	Other Public Protection	Other Governmental Funds	Internal Service Funds	Total
General Fund	$ --	$ --	$ 11,541	$ 123,717	$ 10,399	$ 145,657
Flood Control District	2,017	--	--	1,300	1,136	4,453
Other Public Protection	28,183	--	--	85	715	28,983
Mental Health Services Act	115,081	--	--	--	--	115,081
Other Governmental Funds	80,299	--	--	12,181	719	93,199
Waste Management	21,238	--	--	--	29	21,267
Compressed Natural Gas	--	251	--	--	--	251
Internal Service Funds	843	216	--	--	10	1,069
Total	$ 247,661	$ 467	$ 11,541	$ 137,283	$ 13,008	$ 409,960

Interfund transfers reflect a flow of assets between funds and blended component units of the primary government without an equivalent flow of assets in return. Routine transfers were made in the current fiscal year to (1) relay cash/resources from contributing County funds to various debt service funds for the retirement of long-term obligations, (2) transfer Measure H Tobacco Settlement revenues and Public Safety Sales Tax (PSST) excess revenue in compliance with the specific statutory requirements, (3) provide resources for services provided within the County's Wraparound Program, (4) make available cash distributions based on the Bankruptcy Recovery Plan, (5) contribute resources to comply with Proposition 63 Mental Health Services Act, and (6) transfer excess unrestricted revenues to finance various County programs based on budgetary authorizations by the Board. The details of the significant transfers are outlined below:

<u>Routine Transfers</u>

From the General Fund

- $51,274 was transferred to Other Governmental Funds in connection with debt service payments for various County debt issues.
- $14,445 was transferred to Other Governmental Funds to finance the County's 60 percent share of the Social Services Agency Wraparound Program.
- $11,222 was transferred to Other Governmental Funds to distribute available cash to the remaining claimants of the bankruptcy loss as part of the Bankruptcy Recovery Plan.
- $10,505 was transferred to Other Governmental Funds for the maintenance and repair of various Probation Criminal Justice Facilities and Multipurpose Rehabilitation Center.
- $5,753 was transferred to Other Public Protection for the purchase of new equipment for the 800 MHz County-wide Coordination Communication system.
- $5,083 was transferred to Internal Service Funds primarily for the purchase of Sheriff-Coroner vehicles.
- $2,680 was transferred to Other Public Protection for the annual transfer of PSST excess revenue to meet future public protection needs.
- $1,052 was transferred to Internal Service Funds for medical reimbursements.

From Flood Control District

- $2,017 was transferred to the General Fund for the Watershed Management Program.

From Other Public Protection

- $10,948 was transferred to the General Fund for the reimbursement of various District Attorney programs, such as Proposition 64 Consumer Protection Fund, Real Estate Fraud, Orange County Auto Theft Task Force (OCATT), and Supplemental Law Enforcement Services Fund (SLESF).
- $9,373 was transferred to the General Fund to support the Sheriff-Coroner Department's operations.

8. INTERFUND TRANSFERS (Continued)

Routine Transfers (Continued)

- $3,799 was transferred to the General Fund for the reimbursement of qualifying Public Protection expenditures incurred by the Clerk-Recorder Department.
- $2,914 was transferred to the General Fund for the Sheriff-Coroner's Backbone Cost Sharing Program.

From Mental Health Services Act
- $115,081 was transferred to the General Fund for qualifying Proposition 63 Mental Health Services Act expenditures.

From Other Governmental Funds
- $35,620 was transferred to the General Fund for the reimbursement of various County programs as follows:
  - $21,436 for the Social Services Agency Wraparound Program
  - $7,973 for Emergency Medical Services
  - $5,074 for the Center for Disease Control pandemic flu H1N1 costs
  - $1,137 for the Alcohol & Drug Assessment and Automated Vital Health Statistics program
- $25,529 of tobacco settlement monies was transferred to the General Fund to finance Health Care Agency's various health care programs and Sheriff-Coroner Department's operational costs.
- $4,981 was transferred to the General Fund for reimbursement of Juvenile Justice Center debt service payments.
- $2,401 was transferred to the General Fund for reimbursement of debt service obligations associated with parking facilities.

From Enterprise Funds
- $21,238 was transferred from Waste Management to the General Fund primarily to pay bankruptcy related obligations in accordance with the County's comprehensive recovery plan.

In addition, the County had non-recurring transfers in the current fiscal year, which consisted of the following:

Non-Recurring Transfers

From the General Fund
- $25,999 was transferred to Other Governmental Funds for various capital projects including, the year-round homeless shelter and the purchase of the Santa Ana Transit Terminal. In addition, transfers for Sheriff-Coroner one-time equipment purchases and funding the automated jail system were made.
- $5,016 was transferred to Other Governmental Funds to reimburse for Sheriff-Coroner construction and facility development projects.
- $5,000 was transferred to Other Governmental Funds for the OC Animal Care Shelter project.
- $3,665 was transferred to Internal Service Funds for various data systems development projects.
- $1,820 was transferred to Other Public Protection to fund a mass notification system and to purchase kitchen appliances and equipment for the Inmate Services division.

From Flood Control District
- $1,300 was transferred to the Other Governmental Funds for the Coyote Creek Bikeway Project.
- $1,136 was transferred to Internal Service Funds for the centralization of the purchasing of light-duty vehicles.

From Other Public Protection
- $1,054 was transferred to the General Fund to cover the shortfall of state and federal appropriations over department expenditures in Child Support Services.

(Dollar Amounts in Thousands)

8. INTERFUND TRANSFERS (Continued)

Non-Recurring Transfers (Continued)

From Other Governmental Funds

- $10,820 was transferred to Other Governmental Funds for the Central Utility Facility (CUF) Infrastructure upgrade.
- $7,726 was transferred to the General Fund for unspent funding for multi-year capital projects for re-budgeting in the next fiscal year.
- $3,482 was transferred to the General Fund for the purchase of a year-round temporary homeless shelter and multi-service center.

9. SHORT-TERM OBLIGATIONS

Taxable Pension Obligation Bonds, 2015 Series A

On January 13, 2015, the County issued Taxable Pension Obligation Bonds, 2015 Series A (the 2015 POBs) in the principal amount of $339,625. The 2015 POBs were issued in order to prepay the County's FY 2015-16 pension contribution at a discount. The 2015 POBs were issued as standard bonds, with five fixed rate tranches, and with a final maturity date of June 30, 2016. The obligation of the County to pay principal and interest on the 2015 POBs is imposed by law and is absolute and unconditional. The County repaid in full the outstanding balance of the bonds on June 30, 2016.

Taxable Pension Obligation Bonds, 2016 Series A

On January 13, 2016, the County issued Taxable Pension Obligation Bonds, 2016 Series A (the 2016 POBs) in the principal amount of $334,275. The 2016 POBs were issued in order to prepay the County's FY 2016-17 pension contribution at a discount. The 2016 POBs were issued as standard bonds, with five fixed rate tranches, and with a final maturity date of June 30, 2017. The obligation of the County to pay principal and interest on the 2016 POBs is imposed by law and is absolute and unconditional. As of June 30, 2016, the outstanding principal amount of the 2016 POBs reported in the General Fund was $334,275. Refer to Note 3, Deposits and Investments and Note 17, Retirement Plans for additional information.

Description	Balance July 1, 2015	Issuances & Discount/ Premium Amortization	Retirements	Balance June 30, 2016	Amounts Due within One Year
County of Orange Taxable Pension Obligation Bonds, 2015 Series A					
Date Issued: January 13, 2015					
Interest Rate: 0.425% to 0.800%					
Original Amount: $339,625					
Maturing in installments through June 30, 2016	$ 339,625	$ --	$ (339,625)	$ --	$ --
County of Orange Taxable Pension Obligation Bonds, 2016 Series A					
Date Issued: January 13, 2016					
Interest Rate: 0.753% to 1.208%					
Original Amount: $334,275					
Maturing in installments through June 30, 2017	--	334,275	--	334,275	334,275
Total	$ 339,625	$ 334,275	$ (339,625)	$ 334,275	$ 334,275

10. LONG-TERM OBLIGATIONS

General Bonded Debt

General Obligation Bonded Debt

The amount of general obligation bonded indebtedness the County can incur is limited by law to 1.25% of the last equalized assessment property tax roll. At June 30, 2016, the County had no net general obligation bonded debt. The County's legal debt limit for the year was $6,308,130. In order for the County to issue general obligation bonds secured by ad valorem taxes on real property, California Constitution Article XIIIA, Section 1 requires the approval of 2/3 of the voters voting on the proposition.

Bankruptcy Obligations

Lease Revenue Refunding Bonds, Series 2005

On August 16, 2005, the Orange County Public Financing Authority (OCPFA) issued its $419,755 Lease Revenue Refunding Bonds Series 2005 (Series 2005 Bonds) at a premium of $19,973. The proceeds of which, together with certain monies contributed by the County and other funds available to the trustee of the 1996 Recovery Certificates of Participation (Recovery COPs), were used to defease certain non-callable Recovery COPs, the remainder was used to fund a debt service reserve fund for the Series 2005 Bonds, and pay costs of issuance of the Series 2005 Bonds. As of June 30, 2016, the outstanding principal amount, including the premium of the Series 2005 Bonds, and remaining interest were $46,706 and $1,332, respectively.

The Series 2005 Bonds are limited obligations of the OCPFA payable through July 2017 and are payable solely from base rental payments to be made by the County pursuant to a lease, dated as of August 1, 2005, between the OCPFA and the County, and other amounts held by the trustee in the funds and accounts established under the indenture (other than the rebate fund), except as otherwise provided in the indenture.

Revenue Bonds Payable and Certificates of Participation

Refunding Certificates of Participation (Civic Center Parking Facilities Project)

In December 1987, Certificates of Participation (COPs) representing the proportionate interests of the owners thereof in lease payments made by the County under lease agreements between the County and the Orange County Public Facilities Corporation were delivered. The proceeds were used to finance the acquisition, construction, and installation of two parking structures located in the City of Santa Ana. These certificates were refunded in August 1991 with the $33,579 Refunding COPs (Civic Center Parking Facilities Project), which are payable through December 2018. At June 30, 2016, the outstanding principal amount, interest accretion, and unaccreted interest of the Refunding COPs were $1,262, $5,545 and $999, respectively.

The Refunding COPs are secured by lease payments made by the County through a facilities lease with the Orange County Public Facilities Corporation.

Lease Revenue Refunding Bonds, Series 2012 (Juvenile Justice Center Facility)

On April 25, 2012, the South Orange County Public Financing Authority (SOCPFA) issued the Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2012 Bonds, in the principal amount of $34,380, payable through June 2019, with a premium of $2,927. The Lease Revenue Refunding Bonds were issued to redeem the outstanding OCPFA Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2002, fund a Reserve Fund, and pay costs relating to the issuance of the bonds. As of June 30, 2016, the outstanding principal amount, including the premium of the Series 2012 Bonds, and remaining interest were $17,576 and $1,452, respectively.

The bonds are special obligations of the SOCPFA payable solely from and secured by the base rental payments to be made by the County pursuant to a lease, dated as of April 1, 2012, between the SOCPFA and the County,

10. LONG-TERM OBLIGATIONS (Continued)

Revenue Bonds Payable and Certificates of Participation (Continued)

Lease Revenue Refunding Bonds, Series 2012 (Juvenile Justice Center Facility) (Continued)

and other amounts held by the trustee in the funds and accounts established under the indenture (other than the rebate fund), except as otherwise provided in the indenture.

Lease Revenue Bonds, Series 2006

On October 19, 2006, the OCPFA issued its $32,700 Lease Revenue Bonds, Series 2006 (Series 2006 Bonds) at a premium of $2,140. The Lease Revenue Bonds, payable through June 2018, were issued to finance the construction of a cogeneration conversion project at the County's Central Utility Facility, fund a debt service reserve fund for the bonds, and pay costs relating to the issuance of the bonds. As of June 30, 2016, the outstanding principal amount, including the premium of the Series 2006 Bonds, and remaining interest were $8,574 and $591, respectively.

The bonds are limited obligations of the OCPFA payable solely from, and secured solely by revenues of the Authority, consisting primarily of certain rental payments to be made by the County pursuant to and as defined in the lease.

Taxable Refunding Pension Obligation Bonds, Series 1996A and 1997A

In September 1994, the County issued its Taxable Pension Obligation Bonds, Series 1994A in the aggregate principal amount of $209,840 and Series 1994B in the aggregate principal amount of $110,200 (Series 1994 Pension Bonds). The Series 1994 Pension Bonds were partially refunded with proceeds of the County's Taxable Refunding Pension Obligation Bonds, Series 1996A and Series 1997A.

On May 11, 2000, a cash tender offer of certain outstanding Pension Obligation Bonds was completed. The County purchased and canceled $288,290 (maturity value) of Pension Obligation Bonds for a cost of $179,016. On June 22, 2000, the debt service on the outstanding Pension Obligation Bonds was provided for through the deposit with the trustee of $175,492 principal amount of "AAA" rated debt securities issued by Fannie Mae, along with $9,151 in debt service funds already being held by the trustee. In accordance with irrevocable instructions, these securities, together with other cash amounts and investments held by the trustee, will be used solely to retire the remaining Pension Obligation Bonds as they mature. Because this was an economic defeasance and not a legal defeasance, this debt will be reported in the County's financial statements until it is fully redeemed. As of June 30, 2016, the outstanding principal amounts for the Series 1996A and 1997A Pension Bonds were $5,071 and $14,069, respectively and the interest accretion balances were $19,951 and $48,430, respectively. The unaccreted interest amounts for the Series 1996A and 1997A Pension Bonds were $1,034 and $14,106, respectively.

Airport Revenue Bonds, Series 2009A and 2009B

On July 9, 2009, the Airport issued the Airport Revenue Bonds, Series 2009A and 2009B (2009A and 2009B Bonds) in the aggregate principal amount of $233,115, with an original issue net premium of $288 and interest rates ranging from 3.00% to 5.75%. The 2009A and 2009B Bonds were issued to finance a portion of the Airport Improvement Program (AIP), fund the debt service requirement for the bonds, fund capitalized interest on a portion of the bonds and pay costs relating to the issuance of the bonds. The AIP consists of numerous direct improvements to the Airport facilities such as the construction of the new Terminal C, Parking Structure C and two new commuter/regional holdrooms at the north and south ends of the extended Terminal. For the year ended June 30, 2016, the total interest expense incurred and the amount included as part of the cost of capital assets under construction were $9,975 and $870, respectively. As of June 30, 2016, the outstanding principal amount, including net discount, of the 2009A and 2009B Bonds were $59,664 and $135,463, respectively. The interest expense of the 2009A and 2009B Bonds for the year ended June 30, 2016 were $3,094 and $7,085, respectively, including accrued interest of $1,547 and $3,543, respectively.

10. LONG-TERM OBLIGATIONS (Continued)

Revenue Bonds Payable and Certificates of Participation (Continued)

Airport Revenue Bonds, Series 2009A and 2009B (Continued)

The 2009A and 2009B Bonds are secured by a pledge of (1) operating revenues, net of specified operating expenses, (2) interest earnings, (3) other miscellaneous revenue, and (4) available PFC revenue. The 2009A and 2009B Bonds are payable through July 2039. For each fiscal year, the pledged net operating revenues are expected to be a minimum of 125% of the aggregate debt service requirement over the life of the bonds. For the year ended June 30, 2016, the total principal and interest paid and total net revenues were $17,543 and $60,828, respectively. The total net revenues include $11,197 available PFC revenue for the year ended June 30, 2016.

Advance Refunding

In prior years, various bonds, COPs and other obligations have been advance refunded. These obligations are considered defeased, and the long-term debt liability has been removed from the related governmental funds and enterprise funds. As of June 30, 2016, $9,780 of legally defeased debt remains outstanding.

Fiscal Year 2015-16 Debt Obligation Activity

During FY 2015-16, the following events concerning County debt obligations took place:

Central Utility Facility Lease Revenue Bonds, Series 2016

On June 2, 2016, the SOCPFA issued its $56,565 Lease Revenue Bonds, Series 2016 at a premium of $11,724. The Lease Revenue Bonds, payable through April 2036, were issued to finance the acquisition, construction and installation of certain capital improvements to be owned by the County, and pay costs relating to the issuance of the bonds. As of June 30, 2016, the outstanding principal amount, including the premium of the Series 2016 Bonds, and remaining interest were $68,289 and $33,190, respectively.

The bonds are special obligations of the SOCPFA payable from and secured by the base rental payments to be made by the County under the lease and the amounts held in all funds and accounts (other than the rebate fund) under the indenture.

Teeter Plan Notes

On February 1, 2013, the County issued its three-year tax exempt Teeter Plan Notes, Series B with Wells Fargo Municipal Capital Strategies, LLC and Wells Fargo Bank, National Association, under the Note Purchase and Reimbursement Agreement. The Teeter Plan Notes are authorized for a total amount of $150,000, and certain delinquent taxes (excluding penalties and interest) are pledged revenues for the Teeter Plan Notes. The rate for the Teeter Plan Notes will be based on the weekly Securities Industry and Financial Markets Association (SIFMA) index plus 0.58%. All of the Teeter Plan Notes will be issued within three years of February 1, 2013, with a maturity date of January 29, 2016. The total amount of the notes issued on February 1, 2013 was $57,935, which reflects the issuance of the Teeter Plan Notes and the establishment of a Cost of Issuance Fund in the amount of $188. As of July 1, 2015, the outstanding balance was $33,823.

On July 15, 2015, the County issued an additional $30,542 in Teeter Plan Notes to finance the purchase of the delinquent property tax receivables associated with the Teeter Plan, leaving an outstanding balance of $64,365. Proceeds of this issuance paid the participating agencies in the Teeter Plan the full amount of their taxes from the secured property tax roll.

10. LONG-TERM OBLIGATIONS (Continued)

Fiscal Year 2015-16 Debt Obligation Activity (Continued)

Teeter Plan Notes (Continued)

On December 30, 2015, the County used all of the accumulated base taxes to redeem $23,978 of the Teeter Plan Notes. The outstanding principal amount of the Teeter Plan Notes was $40,387, maturing January 29, 2016.

On January 29, 2016, the Note Purchase and Reimbursement Agreement was extended upon mutual agreement between Wells Fargo and the County. In addition, the authorized total was revised to not exceed $100,000 and all other terms and conditions in the Agreement remained unchanged. Teeter Plan Obligation Notes, Series B were issued for $40,387 to retire the old Teeter Notes maturing January 29, 2016. The new Notes have a maturity date of July 31, 2018. The outstanding amount of the Teeter Plan Notes was $40,387.

On June 28, 2016, the County used all of the accumulated base taxes to redeem $10,196 of the Teeter Plan Notes. As of June 30, 2016, the outstanding principal amount of the Teeter Plan Notes was $30,191. For additional information regarding the Teeter Plan Notes, refer to Note 20, Subsequent Events.

(Dollar Amounts in Thousands)

10. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2015-16

The table below summarizes the revenue bonds and certificates outstanding and related activity for the year ended June 30, 2016.

Description	Balance July 1, 2015	Issuances and Discount/ Premium Amortization	Accreted Interest	Retirements	Balance June 30, 2016	Amounts Due within One Year
Governmental Activities:						
Orange County Public Financing Authority Lease Revenue Refunding Bonds, Series 2005						
Date Issued: August 16, 2005 to Refund and Defease the 1996 Recovery Certificates of Participation - Series 1996A						
Interest Rate: 3.00% to 5.75%						
Original Amount: $419,755						
FY 2015-16 Principal and Interest: $24,453						
FY 2015-16 Total Pledged Revenues: $44,418						
Maturing in installments through July 1, 2017	$ 70,388	$ (1,892)	$ --	$ (21,790)	$ 46,706	$ 40,668
Orange County Public Facilities Corporation, Refunding Certificates of Participation (Civic Center Parking Facilities Project)						
Date Issued: August 1, 1991 - Current Interest Rate Bonds (CIB) and Capital Appreciation Bonds (CAB) to Refund the 1987 COPs Bond Issue						
Interest Rate: CIB - 4.40% to 6.75%						
Interest Rate: CAB - 6.85% to 7.05%						
Original Amount: CIB - $24,495						
Original Amount: CAB - $9,084						
FY 2015-16 Principal and Interest: $2,603						
FY 2015-16 Total Pledged Revenues: $2,470						
Maturing in Installments Through December 1, 2018	1,744	--	--	(482)	1,262	451
Interest Accretion on CAB	7,036	--	630	(2,121)	5,545	2,157
South Orange County Public Financing Authority Juvenile Justice Center Facility Lease Revenue Refunding Bonds - Series 2012						
Date Issued: April 25, 2012 to refund the 2002 Juvenile Justice Center Bonds issue						
Interest Rate: 1.00% to 5.00%						
Original Amount: $34,380						
FY 2015-16 Principal and Interest: $5,826						
FY 2015-16 Total Pledged Revenues: $5,557						
Maturing in installments through June 1, 2019	22,946	(450)	--	(4,920)	17,576	5,683
South Orange County Public Financing Authority Central Utility Facility Lease Revenue Bonds, Series 2016						
Date Issued: June 2, 2016						
Interest Rate: 3.00% to 5.00%						
Original Amount: $56,565						
FY 2015-16 Principal and Interest: $0						
FY 2015-16 Total Pledged Revenues: $5,557						
Maturing in installments through April 1, 2036	--	68,289	--	--	68,289	2,264
Orange County Public Financing Authority Lease Revenue Bonds, Series 2006						
Date Issued: October 19, 2006						
Interest Rate: 4.00% to 5.00%						
Original Amount: $32,700						
FY 2015-16 Principal and Interest: $4,202						
FY 2015-16 Total Pledged Revenues: $44,418						
Maturing in installments through June 1, 2018	12,546	(342)	--	(3,630)	8,574	4,178

(Dollar Amounts in Thousands)

10. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2015-16 (Continued)

Description	Balance July 1, 2015	Issuances and Discount/ Premium Amortization	Accreted Interest	Retirements	Balance June 30, 2016	Amounts Due within One Year
County of Orange Taxable Refunding Pension Obligation Bonds - Series 1996 A:						
Date Issued: June 1, 1996 - Current Interest Rate Bonds (CIB)						
Date Issued: June 12, 1996 - Capital Appreciation Bonds (CAB)						
To Refund the Taxable POBs Series 1994 B						
Interest Rate: CIB - 7.47% to 7.72%						
Interest Rate: CAB - 8.09% to 8.26%						
Original Amount: CIB - $81,680						
Original Amount: CAB - $40,000						
Maturing in installments through September 1, 2010 (CIB) and September 1, 2016 (CAB)	$ 11,015	$ --	$ --	$ (5,944)	$ 5,071	$ 5,071
Interest Accretion on CAB	39,010	--	3,056	(22,115)	19,951	20,984
County of Orange Taxable Refunding Pension Obligation Bonds - Series 1997 A:						
Date Issued: January 1, 1997 - Current Interest Rate Bonds (CIB)						
Date Issued: January 14, 1997 - Capital Appreciation Bonds (CAB)						
To Refund the Taxable POBs Series 1994 A						
Interest Rate: CIB - 5.71% to 7.36%						
Interest Rate: CAB - 7.33% to 7.96%						
Original Amount: CIB - $71,605						
Original Amount: CAB - $65,318						
Maturing in installments through September 1, 2010 (CIB) and September 1, 2021 (CAB)	16,212	--	--	(2,143)	14,069	2,849
Interest Accretion on CAB	50,257	--	5,026	(6,853)	48,430	10,214
County of Orange Teeter Plan Notes						
Date of Original Issuance: February 1, 2013						
Interest Rate: SIFMA Index + 0.58%						
Original Amount: $57,935	33,823	30,542	--	(64,365)	--	--
Maturing on January 29, 2016						
Date of Issuance: January 29, 2016						
Interest Rate: SIFMA Index + 0.58%						
Original Amount: $40,387	--	40,387	--	(10,196)	30,191	--
Maturing on July 31, 2018						
Subtotal - Governmental Activities	264,977	136,534	8,712	(144,559)	265,664	94,519
Business-Type Activities						
Airport Revenue Bonds - Series 2009A and 2009B:						
Date Issued: July 9, 2009						
Interest Rate: 3.00% to 5.75%						
Original Amount: $233,115						
FY 2015-16 Principal and Interest: $17,543						
FY 2015-16 Total Pledged Revenues: $60,828						
Maturing in Installments Through July 1, 2039	202,536	(204)	--	(7,205)	195,127	7,656
Subtotal - Business-Type Activities	202,536	(204)	--	(7,205)	195,127	7,656
Total	$ 467,513	$ 136,330	$ 8,712	$ (151,764)	$ 460,791	$ 102,175

(Dollar Amounts in Thousands)

10. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Service Requirements to Maturity

The following is a schedule of all long-term debt service requirements to maturity by fund type on an annual basis.

	Governmental Activities		Business-Type Activities		
Fiscal Year(s) Ending June 30	**Principal**	**Interest**	**Principal**	**Interest**	**Total**
2017	$ 56,941	$ 37,916	$ 7,530	$ 9,999	$ 112,386
2018	20,177	17,663	7,880	9,622	55,342
2019	40,284	17,898	8,275	9,239	75,696
2020	4,453	14,533	8,655	8,836	36,477
2021	4,506	15,481	9,085	8,392	37,464
2022-2026	12,448	13,537	52,940	34,131	113,056
2027-2031	15,230	7,215	56,950	18,655	98,050
2032-2036	19,424	3,009	22,815	9,137	54,385
2037-2040	--	--	22,939	2,485	25,424
Total	173,463	127,252	197,069	110,496	608,280
Add: Premium/(Discount)	18,275	--	(1,942)	--	16,333
Add: Interest Accretion on CAB	73,926	--	--	--	73,926
Total	$ 265,664	$ 127,252	$ 195,127	$ 110,496	$ 698,539

Changes in Long-Term Liabilities

Long-term liability activities for the year ended June 30, 2016, were as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due within One Year
Governmental Activities:					
Bonds, COPs and Notes Payable:					
Revenue Bonds	$ 96,645	$ 56,565	$ (30,340)	$ 122,870	$ 48,570
Certificates of Participation	1,744	--	(482)	1,262	451
Pension Obligation Bonds	27,227	--	(8,087)	19,140	7,920
Teeter Plan Notes	33,823	70,929	(74,561)	30,191	--
Add: Premium/(Discount) on Bonds Payable	9,235	11,724	(2,684)	18,275	4,223
Total Bonds, COPs, and Notes Payable	168,674	139,218	(116,154)	191,738	61,164
Interest Accretion on CAB	96,303	8,712	(31,089)	73,926	33,355
Other Long-Term Liabilities:					
Compensated Employee Absences Payable	174,386	157,504	(146,942)	184,948	103,758
Arbitrage Rebate Payable	856	230	(853)	233	--
Capital Lease Obligations Payable *	79,168	254	(11,494)	67,928	12,098
Insurance Claims Payable	207,577	119,994	(108,075)	219,496	60,214
SARI Line Loans	36,277	--	(8,255)	28,022	5,365
Estimated Liability - Litigation and Claims	145,500	--	(15,500)	130,000	25,000
Capital Asset Obligation	155	110	(194)	71	--
Total Other Long-Term Liabilities	643,919	278,092	(291,313)	630,698	206,435
Total Long-Term Liabilities ** For Governmental Activities	$ 908,896	$ 426,022	$ (438,556)	$ 896,362	$ 300,954

* Includes amount of $13,800 from an Internal Service Fund, for additional information refer to Note 12, Leases.

** The total long-term liabilities do not include Net Pension Liability. Refer to Note 17 for additional information on the Net Pension Liability.

(Dollar Amounts in Thousands)

10. LONG-TERM OBLIGATIONS (Continued)

Changes in Long-Term Liabilities (Continued)

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due within One Year
Business-Type Activities:					
Bonds Payable:					
Revenue Bonds	$ 204,274	$ --	$ (7,205)	$ 197,069	$ 7,530
Add: Premium/(Discount) on Bonds Payable	(1,738)	--	(204)	(1,942)	126
Total Revenue Bonds Payable, Net	202,536	--	(7,409)	195,127	7,656
Other Long-Term Liabilities:					
Compensated Employee Absences Payable	4,889	4,009	(4,105)	4,793	2,550
Landfill Site Closure/Postclosure Liabilities *	159,045	4,289	(2,659)	160,675	2,659
Pollution Remediation Obligation **	12,732	18	(566)	12,184	449
Capital Asset Obligation	--	261	--	261	108
Total Other Long-Term Liabilities	176,666	8,577	(7,330)	177,913	5,766
Total Long-Term Liabilities * For Business-Type Activities**	$ 379,202	$ 8,577	$ (14,739)	$ 373,040	$ 13,422

* Refer to Note 13 for additional information regarding the increase in Landfill Site Closure/Post Closure Liabilities.
** Refer to Note 16 for additional information regarding the decrease in Pollution Remediation Obligation.
*** The total long-term liabilities do not include Net Pension Liability. Refer to Note 17 for additional information on the Net Pension Liability.

Compensated Employee Absences

The estimated compensated employee absences payable for governmental activities recorded at June 30, 2016 is $184,948. Employees are entitled to be paid annual leave, compensated time, and in some cases vacation and sick time depending on job classification, length of service, and other factors. For the governmental funds, most of the compensated absences liability will ultimately be paid from the General Fund.

OC Flood Control District, Santa Ana Regional Interceptor (SARI) Line Loans

On June 12, 2007, the Board approved a financing agreement between the Orange County Flood Control District (OCFCD) and Orange County Sanitation District (OCSD) for an amount equivalent to 60% ($60,000) of an estimated total project cost of $100,000. Concurrently, the Board also approved a financing agreement between the OCFCD and the Santa Ana Watershed Project Authority (SAWPA) for an amount equivalent to 10% ($10,000) of the total project cost. The loan proceeds will be used for the relocation of the SARI Line between Prado Dam and Weir Canyon Road for the following public benefits: protection of the sewer line from erosion, increased Prado Dam water releases, protection of the water supply, and uninterrupted use of the sewer line by residents. Subsequently, the agreements were amended to reflect the actual total project cost based on the awarded construction contracts. The SARI Line Project cost is not expected to exceed $85,560 plus 15% contingencies in the amount of $12,834 for a total of $98,394. The OCFCD would contribute the remaining 30% ($29,518) that would be expended to complete the SARI Line Project. As part of the terms of the agreement, the OCFCD agrees to pay SAWPA and OCSD as State subvention funding for the SARI Line Project is received by OCFCD. Repayment installments will be made within 30 days of OCFCD's receipt of State subvention funding in an amount equivalent to 10% of the funds received being paid to SAWPA and 60% of the funds received being paid to OCSD. The OCFCD is required to repay the entire loan to OCSD and SAWPA no later than July 1, 2022, regardless of whether OCFCD receives any State subvention funds for the SARI Line Project. For funds loaned by OCSD, interest shall accrue on the unpaid balance from July 1, 2018, at an annual interest rate of 2% until the unpaid balance is repaid. As for funds loaned by SAWPA, interest shall accrue on any such unpaid balance from July 1, 2018, at the State of California Local Agency Investment Fund interest rate in effect on July 1, 2018. To date, OCFCD received a $51,336 (60%) loan from OCSD and $8,556 (10%) from SAWPA based on the total project cost excluding contingencies. In May 2011,

10. LONG-TERM OBLIGATIONS (Continued)

OC Flood Control District, Santa Ana Regional Interceptor (SARI) Line Loans (Continued)

the Board awarded the construction contract for the SARI Yorba Linda Spur in the amount of $7,210, and the Board awarded the construction contract for the SARI Mainline in the amount of $42,000 in August 2011. In February 2013, construction of the SARI Yorba Linda Spur was completed and the total amount paid to the contractor was $7,067. Construction of the SARI Mainline was completed on August 17, 2015 and the total amount paid to the contractor was $38,511. As of June 30, 2016, the total outstanding loan principal was $28,022.

Special Assessment District Bonds

Special Assessment District Bonds consist of Assessment District Bonds and Community Facilities District Bonds.

Assessment District Bonds are issued pursuant to provisions of the Improvement Bond Act of 1915 (Division 10 of the California Streets and Highways Code). Proportionate shares of principal and interest installments sufficient in aggregate to meet annual bond debt service requirements are included on the regular County tax bills sent to owners of property against which there are unpaid assessments. Neither the faith and credit nor the taxing power of the County, the State, or any political subdivision thereof is pledged to the payment of the bonds. Assessment District Bonds represent limited obligations of the County payable solely from special assessments paid by property owners within each district. Accordingly, such obligations are not included in the accompanying basic financial statements.

Community Facilities District Bonds are issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, and are payable from a portion of certain special taxes to be levied on property within the boundaries of the Community Facilities District. Except for the special taxes, no other taxes are pledged to the payment of the bonds. The bonds are not general or special obligations of the County nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the special tax fund. Accordingly, such obligations are not included in the accompanying basic financial statements.

The County is acting as an agent of the assessment and community facilities districts in collecting the assessments and special taxes, forwarding the collections to other paying agents or directly to bondholders, and initiating any necessary foreclosure proceedings. Because of the County's limited obligation in connection with special assessment district and community facilities district debt, related transactions are reflected in Agency Departmental Funds. Major capital outlay expenditures relating to these bonds are accounted for in the "Service Areas, Lighting Maintenance and Assessment Districts" Special Revenue Fund. Special assessment district and community facilities district bonds outstanding as of June 30, 2016, amounted to $428,295.

11. CONDUIT DEBT OBLIGATIONS AND SUCCESSOR AGENCY DEBT

Single and Multi-Family Housing Bonds

From 1980 through 2013, the County issued bonds under the authority of Chapter 7 of Part 5 of Division 3 of the Health and Safety Code of the State of California. The purpose of the bonds is to finance the purchase of single-family homes and the construction of multi-family units to benefit low and moderate income families.

The bonds are secured by the property financed and are payable solely from revenue of the projects and payments received on the underlying mortgage loans.

The bonds do not constitute a liability of the County. Neither the County, the State of California, nor any political subdivisions thereof is obligated in any manner for the repayment of the bonds. In no event shall the bonds be payable out of any funds or properties of the County. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

(Dollar Amounts in Thousands)

11. CONDUIT DEBT OBLIGATIONS AND SUCCESSOR AGENCY DEBT (Continued)

Single and Multi-Family Housing Bonds (Continued)

As of June 30, 2016, there were 20 series of bonds outstanding with an aggregate principal amount payable of $220,909.

Orange County Development Agency (OCDA) Successor Agency Bond Debt

On December 29, 2011, the California Supreme Court issued an opinion in California Redevelopment Association (CRA) v. Matosantos, upholding the constitutionality of ABX1 26, eliminating Redevelopment Agencies (RDA) statewide effective February 1, 2012. Under ABX1 26, a successor agency was created for each dissolved RDA, including OCDA, and charged with winding down the dissolved RDA's operations and performing enforceable obligations (as defined in the law). The OCDA Successor Agency assumed the dissolved RDA's enforceable obligations, which include bond debt obligations. The FY 2015-16 Neighborhood Development and Preservation Project (NDAPP) and Santa Ana Heights Project (SAHP) Refunding Bonds debt service obligations appeared on the OCDA Successor Agency Recognized Obligation Payment Schedule (ROPS) and were approved by the Successor Agency Oversight Board, the State Department of Finance, and were paid to bondholders according to the debt service schedule.

Effective with OCDA's dissolution on February 1, 2012, the assets and liabilities (including bond debt) were transferred to and reported in a private-purpose trust fund of the County. This transfer and reporting structure reflect the custodial role accepted by the successor agency. As of June 30, 2016, the outstanding principal amount, including the premium of the OCDA Successor Agency bonds and remaining interest were $30,041 and $4,668, respectively.

The bonds do not constitute a liability of the County. Neither the County, the State of California, nor any political subdivisions thereof is obligated in any manner for the repayment of the bonds. In no event shall the bonds be payable out of any funds or properties of the County. Accordingly, the bonds are reported as liabilities in the private-purpose trust fund.

12. LEASES

Operating Leases

The County is committed under various operating leases, primarily for office buildings, office equipment and other equipment. The following is a schedule of future minimum payments required under operating leases entered into by the County that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2016:

Fiscal Year Ending June 30	Equipment	Real Property	Total
2017	$ 1,615	$ 25,186	$ 26,801
2018	142	22,498	22,640
2019	95	18,975	19,070
2020	25	18,706	18,731
2021	8	18,696	18,704
2022 - 2026	--	59,317	59,317
2027 - 2031	--	9,611	9,611
Total	$ 1,885	$ 172,989	$ 174,874

Total expenditures for equipment rentals and building and improvements incurred for FY 2015-16 was $41,080.

(Dollar Amounts in Thousands)

12. LEASES (Continued)

Capital Leases

This year, the County entered into a lease agreement as lessee for financing the acquisition of repair and maintenance equipment valued at $254. The equipment has a five-year estimated useful life. This year, $49 was included in depreciation expense. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

The following is an analysis of property the County has leased under capital leases, which includes $27,600 of equipment for an Internal Service Fund:

Land	$	14,831
Equipment		27,927
Less: Accumulated Depreciation		(3,259)
Structures and Improvements		64,180
Less: Accumulated Depreciation		(32,692)
Total	$	70,987

The following are the future minimum lease payments under capital leases and the present value of the net minimum lease payments as of June 30, 2016:

Fiscal Year Ending June 30		
2017	$	15,965
2018		16,139
2019		9,414
2020		9,538
2021		8,601
2022-2026		26,537
2027		490
Total Minimum Lease Payments		86,684
Less: Amount Representing Interest		(18,756)
Present Value of Net Minimum Lease Payments	$	67,928

13. LANDFILL SITE CLOSURE AND POSTCLOSURE CARE COSTS

State laws and regulations require OCWR to place final covers on its landfill sites when the landfills stop accepting waste and perform certain postclosure maintenance and monitoring functions at the site for a minimum of 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date each respective landfill stops accepting waste, OCWR will report a portion of these closure and postclosure care costs as an operating expense in each period based on the landfill capacity used as of each Statement of Net Position date.

OCWR owns or operates the following waste disposal sites:

- Frank R. Bowerman (FRB) (Irvine – Active)
- Olinda Alpha (Brea – Active)
- Prima Deshecha (San Juan Capistrano – Active)
- Santiago Canyon (Orange – Ceased accepting waste in 1996, final closure certification in 2005)
- Coyote Canyon (Newport Beach – Ceased accepting waste in 1990, final closure certification in 1995)

The total landfill closure and postclosure care liability at June 30, 2016 was $160,675. The total liability represents the cumulative amount accrued based on the percentage of the active landfill capacities that have

(Dollar Amounts in Thousands)

13. LANDFILL SITE CLOSURE AND POSTCLOSURE CARE COSTS (Continued)

been used to date (30.38% for FRB, 78.70% for Olinda Alpha and 20.16% for Prima Deshecha), less actual costs disbursed related to both closure, and postclosure of the Santiago Canyon and Coyote Canyon landfills. OCWR will recognize the remaining estimated cost of closure and postclosure care of $179,764 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2015 dollars (using the 2015 inflation factor of 1.010). OCWR has enough landfill capacity to operate the system for a minimum of 25 years. However, OCWR intends to operate the landfills well beyond this period as a result of approved and planned expansions.

In compliance with Title 27 – Environmental Protection of California Code of Regulations, OCWR makes annual cash contributions to its escrow funds to provide financial assurance for estimated future landfill closure costs based on the GASB Statement No. 18, "*Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*", formula. Also in compliance with regulations, OCWR has executed pledge of revenue agreements to provide financial assurance for estimated future landfill postclosure costs. The agreements state that OCWR pledges revenue from future gate fees deposited to pay for estimated postclosure maintenance or shall obtain alternative coverage within sixty (60) days if OCWR ceases at any time to retain control of its ability to allocate pledged revenue to pay postclosure maintenance costs. OCWR has proactively pre-funded this cost based on the State mandated formula that computes landfill capacity as a percentage of the total landfill capacity times the total estimated cost for postclosure maintenance. The estimated costs for future closure and postclosure maintenance are annually adjusted based on State provided inflation factors. The State mandated formula under which contributions to both closure and postclosure funds are calculated would provide for the accumulation of sufficient cash to cover all estimated costs when each landfill site reaches maximum capacity. If additional costs for closure or postclosure maintenance are determined due to changes in technology or higher regulatory requirements, these costs may need to be covered by increasing the amount charged to landfill customers.

As of June 30, 2016, a total of $90,848 has been set aside for estimated closure and postclosure costs and is included in the accompanying Proprietary Funds Statement of Net Position as Restricted Pooled Cash/Investments – Closure and Postclosure Care Costs.

Regulations governing solid waste management are promulgated by government agencies on the federal, state and local levels. These regulations address the design, construction, operation, maintenance, closure and postclosure maintenance of various types of facilities, acceptable and prohibited waste types, and inspection, permitting, environmental monitoring and solid waste recycling requirements. Regulations at both the state and federal levels could impose retroactive liability, particularly with respect to cleanup activities relating to any landfill site ever operated by the County, whether or not owned by the County. Refer to Note 16, Pollution Remediation, for additional discussion regarding pollution remediation liabilities.

14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

Encumbrances

The County has established a procedure for encumbering appropriations for purchase orders, contracts, and other commitments authorizing delivery of merchandise or rendering of services. An encumbrance system reduces the possibility of commitments being made in excess of budgeted appropriations due to the lag time between issuance of purchase orders, contracts, and other obligations, and the actual provision of services or goods and subsequent receipt of invoices and billings from the vendors and contractors. Depending on the source(s) of funding, encumbrances are reported as part of restricted or assigned fund balance on the governmental funds balance sheet. In accordance with GASB Statement No. 54, the County's total significant encumbrances for governmental funds in the aggregate are reported as follows, at June 30, 2016:

General Fund	$	47,058
Flood Control District		34,525
Other Public Protection		2,127
Other Governmental Funds		59,000
Total Encumbrances for Governmental Funds	$	142,710

(Dollar Amounts in Thousands)

14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Continued)

Construction Commitments

At June 30, 2016, the County's total commitments for major contracts entered into for equipment, land, and structures and improvements were as follows, listed by fund within governmental or business-type activities:

Project Title	Significant Commitments
Governmental Activities:	
General Fund	
Civic Center Building 16 - Phase 1A	$ 7,150
County Operations Center-Building A-Replace Air Handlers 1-3	4,475
Video Surveillance Equipment	2,359
Airbus Helicopter Installation	1,667
	15,651
Flood Control District	
Santa Ana River Interceptor Line Project	6,282
Greenville-Banning Channel Improvement Project	4,968
Edinger Storm Channel Improvement	3,900
Los Alamitos Pump Station and Pump House	3,338
Equipment Operations	2,169
Glassell Campus LID Retrofit Project	1,762
Fletcher Channel and Retarding Basin - From Santa Ana River to Upstream	1,269
	23,688
Other Governmental Funds	
Animal Care Shelter	31,034
La Pata Avenue Gap Closure/Widening	19,637
Purchase of Law Enforcement Vehicles	11,158
Sheriff-Coroner's Headquarters and Central Jails Replace Air Handlers	2,443
La Pata Avenue Off-site Mitigation	1,345
Juvenile Hall-Gym/Visitation Center	1,296
Sunset Harbor Channel Dredging	1,177
	68,090
Business-Type Activities:	
Airport	
Terminal A & B Improvements	94,053
Common Use Passenger Processing System Hardware and Software	4,893
Parking Structure C, Phase 2	2,652
Lighting Systems Upgrades	1,288
	102,886
Waste Management	
Frank R. Bowerman Landfill Soil Buttress and Liner	3,043
	3,043
Total Commitments	$ 213,358

In addition, the County is involved in the Santa Ana River Mainstem Project (SARMP). The SARMP is a major flood control project implemented and funded by the Federal government and three local sponsors – the Orange County Flood Control District (OCFCD), San Bernardino County Flood Control District, and Riverside County Flood Control and Water Conservation District. A component of the initial project has been re-designated as the Prado Dam Project (Project), which is being implemented and funded by the Federal Government and the

14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Continued)

Construction Commitments (Continued)

OCFCD through a separate Project Cooperation Agreement (PCA). The purpose of the SARMP is to prevent the devastating damage caused by large-scale flooding of the Santa Ana River flood plain. When the SARMP was initiated in 1989, the U.S. Army Corps of Engineers (COE) considered this flood plain to constitute the worst flood threat west of the Mississippi River as to impacts to the population and property. The Project involves a combination of flood channel improvements and constructing new channels in Orange, San Bernardino, and Riverside counties, construction of the Seven Oaks Dam in San Bernardino County, construction of improvements and protection at the Santiago retention basin and along the creek, raising the existing Prado Dam and increasing its flood flow outlet gates and reservoir capacity, along with several environmental mitigation related studies, habitat restoration and protection activities, recreation amenities, and preservation of historical sites and records.

The COE's estimated combined cost of all project components is $2,371,000. OCFCD's combined cost share is estimated to be $786,633 for the entire Santa Ana River Project. As of June 30, 2016, the OCFCD has expended about $610,014 on the entire Santa Ana River Project.

The construction of Seven Oaks Dam and most channel improvements in Riverside, San Bernardino, and Orange counties have been completed. The relocation and protection of State Route (SR) 71 adjacent to Prado Dam (a joint OCFCD and Caltrans project) and construction to raise the Prado Dam embankments and install new outlet gates is complete. Landscaping along the Santa Ana River in Orange County was completed in May 2010. Design for the construction of interior dikes in the Prado Dam reservoir, and for improvements and protection of SR-91 in the Santa Ana River canyon are also underway. The COE completed construction of National Housing Tract Dike and Sewage Treatment Plant in 2008. Landscaping for these dikes began in September 2009 and were completed in June 2011. Several environmental mitigation studies and restoration/preservation projects are underway in all three counties. All property right acquisitions for the Seven Oaks Dam and along the lower Santa Ana River in Orange County up to Weir Canyon Road are completed. The escrow for purchase of the Green River Golf Course was closed on September 29, 2006. This property is required for construction of protection along SR-91 and nearby mobile homes, open space/recreation mitigation, and to accommodate increased flooding when the Prado Dam outlet gates are constructed and operational. The first phase of SR-91 protection (Reach 9 Phase 2B Project) was completed in September 2014. The second phase (Reach 9 Phase 3) started construction in January 2014 and was completed in March 2015. As continuation to the ongoing Reach 9 Project, the COE determined that bank improvements needed to continue east on the south side of the Santa Ana River along SR-91. As such, the Reach 9 Phase 4 Project was developed and the project was awarded on April 13, 2016 at an estimated cost of $15,300. Completion of the Reach 9, Phase 4 Project is expected to occur in October 2018. The COE is also constructing bank improvements on the north side of the Santa Ana River adjacent to La Palma Avenue from Weir Canyon Road to the railroad (Reach 9 Phase 5A and Phase 5B). Phase 5A was awarded on September 28, 2015 at a cost of $22,500 and is expected to be completed in December 2017. The construction contract for Phase 5B was awarded in September 2016 with an estimated cost of $25,500 and expected to be completed in August 2019. The OCFCD awarded the construction contract on August 9, 2011 for the four miles of Santa Ana River Interceptor Line (SARI) relocation project, which was completed by August 2014. Phase I of the Auxiliary Embankment (an extension of Prado Dam) was completed in September 2012 and the earliest date for construction of Phase II would be September 2017. As an alternative, the COE may elect to make Phase II part of the contract awarded to construct the Prado Dam Spillway, which is planned for some time in the year 2020. A contract for the construction of the Yorba-Slaughter Adobe Dike was awarded in December of 2012 at a cost of $6,000 and is expected to be completed in December 2016. The Women's Prison Dike (to protect the California Institute of Women) was awarded September 2014 for $12,700 and is expected to be completed in February 2017 with a $3,400 modification which was awarded in August 2015. The OCFCD continues to acquire property rights for the Prado Dam Project, subject to the availability of funding.

The project has been authorized by the State Legislature for reimbursement of up to 70% of the Local Sponsors' expenses through the State Flood Control Subvention Fund, which is administered by the Department of Water Resources (DWR). As of June 30, 2016, OCFCD has submitted $400,122 in claims, and received $369,641 in reimbursements. An additional $11,680 in claims is in the process of being prepared for submittal to the DWR.

14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Continued)

Construction Commitments (Continued)

Of the total amount outstanding, $15,252 was accrued as revenue, and $19,121 was reported as deferred inflows of resources at the fund level and recognized as revenue in the government-wide financial statements. Once a claim is reviewed and approved by DWR, 90% of the eligible expenditures can be paid, subject to available funding, with the remaining 10% paid after an audit by the State Controller's Office.

15. SELF-INSURANCE

The County is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters; unemployment; salary continuance; and providing health benefits to employees, retirees and their dependents. The County has chosen to establish Internal Service Funds (ISFs) where assets are set aside for claim settlements and judgments associated with such losses.

The Workers' Compensation ISF addresses the risks related to employee injury through its Safety Program, which is responsible for injury and illness prevention. The Workers' Compensation Program ensures that all benefits are properly provided and administers the contract for the third party workers' compensation claims administration. Workers' compensation claims are self-funded up to $20,000.

The Property and Casualty Risk ISF is responsible for managing losses related to torts; theft of, damage to and destruction of assets, errors and omissions, civil rights claims, and natural disasters. Tort liability is also self-funded, up to $5,000. Commercial insurance is purchased for property and other risk exposures. Excess liability insurance provides up to an additional $100,000 in liability coverage. In the past three fiscal years, there were no losses that impacted the County's excess insurance coverage.

Independent actuarial studies are prepared annually for the Workers' Compensation and Property and Casualty Risk ISFs. The reported unpaid claims liabilities are based on the results of those annual actuarial studies and include case reserves, development of known claims, incurred but not reported claims, allocated loss adjustment expenses and unallocated loss adjustment expenses. Unpaid claims liabilities are calculated considering inflation, claims cost trends, including frequency and payout of settlements and judgments, interest earnings, and changes in legal and economic factors. Unpaid claims liabilities have been discounted at a rate of 3.50% in the Workers' Compensation ISF and 2.50% in the Property and Casualty Risk ISF to reflect anticipated future investment earnings.

All County departments and other governmental agencies authorized by the Board to participate in the Workers' Compensation ISF are charged for their pro rata share of costs based upon employee classification rates, claims experience, and funding for the Workers' Compensation program. All County departments participate in the Property and Casualty Risk self-insurance program and are charged for their pro rata share based upon claims experience, actual number of positions from a biweekly County payroll report, and funding for the Property and Casualty Risk program. The rate calculations for Workers' Compensation and Property and Casualty Risk ISFs are based upon guidelines established by the State Controller's Office for cost plan allocations.

The County has established: the Unemployment Insurance ISF, which covers all employees and is paid through the State of California; the County self-insured PPO Health Plans ISF, which provides health plan benefits; and the Health and Other Self-Insured Benefits ISF, which provides dental and short-term disability benefits for a portion of the County's employees and accidental death and dismemberment (AD&D) benefit for Reserve Deputy Sheriffs.

The County's Wellwise Choice, Wellwise Retiree, Sharewell Choice, and Sharewell Retiree plans have no lifetime coverage maximums. The dental insurance coverage is up to $1,500 annually (absolute dollars) for each covered employee or dependent. The short-term disability insurance coverage is up to 12 months or when

(Dollar Amounts in Thousands)

15. SELF-INSURANCE (Continued)

the employee returns to work, whichever occurs first. Unemployment benefits covered by law is up to 26 weeks per individual or when the employee returns to work or no longer meets the requirements for the benefit. The self-insured AD&D benefit is for Reserve Deputy Sheriffs only and has a maximum benefit of $5,000 (absolute dollars).

Changes in the balances of claims liabilities during the past two fiscal years for these self-insurance funds are as follows:

	Workers' Compensation	Property & Casualty Risk	Unemployment Insurance	Health & Other Self- Insured Employee	Total
Unpaid Claims, Beginning of FY 2014-15	$ 150,741	$ 39,248	$ 783	$ 12,327	$ 203,099
Claims and Changes in Estimates	40,937	14,392	1,112	58,850	115,291
Claim Payments	(36,104)	(14,349)	(943)	(59,417)	(110,813)
Unpaid Claims, End of FY 2014-15	155,574	39,291	952	11,760	207,577
Claims and Changes in Estimates	42,149	16,521	796	60,528	119,994
Claim Payments	(38,033)	(9,792)	(940)	(59,310)	(108,075)
Unpaid Claims, End of FY 2015-16	$ 159,690	$ 46,020	$ 808	$ 12,978	$ 219,496

16. POLLUTION REMEDIATION

GASB Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations*," requires state and local governments to provide the public with better information about the financial impact of environmental cleanup and identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. The County has identified several environmental sites at John Wayne Airport (JWA) and OC Waste and Recycling (OCWR) for which a pollution remediation liability has been recorded in the County's financial statements. The following describes the nature of the obligating events, and the estimated liability as they relate to JWA and OCWR.

<u>John Wayne Airport (JWA)</u>

In 1988 and 2006, JWA was named as the responsible party in a cleanup and abatement order for two sites on Airport property by the California Regional Water Quality Control Board (RWQCB). The sites, the Old Fuel Farm and the Former Fire Station #33, were identified as having chemical impacts to the soil and groundwater. In 1994 and 2002, JWA began to monitor and remediate the Old Fuel Farm and the Former Fire Station #33 sites, respectively.

In 2008, the sites were sampled as part of an assessment and the results revealed that the soil and groundwater were still impacted by chemical pollutants. In an effort to increase the removal of the chemicals, JWA's environmental consultant reevaluated the sites and recommended a change to the remediation plan. The consultant calculated the new estimated pollution remediation liability based on a more active method of remediation that includes remedial technologies such as soil vapor extraction, dual phasing sparging, and bioremediation.

JWA started implementing the new remediation method in the fiscal year ending June 30, 2011. Following a remedial pilot test, JWA has been performing monthly free-product removal at the Old Fuel Farm and performing annual groundwater monitoring at both sites. Active remediation has been delayed pending further guidance from the RWQCB, which could possibly affect the estimated pollution remediation liability as well as cause changes to the remedial technologies used to remediate the sites. As of June 30, 2016, JWA has a liability of $994 based on management's assessment and the results of the consultant's evaluation of potential remediation costs. The liability will not decrease any further until active remediation begins or a closure plan is accepted by the RWQCB.

In 1995, JWA entered into Memorandum of Understanding (MOU) with one of its fixed-base operator (FBO) lessees to address the remediation of the Old Fuel Farm. The FBO was identified as the operator of the site

(Dollar Amounts in Thousands)

16. POLLUTION REMEDIATION (Continued)

John Wayne Airport (JWA) (Continued)

and the other responsible party. The lessee agreed to be obligated to pay 50% of the remediation costs associated with the Old Fuel Farm site. Reported in the Statement of Net Position – Proprietary Funds as part of accounts receivable, the total expected recovery for the Old Fuel Farm site is $261 as of June 30, 2016.

The estimated pollution remediation obligation as of June 30, 2016 is:

Old Fuel Farm Site	$	785
Former Fire Station #33 Site		692
Less: Remediation Activity		(483)
JWA Pollution Remediation Obligation	$	994

Orange County Waste and Recycling (OCWR)

Five closed sites were identified. The remediation costs and time periods were calculated for each of these sites based upon the type of remediation needed and historical trend data for closed landfill sites. The combined pollution remediation obligation ending balance as of June 30, 2016, after deducting actual pollution remediation expenses incurred, is $11,190.

Cannery Former Refuse Disposal Station A park owned by the City of Huntington Beach (City) and an elementary school playground are located on a site that was formerly used as a refuse disposal station operated by the County from 1957 to 1969. Levels of methane gas that exceed regulatory limits were detected on the property. The Local Enforcement Agency (LEA) issued a Notice and Order to the City requiring the City to remedy the landfill gas exceedances and to control potential offsite migration of landfill gases. In response to the LEA's Notice and Order, the City and the Huntington Beach City School District (School District) issued the Notices of Intent to sue under the Resource Conservative and Recovery Act, and the Comprehensive Environmental Response, Compensation, and Liability Act to the County in 2004. The City's and School District's claims were tolled until June 2006 under a tolling agreement with the County. The City, County and School District entered into a Settlement Agreement in 2007, whereby the City would be responsible for maintaining the cover of the former disposal site and the County would assume responsibility for the collection and control of landfill gas.

Based on engineering estimates and existing contracts for the operation and maintenance of other disposal sites of a similar size, the age of the site, the length of time that the wastes have been buried, and other factors, the County anticipates that the landfill gas collection system will operate fully for 15 years.

The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is $44.

Lane Road Former Refuse Disposal Station The site located in the City of Irvine and owned by NGP Realty Sub, L.P. and others, was leased and operated by the County as a refuse disposal facility from 1961 until its closure in 1964. An investigation revealed that landfill gas is present above regulatory limits in close proximity to residential housing units. The LEA issued a Notice and Order to the property owners requiring them to remedy the landfill gas exceedances and to control potential offsite migration of landfill gases. In response to the LEA's Notice and Order, a claim was filed with CEO Risk Management. The County entered into a Settlement Agreement with the property owners in 2005. Per terms of that Settlement Agreement, the County funded the construction of a landfill gas collection and control system, including a carbon treatment element, for the eastern portion of the site. After verification that the system was operating as planned, the County assumed ownership of the system and responsibility for its operation, maintenance and monitoring in 2008. Also in 2008, it was discovered that landfill gas was elevated in the northern portion of the site. Pursuant to the Settlement Agreement, the County designed and constructed an upgrade and enhancement to the existing landfill gas system to control landfill gas migration on the northern portion of the site.

16. POLLUTION REMEDIATION (Continued)

Orange County Waste and Recycling (OCWR) (Continued)

Lane Road Former Refuse Disposal Station (Continued)

Based on engineering estimates and existing contracts for the operation and maintenance of other similar disposal sites, the County anticipates that the landfill gas collection system will operate fully for 25 years, then will most likely either be inactive or be converted to a passive system. The cost for the operation, maintenance and monitoring of the system was highest in the first full year of operation when the carbon canisters needed more regular replacement. The cost to operate and maintain the landfill gas collection system at the site for the next year of operation is $310.

The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is $2,694.

San Joaquin Former Refuse Disposal Station The site, owned by the University of California at Irvine, was leased and operated by the County as a refuse disposal facility from 1954 to 1961. In 1996, a portion of the site was sold to the United States Food and Drug Administration. Levels of methane gas that exceed regulatory limits were detected on the property. As both parties expressed an interest in avoiding costly litigation, the County entered into negotiations to cooperatively address site concerns, resulting in a Cooperative Agreement with the University that was approved by the Board in May 2005. Pursuant to the Cooperative Agreement, the County constructed a landfill gas collection and control system including a carbon treatment element.

The County retains responsibility for the operation, maintenance, and monitoring of that system. Based on engineering estimates and existing contracts for the operation and maintenance of similar disposal sites, the County anticipates that the landfill gas collection system will operate fully for 15 years. The cost to operate and maintain the landfill gas collection system at the site for the next year of operation is $135.

The remaining obligation for landfill gas remediation at the San Joaquin site over the anticipated operational period is $952.

La Veta Former Refuse Disposal Station Located in the City of Orange, La Veta is a former burn, dump and refuse disposal station leased to and operated by the County from 1946 to 1956. The site has multiple owners and was developed into a YMCA facility, apartments, a mobile home park and a small amount of open space. Recently, the County learned that the California Department of Toxic Substances Control (DTSC) and the United States Environmental Protection Agency had previously performed limited soil and groundwater testing at the site. According to DTSC, the results of these tests indicated that further site assessment was warranted.

DTSC requested that the County enter into a Voluntary Cleanup Agreement with DTSC. In lieu of entering into a Voluntary Cleanup Agreement, the County conducted a series of additional site investigations and assessments. Based on the findings of the site investigations, the YMCA is performing required methane monitoring. The County reimburses the YMCA for the costs associated with the monitoring efforts and are accrued as estimable at June 30, 2016.

In addition, the findings of site investigations identified the existence of subsurface refuse extending laterally onto a single-family residence located within the lease boundaries of the former La Veta solid waste disposal site and immediately adjacent to land owned by the YMCA (also covering a portion of the former disposal site). Buried waste was discovered under part of the back yard of the residence, which includes a swimming pool. Since then, CalRecycle and the LEA have required continuous methane monitoring at the property. The current owners have not cooperated with County or regulator attempts to monitor or remediate potential pollution of the property.

The County will continue to attempt to work with the property owner to ensure that the property is maintained and monitored in a manner that is consistent with the former use of the property as a municipal solid waste disposal facility.

(Dollar Amounts in Thousands)

16. POLLUTION REMEDIATION (Continued)

Orange County Waste and Recycling (OCWR) (Continued)

Forster Former Refuse Disposal Station The site, located in the City of San Juan Capistrano, was formerly leased and operated as a refuse disposal station by the County from 1958 to 1976. The current owner, Advanced Group 99-SJ, proposed a change in land use for the property and has notified the County of its position that the County was responsible for re-closure of the site to meet current commercial and redevelopment requirements. The County disputed responsibility for site development related costs. In early 2010, the City of San Juan Capistrano approved the proposed project and certified the Environmental Impact Report (EIR). The EIR was a subject of a citizen's referendum that ultimately resulted in affirmation of the proposed project. Subsequent to the City approval of the proposed development plan, Advanced Group 99-SJ and the County entered into negotiations to resolve issues related to environmental responsibility at the site. These negotiations resulted in a settlement agreement and release of claims, brought about by a threat of litigation over the California Environmental paid by the County for environmental controls to be installed at the site, an operation and maintenance fund and for environmental insurance, subject to conditions such as obtaining grading permits for the site for its actual development. In exchange, indemnification and environmental releases were provided by the developer to the County.

Total obligation by the County for environmental infrastructure and controls at the site as agreed upon in the Settlement Agreement is $7,500. The entire sum is expected to be released within a five year period, but is dependent upon actions by the owner and regulatory approvals for the project. As of June 30, 2016, the County has not released payment. The County will continue to incur additional costs for work related to the County's current obligation to monitor the groundwater underlying the site. This responsibility will be transferred to the site owner upon completion of one of the settlement agreement milestones. But due to the uncertainty of specific timing, the County is unable to fully estimate the remaining ground water obligations.

The remaining balance for landfill gas remediation at the Forster site is $7,500. Distribution of these funds will occur over time, based on specific milestones in the development of the site.

The estimated pollution remediation obligation as of June 30, 2016 is:

Cannery	$	44
Lane Road		2,694
San Joaquin		952
Forster		7,500
OCWR Pollution Remediation Obligation	$	11,190

17. RETIREMENT PLANS

Orange County Employees Retirement System (OCERS)

Plan Description: Substantially all County employees participate in the Orange County Employees Retirement System (OCERS), a cost-sharing multiple-employer public employee retirement system established by the voters of Orange County in 1945 pursuant to the County Employees Retirement Law of 1937, California Government Code Section 31451 et. seq. (the Retirement Law). OCERS is an independent defined-benefit retirement plan in which employees of the County, Orange County Superior Court, and employees of certain cities and special districts within the County participate. OCERS is governed by the Board of Retirement (the OCERS Board). Certain attributes of independence of OCERS are guaranteed under the California Constitution. The OCERS Board consists of nine regular members and one alternate. Four OCERS Board members are appointed by the Board, three members plus one alternate are elected from active County employees, one member is elected from retirees, and the County Treasurer-Tax Collector is a statutory member.

The OCERS Board supervises the investment of OCERS assets and the distribution of benefits to retired employees. The OCERS Board also determines the annual contributions required of the County and other participating local governmental entities to fund OCERS.

17. RETIREMENT PLANS (Continued)

Orange County Employees Retirement System (OCERS) (Continued)

Plan Description (Continued)

The Retirement Law requires an actuarial valuation to be performed at least once every three years. OCERS' practice has been to conduct an actuarial valuation annually as of December 31, which is the end of the OCERS fiscal year.

According to OCERS' most recent public report, entities paying into the OCERS, also known as plan sponsors, include the County of Orange, City of San Juan Capistrano, Orange County Cemetery District, Children and Families Commission of Orange County, Orange County Department of Education (closed to new members), OCERS, Orange County Fire Authority, Orange County In-Home Supportive Services Public Authority, Orange County Local Agency Formation Commission, Orange County Public Law Library, Orange County Sanitation District, Orange County Superior Court, Orange County Transportation Authority, Transportation Corridor Agencies, and the University of California, Irvine Medical Center and Campus (closed to new members).

Benefits Provided: OCERS provides for retirement, death, disability, and cost-of-living benefits. Under OCERS, each County employee receives a defined-benefit pension at retirement, that is, a specific amount per month determined in accordance with the Retirement Law, which amount is not dependent upon the amount of money credited to the employee's account at the time of retirement. An OCERS member may be eligible for a Disability Retirement allowance. The member will be asked to designate a beneficiary or beneficiaries, who may be entitled to receive lifetime and/or lump sum benefits that may be payable upon a member's death. OCERS also provides two types of disability benefits, a nonservice-connected disability retirement or service-connected disability retirement. Under each type, the eligibility requirements are different. More information can be found on www.ocers.org. The OCERS Board does not set the benefit amounts. OCERS administers benefits that are set by the County Board through the collective bargaining process with County employees in accordance with the Retirement Law.

Effective June 28, 2002, Safety members, including Probation Services employees, became eligible for an annual annuity equal to a retirement benefit formula of 3% of the member's "final compensation" for each year of service rendered at age 50. Law enforcement management, which includes executives in the Sheriff-Coroner and District Attorney departments, and employees represented by the Association of Orange County Deputy Sheriffs hired after April 9, 2010, receive an annual annuity equal to a retirement benefit formula of 3% of the member's "final compensation" for each year of service rendered at age 55.

Effective July 1, 2005, as part of collective bargaining agreements with County employees, most General Members who work for the County of Orange (approximately 14,000) became eligible for an enhanced annual annuity equal to a retirement benefit formula of 2.7% of the member's "final compensation" for each year of service rendered at age 55. In collective bargaining agreements with General Members, the employee associations agreed to pay the increased retirement costs related to the difference between the prior retirement benefit formulas and the new 2.7% at age 55 enhanced formula, as well as the annual amortization of the unfunded liability created by the retroactive application of the increased benefit. Members of the American Federation of State, County and Municipal Employees (AFSCME) did not elect the 2.7% at age 55 retirement formula and remain at the previous benefit formulas. The benefit formulas for AFSCME are an annual annuity equal to 2% of the "final compensation" for each year of service rendered at age 57 for Tier I General members and 1.667% of the member's "final compensation" for each year of service rendered at age 57.5 for Tier II General members. Due to the passage of the Public Employees' Pension Reform Act (PEPRA) of 2013, most new employees hired on or after January 1, 2013, except for Safety members and members represented by AFSCME and the Orange County Attorneys Association (OCAA), will receive an annual annuity equal to a retirement benefit formula of 1.62% of the member's "final compensation" for each year of service rendered at age 65. The 1.62% at age 65 retirement formula includes a voluntary defined contribution component with an employer match.

Non-vested Supplemental Targeted Additional Retiree Cost of Living Adjustment (STAR COLA) benefits are also paid by OCERS to eligible retirees and survivors. Pursuant to Government Code Section 31874.3 of the Retirement Law, the OCERS Board has the sole authority to grant STAR COLA each year. The OCERS Board

(Dollar Amounts in Thousands)

17. RETIREMENT PLANS (Continued)

Orange County Employees Retirement System (OCERS) (Continued)

Benefits Provided (Continued)

understands that granting STAR COLA may increase the Unfunded Actuarial Accrued Liability (UAAL) and therefore asks for comments from plan sponsors prior to voting on approval of the annual benefit.

Retirees who have lost more than 20% of their purchasing power since retirement are eligible for this benefit, and currently, approximately 346 retirees (of which 337 are County retirees) who retired before April 1, 1980, and their survivors receive the STAR COLA. The STAR COLA benefits are excluded from the actuarial valuation and are funded annually through current employer contributions. Benefits are considered immaterial to the plan.

Contributions: In accordance with various Board resolutions, the County's funding policy is to make periodic contributions to OCERS in amounts such that, when combined with employee contributions and investment income, will fully provide for member benefits by the time they retire. Covered employees are required to contribute a percentage of their annual compensation to OCERS as a condition of employment. Base employee contributions are calculated using a formula defined in the Retirement Law. The California Supreme Court's 1997 Ventura decision stated that, for the purpose of calculating pension benefits, "final compensation" means not only base salaries, but also other components. The County employee contributions under current contracts are calculated on base salary, eligible premium pay and some categories of overtime as defined in the 1997 Ventura decision.

Employer contributions are based on what is needed to properly fund the system. The law, however, does allow employers and employees to negotiate some variation in who pays the contributions. OCERS' responsibility is to make certain the total required contribution is paid, regardless of how the employers and employees share the cost. For FY 2015-16, employer's contributions, as a percentage of covered payrolls, were 37.02% for General members, 56.35% for Safety-Law Enforcement members and 40.70% for Safety-Probation members, as determined by the December 31, 2013, actuarial valuation.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension: At June 30, 2016, the County reported a liability of $4,391,967 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability (TPL) used to calculate the net pension liability was determined using actuarial valuation results. At December 31, 2015, the County's proportion was 76.83%, which was an increase of .15% from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016, the County recognized pension expense of $488,205. At June 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	$ 620,500	$ -
Differences Between Expected and Actual Experience	-	301,781
Changes of Assumptions	93,961	152,605
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	5,767	106
County Contributions Subsequent to the Measurement Date	217,218	-
County Prepaid Pension Contribution	178,459	-
Total	$ 1,115,905	$ 454,492

$217,218 reported as deferred outflows of resources related to pension resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017.

(Dollar Amounts in Thousands)

17. RETIREMENT PLANS (Continued)

Orange County Employees Retirement System (OCERS) (Continued)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

The County reported the full amount of prepaid pension contribution as a part of the prepaid cost at the fund level. However, due to the difference in the County's fiscal year end date and the net pension liability measurement date, half of the prepaid pension contribution of $178,459 is recognized as deferred outflows of resources, and the other half will remain as a prepaid cost on the government-wide statement.

In September 1994, the County issued $320,000 of pension obligation bonds, of which $318,000 in proceeds were paid to OCERS. OCERS maintains the proceeds in a County Investment Account. Amounts in the County Investment Account have been used to fund a portion of the County's contributions over time, pursuant to agreements between OCERS and the County, which allows the County significant discretion in applying the credit. As of June 30, 2016, $111,639 of such proceeds remains in the County Investment Account available for future credits to the County's pension obligations. For the year ended June 30, 2016, the County did not utilize funds available in the County Investment Account to meet its annual required contribution. The County's total contribution to OCERS for the year ended June 30, 2016 was $384,133.

On January 13, 2016, the County issued its short-term Taxable Pension Obligation Bonds, 2016 Series A in the amount of $334,275. Of the $334,275 bond proceeds, $333,811 was combined with $23,106 in contributions from certain County agencies and departments to prepay the estimated FY 2016-17 actuarially required contribution related to both the amortization of the UAAL and the normal annual contribution to OCERS. In return, the County received a 5.80% discount or $20,701 on the required employer contribution amount. The discount, combined with the interest and issuance costs, resulted in a net savings of $16,236 to the County. Refer to Note 3, Deposits and Investments, and Note 9, Short-term Obligations, for additional information.

Amounts, provided by OCERS' actuarial study reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as follows:

Year ending June 30:	
2017	$ 86,792
2018	86,792
2019	86,792
2020	42,840
2021	(35,899)
2022	(1,581)
Thereafter	-

Actuarial Assumptions: The actuarial assumptions included a 3.0% inflation rate, 4.25% to 13.5% projected salary increases to general members and 5.00% to 17.50% to safety members, and a 7.25% investment rate of return, net of investment expense. The mortality assumptions used were based on the results of the actuarial experience study for the period of January 1, 2011 through December 31, 2013 using the RP-2000 Combined Healthy Mortality Table projected with the Society of Actuaries Scale BB to 2020.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%, the long-term expected rate of return on plan assets. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the actuarially determined contribution rates.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.25% investment return assumption used in this accounting valuation is net of investment expenses. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. The difference is not material to the County's financial statements.

(Dollar Amounts in Thousands)

17. RETIREMENT PLANS (Continued)

Orange County Employees Retirement System (OCERS) (Continued)

Discount Rate (Continued)
The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage adding expected inflation and deducting expected investment expenses and a risk margin.

The target allocation (approved by the OCERS Board) and projected arithmetic real rates of return for each major asset class, after deducting inflation but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

Asset class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap U.S. Equity	14.90%	5.92%
Small/Mid Cap U.S. Equity	2.73%	6.49%
Developed International Equity	10.88%	6.90%
Emerging International Equity	6.49%	8.34%
Core Bonds	10.00%	0.73%
Global Bonds	2.00%	0.30%
Emerging Market Debt	3.00%	4.00%
Real Estate	10.00%	4.96%
Diversified Credit (US Credit)	8.00%	4.97%
Diversified Credit (Non-US Credit)	2.00%	6.76%
Hedge Funds	7.00%	4.13%
Global Tactical Asset Allocation	7.00%	4.22%
Real Return	10.00%	5.86%
Private Equity	6.00%	9.60%
Total	100.00%	

Sensitivity of the County's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
County's proportionate share of the net pension liability	$6,172,769	$4,391,967	$2,926,682

Pension Plan Fiduciary Net Position: OCERS issues an audited stand-alone annual financial report for each year ending December 31. Detailed information about the pension plan's fiduciary net position is available and can be obtained online at www.ocers.org, in writing to the Orange County Employees Retirement System, 2223 Wellington Avenue, Santa Ana, CA 92701, or by calling (714) 558-6200.

County Administered Pension Plans

County of Orange - 1.62% at 65 Retirement, 401(a) Defined Contribution Plan

Plan Description: On April 20, 2010, the Board approved and adopted the resolution implementing the 1.62% at 65 retirement formula for certain eligible employees. Effective May 7, 2010, as amended and restated on

17. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

County of Orange - 1.62% at 65 Retirement, 401(a) Defined Contribution Plan (Continued)

Plan Description (Continued)

July 1, 2011, the Board approved the County 1.62% Defined Contribution Plan for the benefit of employees in the 1.62% at 65 retirement formula. The 1.62% Defined Contribution Plan is a combination governmental 457(b) and 401(a) retirement plan. Employee contributions are deposited into a 457(b) plan and employer-matching contributions are deposited into a 401(a) plan. Participation in the 1.62% Defined Contribution Plan is voluntary and is designed to supplement the "1.62% at 65" retirement benefit. Only employees in the "1.62% at 65" retirement benefit formula are eligible to participate in the 1.62% Defined Contribution Plan. Participation in the Plan is strictly voluntary.

On September 12, 2012, the Governor signed the PEPRA of 2013. PEPRA created a new pension retirement formula, commonly referred to as 2% at 62 retirement formula, for all new non-safety public employees hired on or after January 1, 2013. PEPRA also allowed a public employer to continue to offer another retirement formula, if offered before December 31, 2012, to new public employees if the retirement formula has a lower benefit factor at normal retirement age and results in a lower normal cost than the 2% at 62 PEPRA retirement formula. On December 18, 2012, the Board approved and adopted the 1.62% at 65 retirement formula for certain general (non-safety) public employees hired on or after January 1, 2013.

The Board has the authority to amend the plan. The plan is intended to comply with the requirements of Internal Revenue Code (IRC) Section 401(a) and is intended for retirement. Matching employer contributions are determined by the County and approved by the Board, as stipulated in the Participants' bargaining units Memorandum of Understanding (MOU) or Personnel and Salary Resolution, as applicable. Employer contributions vest on employees' behalf after five years of continuous service with the County. For the purposes of eligibility and vesting, year of service means a 12-consecutive-month period during which the employee completes at least 2080 hours of service, exclusive of overtime. If the employee leaves employment with the County prior to the vesting period, the employee will only be entitled to the employee contributions to the plan.

Funds may not be withdrawn until participants have separated from the County. The plan benefits for a participant who separates from service with the County or retires on or after the early or normal retirement date will be dependent upon the accumulated value of individual contributions and investment return. As of June 30, 2016, the plan had 980 participants with a balance in the plan, with 934 participants actively contributing to the plan as of the end of June payroll.

Funding Policy: This plan is a defined contribution plan funded entirely by employer contributions. As of June 30, 2016, the County provides up to a 2% match per pay period of the employee's voluntary contribution to the IRC Section 457 element of the 1.62% Defined Contribution Plan. Employer contributions are deposited into the 401(a) Plan. Total contributions for the fiscal year as of June 30, 2016, were $736 by the County and zero by the employees.

Empower Retirement, formerly Great West Retirement Services, serves on behalf of the County as the third party administrator of the plan. Contribution to the plan defaults to the age-appropriate target-date fund upon initial enrollment. Once enrolled, plan participants may self-direct the investment of plan contributions into any of a number of eligible investment options offered under the plan. As of June 30, 2016, total plan assets were $1,293.

Administrative Cost: There is an annual administrative fee of 0.18% charged to participants (at a monthly rate of 0.015%), which is capped for account balances at $100. Each month, participant fees are based on the average daily balance of their account(s) over a 30-day period, and are reflected on participants' quarterly statements. No employer-level fees are charged for the plan.

17. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

County of Orange 401(a) Defined Contribution Plan

Plan Description: Effective January 1, 1999, as amended and restated on March 24, 2015, the Board established the County 401(a) Plan for the benefit of eligible employees, elected officials, which includes members of the Board, certain executive managers, certain administrative managers once classified as confidential and grandfathered in the plan, attorneys represented by the Orange County Attorney's Association, and certain other employee classifications as defined in the plan document. The Board also has the authority to amend the plan. The plan was closed to the attorneys effective June 24, 2005. The plan was closed to new administrative managers included in the Executive Policy Unit effective June 23, 2006. The plan is intended for retirement and funds may not be withdrawn until participants have separated from the County. The plan benefits for a participant who separates from service with the County or retires on or after the normal retirement date will be dependent upon the accumulated value of individual contributions and investment return. As of June 30, 2016, the plan had 662 participants with a balance in the plan, with 109 participants actively contributing to the plan as of the end of June payroll.

Funding Policy: This plan is a defined contribution plan funded entirely by employer contributions. County contributions to the plan vary according to employee classification and range from 4% to 8% of bi-weekly compensation. Total contributions for the fiscal year as of June 30, 2016, were $991 by the County and zero by the employees.

Empower Retirement, formerly Great West Retirement Services, serves on behalf of the County as the third party administrator of the plan. Contribution to the plan default to the County's Stable Value Fund upon initial enrollment, which is offered through Empower Retirement and designed to protect principal and maximize earnings. Once enrolled, plan participants may self-direct the investment of plan contributions into any of a number of eligible investment options offered under the plan. As of June 30, 2016, total plan assets were $14,261.

Administrative Cost: There is an annual administrative fee of 0.18% charged to participants (at a monthly rate of 0.015%), which is capped for account balances at $100. Each month, participant fees are based on the average daily balance of their account(s) over a 30-day period, and are reflected on participants' quarterly statements. No employer-level fees are charged for the plan.

Extra-Help Defined Benefit Plan

Plan Description: The plan is a cost-sharing multiple-employer defined benefit retirement plan for employees working less than half-time or as extra-help for the County and six (6) other cost-sharing agencies. Eligible employees of this plan are not covered by OCERS or Social Security. Initially, the normal retirement benefits for a participant who retired on or after the normal retirement date was a monthly amount equal to one-twelfth of 2% of the participant's career earnings during the final 30 years of credited service. There are no automatic cost-of-living adjustment (COLA) increases and no ad hoc COLAs have ever been granted. The current benefit for a participant who terminates or retires after November 20, 2008 is a lump sum payment, which is equal to the actuarial equivalent of the participant's contribution plus interest earnings. The normal retirement date is the first day of the month coinciding with or immediately preceding a participant's 65th birthday.

The plan was adopted to comply with the Omnibus Budget Reconciliation Act of 1990. The Board has full authority to amend or establish plan or benefit provisions at any time in accordance with the plan. The County is the named fiduciary and has the duty and full power to administer the plan. The Chief Financial Officer of the County is the trustee of the plan, and has authority over the management and investment of plan assets.

The plan was adopted in January 1992 and was closed to new participants as of February 28, 2002. This plan subsequently froze benefit accruals and stopped collecting employee contributions effective November 21, 2008. As of that date, the normal retirement benefit was changed to a single lump sum distribution equal to the

17. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Extra-Help Defined Benefit Plan (Continued)

Plan Description (Continued)

greater of the participant's account balance or the present value of their normal retirement benefit. As of June 30, 2016, the plan consists of 42 active plan participants, 225 terminated plan participants entitled to but not yet receiving benefits, and 41 retirees receiving benefits.

The plan financial statements are prepared using the accrual basis of accounting. County contributions are recognized in the period in which contributions are due, pursuant to the plan documentation and as may be required by statutory requirements. The benefits paid to participants and refunds of prior contributions are recognized when due and payable, in accordance with the terms of the plan.

The County charges a benefits administration fee to County agencies, which funds the cost of administering all of the County benefit programs, including the Extra-Help Defined Benefit Retirement Plan. The County Treasurer-Tax Collector charges its normal investment management fee related to the Pension Trust Fund's participation in the County Pool.

Contributions: The County has the authority to determine plan contributions. GASB Statement No. 67 requires the County to have an actuarial valuation performed at least biennially to determine the plan's total pension liability. This valuation is currently performed biennially. The plan's total pension liability was calculated using the data and assets as of July 01, 2015, rolled forward to June 30, 2016 and June 30, 2017 using actual benefit payments for FY 2015-16 and FY 2016-17. In both the 2015 valuation and the 2016 roll forward calculations the actuarial assets are valued at market value. The actuary has determined the County's actuarially determined contribution using the projected unit credit method, which is (a) normal cost, plus (b) 5-year amortization of the UAAL. Further information on the County's net pension liability and contributions can be found in the Required Supplementary Information (RSI) section following the notes to the basic financial statements. Based on the plan actuary's advice, the County determines the amount necessary for contribution to the plan. Since the plan's inception, the County and six (6) cost-sharing agencies have contributed $5,688. For the year ended June 30, 2016, the County and six (6) cost-sharing agencies contributed the total actuarially determined contribution of $784, which is equal to normal cost plus 5-year amortization of the UAAL. The County's proportionate share of the contribution was $769.

Plan participants do not contribute to the fund effective November 21, 2008 (the date of the freeze). Note that effective November 21, 2008, the normal cost is $0 due to the plan freeze.

Investment policy: The County has sole authority for establishing and amending the plan's investment policy and allocation of the invested assets. The plan's policy in regard to the allocation of invested assets may be established and amended by the plan's Trustee. The plan may invest in bonds, mortgages, notes, common or preferred stock, mutual funds, or other securities, policies of life insurance, annuity contracts, or property (real, bank deposits, or retain in cash or other property).

Concentrations: The plan invested 80% with Empower Retirement, and held 20% of its investments in the Orange County Investment Pool (OCIP). See Note 3, Deposits and Investments for information about OCIP. The plan has stated its assets with Empower Retirement and its investments in OCIP at fair value based on information provided by Empower Retirement and OCIP respectively.

Discount Rate: For the year ended June 30, 2016, the annual money-weighted rate of return on the Plan's investments, net of pension plan investment expense, was 2.22%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The discount rate used to measure the total pension liability was 5.25%, the same as long-term expected rate of return on plan assets.

(Dollar Amounts in Thousands)

17. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Extra-Help Defined Benefit Plan (Continued)

Discount Rate (Continued)

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The investment return assumption used in this accounting valuation is 5.25%.

The long-term expected rate of return on plan investments was determined using a building-block method equal to the expected future real rate of return on the investment with Empower Retirement and the OCIP plus expected inflation, rounded to the nearest 0.25%. The target investment allocation is 27% equities, 53% fixed incomes, and 20% cash and equivalents. The best estimate of the long-term expected geometric real rate of return for these asset classes (net of investment expense and inflation) are 5.35%, 1.55%, and 0.45%, respectively.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions: The components of the collective net pension liability of the County and the six (6) cost-sharing agencies at June 30, 2016 were as follows:

Total Pension Liability	$	8,498
Plan's Fiduciary Net Position		(5,599)
Plan's Net Pension Liability	$	2,899
Plan Fiduciary Net Position as a percentage of the Total Pension Liability		65.89%

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015 and rolled forward to the measurement date of June 30, 2016. The County's proportionate share of the June 30, 2016 net pension liability is $2,845. The County's proportion of 98.12% is based on an employer contribution allocation and has not changed since June 30, 2015.

For the year ended June 30, 2016, the County recognized pension expense of $357. At June 30, 2016, the County reported deferred outflows of resources of $214, which represents the net difference between projected and actual earnings on plan investments.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on plan investments	$ 214	$ -
Total	$ 214	$ -

The deferred outflows of resources related to this pension plan will be recognized as pension expense for the County as follows:

Year ended June 30:	
2017	$ 61
2018	61
2019	61
2020	31

(Dollar Amounts in Thousands)

17. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Extra-Help Defined Benefit Plan (Continued)

Actuarial Assumptions: The total pension liability based on the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement: (a) 3% inflation, (b) 5.25% investment return, (c) the 417(e) lump sum mortality table used for ERISA-governed plans and the 30-year Treasury rate with a look-back month of November grading into the long-term assumption of 5.0%, and (d) RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020. This plan does not have a salary increase assumption or post-retirement benefit increase assumption as these factors do not impact the benefits of this frozen plan.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the collective plan and the County's proportionate share, calculated using the discount rate of 5.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.25%) or 1-percentage-point higher (6.25%) than the current rate:

Net Pension Liability	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Collective plan	$3,212	$2,899	$2,642
County's proportionate share	$3,152	$2,845	$2,592

Extra-Help Defined Contribution Plan

Plan Description: Effective March 1, 2002, as amended and restated on February 10, 2015, the Board established the Extra-Help Defined Contribution Plan to replace the Extra-Help Defined Benefit Retirement Plan for (a) new employees hired on or after March 1, 2002, and supplements the benefits of the Extra-Help Defined Benefit Retirement Plan for employees hired prior to March 1, 2002 and (b) effective February 10, 2015, employees hired on or after such date (i) who attained age 60 by such hire date, (ii) who waive membership in the Orange County Employees Retirement System (OCERS), do not have funds on deposit with OCERS and otherwise meet the requirements under OCERS' regulations and state law to waive membership in OCERS, (iii) whose Employer has signed the OCERS Employer's Concurrence – Waiver of Membership form or any other documents that may be required by OCERS, and (iv) who sign the OCERS Employees' Waiver of Membership form and provide any other documents required by OCERS to waive membership. Eligible employees of this plan are not covered by OCERS or Social Security. This plan is a tax-deferred retirement plan, established in accordance with IRC Sections 457 and 3121 and is intended to comply with the Omnibus Budget Reconciliation Act of 1990 and meet the requirements to be a Social Security replacement plan. The Board has the authority to amend the plan. As of June 30, 2016, there were 3,840 participants with a balance in the plan, with 404 participants actively contributing to the plan as of the end of June payroll.

The plan is intended for retirement and funds may not be withdrawn until participants have separated from the County. The plan benefits for a participant who separates from service with the County or retires on or after the normal retirement date will be dependent upon the accumulated value of individual contributions and investment return.

If a participant's employment status changes from a part-time or extra-help employee to a permanent full-time employee or a part-time employee working 20 hours or more per week, those participants may elect to transfer the balance to the County's Section 457 Defined Contribution Plan or leave the balance in the plan until they are no longer employed with the County.

Funding Policy: Participants in the plan are required to contribute 7.5% of compensation each pay period. The contributions are invested in the County's Stable Value Fund offered through Empower Retirement, which is designed to protect principal and maximize earnings. Empower Retirement serves on behalf of the County as

(Dollar Amounts in Thousands)

17. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Extra-Help Defined Contribution Plan (Continued)

Funding Policy (Continued)

the third party administrator of the plan and holds all plan assets in trust. In the current fiscal year there was no additional contribution made by the County, and total employee contributions were $951. As of June 30, 2016, total plan assets were $7,359.

Administrative Cost: There is an annual administrative fee of 0.18% charged to participants (at a monthly rate of 0.015%), which is capped for account balances at $100. Each month, participant fees are based on the average daily balance of their account(s) over a 30-day period, and are reflected on participants' quarterly statements. No employer-level fees are charged for the Plan.

Condensed Financial Statements

In lieu of separately issued financial statements for the County administered retirement funds, condensed financial statements are presented below as of and for the year ended June 30, 2016:

Statement of Fiduciary Net Position

	Total	Extra-Help Defined Benefit Plan	Extra-Help Defined Contribution Plan	401(a) Defined Contribution Plan	1.62% at 65 Retirement, 401(a) Defined Contribution Plan
Assets					
Pooled Cash/Investments	$ 1,398	$ 1,398	$ --	$ --	$ --
Restricted Cash and Investments					
Restricted Investments with Trustee	26,937	4,194	7,299	14,207	1,237
Receivables:					
Interest Receivable	7	7	--	--	--
Due from Other Governmental Agencies	170	--	60	54	56
Total Assets	28,512	5,599	7,359	14,261	1,293
Net Position					
Restricted for Retirement Plans Benefits	28,512	5,599	7,359	14,261	1,293
Total Net Position	$ 28,512	$ 5,599	$ 7,359	$ 14,261	$ 1,293

(Dollar Amounts in Thousands)

17. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Condensed Financial Statements (Continued)

Statement of Changes in Fiduciary Net Position

	Total	Extra-Help Defined Benefit Plan	Extra-Help Defined Contribution Plan	401(a) Defined Contribution Plan	1.62% at 65 Retirement, 401(a) Defined Contribution Plan
Additions:					
Contributions to Pension Trust:					
Employer	$ 2,511	$ 784	$ --	$ 991	$ 736
Employee	951	--	951	--	--
Other Revenues	7	7	--	--	--
Interest and Investment Income	317	123	158	19	17
Less: Investment Expense	(28)	(4)	(8)	(14)	(2)
Total Additions	3,758	910	1,101	996	751
Deductions:					
Benefits Paid to Participants	2,507	428	1,339	740	--
Total Deductions	2,507	428	1,339	740	--
Change in Net Position for Employees's Retirement	1,251	482	(238)	256	751
Net Position at July 1, 2015	27,261	5,117	7,597	14,005	542
Net Position at June 30, 2016	$ 28,512	$ 5,599	$ 7,359	$ 14,261	$ 1,293

18. POSTEMPLOYMENT HEALTH CARE BENEFITS

County of Orange Retiree Medical Plan

Plan Description: The County of Orange Third Amended Retiree Medical Plan (the Retiree Medical Plan) is a single employer defined benefit OPEB plan, intended to assist career employees in maintaining health insurance coverage following retirement from County service. The Retiree Medical Plan was established by the Board. The Board is also the authority for amending the Retiree Medical Plan. The Retiree Medical Plan is not required by the Retirement Law – the statute governing County employee retirement benefits. Eligible retired County employees receive a monthly grant (the Grant), which helps offset the cost of monthly County-offered health plans and/or Medicare A and/or B premiums. The Retiree Medical Plan specifically states that it does not create any vested right to the benefits.

In order to be eligible to receive the Grant upon retirement, the employee must have completed at least 10 years of continuous County service (although exceptions for disability retirements exist), be enrolled in a County sponsored health plan and/or Medicare, qualify as a retiree as defined by the Retiree Medical Plan and be able to receive a monthly benefit payment from OCERS. To qualify as a retiree as defined by the Retiree Medical Plan, the employee upon retirement must be at least 50 years of age or have at least 20 years of service for a safety member of OCERS or at least 30 years of service for a general member of OCERS.

The monthly Grant amount is determined by a formula that multiplies a base number by the number of years of qualifying County employment up to a maximum of 25 years. The base number for calendar year 2015 was $21.13 (absolute dollars) per year of County service, and the maximum base monthly Grant was $528.25 (absolute dollars). The base number for calendar year 2016 is $21.45 (absolute dollars) per year of County

18. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

County of Orange Retiree Medical Plan (Continued)

Plan Description (Continued)

service, and the maximum monthly Grant is $536.25 (absolute dollars). The amount of the Grant is netted against the monthly health plan premium and/or reimburses Medicare premiums paid by the retiree for retiree and dependent coverage with the retiree obligated to pay the remaining balance. In no case shall the Grant exceed the actual cost to a retiree for the Qualified Health Plan and Medicare premiums.

The Grant is reduced by 50% once the retiree becomes Medicare A and B eligible. Retirees who were age 65 and/or Medicare A and B eligible on the effective date are not subject to the Medicare reduction. For employees retiring after the effective date, the Grant is reduced or increased by 7.5% based on the employee's age at retirement, such that the Grant is reduced 7.5% for each year under age 60 and increased by 7.5% for each year of age worked after age 60 up to age 70. The effective date varies by labor agreement. Safety employees and disability retirements are exempt from the age adjustment.

The base number for the Grant is adjusted annually based on a formula defined in the Retiree Medical Plan document with a maximum increase/decrease of 3%. Surviving dependents of a deceased employee or retiree eligible for the Grant are entitled to receive 50% of the Grant that the employee/retiree was eligible to receive.

In addition to the Grant, the Retiree Medical Plan provides a frozen lump sum payment to terminated employees not eligible for the Grant. The qualifying hours of service for calculation of the lump sum payment is frozen and the effective date varies by labor agreement. The frozen lump sum payment is equal to 1% of the employee's final average hourly pay (as defined in the Retiree Medical Plan) multiplied by the employee's qualifying hours of service (as defined) since the Retiree Medical Plan's effective date.

Employees represented by the AFSCME who retired before September 30, 2005 are not subject to the Medicare reduction or age adjustment to the Grant. The base number for these retirees is adjusted annually with a maximum increase/decrease of 5%. AFSCME employees who were employed on or after September 30, 2005 are not eligible for the Grant or the lump sum payment. They may participate in the County-offered health plans at their own cost if they meet the minimum plan requirements.

Employees represented by the Association of Orange County Deputy Sheriffs (AOCDS) who were hired on or after October 12, 2007 are not eligible for the Grant or lump sum payment. Service hour accruals for the Grant and lump sum calculations for employees represented by AOCDS who were hired before October 12, 2007 were frozen. A Defined Contribution Plan (Health Reimbursement Arrangement) was established to replace the Grant for new employees, and to supplement the frozen grants for current employees.

Employees represented by the Association of County Law Enforcement Managers (ACLEM) who were hired on or after June 19, 2009 are not eligible for the Grant or lump sum payment. Service hour accruals for the Grant calculations for law enforcement management employees who were hired before June 19, 2009 were frozen. The qualifying hours of service for calculation of the lump sum payment for law enforcement management employees were frozen as of June 23, 2006. A Defined Contribution Plan (Health Reimbursement Arrangement) was established to replace the Grant for new employees and to supplement the frozen grants for current employees.

Effective January 1, 2008, health insurance premium rates were separately pooled for the active and retired employees, except for employees represented by the AOCDS. Effective July 1, 2008, retiree health insurance premium rates for retired employees enrolled in the AOCDS health plans have been 10% higher than active employees.

18. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

County of Orange Retiree Medical Plan (Continued)

Plan Description (Continued)

On May 12, 2015, the Board approved the restructuring of the Retiree Medical Plan for employees represented by Orange County Attorneys Association (OCAA). Effective July 8, 2016, all active OCAA employees are no longer eligible for the Retiree Medical Grant or Lump Sum. A Defined Contribution Plan (HRA) was established to replace the Grant or Lump Sum for all active employees.

Funding Policy: The County implemented an employer contribution in an amount equal to the Annual Required Contribution (ARC) for the affected labor groups except AOCDS. In order to more adequately fund benefits under the Retiree Medical Plan, on June 19, 2007, the Board adopted the County of Orange Retiree Medical Trust (Trust) effective July 2, 2007. The Trust is an Internal Revenue Code section 115 trust for which the County Chief Financial Officer is the Trustee. In addition, OCERS has established an Internal Revenue Code section 401(h) account to invest monies and acts as Trustee for the 401(h) account which is used to pay the Grant. OCERS issues a Comprehensive Annual Financial Report (CAFR) for each year ending on December 31, which includes the Retiree Medical Trust. OCERS' CAFR can be obtained online at www.ocers.org, by written request to the Orange County Employees Retirement System, 2223 Wellington Avenue, Santa Ana, CA 92701, or by calling (714) 558-6200.

The County is currently setting aside contributions of 0.4% for AFSCME, 0.4% for OCAA, 3.3% for AOCDS, 6.9% for law enforcement management, 3.9% for the Probation Department safety personnel, and 4.0% of payroll for all other labor groups, which is the ARC for those groups. Additionally, effective July 10, 2015, contributions by employees represented by AOCDS and ACLEM hired before April 4, 2009 were reduced from 2.6% to 1.6% of base, while employees hired on or after April 4, 2009 were reduced from 1% to 0%.

Funds were initially deposited into the Trust in December 2007, with subsequent deposits made throughout each fiscal year. The costs to administer the Trust are paid from the Trust.

Actuarial Methods and Assumptions: The County contracts with an outside actuarial consultant to prepare a biennial actuarial valuation in conformance with GASB Statement No. 45. The County received a June 30, 2015 valuation for FY 2015-16, 2016-17 and 2017-18 for the Retiree Medical Plan (the Report). Among the actuarial methods and assumptions used in the Report are:

- The entry age normal actuarial cost method
- Closed period amortization of the June 30, 2008 UAAL over 29 years as a level percentage of payroll (21 years remaining as of June 30, 2016)
- A 7.25% long-term expected rate of return on funds held in the Trusts
- A 3.50% per annum payroll increase assumption
- A 3.00% per annum general inflation rate assumption
- The assumed annual increases in the monthly Grant of 3% for non-AFSCME employees and 5% for AFSCME employees. The healthcare trend was assumed to be greater than or equal to the annual increase to the Grant through 2021 and beyond. Therefore, healthcare trend rates have little impact on the projected benefits and the UAAL due to the 3% (or 5% for AFSCME) cap on Grant annual increases.
- There are an estimated 26,218 participants in the plan of which 17,925 are employees, 25 are deferred retirees, and 8,268 are retirees.

Annual OPEB Cost and Net OPEB Obligation/(Asset): The County's annual OPEB cost is calculated based on the ARC, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of time not to exceed 30 years.

(Dollar Amounts in Thousands)

18. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

County of Orange Retiree Medical Plan (Continued)

Annual OPEB Cost and Net OPEB Obligation/(Asset) (Continued)

The following table shows the components of the County's annual OPEB cost, the amount actually contributed to the 115 and 401(h) Trusts and changes in the County's Net OPEB Obligation (NOO) for the current year:

	FY 2015-16
Total Annual Required Contribution	$ 44,368
Interest on Net OPEB Asset	(3,470)
Amortization on Net OPEB Asset	3,541
Annual OPEB Cost	44,439
Contributions Made	(42,490)
Decrease in Net OPEB Asset	1,949
Net OPEB Asset, Beginning of year	(45,056)
Net OPEB Asset, End of year	$ (43,107)

The County's annual OPEB Cost, the percentage of annual OPEB cost contribution to the plan, and the NOO for FY 2015-16 and two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB (Asset)
6/30/2014	$ 43,136	116%	$ (48,729)
6/30/2015	44,854	92%	(45,056)
6/30/2016	44,439	96%	(43,107)

Funded Status and Funding Progress: The funded status of the OPEB Plan as of June 30, 2015 is as follows:

Actuarial Accrued Liability (AAL)	$ 614,500
Actuarial Value of Plan Assets	217,556
Unfunded Actuarial Accrued Liability (UAAL)	$ 396,944
Funded Ratio (Actuarial Value of Plan Assets/AAL)	35.4%
Covered Payroll	$ 1,188,727
UAAL as Percentage of Covered Payroll	33.4%

The preceding noted actuarial accrued liability was based on the June 30, 2015 actuarial valuation. Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial valuations contained in the report involve estimates of the values of reported amounts and assumptions about the probability of events far into the future and will be subject to continual revision as they reflect a long-term perspective. Assumptions used in the report also include techniques designed to reduce short-term volatility in AAL and the actuarial value of assets. Current estimates of the funded status and trend information about the funding progress and the employer contributions are presented in the Required Supplementary Information section following the notes to the basic financial statements.

18. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

County of Orange Health Reimbursement Arrangement (HRA)

Plan Description: On October 23, 2007, the Board approved and adopted a Memorandum of Understanding (MOU) agreement with the AOCDS. The MOU restructured the Retiree Medical Plan and established a Defined Contribution Plan (Health Reimbursement Arrangement) to replace the Retiree Medical Plan for new employees, and to supplement the current employees' frozen service hour accruals for the Grant.

On June 24, 2008, the Board approved the County of Orange Health Reimbursement Arrangement (HRA) Plan Document. The HRA Plan is not required by the Retirement Law. The plan is intended to fund the reimbursement accounts of eligible employees on a pre-tax basis and reimburse the eligible unreimbursed and substantiated qualified medical expenses of retired participants.

On March 10, 2009, the Board approved the restructuring of the Retiree Medical Plan and establishment of a Defined Contribution Plan HRA for employees represented by ACLEM effective June 19, 2009. The HRA replaces the Retiree Medical Plan for new employees, and supplements the current ACLEM employees' frozen service hour accruals for the Grant.

On May 12, 2015, the Board approved the restructuring of the Retiree Medical Plan and establishment of a Defined Contribution Plan HRA for employees represented by OCAA effective July 8, 2016. The HRA will replace the Retiree Medical Plan for all active attorney employees.

Administration of the HRA by the third party administrator began in August 2009. The HRA is intended to comply with the requirements of IRC Sections 105 and 106 and meets the requirements of a health reimbursement arrangement as defined under IRS Notice 2002-45. The contributions made to reimbursement accounts, any investment gains and qualified medical expenses reimbursed under this plan are intended to be eligible for exclusion from the gross income of eligible employees, participants and retired participants (including the spouses and dependents of each) under IRC Section 105(b). The HRA may be amended by the employer or the plan administrator to comply with federal, state, or local laws, statues, regulations, or guidelines. The Plan Document was amended and restated on January 1, 2011 to reflect changes to the definition of dependent due to healthcare reform.

The Plan Document was amended and restated on June 1, 2016 to provide for the transition of the OCAA to the HRA Plan in July 2016. Prior employee contributions for employees represented by OCAA to the retiree medical program and the interest earnings thereon through, July 5, 2016 were transferred as a lump sum deposit for eligible employees to their HRA accounts.

As of June 30, 2016, the plan had 2,072 active and 572 inactive participants.

Funding Policy: Employer and mandatory employee contributions were effective October 12, 2007, for employees represented by AOCDS and were effective June 19, 2009, for employees represented by ACLEM. Employer and mandatory employee contributions were effective July 8, 2016, for OCAA represented employees. All contributions made to the HRA are deemed to be employer contributions. Employee contributions for employees represented by each of the bargaining units are mandatory pursuant to their bargaining unit MOU and mandatory pursuant to Board action. On March 15, 2016, the Board approved for employees represented by AOCDS, an increase in the County's contribution from 3.0% to 5.0% of base salary each pay period. Furthermore, required contributions by employees represented by AOCDS were decreased from 2.0% to 0% of base salary for each pay period. Employee contributions for employees represented by ACLEM and OCAA are mandatory pursuant to the MOU. For employees represented by ACLEM, the County contributes 1.0% of base salary each pay period and employees are also required to contribute 1.0% of base salary each pay period. When implemented, for employees represented by OCAA, the County will contribute 1.0% of base salary each pay period and employees will also be required to contribute 1.0% of base salary each pay period.

(Dollar Amounts in Thousands)

18. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

County of Orange Health Reimbursement Arrangement (HRA) (Continued)

Funding Policy (Continued)

ICMA Retirement Corporation serves on behalf of the County as the third party administrator of the HRA. Contributions to the HRA Plan default to the age-appropriate target-date fund upon initial enrollment. Once enrolled, HRA participants may self-direct the investment of plan contributions into any of a number of eligible investment options offered under the HRA. As of June 30, 2016, the value of HRA assets was $78,286.

Administrative Cost: Annual administrative fees include a plan asset fee of 0.40% and annual account fee of $80. Each quarter, 25% of the fees are assessed to participant accounts and are reflected on participants' quarterly statements. No employer-level fees are charged for the Plan.

Condensed Financial Statements

In lieu of separately issued financial statements for the County administered postemployment health care benefit trust funds, condensed financial statements are presented below as of and for the year ended June 30, 2016:

Statement of Fiduciary Net Position	Total	Retiree Medical Plan (Combined 401(h) and 115 Trusts)	Health Reimbursement Arrangement Plan
Assets			
Pooled Cash/Investments	$ 7,257	$ 7,211	$ 46
Restricted Cash and Investments			
Restricted Investments with Trustee	77,716	--	77,716
Restricted Cash with OCERS	214,769	214,769	--
Interest Receivable	58	58	--
Due from Other Governmental Agencies	3,778	3,254	524
Total Assets	303,578	225,292	78,286
Net Position			
Restricted for OPEB Benefits	303,578	225,292	78,286
Total Net Position	$ 303,578	$ 225,292	$ 78,286

Statement of Changes in Fiduciary Net Position	Total	Retiree Medical Plan (Combined 401(h) and 115 Trusts)	Health Reimbursement Arrangement Plan
Additions:			
Employer Contributions	$ 51,349	$ 42,490	$ 8,859
Employee Contributions	2,310	2,310	--
Interest and Investment Income/(Loss)	(2,340)	(1,504)	(836)
Less: Investment Expense	(241)	(8)	(233)
Total Additions	51,078	43,288	7,790
Deductions:			
Benefits Paid to Participants	32,180	30,533	1,647
Administrative Expense	90	90	--
Total Deductions	32,270	30,623	1,647
Change in Net Position	18,808	12,665	6,143
Net Position at July 1, 2015	284,770	212,627	72,143
Net Position at June 30, 2016	$ 303,578	$ 225,292	$ 78,286

19. CONTINGENCIES

Estimated Liability for Litigation and Claims

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the County. To the extent the outcome of such litigation has been determined to result in probable financial loss to the County, a liability has been accrued in the accompanying financial statements. Litigation where loss to the County is reasonably possible has not been accrued and at this time an estimate cannot be made. For information regarding accrued liabilities for self-insurance claims incurred but not reported, refer to Note 15, Self-Insurance.

Sales and Use Taxes

The Board of Equalization (BOE) recently participated in an Internal Accounting and Administrative Controls Review by the California State Controller's Office (SCO). The SCO released a report in November 2015 identifying several issues with the allocation of the Sales and Use Taxes for the period of July 1, 2011 through March 31, 2016. The SCO recommendations contain some future negative adjustments that would potentially affect the County's Proposition 172 Public Safety Sales Tax revenues, 1991 Realignment and 2011 Realignment revenues. The BOE is currently working with the California Department of Finance (DOF) to determine the potential adjustments. The DOF has assured the BOE that any retroactive adjustments will be made in partnership with localities and conducted in such a manner as to minimize fiscal impacts. The amount of impact to the County is unknown at this time.

20. SUBSEQUENT EVENTS

The following events occurred subsequent to June 30, 2016:

Teeter Plan Notes: On July 13, 2016, the County issued an additional $31,536 in Teeter Plan Series B Notes to finance the purchase of the delinquent property tax receivables associated with the Teeter Plan, leaving an outstanding balance of $61,727. Proceeds of this issuance paid the participating agencies in the Teeter Plan the full amount of their taxes from the secured property tax roll. For additional information regarding the Teeter Plan Series B Notes, refer to Note 10, Long-Term Obligations.

Moody's Credit Rating Upgrades: On October 4, 2016, Moody's Investors Service upgraded the ratings on the County's 1991 Civic Center Parking Facilities Project Refunding Certificates of Participation, 2005 Lease Revenue Refunding Bonds, 2006 Lease Revenue Bonds, and the Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2012 to Aa2 from Aa3.

Labor Negotiations: On September 6, 2016, the Board approved and adopted the 2016 – 2019 Memorandum of Understanding (MOU) between the County of Orange and the Association of Orange County Deputy Sheriffs for the Peace Officer and Supervising Peace Officer Unit for the period of July 1, 2016 through June 30, 2019. The estimated total cost resulting from this labor negotiation is $7,200 ($4,300 Net County Cost) over the term of the MOU. $1,100 ($651 Net County Cost) of the total estimated cost will occur in FY 2016-17; $2,600 ($1,600 Net County Cost) will occur in FY 2017-18; $3,500 ($2,100 Net County Cost) will occur in FY 2018-19.

On December 13, 2016, the Board approved and adopted the 2016-2019 MOU between the County of Orange and the Teamsters Local 952, which will ratify the terms and conditions of employment. The MOU will be effective upon Board of Supervisors' adoption through June 20, 2019. The estimated total cost incurred over the term of the MOU is $5,527, $109 of which is Net County Cost. $727 ($14 Net County Cost) of the total estimated costs will occur in FY 2016-2017; $2,000 ($40 Net County Cost) will occur in FY 2017-2018; $2,800 ($55 Net County Cost) will occur in FY 2018-2019.

Investment Policy Statement: On November 22, 2016, the Board of Supervisors adopted Resolution 16-115 approving the 2017 Investment Policy Statement (IPS) and delegating investment and deposit for safekeeping

20. SUBSEQUENT EVENTS (Continued)

Investment Policy Statement (Continued)

authority to the Treasurer-Tax Collector for calendar year 2017. The main changes to the 2017 IPS is the decreasing of the allowed maturity for Negotiable CD's and Medium Term Notes from five years to three years and the increasing of the issuer limit of U.S. Government Agency Securities to 50% from 33%.

Main St, Huntington Beach

ORANGE COUNTY AUDITOR-CONTROLLER

CALIFORNIA

Required Supplementary Information
(Dollar Amounts in Thousands)

Orange County Extra-Help Defined Benefit Plan

Schedule of Changes in the Collective Plan Net Pension Liability and Related Ratios

	2016	2015	2014
Total Pension Liability			
Service cost	$ --	$ --	$ --
Interest	435	271	282
Difference between expected and actual experience	73	--	--
Changes of assumptions	73	--	--
Benefit payments, including refunds of member contributions	(424)	(522)	(695)
Net change in Total Pension Liability	157	(251)	(413)
Total Pension Liability-beginning	8,341	8,592	9,005
Total Pension Liability-ending (a)	$ 8,498	$ 8,341	$ 8,592
Plan Fiduciary Net Position			
Contributions-employer	$ 784	$ 421	$ 421
Contributions-member	--	--	--
Net investment income	123	17	15
Investment Expense	(4)	--	--
Benefit payments, including refunds of member contributions	(428)	(522)	(695)
Administrative expense (1)	--	--	--
Other	7	--	--
Net change in Plan Fiduciary Net Position	482	(84)	(259)
Plan Fiduciary Net Position- beginning	5,117	5,201	5,460
Plan Fiduciary Net Position-ending (b)	$ 5,599	$ 5,117	$ 5,201
Plan Net Pension Liability-ending (a) – (b)	$ 2,899	$ 3,224	$ 3,391
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	65.89%	61.35%	60.53%
Covered employee payroll	$ 1,747	$ 1,829	$ 1,876
Plan Net Pension Liability as a percentage of covered employee payroll	165.94%	176.27%	180.76%

(1) Administrative expense does not round up to $1 in thousands.

Schedule of Investment Returns

	2016	2015	2014
Actual money-weighted rate of return, net of investment expense	2.22%	0.35%	0.26%

The schedule is presented to show information for 10 years. However, a full 10-year trend is currently not available; the County will be adding years in the future.

(Dollar Amounts in Thousands)

Orange County Extra-Help Defined Benefit Plan (Continued)

Schedule of County's Proportionate Share of the Net Pension Liability

	2016	2015
County's proportion of the net pension liability	98.12%	98.12%
County's proportionate share of the net pension liability	$ 2,845	$ 3,163
Covered-employee payroll	$ 1,747	$ 1,829
County's proportionate share of the net pension liability as a percentage of its covered-employee payroll	162.85%	172.94%
Plan fiduciary net position as a percentage of the total pension liability	65.89%	61.35%

Schedule of Collective Plan Contributions

	2016	2015	2014
Actuarially determined contribution	$ 784	$ 421	$ 421
Contributions in relation to the actuarially determined contribution	784	421	421
Contribution deficiency (excess)	$ --	$ --	$ --
Covered-employee payroll	$ 1,747	$ 1,829	$ 1,876
Contributions as a percentage of covered-employee payroll	44.88%	23.02%	22.44%

Schedule of County Contributions

	2016	2015	2014
Actuarially determined contribution	$ 769	$ 413	$ 421
Contributions in relation to the actuarially determined contribution	769	413	421
Contribution deficiency (excess)	$ --	$ --	$ --
Covered employee payroll	$ 1,747	$ 1,829	$ 1,876
Contributions as a percentage of covered - employee payroll	44.02%	22.58%	22.44%

The schedules are presented to show information for 10 years. However, a full 10-year trend is currently not available; the County will be adding years in the future.

(Dollar Amounts in Thousands)

Orange County Extra-Help Defined Benefit Plan (Continued)

Notes to Schedule

Valuation date	July 01, 2015
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Projected Unit Credit
Amortization method	Level dollar, open
Remaining amortization period	5 years
Asset valuation method	Market Value
Inflation	3.00%
Salary increases	n/a
Investment rate of return	5.25%, net of investment expenses
Retirement age	100% retirement at age 65
Participation assumption	100%
Mortality	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020
Actuarial Equivalence for Lump Sums – Mortality	417(e) lump sum table
Actuarial Equivalence for Lump Sums – Interest Rate	30-year Treasury rate with look-back month of November, current rates grading into 5% long-term assumption

Orange County Employees Retirement System (OCERS)

Schedule of County's Proportionate Share of the Net Pension Liability [1]

	2016	2015	2014
County's proportion of the net pension liability	76.83%	76.68%	74.20%
County's proportionate share of the net pension liability	$ 4,391,967	$ 3,897,223	$ 3,925,919
Covered-employee payroll [2]	$ 1,118,395	$ 1,198,458	$ 1,176,008
County's proportionate share of the net pension liability as a percentage of its covered-employee payroll	392.70%	325.19%	333.83%
Plan fiduciary net position as a percentage of the total pension liability	65.66%	68.16%	66.88%

(1) Information is from OCERS' actuary report for OCERS' fiscal year ended December 31, 2015.

(2) OCERS implemented GASB Statement No. 82 early. In accordance with GASB Statement No. 82, payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions.

The schedule is presented to show information for 10 years. However, a full 10-year trend is currently not available; the County will be adding years in the future.

(Dollar Amounts in Thousands)

Orange County Employees Retirement System (OCERS) (Continued)

Schedule of County Contributions (1)

	2016	2015
Actuarially determined contribution	$ 358,103	$ 340,626
Contributions in relation to the actuarially determined contribution	358,103	340,626
Contribution deficiency (excess)	$ --	$ --
Covered employee payroll (2)	$ 1,118,395	$ 1,198,458
Contributions as a percentage of covered - employee payroll	32.02%	28.42%

(1) Information is from OCERS' actuary report for OCERS' fiscal year ended December 31, 2015.

(2) Source of covered employee payroll is from OCERS, who implemented GASB Statement No. 82 early. In accordance with GASB Statement No. 82, payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions.

The schedule is presented to show information for 10 years. However, a full 10-year trend is currently not available; the County will be adding years in the future.

Orange County Retiree Medical Plan

County of Orange Retiree Medical Plan
Schedule of Funding Progress
For Years Ended June 30

Actuarial Valuation as of June 30 (2)	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a=c)	Funded Ratio (a/b)	Annual Covered Payroll (d)	UAAL as a Percentage of Covered Payroll (c/d)
2011	$ 116,804	$ 528,639	$ 411,835	22.1%	$ 1,273,636	32.3%
2013	155,702	573,763	418,061	27.1%	1,217,052	34.4%
2015	217,556	614,500	396,944	35.4%	1,188,727	33.4%

(1) The County’s outside actuarial consultant prepares a biennial actuarial valuation in conformance with GASB Statement Nos. 43 and 45.

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Welfare Building, 1970

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

These funds are used to account for the proceeds of specific revenue sources (other than the permanent fund or for major capital projects) that have either legal or operational requirements to restrict expenditures for specified purposes.

Parking Facilities
This fund is used to account for revenues and expenditures related to parking facilities. This includes costs to lease parking spaces for County staff, costs and revenue from the Manchester and Hall of Administration lots, interest revenue, and the County's operating and maintenance costs.

Service Areas, Lighting, Maintenance and Assessment Districts
This group of funds is used to account for the construction of public facilities from the proceeds of various Mello-Roos districts (also known as Community Facilities Districts) bond issues, special assessment district bond issues, and interfund transfers from County Service Area operating funds. Upon completion of construction, the public facilities are transferred to the Special Assessment and Community Facilities Districts. It is also used to account for local park and recreation facilities, highway lighting, and street sweeping services within unincorporated areas of the County. Revenues consist primarily of property taxes and state grants.

Other Environmental Management
This group of funds is used to account for Local Redevelopment Authority (LRA) activities, fees from violations of fish and game laws, usage of various state tidelands held in trust by the County, registration of off-highway vehicles, and motor vehicle fees levied by the South Coast Air Quality Management District.

Tobacco Settlement
This fund accounts for tobacco settlement monies allocated to the County from the State of California, pursuant to the Master Settlement Agreement concluded on November 23, 1998 between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories. On November 7, 2000, Orange County voters passed Measure H. This measure requires the County to utilize its share of the national tobacco litigation settlement revenues in the following percentages:

- *80% for specified health care services*
- *20% for public safety*

Community and Welfare Services
This group of funds is used to account for the Orange County Workforce Investment Act, Welfare-to-Work, Shelter Care Facilities, In Home Supportive Services, Housing and Community Development, Substance Abuse Treatment, and Other Community and Welfare Social Programs. Revenues consist primarily of Federal grants passed through the State, as well as State grants.

OC Parks
This fund accounts for the development and maintenance of County tidelands and related aquatic recreational facilities, as well as the acquisition, operation and maintenance of County beaches, inland, regional park facilities and community park sites in the unincorporated areas. Revenues consist primarily of property taxes, state aid, lease and concession revenues, and park and recreation fees.

OC Dana Point Harbor
This fund accounts for monies received primarily through rent and concession revenues which are dedicated to providing public coastal access, environmental stewardship, and a diverse regional recreational facility so all users and visitors may experience the unique Dana Point Harbor resource in a safe and enjoyable way.

Housing Asset
The Orange County Development Agency (OCDA) was dissolved effective February 1, 2012 in accordance with Health and Safety Code 34172. The Orange County Housing Authority assumed the housing functions

previously performed by OCDA. The Housing Asset Fund was established and the housing assets from the OCDA Low and Moderate Income Housing Fund were transferred into the Fund.

Schedule I County-Administered Accounts
These funds are used to account for the portion of the 1996 Recovery Certificates of Participation which were used to reimburse certain County-administered accounts for their allocated share of the Orange County Investment Pool loss, in accordance with the County's Modified Second Amended Plan of Adjustment ("Plan of Adjustment"), Exhibit 8 - "Schedule I - County-Administered Accounts." In addition, on February 2, 2000, the Bankruptcy Court ordered a segregation of litigation proceeds to ensure indemnification of the representative, Tom Hayes, and others pursuant to the plan, to pay future expenses, fees, and charges incurred by the representative, and to pay litigation costs. The residual balances in these funds were distributed in FY 2015-16.

OC Public Libraries
This fund accounts for library services for the unincorporated areas as well as some of the incorporated areas within the County. Property taxes provide most of the fund's revenue and licenses, permits, federal and state aid, and charges for services provide the remaining revenue.

Plan of Adjustment Available Cash
This group of funds is used to account for monies set aside, pursuant to the Plan of Adjustment, for specified parties to the 1994 bankruptcy and for County-Administered Accounts. These monies are then distributed from these funds in accordance with the provisions in the Plan of Adjustment.

Health Care Programs
This group of funds is used to account for Board-approved Realignment Reserves for Health Care, Medi-Cal Mental Health Managed Care programs, Medi-Cal Administrative Activities and Targeted Case Management, Bioterrorism Preparedness grant funds, Emergency Medical Services allocations, and other purpose-restricted revenues related to health care programs. Revenues consist primarily of State grants and allocations, and Federal grants passed through the State.

Roads
This fund accounts for proceeds restricted for the maintenance and construction of roadways, and for specialized engineering services to other governmental units and the public. Revenues consist primarily of the County's share of state highway users' taxes, federal funds, and charges for engineering services provided.

Orange County Housing Authority
This fund is used to account for revenues received from the Federal Government for Section 8 Rental Assistance Program expenditures. This program assists low-income families to obtain decent, safe and sanitary housing through a system of rental subsidies.

Other Governmental Resources
This group of funds is used to account for fees charged for property characteristics information that are purpose-restricted for technological and capital acquisitions and/or improvements.

NONMAJOR GOVERNMENTAL FUNDS (Continued)

DEBT SERVICE FUNDS

These funds are used to account for the accumulation and disbursement of taxes and other revenues for the periodic payment of principal and interest on general long-term debt that includes general obligation, revenue, and demand bond issues.

Teeter Plan Notes
This fund accounts for the financing of the County's purchase of delinquent taxes receivable pursuant to the Teeter Plan. The Teeter Plan is an alternate secured property tax distribution plan, whereby, the County distributes 100% of the local secured levy to the taxing agencies participating in the Teeter Plan and in exchange receives the right to keep the delinquent taxes, penalties and interest.

Orange County Public Facilities Corporation Bonds, Master Lease
This non-budgeted fund is used to account for Orange County Public Facilities Corporation Revenue Bonds (governmental fund type components only) and for Master Lease Obligations.

Pension Obligation Bonds
This fund is used to account for the debt service expenditures for the Orange County Taxable Pension Obligation Bonds.

South OC Public Financing Authority
This non-budgeted fund was established to account for the debt service expenditures for the South Orange County Financing Authority (SOCPFA). Included is the Lease Revenue Refunding Bonds, Series 2012, which were issued to redeem the outstanding OCPFA 2012 JJC bonds and pay costs relating to the issuance. On June 2, 2016 SOCPF issued the Central Utility Facility Lease Revenue Bonds, Series 2016 to finance the acquisition, construction and installation of certain capital improvements.

Orange County Public Financing Authority
This fund was established to account for the debt service expenditures for the Orange County Public Financing Authority (OCPFA). On August 16, 2005, OCPFA issued Lease Revenue Refunding Bonds Series 2005 to defease certain non-callable Recovery COPs, refund the remaining COPs, fund a debt service reserve fund, and pay the cost of issuance of the Series 2005 Bonds.

CAPITAL PROJECTS FUNDS

These funds are used to account for the acquisition and construction of major capital facilities (other than those financed by the proprietary funds).

Criminal Justice Facilities
This group of funds is used to account for monies received from surcharges and penalty assessments on offenses used for capital improvements to court and other criminal justice facilities.

Countywide Capital Projects Non-General Fund
This fund was established to budget and account for the multi-year approved capital projects funded primarily with Net County Cost or general purpose revenue.

PERMANENT FUND

A Permanent Fund is used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs, that is, for the benefit of the government or its citizenry.

Regional Park Endowment
This fund is used to account for costs associated with the repair and maintenance of a mitigation area in Limestone Regional Park.

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(Dollar Amounts in Thousands)

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

	Total Nonmajor Governmental Funds	Special Revenue: Parking Facilities	Special Revenue: Service Areas, Lighting, Maintenance, & Assessment Districts	Special Revenue: Other Environmental Management
ASSETS				
Pooled Cash/Investments	$ 642,887	$ 3,447	$ 55,583	$ 4,700
Restricted Cash and Investments with Trustee	226,789	--	--	--
Investments	84	--	--	--
Deposits In-Lieu of Cash	25	--	--	--
Receivables				
Accounts	2,276	21	--	1
Taxes	20,171	--	18	--
Interest/Dividends	923	7	89	8
Deposits	2,159	--	--	--
Allowance for Uncollectible Receivables	(84)	--	--	--
Due from Other Funds	29,316	409	--	--
Due from Other Governmental Agencies	11,471	276	--	40
Prepaid Costs	14,087	56	--	--
Notes Receivable, Net	27,900	--	--	368
Total Assets	$ 978,004	$ 4,216	$ 55,690	$ 5,117
LIABILITIES				
Accounts Payable	$ 34,889	$ 189	$ 15,612	$ 8
Retainage Payable	2,418	--	1	--
Salaries and Employee Benefits Payable	4,764	27	--	--
Interest Payable	24	--	--	--
Deposits from Others	39,064	--	--	--
Due to Other Funds	42,882	132	13	31
Due to Component Unit	2	--	--	--
Due to Other Governmental Agencies	9,048	765	2,690	--
Unearned Revenue	19,721	--	--	--
Advances from Other Funds	7,800	--	--	--
Total Liabilities	160,612	1,113	18,316	39
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Intergovernmental Revenues	5,140	--	--	--
Unavailable Revenue - Property Taxes	1,620	--	9	--
Unavailable Revenue - Long-Term Notes Receivables	368	--	--	368
Unavailable Revenue - Other	12	--	--	--
Total Deferred Inflows of Resources	7,140	--	9	368
FUND BALANCES				
Nonspendable	14,280	56	--	--
Restricted	666,190	2,207	37,365	1,869
Assigned	129,782	840	--	2,841
Total Fund Balances	810,252	3,103	37,365	4,710
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 978,004	$ 4,216	$ 55,690	$ 5,117

(Dollar Amounts in Thousands)

Tobacco Settlement	Community & Welfare Services	OC Parks	OC Dana Point Harbor	Housing Asset	
					ASSETS
$ 14,535	$ 108,751	$ 97,781	$ 67,978	$ 12,912	Pooled Cash/Investments
--	--	--	--	--	Restricted Cash and Investments with Trustee
--	84	--	--	--	Investments
--	--	--	25	--	Deposits In-Lieu of Cash
					Receivables
--	100	1,066	421	--	Accounts
--	--	1,330	--	--	Taxes
--	172	163	110	21	Interest/Dividends
--	--	7	2,083	--	Deposits
--	--	(11)	--	--	Allowance for Uncollectible Receivables
--	3,977	9	--	15	Due from Other Funds
--	2,726	198	75	--	Due from Other Governmental Agencies
--	240	4,166	227	--	Prepaid Costs
--	6,403	--	--	19,074	Notes Receivable, Net
$ 14,535	$ 122,453	$ 104,709	$ 70,919	$ 32,022	Total Assets
					LIABILITIES
$ --	$ 2,508	$ 2,973	$ 1,242	$ --	Accounts Payable
--	68	767	537	--	Retainage Payable
--	70	1,463	64	--	Salaries and Employee Benefits Payable
--	--	--	--	--	Interest Payable
--	1	1,370	2,938	--	Deposits from Others
2,025	17,524	2,511	711	154	Due to Other Funds
--	--	--	--	--	Due to Component Unit
--	773	19	101	--	Due to Other Governmental Agencies
--	410	1,654	2	--	Unearned Revenue
--	--	--	--	--	Advances from Other Funds
2,025	21,354	10,757	5,595	154	Total Liabilities
					DEFERRED INFLOWS OF RESOURCES
--	992	--	--	--	Unavailable Revenue - Intergovernmental Revenues
--	--	945	--	--	Unavailable Revenue - Property Taxes
--	--	--	--	--	Unavailable Revenue - Long-Term Notes Receivables
--	--	--	--	--	Unavailable Revenue - Other
--	992	945	--	--	Total Deferred Inflows of Resources
					FUND BALANCES
--	240	4,166	227	--	Nonspendable
12,510	58,663	76,842	65,097	31,868	Restricted
--	41,204	11,999	--	--	Assigned
12,510	100,107	93,007	65,324	31,868	Total Fund Balances
$ 14,535	$ 122,453	$ 104,709	$ 70,919	$ 32,022	Total Liabilities, Deferred Inflows of Resources and Fund Balances

(Dollar Amounts in Thousands)

COMBINING BALANCE SHEET (Continued)
NONMAJOR GOVERNMENTAL FUNDS

	Special Revenue				
	Schedule I County - Administered Accounts	OC Public Libraries	Plan of Adjustment Available Cash	Health Care Programs	Roads
ASSETS					
Pooled Cash/Investments	$ 15	$ 36,394	$ 2,378	$ 50,432	$ 101,324
Restricted Cash and Investments with Trustee	--	--	--	--	--
Investments	--	--	--	--	--
Deposits In-Lieu of Cash	--	--	--	--	--
Receivables					
Accounts	--	25	--	--	145
Taxes	--	969	--	--	--
Interest/Dividends	--	58	4	--	188
Deposits	--	--	--	--	69
Allowance for Uncollectible Receivables	--	--	--	--	(4)
Due from Other Funds	--	90	11,222	--	1,820
Due from Other Governmental Agencies	--	30	--	713	6,221
Prepaid Costs	--	4,168	--	--	3,827
Notes Receivable, Net	--	--	--	--	--
Total Assets	$ 15	$ 41,734	$ 13,604	$ 51,145	$ 113,590
LIABILITIES					
Accounts Payable	$ --	$ 291	$ --	$ --	$ 6,926
Retainage Payable	--	25	--	--	690
Salaries and Employee Benefits Payable	--	1,469	--	--	1,230
Interest Payable	--	--	--	--	--
Deposits from Others	--	447	--	--	34,308
Due to Other Funds	--	4,615	--	7,503	2,585
Due to Component Unit	--	--	--	2	--
Due to Other Governmental Agencies	--	6	--	4,629	41
Unearned Revenue	--	13	--	5,073	12,569
Advances from Other Funds	--	--	--	--	--
Total Liabilities	--	6,866	--	17,207	58,349
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Intergovernmental Revenues	--	--	--	--	4,148
Unavailable Revenue - Property Taxes	--	666	--	--	--
Unavailable Revenue - Long-Term Notes Receivables	--	--	--	--	--
Unavailable Revenue - Other	--	--	--	--	--
Total Deferred Inflows of Resources	--	666	--	--	4,148
FUND BALANCES					
Nonspendable	--	4,168	--	--	3,827
Restricted	15	30,034	13,604	20,350	47,266
Assigned	--	--	--	13,588	--
Total Fund Balances	15	34,202	13,604	33,938	51,093
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 15	$ 41,734	$ 13,604	$ 51,145	$ 113,590

(Dollar Amounts in Thousands)

Special Revenue		Debt Service			
Orange County Housing Authority	Other Governmental Resources	Teeter Plan Notes	Orange County Public Facilities Corporation Bonds, Master Lease	Pension Obligation Bonds	
					ASSETS
$ 11,205	$ 1,194	$ 30,716	$ --	$ 107	Pooled Cash/Investments
3,559	--	25	3,154	100,493	Restricted Cash and Investments with Trustee
--	--	--	--	--	Investments
--	--	--	--	--	Deposits In-Lieu of Cash
		--			Receivables
497	--	--	--	--	Accounts
--	--	17,854	--	--	Taxes
18	1	62	--	--	Interest/Dividends
--	--	--	--	--	Deposits
(69)	--	--	--	--	Allowance for Uncollectible Receivables
270	--	--	--	--	Due from Other Funds
772	--	--	--	--	Due from Other Governmental Agencies
1,403	--	--	--	--	Prepaid Costs
2,055	--	--	--	--	Notes Receivable, Net
$ 19,710	$ 1,195	$ 48,657	$ 3,154	$ 100,600	Total Assets
					LIABILITIES
$ 725	$ --	$ --	$ --	$ --	Accounts Payable
--	--	--	--	--	Retainage payable
441	--	--	--	--	Salaries and Employee Benefits Payable
--	--	24	--	--	Interest Payable
--	--	--	--	--	Deposits from Others
1,669	--	1	--	2	Due to Other Funds
--	--	--	--	--	Due to Component Unit
1	--	--	--	--	Due to Other Governmental Agencies
--	--	--	--	--	Unearned Revenue
--	--	--	--	--	Advances from Other Funds
2,836	--	25	--	2	Total Liabilities
					DEFERRED INFLOWS OF RESOURCES
--	--	--	--	--	Unavailable Revenue - Intergovernmental Revenues
--	--	--	--	--	Unavailable Revenue - Property Taxes
--	--	--	--	--	Unavailable Revenue - Long-Term Notes Receivables
--	--	--	--	--	Unavailable Revenue - Other
--	--	--	--	--	Total Deferred Inflows of Resources
					FUND BALANCES
1,403	--	--	--	--	Nonspendable
15,471	1,195	20,935	3,154	100,598	Restricted
--	--	27,697	--	--	Assigned
16,874	1,195	48,632	3,154	100,598	Total Fund Balances
$ 19,710	$ 1,195	$ 48,657	$ 3,154	$ 100,600	Total Liabilities, Deferred Inflows of Resources and Fund Balances

(Dollar Amounts in Thousands)

COMBINING BALANCE SHEET (Continued)
NONMAJOR GOVERNMENTAL FUNDS

	Debt Service		Capital Projects		Permanent
	South OC Public Financing Authority	Orange County Public Financing Authority	Criminal Justice Facilities	Countywide Capital Projects Non-General Fund	Regional Park Endowment
ASSETS					
Pooled Cash/Investments	$ --	$ --	$ 13,841	$ 29,258	$ 336
Restricted Cash and Investments with Trustee	63,994	55,564	--	--	--
Investments	--	--	--	--	--
Deposits In-Lieu of Cash	--	--	--	--	--
Receivables					
Accounts	--	--	--	--	--
Taxes	--	--	--	--	--
Interest/Dividends	--	--	21	--	1
Deposits	--	--	--	--	--
Allowance for Uncollectible Receivables	--	--	--	--	--
Due from Other Funds	--	--	6,099	5,405	--
Due from Other Governmental Agencies	--	--	420	--	--
Prepaid Costs	--	--	--	--	--
Notes Receivable, Net	--	--	--	--	--
Total Assets	$ 63,994	$ 55,564	$ 20,381	$ 34,663	$ 337
LIABILITIES					
Accounts Payable	$ --	$ --	$ 1,381	$ 3,034	$ --
Retainage payable	--	--	330	--	--
Salaries and Employee Benefits Payable	--	--	--	--	--
Interest Payable	--	--	--	--	--
Deposits from Others	--	--	--	--	--
Due to Other Funds	3,050	--	340	16	--
Due to Component Unit	--	--	--	--	--
Due to Other Governmental Agencies	--	--	23	--	--
Unearned Revenue	--	--	--	--	--
Advances from Other Funds	--	--	7,800	--	--
Total Liabilities	3,050	--	9,874	3,050	--
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Intergovernmental Revenues	--	--	--	--	--
Unavailable Revenue - Property Taxes	--	--	--	--	--
Unavailable Revenue - Long-Term Notes Receivables	--	--	--	--	--
Unavailable Revenue - Other	--	--	12	--	--
Total Deferred Inflows of Resources	--	--	12	--	--
FUND BALANCES					
Nonspendable	--	--	--	--	193
Restricted	60,944	55,564	10,495	--	144
Assigned	--	--	--	31,613	--
Total Fund Balances	60,944	55,564	10,495	31,613	337
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 63,994	$ 55,564	$ 20,381	$ 34,663	$ 337

ORANGE COUNTY AUDITOR-CONTROLLER

CALIFORNIA

(Dollar Amounts in Thousands)

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

		Special Revenue		
	Total Nonmajor Governmental Funds	Parking Facilities	Service Area, Lighting, Maintenance, & Assessment Districts	Other Environmental Management
Revenues				
Taxes	$ 114,697	$ --	$ 589	$ --
Licenses, Permits, and Franchises	1,985	--	--	--
Fines, Forfeitures and Penalties	12,459	--	--	--
Use of Money and Property	57,012	11,727	464	429
Intergovernmental	354,620	1,457	88,704	537
Charges for Services	52,077	303	29	549
Other	34,747	41	4	216
Total Revenues	627,597	13,528	89,790	1,731
Expenditures				
Current				
General Government	85,385	--	57,342	91
Public Protection	2,525	--	--	99
Public Ways and Facilities	92,348	7,574	184	188
Health and Sanitation	1,103	--	--	--
Public Assistance	180,386	--	--	--
Education	43,928	--	--	--
Recreation and Cultural Services	100,381	--	--	--
Capital Outlay	62,583	--	--	72
Debt Service				
Principal Retirement	113,484	--	--	--
Interest	35,578	--	--	--
Total Expenditures	717,701	7,574	57,526	450
Excess (Deficit) of Revenues Over Expenditures	(90,104)	5,954	32,264	1,281
Other Financing Sources (Uses)				
Transfers In	137,283	--	--	--
Transfers Out	(93,199)	(3,770)	(1)	--
Debt Issued	127,494	--	--	--
Premium on Debt Issued	11,724	--	--	--
Total Other Financing Sources (Uses)	183,302	(3,770)	(1)	--
Net Change in Fund Balances	93,198	2,184	32,263	1,281
Fund Balances - Beginning of Year	717,054	919	5,102	3,429
Fund Balances - End of Year	$ 810,252	$ 3,103	$ 37,365	$ 4,710

(Dollar Amounts in Thousands)

Tobacco Settlement	Community & Welfare Services	OC Parks	OC Dana Point Harbor	Housing Asset	
					Revenues
$ --	$ --	$ 66,375	$ --	$ --	Taxes
--	757	412	10	--	Licenses, Permits, and Franchises
--	--	47	254	--	Fines, Forfeitures and Penalties
128	1,362	11,240	26,148	267	Use of Money and Property
--	31,879	3,209	10	--	Intergovernmental
--	3,081	9,240	1,021	--	Charges for Services
25,946	1,043	1,530	89	35	Other
26,074	38,122	92,053	27,532	302	Total Revenues
					Expenditures
					Current
11	--	--	--	--	General Government
--	2,426	--	--	--	Public Protection
--	--	--	--	--	Public Ways and Facilities
--	--	--	--	--	Health and Sanitation
--	22,465	--	--	576	Public Assistance
--	--	--	--	--	Education
--	--	77,039	23,342	--	Recreation and Cultural Services
--	548	7,851	1,084	--	Capital Outlay
					Debt Service
--	--	--	--	--	Principal Retirement
--	--	--	--	--	Interest
11	25,439	84,890	24,426	576	Total Expenditures
26,063	12,683	7,163	3,106	(274)	Excess (Deficit) of Revenues Over Expenditures
					Other Financing Sources (Uses)
11	19,647	1,300	--	--	Transfers In
(25,643)	(25,161)	(132)	(18)	--	Transfers Out
--	--	--	--	--	Debt Issued
--	--	--	--	--	Premium on Debt Issued
(25,632)	(5,514)	1,168	(18)	--	Total Other Financing Sources (Uses)
431	7,169	8,331	3,088	(274)	Net Change in Fund Balances
12,079	92,938	84,676	62,236	32,142	Fund Balances - Beginning of Year
$ 12,510	$ 100,107	$ 93,007	$ 65,324	$ 31,868	Fund Balances - End of Year

(Dollar Amounts in Thousands)

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
NONMAJOR GOVERNMENTAL FUNDS

	Special Revenue				
	Schedule I County - Administered Accounts	OC Public Libraries	Plan of Adjustment Available Cash	Health Care Programs	Roads
Revenues					
Taxes	$ --	$ 47,733	$ --	$ --	$ --
Licenses, Permits, and Franchises	--	--	--	--	806
Fines, Forfeitures and Penalties	--	8	--	8,293	7
Use of Money and Property	9	386	40	396	780
Intergovernmental	--	439	--	6,206	66,105
Charges for Services	--	1,197	--	1,230	35,219
Other	--	654	2,344	1	1,819
Total Revenues	9	50,417	2,384	16,126	104,736
Expenditures					
Current					
General Government	6,029	--	20,879	--	--
Public Protection	--	--	--	--	--
Public Ways and Facilities	--	--	--	--	84,402
Health and Sanitation	--	--	--	1,103	--
Public Assistance	--	--	--	--	--
Education	--	43,928	--	--	--
Recreation and Cultural Services	--	--	--	--	--
Capital Outlay	--	284	--	--	30,578
Debt Service					
Principal Retirement	--	14	--	--	--
Interest	--	1	--	--	--
Total Expenditures	6,029	44,227	20,879	1,103	114,980
Excess (Deficit) of Revenues Over Expenditures	(6,020)	6,190	(18,495)	15,023	(10,244)
Other Financing Sources (Uses)					
Transfers In	--	--	11,222	127	--
Transfers Out	(1)	(46)	--	(14,626)	(465)
Debt Issued	--	--	--	--	--
Premium on Debt Issued	--	--	--	--	--
Total Other Financing Sources (Uses)	(1)	(46)	11,222	(14,499)	(465)
Net Change in Fund Balances	(6,021)	6,144	(7,273)	524	(10,709)
Fund Balances - Beginning of Year	6,036	28,058	20,877	33,414	61,802
Fund Balances - End of Year	$ 15	$ 34,202	$ 13,604	$ 33,938	$ 51,093

(Dollar Amounts in Thousands)

Special Revenue		Debt Service			
Orange County Housing Authority	Other Governmental Resources	Teeter Plan Notes	Orange County Public Facilities Corporation Bonds, Master Lease	Pension Obligation Bonds	
					Revenues
$ --	$ --	$ --	$ --	$ --	Taxes
--	--	--	--	--	Licenses, Permits, and Franchises
--	--	--	--	--	Fines, Forfeitures and Penalties
159	10	315	69	2,149	Use of Money and Property
156,074	--	--	--	--	Intergovernmental
13	195	--	--	--	Charges for Services
878	62	1	--	--	Other
157,124	267	316	69	2,149	Total Revenues
					Expenditures
					Current
--	3	210	--	44	General Government
--	--	--	--	--	Public Protection
--	--	--	--	--	Public Ways and Facilities
--	--	--	--	--	Health and Sanitation
157,345	--	--	--	--	Public Assistance
--	--	--	--	--	Education
--	--	--	--	--	Recreation and Cultural Services
20	--	--	--	--	Capital Outlay
					Debt Service
--	--	74,561	482	8,087	Principal Retirement
--	--	347	2,121	28,968	Interest
157,365	3	75,118	2,603	37,099	Total Expenditures
(241)	264	(74,802)	(2,534)	(34,950)	Excess (Deficit) of Revenues Over Expenditures
					Other Financing Sources (Uses)
--	--	--	2,401	--	Transfers In
(75)	(2)	--	--	--	Transfers Out
--	--	70,929	--	--	Debt Issued
--	--	--	--	--	Premium on Debt Issued
(75)	(2)	70,929	2,401	--	Total Other Financing Sources (Uses)
(316)	262	(3,873)	(133)	(34,950)	Net Change in Fund Balances
17,190	933	52,505	3,287	135,548	Fund Balances - Beginning of Year
$ 16,874	$ 1,195	$ 48,632	$ 3,154	$ 100,598	Fund Balances - End of Year

(Dollar Amounts in Thousands)

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
NONMAJOR GOVERNMENTAL FUNDS**

	Debt Service		Capital Projects		Permanent
	South OC Public Financing Authority	Orange County Public Financing Authority	Criminal Justice Facilities	Countywide Capital Projects Non-General Fund	Regional Park Endowment
Revenues					
Taxes	$ --	$ --	$ --	$ --	$ --
Licenses, Permits, and Franchises	--	--	--	--	--
Fines, Forfeitures and Penalties	--	--	3,850	--	--
Use of Money and Property	2	669	100	160	3
Intergovernmental	--	--	--	--	--
Charges for Services	--	--	--	--	--
Other	--	--	79	--	5
Total Revenues	2	669	4,029	160	8
Expenditures					
Current					
General Government	271	--	--	505	--
Public Protection	--	--	--	--	--
Public Ways and Facilities	--	--	--	--	--
Health and Sanitation	--	--	--	--	--
Public Assistance	--	--	--	--	--
Education	--	--	--	--	--
Recreation and Cultural Services	--	--	--	--	--
Capital Outlay	--	--	12,791	9,355	--
Debt Service					
Principal Retirement	4,920	25,420	--	--	--
Interest	906	3,235	--	--	--
Total Expenditures	6,097	28,655	12,791	9,860	--
Excess (Deficit) of Revenues Over Expenditures	(6,095)	(27,986)	(8,762)	(9,700)	8
Other Financing Sources (Uses)					
Transfers In	5,826	43,749	17,221	35,779	--
Transfers Out	(10,820)	(974)	(3,634)	(7,831)	--
Debt Issued	56,565	--	--	--	--
Premium on Debt Issued	11,724	--	--	--	--
Total Other Financing Sources (Uses)	63,295	42,775	13,587	27,948	--
Net Change in Fund Balances	57,200	14,789	4,825	18,248	8
Fund Balances - Beginning of Year	3,744	40,775	5,670	13,365	329
Fund Balances - End of Year	$ 60,944	$ 55,564	$ 10,495	$ 31,613	$ 337

ORANGE COUNTY AUDITOR-CONTROLLER

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(Dollar Amounts in Thousands)

BUDGETARY COMPARISON SCHEDULES
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance Positive (Negative)
Parking Facilities				
Revenues and Other Financing Sources				
Use of Money and Property	$ 2,983	$ 6,567	$ 5,830	$ (737)
Charges for Services	3,779	235	303	68
Other	16	16	41	25
Total Revenues and Other Financing Sources	6,778	6,818	6,174	(644)
Expenditures and Other Financing Uses				
Public Ways and Facilities:				
Parking Facilities	6,778	6,818	5,855	963
Total Expenditures and Other Financing Uses	6,778	6,818	5,855	963
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	--	--	319	$ 319
Fund Balances - Beginning of Year	1,292	1,292	1,292	
Net Decrease in Fund Balances - Non-Budgeted Fund	(774)	(774)	(774)	
Fund Balances - End of Year	$ 518	$ 518	$ 837	
Service Area, Lighting, Maintenance and Assessment Districts				
Revenues and Other Financing Sources				
Taxes	$ 569	$ 569	$ 589	$ 20
Use of Money and Property	10	16	310	294
Intergovernmental	4	4	4	--
Charges for Services	29	29	29	--
Other	98	98	4	(94)
Premiums on Bonds Issued	--	--	5,803	5,803
Bond Issuance Proceeds	--	85,000	82,896	(2,104)
Total Revenues and Other Financing Sources	710	85,716	89,635	3,919
Expenditures and Other Financing Uses				
General Government:				
Special Assessment-Top of the World Improvement	55	55	--	55
CFD 2002-1 Ladera Construction	--	741	741	--
CFD 2004-1 Ladera Construction	4	1,441	1,437	4
CFD 2015-1 RMV (Village of Esencia) Construction	--	85,000	55,163	29,837
Public Ways and Facilities:				
North Tustin Landscaping and Lighting Assessment District	2,996	2,996	136	2,860
County Service Area No. 13- La Mirada	18	18	9	9
County Service Area No. 20- La Habra	200	200	1	199
County Service Area No. 22- East Yorba Linda	105	120	39	81
Total Expenditures and Other Financing Uses	3,378	90,571	57,526	33,045
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(2,668)	(4,855)	32,109	$ 36,964
Fund Balances - Beginning of Year	5,100	5,100	5,100	
Fund Balances - End of Year	$ 2,432	$ 245	$ 37,209	
Other Environmental Management				
Revenues and Other Financing Sources				
Use of Money and Property	$ 399	$ 399	$ 418	$ 19
Intergovernmental	249	249	537	288
Charges for Services	75	75	549	474
Other	169	169	216	47
Total Revenues and Other Financing Sources	892	892	1,720	828
Expenditures and Other Financing Uses				
General Government:				
Real Estate Development Program	419	1,129	41	1,088
Air Quality Improvement	358	603	122	481
Public Protection:				
Survey Monument Preservation	331	331	100	231
Public Ways and Facilities:				
El Toro Improvement Fund	335	335	188	147
Total Expenditures and Other Financing Uses	1,443	2,398	451	1,947
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(551)	(1,506)	1,269	$ 2,775
Fund Balances - Beginning of Year	3,427	3,427	3,427	
Fund Balances - End of Year	$ 2,876	$ 1,921	$ 4,696	

(Dollar Amounts in Thousands)

BUDGETARY COMPARISON SCHEDULES
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE (Continued)

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance Positive (Negative)
Tobacco Settlement				
Revenues and Other Financing Sources				
Other	$ 25,708	$ 25,708	$ 25,946	$ 238
Total Revenues and Other Financing Sources	25,708	25,708	25,946	238
Expenditures and Other Financing Uses				
General Government:				
Orange County Tobacco Settlement Fund	34,690	37,752	25,529	12,223
Total Expenditures and Other Financing Uses	34,690	37,752	25,529	12,223
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(8,982)	(12,044)	417	$ 12,461
Fund Balances - Beginning of Year	12,044	12,044	12,044	
Fund Balances - End of Year	$ 3,062	$ --	$ 12,461	
Community and Welfare Services				
Revenues and Other Financing Uses				
Licenses, Permits, and Franchises	$ 1,100	$ 1,100	$ 757	$ (343)
Use of Money and Property	822	822	1,093	271
Intergovernmental	41,431	41,431	29,754	(11,677)
Charges for Services	3,506	3,506	3,081	(425)
Other	452	482	1,043	561
Transfers In	21,214	19,749	19,645	(104)
Total Revenues and Other Financing Sources	68,525	67,090	55,373	(11,717)
Expenditures and Other Financing Uses				
Public Assistance:				
MHSA Housing Fund	1,513	1,513	18	1,495
OC Animal Care Donations	--	30	--	30
Dispute Resolution Program	1,167	1,120	661	459
Domestic Violence Program	1,319	1,319	785	534
Facilities Development and Maintenance	12,343	12,343	394	11,949
Workforce Investment Act	23,297	22,918	14,729	8,189
County Executive Office- Single Family Housing	11,795	5,330	3,806	1,524
OC Housing	7,884	7,884	4,606	3,278
Strategic Priority Affordable Housing	143	143	52	91
In-Home Support Services Public Authority	1,723	1,723	1,427	296
SSA Donations and Fees	1,248	1,248	831	417
SSA Wraparound	28,982	29,067	19,937	9,130
CalHome Program Reuse Fund	655	655	27	628
OC Animal Shelter Fund	--	5,000	2,853	2,147
SARC Lease Conveyance	330	330	329	1
Total Expenditures and Other Financing Uses	92,399	90,623	50,455	40,168
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(23,874)	(23,533)	4,918	$ 28,451
Fund Balances - Beginning of Year	95,997	95,997	95,997	
Fund Balances - End of Year	$ 72,123	$ 72,464	$ 100,915	
OC Parks				
Revenues and Other Financing Sources				
Taxes	$ 62,668	$ 62,668	$ 66,366	$ 3,698
Licenses, Permits, and Franchises	205	205	412	207
Fines, Forfeitures and Penalties	10	10	47	37
Use of Money and Property	9,576	9,576	11,025	1,449
Intergovernmental	6,496	6,496	3,209	(3,287)
Charges for Services	7,019	7,019	9,240	2,221
Other	1,305	1,305	1,384	79
Transfers In	14,535	19,310	19,310	--
Total Revenues and Other Financing Sources	101,814	106,589	110,993	4,404
Expenditures and Other Financing Sources				
Recreation and Cultural Services:				
County Tidelands - Newport Bay	6,272	6,272	4,159	2,113
OC Parks	94,398	98,398	87,136	11,262
OC Capital	26,576	32,733	11,452	21,281
Total Expenditures and Other Financing Uses	127,246	137,403	102,747	34,656
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(25,432)	(30,814)	8,246	$ 39,060
Fund Balances - Beginning of Year	83,711	83,711	83,711	
Fund Balances - End of Year	$ 58,279	$ 52,897	$ 91,957	

(Dollar Amounts in Thousands)

BUDGETARY COMPARISON SCHEDULES
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE (Continued)

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance Positive (Negative)
OC Dana Point Harbor				
Revenues and Other Financing Sources				
Licenses, Permits, and Franchises	$ 10	$ 10	$ 10	$ --
Fines, Forfeitures and Penalties	113	113	254	141
Use of Money and Property	24,183	24,183	25,734	1,551
Intergovernmental	--	--	10	10
Charges for Services	745	745	1,021	276
Other	82	82	82	--
Transfers In	300	3,244	2,944	(300)
Total Revenues and Other Financing Sources	25,433	28,377	30,055	1,678
Expenditures and Other Financing Uses				
Recreation and Cultural Services:				
OC Dana Point Harbor	36,888	36,888	24,568	12,320
Dana Point Marina Department of Boating and Waterways Emergency Repair Fund	3,243	3,247	2,945	302
Total Expenditures and Other Financing Uses	40,131	40,135	27,513	12,622
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(14,698)	(11,758)	2,542	$ 14,300
Fund Balances - Beginning of Year	62,591	62,591	62,591	
Fund Balances - End of Year	$ 47,893	$ 50,833	$ 65,133	
Housing Asset				
Revenues and Other Financing Sources				
Use of Money and Property	$ 208	$ 208	$ 239	$ 31
Other	95	95	121	26
Total Revenues and Other Financing Sources	303	303	360	57
Expenditures and Other Financing Uses				
Public Assistance:				
Orange County Development Agency Housing Asset	6,911	6,911	576	(6,335)
Total Expenditures and Other Financing Uses	6,911	6,911	576	(6,335)
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(6,608)	(6,608)	(216)	$ (6,278)
Fund Balances - Beginning of Year	32,134	32,134	32,134	
Fund Balances - End of Year	$ 25,526	$ 25,526	$ 31,918	
Schedule I County-Administered Accounts				
Revenues and Other Financing Sources				
Use of Money and Property	$ 20	$ 20	$ 12	$ (8)
Total Revenues and Other Financing Sources	20	20	12	(8)
Expenditures and Other Financing Uses				
General Government:				
Indemnification Reserve	1,397	1,397	1,392	5
Litigation Reserve	4,655	4,655	4,637	18
Total Expenditures and Other Financing Uses	6,052	6,052	6,029	23
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(6,032)	(6,032)	(6,017)	$ (31)
Fund Balances - Beginning of Year	6,032	6,032	6,032	
Fund Balances - End of Year	$ --	$ --	$ 15	

(Dollar Amounts in Thousands)

BUDGETARY COMPARISON SCHEDULES
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE (Continued)

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance Positive (Negative)
OC Public Libraries				
Revenues and Other Financing Sources				
Taxes	$ 43,104	$ 43,104	$ 47,725	$ 4,621
Licenses, Permits, and Franchises	186	186	--	(186)
Fines, Forfeitures and Penalties	19	19	8	(11)
Use of Money and Property	166	166	305	139
Intergovernmental	562	562	439	(123)
Charges for Services	1,064	1,064	1,197	133
Other	633	633	654	21
Transfers In	1,550	1,550	1,550	--
Total Revenues and Other Financing Sources	47,284	47,284	51,878	4,594
Expenditures and Other Financing Uses				
Education:				
OC Public Libraries - Capital	3,752	3,854	389	3,465
OC Public Libraries	53,586	58,300	45,583	12,717
Total Expenditures and Other Financing Uses	57,338	62,154	45,972	16,182
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(10,054)	(14,870)	5,906	$ 20,776
Fund Balances - Beginning of Year	27,882	27,882	27,882	
Fund Balances - End of Year	$ 17,828	$ 13,012	$ 33,788	
Plan of Adjustment Available Cash				
Revenues and Other Financing Sources				
Use of Money and Property	$ 20	$ 20	$ 34	$ 14
Other	--	--	2,344	2,344
Transfers In	3,274	11,509	11,222	(287)
Total Revenues and Other Financing Sources	3,294	11,529	13,600	2,071
Expenditures and Other Financing Sources				
General Government:				
Recovery Plan of Adjustment Available Cash	3,294	32,403	20,879	11,524
Total Expenditures and Other Financing Uses	3,294	32,403	20,879	11,524
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	--	(20,874)	(7,279)	$ 13,595
Fund Balances - Beginning of Year	20,876	20,876	20,876	
Fund Balances - End of Year	$ 20,876	$ 2	$ 13,597	
Health Care Programs				
Revenues and Other Financing Sources				
Fines, Forfeitures and Penalties	$ 9,727	$ 9,727	$ 8,292	$ (1,435)
Use of Money and Property	140	140	165	25
Intergovernmental	5,824	8,324	6,206	(2,118)
Charges for Services	1,372	1,372	1,230	(142)
Other	260	235	1	(234)
Transfers In	410	635	110	(525)
Total Revenues and Other Financing Sources	17,733	20,433	16,004	(4,429)
Expenditures and Other Financing Uses				
Health and Sanitation:				
Medi-Cal Administrative Activities Targeted Case Management	1,607	1,627	1,229	398
Emergency Medical Services	9,795	9,795	7,977	1,818
HCA Purpose Restricted Revenues	2,479	2,679	1,088	1,591
HCA Interest Bearing Purpose Restricted Revenues	106	106	43	63
Bioterrorism Center for Disease Control	4,421	7,053	5,206	1,847
Total Expenditures and Other Financing Uses	18,408	21,260	15,543	5,717
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(675)	(827)	$ 461	$ 1,288
Fund Balances - Beginning of Year	33,396	33,396	33,396	
Fund Balances - End of Year	$ 32,721	$ 32,569	$ 33,857	

(Dollar Amounts in Thousands)

BUDGETARY COMPARISON SCHEDULES
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE (Continued)

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance Positive (Negative)
Roads				
Revenues and Other Financing Sources				
Licenses, Permits, and Franchises	$ 472	$ 472	$ 806	$ 334
Fines, Forfeitures and Penalties	6	6	7	1
Use of Money and Property	258	258	572	314
Intergovernmental	69,540	69,552	52,099	(17,453)
Charges for Services	20,783	37,409	35,407	(2,002)
Other	38,204	38,204	1,803	(36,401)
Transfers In	19,316	19,316	--	(19,316)
Total Revenues and Other Financing Sources	148,579	165,217	90,694	(74,523)
Expenditures and Other Financing Uses				
Public Ways and Facilities:				
OC Road	132,369	137,750	86,251	51,499
Foothill Circulation Phasing Plan	1,079	1,079	712	367
South County Roadway Improve Prog (SCRIP)	7,481	54,060	28,647	25,413
Total Expenditures and Other Financing Uses	140,929	192,889	115,610	77,279
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	7,650	(27,672)	(24,916)	$ 2,756
Fund Balances - Beginning of Year	76,943	76,943	76,943	
Fund Balances - End of Year	$ 84,593	$ 49,271	$ 52,027	
Orange County Housing Authority				
Revenues and Other Financing Sources				
Use of Money and Property	$ 108	$ 108	$ 134	$ 26
Intergovernmental	164,546	164,562	156,071	(8,491)
Charges for Services	3	3	13	10
Other	1,142	1,142	878	(264)
Total Revenues and Other Financing Sources	165,799	165,815	157,096	(8,719)
Expenditures and Other Financing Uses				
Public Assistance:				
Orange County Housing Authority-Operating Reserve	3,092	3,092	1,280	1,812
Orange County Housing Authority	168,755	168,770	156,156	12,614
Total Expenditures and Other Financing Uses	171,847	171,862	157,436	14,426
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(6,048)	(6,047)	(340)	$ 5,707
Fund Balances - Beginning of Year	17,186	17,186	17,186	
Fund Balances - End of Year	$ 11,138	$ 11,139	$ 16,846	
Other Governmental Resources				
Revenues and Other Financing Sources				
Use of Money and Property	$ 3	$ 3	$ 6	$ 3
Charges for Services	30	30	196	166
Other	24	24	62	38
Transfers In	86	86	--	(86)
Total Revenues and Other Financing Sources	143	143	264	121
Expenditures and Other Financing Uses				
General Government:				
Remittance Processing Equipment Replacement	394	394	3	391
Assessor Property Characteristic	30	30	--	30
Deferred Compensation Reimbursement - CEO	--	--	--	--
Total Expenditures and Other Financing Uses	424	424	3	421
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(281)	(281)	261	$ 542
Fund Balances - Beginning of Year	932	932	932	
Fund Balances - End of Year	$ 651	$ 651	$ 1,193	

(Dollar Amounts in Thousands)

BUDGETARY COMPARISON SCHEDULES
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance Positive (Negative)
Teeter Plan Notes				
Revenues and Other Financing Sources				
Fines, Forfeitures and Penalties	$ 10,500	$ 10,500	$ --	$ (10,500)
Use of Money and Property	200	200	242	42
Other	--	--	2	2
Bond Issuance Proceeds	81,535	81,535	30,542	(50,993)
Total Revenues and Other Financing Sources	92,235	92,235	30,786	(61,449)
Expenditures and Other Financing Uses				
General Government:				
Teeter Series A Debt Service	97,235	97,235	34,731	62,504
Total Expenditures and Other Financing Uses	97,235	97,235	34,731	62,504
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(5,000)	(5,000)	(3,945)	$ 1,055
Fund Balances - Beginning of Year	52,469	52,469	52,469	
Fund Balances - End of Year	$ 47,469	$ 47,469	$ 48,524	
Pension Obligation Bonds				
Revenues and Other Financing Sources				
Use of Money and Property	$ 19,807	$ 19,807	$ 19,808	$ 1
Total Revenues and Other Financing Sources	19,807	19,807	19,808	1
Expenditures and Other Financing Uses				
General Government:				
Pension Obligation Bonds Debt Service	37,101	37,101	37,099	2
Total Expenditures and Other Financing Uses	37,101	37,101	37,099	2
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(17,294)	(17,294)	(17,291)	$ 3
Fund Balances - Beginning of Year	63,634	63,634	63,634	
Fund Balances - End of Year	$ 46,340	$ 46,340	$ 46,343	

(Dollar Amounts in Thousands)

BUDGETARY COMPARISON SCHEDULES
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance Positive (Negative)
Criminal Justice Facilities				
Revenues and Other Financing Sources				
Fines, Forfeitures and Penalties	$ 4,198	$ 4,198	$ 3,849	$ (349)
Use of Money and Property	26	26	75	49
Charges for Services	300	300	--	(300)
Other	66	66	79	13
Transfers In	25,158	32,446	21,222	(11,224)
Total Revenues and Other Financing Sources	29,748	37,036	25,225	(11,811)
Expenditures and Other Financing Uses				
Public Protection:				
Criminal Justice Facilities Accumulated Capital Outlay	8,334	9,578	7,365	2,213
Courthouse Temporary Construction	3,943	3,943	3,687	256
Sheriff-Coroner Construction and Facility Development	19,071	18,366	5,518	12,848
Total Expenditures and Other Financing Uses	31,348	31,887	16,570	15,317
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(1,600)	5,149	8,655	$ 3,506
Fund Balances - Beginning of Year	5,806	5,806	5,806	
Fund Balances - End of Year	$ 4,206	$ 10,955	$ 14,461	
Countywide Capital Projects Non-General Fund				
Revenues and Other Financing Sources				
Transfers In	$ --	$ 40,989	$ 35,770	$ (5,219)
Bond Issuance Proceeds	65,332	45,759	--	(45,759)
Total Revenues and Other Financing Sources	65,332	86,748	35,770	(50,978)
Expenditures and Other Financing Uses				
Capital Improvements:				
Countywide Capital Projects Non-General	78,023	83,754	17,576	66,178
Total Expenditures and Other Financing Uses	78,023	83,754	17,576	66,178
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(12,691)	2,994	18,194	$ 15,200
Fund Balances - Beginning of Year	13,363	13,363	13,363	
Fund Balances - End of Year	$ 672	$ 16,357	$ 31,557	

BUDGETARY COMPARISON SCHEDULE
NONMAJOR GOVERNMENTAL FUNDS - PERMANENT FUND

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance Positive (Negative)
Regional Park Endowment				
Revenues and Other Financing Sources				
Use of Money and Property	$ 1	$ 1	$ 2	$ 1
Other	2	2	5	3
Total Revenues and Other Financing Sources	3	3	7	4
Expenditures and Other Financing Uses				
Public Ways and Facilities:				
Limestone Regional Park Mitigation Maintenance Endowment	3	3	1	2
Total Expenditures and Other Financing Uses	3	3	1	2
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	--	--	6	$ 6
Fund Balances - Beginning of Year	173	173	173	
Fund Balances - End of Year	$ 173	$ 173	$ 179	

ORANGE COUNTY AUDITOR-CONTROLLER

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INTERNAL SERVICE FUNDS

These funds are used to account for the financing of goods or services provided by one County department or agency to other County departments or agencies, or to other governmental entities, on a cost-reimbursement basis.

Health and Other Self-Insured Employee Benefits
These funds are used to account for the County's self-funded health insurance programs, group salary continuance plan, and group dental insurance programs.

Health Maintenance Organization (HMO) Health Insurance
This fund is used to account for the fully insured health plans for the County employees and retirees, the wellness program, and flexible spending accounts.

Life Insurance
This fund is used to account for the County's life insurance and accidental death and dismemberment insurance for employees.

Workers' Compensation
This fund is used to account for the County's self-funded workers' compensation insurance program.

Unemployment Insurance
This fund is used to account for the County's self-funded unemployment insurance program.

Property and Casualty Risk
This fund is used to account for the County's self-funded property and casualty risk insurance program.

Transportation
This fund is used to account for motor pool repair and maintenance, and for other transportation services, which are provided to departments and agencies on a cost-reimbursement basis.

Reprographics
This fund is used to account for printing and graphic services, which are provided to departments and agencies on a cost-reimbursement basis.

Information and Technology
This fund is used to account for voice and data services to departments and agencies on a cost-reimbursement basis.

(Dollar Amounts in Thousands)

COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS

	Total	Health and Other Self-Insured Employee Benefits	HMO Health Insurance
ASSETS			
Current Assets			
Pooled Cash/Investments	$ 230,786	$ 30,299	$ 2,809
Imprest Cash Funds	133	125	--
Restricted Cash and Investments with Trustee	10	10	--
Receivables			
Accounts	118	6	8
Interest/Dividends	383	52	--
Allowance for Uncollectible Receivables	(62)	--	--
Due from Other Funds	2,583	700	--
Due from Other Governmental Agencies	655	293	--
Inventory of Materials and Supplies	412	--	--
Prepaid Costs	1,613	--	--
Total Current Assets	236,631	31,485	2,817
Noncurrent Assets			
Capital Assets			
Construction in Progress	899	--	--
Structures and Improvements	11,788	--	--
Accumulated Depreciation	(6,110)	--	--
Equipment	119,648	--	--
Accumulated Depreciation	(73,906)	--	--
Total Capital Assets	52,319	--	--
Total Assets	288,950	31,485	2,817
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows of Resources Related to Pension	11,484	--	--
Total Deferred Outflows of Resources	11,484	--	--
LIABILITIES			
Current Liabilities			
Accounts Payable	21,012	290	--
Retainage Payable	3	--	--
Salaries and Employee Benefits Payable	1,154	--	--
Due to Other Funds	987	1	--
Due to Other Governmental Agencies	5	--	--
Insurance Claims Payable	60,214	12,978	--
Compensated Employee Absences Payable	1,151	--	--
Capital Lease Obligations Payable	6,900	--	--
Total Current Liabilities	91,426	13,269	--
Noncurrent Liabilities			
Insurance Claims Payable	159,282	--	--
Compensated Employee Absences Payable	963	--	--
Capital Lease Obligations Payable	6,900	--	--
Net Pension Liability	42,523	--	--
Total Noncurrent Liabilities	209,668	--	--
Total Liabilities	301,094	13,269	--
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources Related to Pension	4,410	--	--
Total Deferred Inflows of Resources	4,410	--	--
NET POSITION			
Net Investment in Capital Assets	38,519	--	--
Unrestricted	(43,589)	18,216	2,817
Total Net Position	$ (5,070)	$ 18,216	$ 2,817

(Dollar Amounts in Thousands)

Life Insurance	Workers' Compensation	Unemployment Insurance	
			ASSETS
			Current Assets
$ 122	$ 74,550	$ 10,037	Pooled Cash/Investments
--	--	--	Imprest Cash Funds
--	--	--	Restricted Cash and Investments with Trustee
			Receivables
--	--	--	Accounts
--	130	16	Interest/Dividends
--	--	--	Allowance for Uncollectible Receivables
--	--	--	Due from Other Funds
--	2	--	Due from Other Governmental Agencies
--	--	--	Inventory of Materials and Supplies
--	176	--	Prepaid Costs
122	74,858	10,053	Total Current Assets
			Noncurrent Assets
			Capital Assets
--	--	--	Construction in Progress
--	--	--	Structures and Improvements
--	--	--	Accumulated Depreciation
--	8	--	Equipment
--	(8)	--	Accumulated Depreciation
--	--	--	Total Capital Assets
122	74,858	10,053	Total Assets
			DEFERRED OUTFLOWS OF RESOURCES
--	2,698	--	Deferred Outflows of Resources Related to Pension
--	2,698	--	Total Deferred Outflows of Resources
			LIABILITIES
			Current Liabilities
--	1,418	23	Accounts Payable
--	--	--	Retainage Payable
--	144	--	Salaries and Employee Benefits Payable
--	3	--	Due to Other Funds
--	--	--	Due to Other Governmental Agencies
--	29,650	808	Insurance Claims Payable
--	148	--	Compensated Employee Absences Payable
--	--	--	Capital Lease Obligations Payable
--	31,363	831	Total Current Liabilities
			Noncurrent Liabilities
--	130,040	--	Insurance Claims Payable
--	128	--	Compensated Employee Absences Payable
--	--	--	Capital Lease Obligations Payable
--	8,580	--	Net Pension Liability
--	138,748	--	Total Noncurrent Liabilities
--	170,111	831	Total Liabilities
			DEFERRED INFLOWS OF RESOURCES
--	896	--	Deferred Inflows of Resources Related to Pension
--	896	--	Total Deferred Inflows of Resources
			NET POSITION
--	--	--	Net Investment in Capital Assets
122	(93,451)	9,222	Unrestricted
$ 122	$ (93,451)	$ 9,222	Total Net Position

(Dollar Amounts in Thousands)

COMBINING STATEMENT OF NET POSITION (Continued)
INTERNAL SERVICE FUNDS

	Property & Casualty Risk	Transportation	Reprographics	Information & Technology
ASSETS				
Current Assets				
Pooled Cash/Investments	$ 50,953	$ 19,139	$ 2,531	$ 40,346
Imprest Cash Funds	5	--	--	3
Restricted Cash and Investments with Trustee	--	--	--	--
Receivables				
Accounts	14	56	--	34
Interest/Dividends	89	18	3	75
Allowance for Uncollectible Receivables	(10)	(51)	--	(1)
Due from Other Funds	190	1,432	--	261
Due from Other Governmental Agencies	20	53	85	202
Inventory of Materials and Supplies	--	412	--	--
Prepaid Costs	123	553	91	670
Total Current Assets	51,384	21,612	2,710	41,590
Noncurrent Assets				
Capital Assets				
Construction in Progress	--	138	--	761
Structures and Improvements	--	8,986	--	2,802
Accumulated Depreciation	--	(5,278)	--	(832)
Equipment	--	42,332	1,536	75,772
Accumulated Depreciation	--	(25,453)	(1,234)	(47,211)
Total Capital Assets	--	20,725	302	31,292
Total Assets	51,384	42,337	3,012	72,882
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows of Resources Related to Pension	779	3,455	611	3,941
Total Deferred Outflows of Resources	779	3,455	611	3,941
LIABILITIES				
Current Liabilities				
Accounts Payable	1,676	1,094	80	16,431
Retainage Payable	--	2	--	1
Salaries and Employee Benefits Payable	79	373	72	486
Due to Other Funds	45	686	45	207
Due to Other Governmental Agencies	--	2	3	--
Insurance Claims Payable	16,778	--	--	--
Compensated Employee Absences Payable	121	359	62	461
Capital Lease Obligations Payable	--	--	--	6,900
Total Current Liabilities	18,699	2,516	262	24,486
Noncurrent Liabilities				
Insurance Claims Payable	29,242	--	--	--
Compensated Employee Absences Payable	81	379	49	326
Capital Lease Obligations Payable	--	--	--	6,900
Net Pension Liability	3,109	13,633	2,629	14,572
Total Noncurrent Liabilities	32,432	14,012	2,678	21,798
Total Liabilities	51,131	16,528	2,940	46,284
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources Related to Pension	322	1,411	272	1,509
Total Deferred Inflows of Resources	322	1,411	272	1,509
NET POSITION				
Net Investment in Capital Assets	--	20,725	302	17,492
Unrestricted	710	7,128	109	11,538
Total Net Position	$ 710	$ 27,853	$ 411	$ 29,030

ORANGE COUNTY AUDITOR-CONTROLLER

CALIFORNIA

(Dollar Amounts in Thousands)

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS

	Total	Health and Other Self-Insured Employee Benefits	HMO Health Insurance
Operating Revenues			
Use of Money and Property	$ 1,770	$ --	$ --
Charges for Services	92,115	692	--
Insurance Premiums	304,693	63,912	161,772
Total Operating Revenues	398,578	64,604	161,772
Operating Expenses			
Salaries and Employee Benefits	20,563	--	--
Services and Supplies	28,963	1,815	--
Professional Services	59,447	5,084	5
Operating Leases	1,787	--	--
Insurance Claims and Premiums	284,500	60,872	163,377
Other Charges	363	363	--
Taxes and Other Fees	21	--	--
Depreciation	5,783	--	--
Total Operating Expenses	401,427	68,134	163,382
Operating Income (Loss)	(2,849)	(3,530)	(1,610)
Nonoperating Revenues (Expenses)			
Intergovernmental Revenues	1,062	1,062	--
Interest Revenue	1,882	278	58
Gain (Loss) on Disposition of Capital Assets	150	--	--
Other Revenue	4,908	2,302	381
Total Nonoperating Revenues	8,002	3,642	439
Income (Loss) Before Contributions and Transfers	5,153	112	(1,171)
Transfers In	13,008	1,052	5
Transfers Out	(1,069)	--	(52)
Change in Net Position	17,092	1,164	(1,218)
Net Position - Beginning of Year	(22,162)	17,052	4,035
Net Position - End of Year	$ (5,070)	$ 18,216	$ 2,817

(Dollar Amounts in Thousands)

Life Insurance	Workers' Compensation	Unemployment Insurance	
			Operating Revenues
$ --	$ --	$ --	Use of Money and Property
--	--	--	Charges for Services
756	45,936	--	Insurance Premiums
756	45,936	--	Total Operating Revenues
			Operating Expenses
--	2,323	--	Salaries and Employee Benefits
--	312	--	Services and Supplies
--	4,846	65	Professional Services
--	196	--	Operating Leases
785	42,149	796	Insurance Claims and Premiums
--	--	--	Other Charges
--	--	1	Taxes and Other Fees
--	--	--	Depreciation
785	49,826	862	Total Operating Expenses
(29)	(3,890)	(862)	Operating Income (Loss)
			Nonoperating Revenues (Expenses)
--	--	--	Intergovernmental Revenues
1	588	89	Interest Revenue
--	--	--	Gain (Loss) on Disposition of Capital Assets
--	496	9	Other Revenue
1	1,084	98	Total Nonoperating Revenues
(28)	(2,806)	(764)	Income (Loss) Before Contributions and Transfers
--	594	--	Transfers In
(1)	(10)	--	Transfers Out
(29)	(2,222)	(764)	Change in Net Position
151	(91,229)	9,986	Net Position - Beginning of Year
$ 122	$ (93,451)	$ 9,222	Net Position - End of Year

(Dollar Amounts in Thousands)

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION (Continued)
INTERNAL SERVICE FUNDS

	Property & Casualty Risk	Transportation	Reprographics	Information & Technology
Operating Revenues				
Use of Money and Property	$ --	$ --	$ --	$ 1,770
Charges for Services	--	20,285	3,639	67,499
Insurance Premiums	32,317	--	--	--
Total Operating Revenues	32,317	20,285	3,639	69,269
Operating Expenses				
Salaries and Employee Benefits	1,539	7,351	1,205	8,145
Services and Supplies	8,127	8,790	1,099	8,820
Professional Services	732	2,486	861	45,368
Operating Leases	191	20	354	1,026
Insurance Claims and Premiums	16,521	--	--	--
Other Charges	--	--	--	--
Taxes and Other Fees	--	11	6	3
Depreciation	--	2,959	60	2,764
Total Operating Expenses	27,110	21,617	3,585	66,126
Operating Income (Loss)	5,207	(1,332)	54	3,143
Nonoperating Revenues (Expenses)				
Intergovernmental Revenues	--	--	--	--
Interest Revenue	361	106	16	385
Gain (Loss) on Disposition of Capital Assets	--	156	--	(6)
Other Revenue	1,048	286	206	180
Total Nonoperating Revenues	1,409	548	222	559
Income (Loss) Before Contributions and Transfers	6,616	(784)	276	3,702
Transfers In	--	7,663	--	3,694
Transfers Out	--	(215)	--	(791)
Change in Net Position	6,616	6,664	276	6,605
Net Position - Beginning of Year	(5,906)	21,189	135	22,425
Net Position - End of Year	$ 710	$ 27,853	$ 411	$ 29,030

ORANGE COUNTY AUDITOR-CONTROLLER

CALIFORNIA

(Dollar Amounts in Thousands)

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

	Total	Health and Other Self-Insured Employee Benefits	HMO Health Insurance	Life Insurance
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	$ 26,321	$ 698	$ 16	$ --
Cash Received for Premiums Within the County's Entity	304,693	63,912	161,772	756
Payments to Suppliers for Goods and Services	(366,461)	(66,369)	(163,382)	(785)
Payments to Employees for Services	(19,418)	--	--	--
Payments for Interfund Services	(946)	(700)	--	--
Receipts for Interfund Services	68,688	--	--	--
Taxes and Other Fees	(21)	--	--	--
Other Operating Receipts	4,907	2,302	381	--
Other Operating Payments	(2,161)	(363)	--	--
Net Cash Provided (Used) by Operating Activities	15,602	(520)	(1,213)	(29)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers In	13,008	1,052	5	--
Transfers Out	(1,069)	--	(52)	(1)
Intergovernmental Revenues	1,062	1,062	--	--
Net Cash Provided (Used) by Noncapital Financing Activities	13,001	2,114	(47)	(1)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of Capital Assets	(6,619)	--	--	--
Principal Paid on Capital Lease Obligations	(6,900)	--	--	--
Net Cash Used by Capital and Related Financing Activities	(13,519)	--	--	--
CASH FLOW FROM INVESTING ACTIVITIES				
Interest on Investments	1,797	266	57	1
Net Cash Provided by Investing Activities	1,797	266	57	1
Net Increase (Decrease) in Cash and Cash Equivalents	16,881	1,860	(1,203)	(29)
Cash and Cash Equivalents - Beginning of Year	214,048	28,574	4,012	151
Cash and Cash Equivalents - End of Year	$ 230,929	$ 30,434	$ 2,809	$ 122
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating Income (Loss)	$ (2,849)	$ (3,530)	$ (1,610)	$ (29)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	5,783	--	--	--
Other Revenue	4,908	2,302	381	--
(Increases) Decreases In:				
Accounts Receivable	(9)	7	16	--
Due from Other Funds	74	(700)	--	--
Due from Other Governmental Agencies	(69)	(1)	--	--
Inventory of Materials and Supplies	41	--	--	--
Prepaid Costs	44	--	--	--
Deferred Outflows of Resources Related to Pension	(5,067)	--	--	--
Increases (Decreases) In:				
Accounts Payable	(5,727)	184	--	--
Retainage Payable	174	--	--	--
Salaries and Employee Benefits Payable	253	--	--	--
Due to Other Funds	167	--	--	--
Due to Other Governmental Agencies	--	--	--	--
Insurance Claims Payable	11,919	1,218	--	--
Compensated Employee Absences Payable	10	--	--	--
Net Pension Liability	5,303	--	--	--
Deferred Inflows of Resources Related to Pension	647	--	--	--
Total Adjustments	18,451	3,010	397	--
Net Cash Provided (Used) by Operating Activities	$ 15,602	$ (520)	$ (1,213)	$ (29)
Reconciliation of Cash and Cash Equivalents to Statement of Net Position				
Pooled Cash/Investments	$ 230,786	$ 30,299	$ 2,809	$ 122
Imprest Cash Funds	133	125	--	--
Restricted Cash and Investments with Trustee	10	10	--	--
Total Cash and Cash Equivalents	$ 230,929	$ 30,434	$ 2,809	$ 122

(Dollar Amounts in Thousands)

Workers' Compensation	Unemployment Insurance	Property & Casualty Risk	
			CASH FLOWS FROM OPERATING ACTIVITIES
$ --	$ --	$ --	Receipts from Customers
45,936	--	32,317	Cash Received for Premiums Within the County's Entity
(43,010)	(983)	(19,081)	Payments to Suppliers for Goods and Services
(2,211)	--	(1,445)	Payments to Employees for Services
(3)	--	--	Payments for Interfund Services
--	--	322	Receipts for Interfund Services
--	(1)	--	Taxes and Other Fees
495	9	1,048	Other Operating Receipts
(196)	--	(202)	Other Operating Payments
1,011	(975)	12,959	Net Cash Provided (Used) by Operating Activities
			CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES
594	--	--	Transfers In
(10)	--	--	Transfers Out
--	--	--	Intergovernmental Revenues
584	--	--	Net Cash Provided (Used) by Noncapital Financing Activities
			CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES
--	--	--	Acquisition of Capital Assets
--	--	--	Principal Paid on Capital Lease Obligations
--	--	--	Net Cash Used by Capital and Related Financing Activities
			CASH FLOW FROM INVESTING ACTIVITIES
567	88	332	Interest on Investments
567	88	332	Net Cash Provided by Investing Activities
2,162	(887)	13,291	Net Increase (Decrease) in Cash and Cash Equivalents
72,388	10,924	37,667	Cash and Cash Equivalents - Beginning of Year
$ 74,550	$ 10,037	$ 50,958	Cash and Cash Equivalents - End of Year
			Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities
$ (3,890)	$ (862)	$ 5,207	Operating Income (Loss)
			Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:
--	--	--	Depreciation
496	9	1,048	Other Revenue
			(Increases) Decreases In:
--	--	(1)	Accounts Receivable
--	--	279	Due from Other Funds
(1)	--	(11)	Due from Other Governmental Agencies
--	--	--	Inventory of Materials and Supplies
7	--	8	Prepaid Costs
(1,525)	--	(305)	Deferred Outflows of Resources Related to Pension
			Increases (Decreases) In:
--	23	(438)	Accounts Payable
175	--	--	Retainage Payable
41	--	8	Salaries and Employee Benefits Payable
(4)	(1)	43	Due to Other Funds
--	--	--	Due to Other Governmental Agencies
4,116	(144)	6,729	Insurance Claims Payable
31	--	(3)	Compensated Employee Absences Payable
1,396	--	352	Net Pension Liability
169	--	43	Deferred Inflows of Resources Related to Pension
4,901	(113)	7,752	Total Adjustments
$ 1,011	$ (975)	$ 12,959	Net Cash Provided (Used) by Operating Activities
			Reconciliation of Cash and Cash Equivalents to Statement of Net Position
$ 74,550	$ 10,037	$ 50,953	Pooled Cash/Investments
--	--	5	Imprest Cash Funds
--	--	--	Restricted Cash and Investments with Trustee
$ 74,550	$ 10,037	$ 50,958	Total Cash and Cash Equivalents

(Dollar Amounts in Thousands)

COMBINING STATEMENT OF CASH FLOWS (Continued)
INTERNAL SERVICE FUNDS

	Transportation	Reprographics	Information & Technology
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers	$ 20,282	$ 3,620	$ 1,705
Cash Received for Premiums Within the County's Entity	--	--	--
Payments to Suppliers for Goods and Services	(10,424)	(2,030)	(60,397)
Payments to Employees for Services	(6,902)	(1,121)	(7,739)
Payments for Interfund Services	--	(243)	--
Receipts for Interfund Services	201	--	68,165
Taxes and Other Fees	(11)	(6)	(3)
Other Operating Receipts	286	206	180
Other Operating Payments	(20)	(354)	(1,026)
Net Cash Provided (Used) by Operating Activities	3,412	72	885
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers In	7,663	--	3,694
Transfers Out	(215)	--	(791)
Intergovernmental Revenues	--	--	--
Net Cash Provided (Used) by Noncapital Financing Activities	7,448	--	2,903
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of Capital Assets	(5,588)	--	(1,031)
Principal Paid on Capital Lease Obligations	--	--	(6,900)
Net Cash Used by Capital and Related Financing Activities	(5,588)	--	(7,931)
CASH FLOW FROM INVESTING ACTIVITIES			
Interest on Investments	106	16	364
Net Cash Provided by Investing Activities	106	16	364
Net Increase (Decrease) in Cash and Cash Equivalents	5,378	88	(3,779)
Cash and Cash Equivalents - Beginning of Year	13,761	2,443	44,128
Cash and Cash Equivalents - End of Year	$ 19,139	$ 2,531	$ 40,349
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating Income (Loss)	$ (1,332)	$ 54	$ 3,143
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation	2,959	60	2,764
Other Revenue	286	206	180
(Increases) Decreases In:			
Accounts Receivable	(4)	--	(27)
Due from Other Funds	(97)	--	592
Due from Other Governmental Agencies	1	(19)	(38)
Inventory of Materials and Supplies	41	--	--
Prepaid Costs	17	22	(10)
Deferred Outflows of Resources Related to Pension	(1,363)	(211)	(1,663)
Increases (Decreases) In:			
Accounts Payable	791	(90)	(6,197)
Retainage Payable	1	--	(2)
Salaries and Employee Benefits Payable	42	13	149
Due to Other Funds	298	(243)	74
Due to Other Governmental Agencies	2	(2)	--
Insurance Claims Payable	--	--	--
Compensated Employee Absences Payable	39	(42)	(15)
Net Pension Liability	1,543	287	1,725
Deferred Inflows of Resources Related to Pension	188	37	210
Total Adjustments	4,744	18	(2,258)
Net Cash Provided (Used) by Operating Activities	$ 3,412	$ 72	$ 885
Reconciliation of Cash and Cash Equivalents to Statement of Net Position			
Pooled Cash/Investments	$ 19,139	$ 2,531	$ 40,346
Imprest Cash Funds	--	--	3
Restricted Cash and Investments with Trustee	--	--	--
Total Cash and Cash Equivalents	$ 19,139	$ 2,531	$ 40,349

ORANGE COUNTY AUDITOR-CONTROLLER

CALIFORNIA

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the County in a trustee or agency capacity on behalf of outside parties, including employees, individuals, private organizations, or other governments. These funds cannot be used to support the County's programs. When these assets are held under a formal trust agreement, a trust fund is used. Agency funds are generally used to account for assets that the County holds on behalf of others as their agent in a purely custodial capacity.

PRIVATE-PURPOSE TRUST FUNDS

Public Administration Trust Funds

These funds are used to account for trust arrangements where the principal and income benefit individuals, private organizations, or other governments. Examples of private-purpose trusts include unidentified funds, unclaimed prisoner funds, and decedents' property held for escheatment.

County of Orange Redevelopment Successor Agency

The Orange County Development Agency (OCDA) was dissolved effective February 1, 2012 in accordance with Health and Safety Code 34172. A successor agency was designated as the successor entity to the former redevelopment agency in accordance with Health and Safety Code 34173. The Successor Agency holds the assets of the dissolved OCDA pending liquidation and distribution.

PENSION AND OTHER EMPLOYEE BENEFITS TRUST FUNDS

Extra-Help Defined Benefit Plan

This fund is used to account for the retirement plan for employees working less than half-time or as extra-help. This retirement plan was closed to new participants as of February 28, 2002. The eligible employees of these plans are not covered by the Orange County Employees Retirement System (OCERS).

Extra-Help Defined Contribution Plan

This fund is used to account for the defined contribution retirement plan for extra-help and part-time employees. This plan replaced the Extra-Help Defined Benefit Retirement Plan and was effective for new employees on March 1, 2002. Effective February 10, 2015, the plan also includes new employees who have attained age 60 at date of hire, who waive membership in OCERS, and do not have funds on deposit with OCERS and otherwise meet the requirements under OCERS' regulations and state law to waive membership in OCERS. The eligible employees of these plans are not covered by OCERS.

401(a) Defined Contribution Plan

This fund accounts for the 401(a) defined contribution plan, which was established in January 1999 for eligible employees, including the members of the Board, certain executive managers, certain administrative managers once classified as confidential and grandfathered in the plan, attorneys represented by the Orange County Attorney's Association and certain other employee classifications as defined in the plan document. The plan was closed to the attorneys effective June 24, 2005. The plan was closed to new administrative managers and to all grandfathered administrative managers, effective June 23, 2016 and December 28, 2012, respectively.

1.62% at 65 Retirement, 401(a) Defined Contribution Plan

This fund is used to account for the matching 401(a) employer contributions for eligible employees in the "1.62% at 65" Retirement (OCERS) formula who voluntarily contribute to the "1.62% at 65" Retirement, 457(b) defined contribution plan. The Plan was established on May 7, 2010.

Retiree Medical Plan

This fund is used to account for the annual required contributions, benefit payments, and investment losses and gains in the Retiree Medical Trust which was established effective July 2, 2007. The Retiree Medical Trust was established exclusively for the Retiree Medical Plan which is a single employer Other Postemployment Benefit plan that was established on August 1, 1993 for eligible employees as defined in the plan document.

Health Reimbursement Arrangement Plan

This fund is used to account for the employer contributions to the Health Reimbursement Arrangement (HRA), a defined contribution plan, which was established on June 17, 2008 for eligible employees, including employees represented by the Association of Orange County Deputy Sheriffs and Law Enforcement Management employees as defined in the plan document. The HRA was amended and restated on June 1, 2016 to provide for the transition of the Orange County Attorney's Association to the HRA Plan in July 2016.

AGENCY FUNDS

Unapportioned Tax and Interest Funds

This group of funds is used to account for the collection of property taxes, and later distribution of such taxes, as well as the interest earned on them. Included are taxes collected by the County for other governmental units using the County treasury, as well as governmental units not using the County treasury, such as cities.

Departmental Funds

This group of funds is used by certain County officers to hold various types of cash receipts and deposits in a fiduciary capacity. Disbursements are made from these funds by checks issued by the County Auditor-Controller upon requisition of the responsible officer.

(Dollar Amounts in Thousands)

COMBINING STATEMENT OF FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUNDS

	Total	Public Administration Trust Funds	Successor Agency
ASSETS			
Pooled Cash/Investments	$ 54,761	$ 46,644	$ 8,117
Restricted Cash and Investments			
Restricted Investments with Trustee	4,647	--	4,647
Receivables			
Interest/Dividends	186	154	32
Land and Improvements Held for Resale	133	--	133
Total Assets	59,727	46,798	12,929
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Refunding	394	--	394
Total Deferred Outflows of Resources	394	--	394
LIABILITIES			
Bonds Payable	30,041	--	30,041
Interest Payable	386	--	386
Due to Other Governmental Agencies	350	348	2
Total Liabilities	30,777	348	30,429
DEFERRED INFLOWS OF RESOURCES			
Deferred Charge on Refunding	132	--	132
Total Deferred Inflows of Resources	132	--	132
NET POSITION			
Restricted for Private-Purpose Trust Funds	29,212	46,450	(17,238)
Net Position (Deficit)	$ 29,212	$ 46,450	$ (17,238)

(Dollar Amounts in Thousands)

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Total	Public Administration Trust Funds	Successor Agency
Additions:			
Contributions to Private-Purpose Trust	$ 64,627	$ 64,627	$ --
Intergovernmental Revenues	300	--	300
Other Revenues	1,191	--	1,191
Interest and Investment Income	699	592	107
Less: Investment Expense	(8)	--	(8)
Total Additions	66,809	65,219	1,590
Deductions:			
Distributions from Private-Purpose Trust	59,924	59,924	--
Professional Services	182	26	156
Other Expenses	712	--	712
Tax Pass-Throughs	4,000	--	4,000
Interest Expense	1,141	--	1,141
Total Deductions	65,959	59,950	6,009
Change in Net Position	850	5,269	(4,419)
Net Position (Deficit), Beginning of Year	28,362	41,181	(12,819)
Net Position (Deficit), End of Year	$ 29,212	$ 46,450	$ (17,238)

(Dollar Amounts in Thousands)

COMBINING STATEMENT OF FIDUCIARY NET POSITION
PENSION AND OTHER EMPLOYEE BENEFITS TRUST FUNDS

	Total	Extra-Help Defined Benefit Plan	Extra-Help Defined Contribution Plan	401(a) Defined Contribution Plan
ASSETS				
Pooled Cash/Investments	$ 8,655	$ 1,398	$ --	$ --
Restricted Cash and Investments				
Restricted Investments with Trustee	104,653	4,194	7,299	14,207
Restricted Cash with OCERS	214,769	--	--	--
Receivables				
Interest/Dividends	65	7	--	--
Due from Other Governmental Agencies	3,948	--	60	54
Total Assets	332,090	5,599	7,359	14,261
NET POSITION				
Restricted for Pension and OPEB Benefits	332,090	5,599	7,359	14,261
Net Position	$ 332,090	$ 5,599	$ 7,359	$ 14,261

(Dollar Amounts in Thousands)

1.62% at 65 Retirement, 401(a) Defined Contribution Plan	Retiree Medical Plan (Combined 401(h) and 115 Trusts)	Health Reimbursement Arrangement Plan	
			ASSETS
$ --	$ 7,211	$ 46	Pooled Cash/Investments
			Restricted Cash and Investments
1,237	--	77,716	Restricted Investments with Trustee
--	214,769	--	Restricted Cash with OCERS
			Receivables
--	58	--	Interest/Dividends
56	3,254	524	Due from Other Governmental Agencies
1,293	225,292	78,286	Total Assets
			NET POSITION
1,293	225,292	78,286	Restricted for Pension and OPEB Benefits
$ 1,293	$ 225,292	$ 78,286	Net Position

(Dollar Amounts in Thousands)

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION AND OTHER EMPLOYEE BENEFITS TRUST FUNDS

	Total	Extra-Help Defined Benefit Plan	Extra-Help Defined Contribution Plan	401(a) Defined Contribution Plan
Additions:				
Contributions to Pension and Other Employee Benefits Trust:				
Employer	$ 53,860	$ 784	$ --	$ 991
Employee	3,261	--	951	--
Other Revenues	7	7	--	--
Interest and Investment Income/(Loss)	(2,023)	123	158	19
Less: Investment Expense	(269)	(4)	(8)	(14)
Total Additions	54,836	910	1,101	996
Deductions:				
Benefits Paid to Participants	34,687	428	1,339	740
Administrative Expense	90	--	--	--
Total Deductions	34,777	428	1,339	740
Change in Net Position	20,059	482	(238)	256
Net Position, Beginning of Year	312,031	5,117	7,597	14,005
Net Position, End of Year	$ 332,090	$ 5,599	$ 7,359	$ 14,261

(Dollar Amounts in Thousands)

1.62%@65 Retirement, 401(a) Defined Contribution Plan	Retiree Medical Plan (Combined 401(h) and 115 Trusts)	Health Reimbursement Arrangement Plan	
			Additions:
			Contributions to Pension and Other Employee Benefits Trust:
$ 736	$ 42,490	$ 8,859	Employer
--	2,310	--	Employee
--	--	--	Other Revenues
17	(1,504)	(836)	Interest and Investment Income/(Loss)
(2)	(8)	(233)	Less: Investment Expense
751	43,288	7,790	Total Additions
			Deductions:
--	30,533	1,647	Benefits Paid to Participants
--	90	--	Administrative Expense
--	30,623	1,647	Total Deductions
751	12,665	6,143	Change in Net Position
542	212,627	72,143	Net Position, Beginning of Year
$ 1,293	$ 225,292	$ 78,286	Net Position, End of Year

(Dollar Amounts in Thousands)

COMBINING STATEMENT OF FIDUCIARY NET POSITION
ALL AGENCY FUNDS

	Total	Unapportioned Tax and Interest Funds	Departmental Funds
ASSETS			
Pooled Cash/Investments	$ 274,484	$ 134,680	$ 139,804
Cash/Cash Equivalents	270	--	270
Restricted Cash and Investments with Trustee	29,465	--	29,465
Investments	1,082	--	1,082
Deposits In-Lieu of Cash	19,454	--	19,454
Receivables			
Accounts	28	--	28
Taxes	340,178	340,178	--
Interest/Dividends	9,022	8,632	390
Allowance For Uncollectible Receivables	(167,621)	(167,620)	(1)
Due from Other Governmental Agencies	3,266	510	2,756
Notes Receivable	29,674	--	29,674
Total Assets	539,302	316,380	222,922
LIABILITIES			
Interest Payable	8,269	8,269	--
Deposits from Others	14,505	--	14,505
Monies Held for Others	147,095	--	147,095
Due to Other Governmental Agencies	61,324	2	61,322
Unapportioned Taxes	308,109	308,109	--
Total Liabilities	539,302	316,380	222,922
NET POSITION	$ --	$ --	$ --

ORANGE COUNTY AUDITOR-CONTROLLER

CALIFORNIA

(Dollar Amounts in Thousands)

COMBINING STATEMENT OF CHANGES ASSETS AND LIABILITIES
ALL AGENCY FUNDS

UNAPPORTIONED TAX AND INTEREST FUNDS	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Pooled Cash/Investments	$ 189,325	$ 8,008,476	$ 8,063,121	$ 134,680
Receivables				
Taxes	317,620	17,392,696	17,370,138	340,178
Interest	6,995	66,509	64,872	8,632
Allowance for Uncollectible Receivables	(154,805)	--	12,815	(167,620)
Due from Other Governmental Agencies	2,126	16,635	18,251	510
Total Assets	$ 361,261	$ 25,484,316	$ 25,529,197	$ 316,380
LIABILITIES				
Interest Payable	$ 6,015	$ 29,898	$ 27,644	$ 8,269
Due to Other Governmental Agencies	2,329	39,282	41,609	2
Unapportioned Taxes	352,917	10,910,882	10,955,690	308,109
Total Liabilities	$ 361,261	$ 10,980,062	$ 11,024,943	$ 316,380

DEPARTMENTAL FUNDS	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Pooled Cash/Investments	$ 148,761	$ 3,380,410	$ 3,389,367	$ 139,804
Cash/Cash Equivalents	326	509	565	270
Restricted Cash and Investments with Trustee	31,075	92,068	93,678	29,465
Investments	1,082	--	--	1,082
Deposits In-Lieu of Cash	19,247	2,636	2,429	19,454
Receivables				
Accounts	3	1,678	1,653	28
Interest	333	1,033	976	390
Allowance for Uncollectible Receivables	(2)	1	--	(1)
Due from Other Governmental Agencies	3,439	664,924	665,607	2,756
Notes Receivable	30,376	--	702	29,674
Total Assets	$ 234,640	$ 4,143,259	$ 4,154,977	$ 222,922
LIABILITIES				
Deposits From Others	$ 30,386	$ 39,850	$ 55,731	$ 14,505
Monies Held for Others	155,775	6,043,260	6,051,940	147,095
Due to Other Funds	--	37	37	--
Due to Other Governmental Agencies	48,479	1,100,821	1,087,978	61,322
Total Liabilities	$ 234,640	$ 7,183,968	$ 7,195,686	$ 222,922

(Dollar Amounts in Thousands)

TOTAL - ALL AGENCY FUNDS	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Pooled Cash/Investments	$ 338,086	$ 11,388,886	$ 11,452,488	$ 274,484
Cash/Cash Equivalents	326	509	565	270
Restricted Cash and Investments with Trustee	31,075	92,068	93,678	29,465
Investments	1,082	--	--	1,082
Deposits In-Lieu of Cash	19,247	2,636	2,429	19,454
Receivables				
Accounts	3	1,678	1,653	28
Taxes	317,620	17,392,696	17,370,138	340,178
Interest	7,328	67,542	65,848	9,022
Allowance for Uncollectible Receivables	(154,807)	1	12,815	(167,621)
Due from Other Governmental Agencies	5,565	681,559	683,858	3,266
Notes Receivable	30,376	--	702	29,674
Total Assets	$ 595,901	$ 29,627,575	$ 29,684,174	$ 539,302
LIABILITIES				
Interest Payable	$ 6,015	$ 29,898	$ 27,644	$ 8,269
Deposits from Others	30,386	39,850	55,731	14,505
Monies Held for Others	155,775	6,043,260	6,051,940	147,095
Due to Other Funds	--	37	37	--
Due to Other Governmental Agencies	50,808	1,140,103	1,129,587	61,324
Unapportioned Taxes	352,917	10,910,882	10,955,690	308,109
Total Liabilities	$ 595,901	$ 18,164,030	$ 18,220,629	$ 539,302

ORANGE COUNTY AUDITOR-CONTROLLER

CALIFORNIA

Dana Point Harbor

STATISTICAL SECTION
(UNAUDITED)

The information in this section is not covered by the Independent Auditor's Report, but is presented as supplemental data for the benefit of the readers of the Comprehensive Annual Financial Report. The objectives of statistical section information are to provide financial statement users with additional historical perspective, context, and detail to assist in using the information in the basic financial statements, notes to the basic financial statements, and required supplementary information to understand and assess a government's economic condition.

Contents	Page

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

(Dollar Amounts in Thousands)

Net Position by Component
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year				
	2015-16	2014-15	2013-14 (3)	2012-13	2011-12 (3)
Governmental Activities					
Net Investment in Capital Assets	$ 2,707,493	$ 2,670,577	$ 2,646,812	$ 2,563,976	$ 2,699,809
Restricted for:					
Expendable					
Other Postemployment Benefits	--	--	--	--	-- (1)
Pension Benefits	111,639	112,544	109,986	105,900	96,604
Capital Projects	10,836	6,154	8,661	11,904	16,269
Debt Service	36,380	37,734	37,639	31,965	-
Legally Segregated for Grants and Other Purposes	1,103,257	1,045,897	1,190,106	1,174,791	1,077,117
Regional Park Endowment	144	141	140	139	--
Nonexpendable					
Regional Park Endowment	193	188	185	183	319
Unrestricted	(2,979,945)	(2,991,814)	331,408	196,850	37,790
Total Governmental Activities Net Position	$ 989,997	$ 881,421	$ 4,324,937	$ 4,085,708	$ 3,927,908
Business-Type Activities					
Net Investment in Capital Assets	$ 663,280	$ 642,427	$ 624,621	$ 587,934	$ 574,982
Restricted for:					
Expendable					
Debt Service	8,499	7,324	7,090	58,772	--
Passenger Facility Charges					--
Approved Capital Projects	14,705	70,538	62,522	55,331	--
Replacements and Renewals	1,000	1,000	1,000	1,000	--
Landfill Closure/Postclosure	33,997	33,337	37,412	40,355	--
Landfill Corrective Action	8,245	8,174	7,141	6,109	--
Wetland	879	879	879	879	--
Prima Deshecha/La Pata					--
Closure	104	104	104	104	
Airport (2)	--	--	--	--	58,149
Waste Management (2)	--	--	--	--	82,205
Unrestricted	465,003	362,546	384,871	335,122	350,474
Total Business-Type Activities Net Position	$ 1,195,712	$ 1,126,329	$ 1,125,640	$ 1,085,606	$ 1,065,810

Notes:
(1) In FY 2011-12, it was determined that the Restricted Net Position for Other Postemployment Benefits does not meet the definition of restriction and should be reported as unrestricted.
(2) Starting in FY 2012-13, Restricted Net Position for Business-Type Activities will be shown by activity detail.
(3) The balances shown have not been restated to include the prior period adjustments.

(Dollar Amounts in Thousands)

Fiscal Year 2010-11	2009-10	2008-09	2007-08	2006-07	
					Governmental Activities
$ 2,626,281	$ 2,560,468	$ 2,445,397	$ 2,302,926	$ 2,273,891	Net Investment in Capital Assets
					Restricted for:
					Expendable
41,609	43,580	57,322	46,442	--	Other Postemployment Benefits
107,807	--	--	--	--	Pension Benefits
56,219	58,947	85,197	211,426	247,277	Capital Projects
87,253	76,936	66,515	168,468	155,918	Debt Service
1,133,256	1,069,801	1,047,284	990,198	916,563	Legally Segregated for Grants and Other Purposes
--	--	--	--	--	Regional Park Endowment
					Nonexpendable
315	154	149	139	125	Regional Park Endowment
(73,741)	(9,986)	(1,271)	57,812	135,826	Unrestricted
$ 3,978,999	$ 3,799,900	$ 3,700,593	$ 3,777,411	$ 3,729,600	Total Governmental Activities Net Position
					Business-Type Activities
$ 591,664	$ 537,375	$ 493,658	$ 395,227	$ 359,544	Net Investment in Capital Assets
					Restricted for:
					Expendable
--	--	--	--	--	Debt Service
--	--	--	--	--	Passenger Facility Charges
--	--	--	--	--	Approved Capital Projects
--	--	--	--	--	Replacements and Renewals
--	--	--	--	--	Landfill Closure/Postclosure
--	--	--	--	--	Landfill Corrective Action
--	--	--	--	--	Wetland
--	--	--	--	--	Prima Deshecha/La Pata Closure
50,899	48,225	176,225	218,293	194,038	Airport
84,070	86,943	284,943	294,068	292,847	Waste Management
313,568	321,778	--	--	--	Unrestricted
$ 1,040,201	$ 994,321	$ 954,826	$ 907,588	$ 846,429	Total Business-Type Activities Net Position

(Dollar Amounts in Thousands)

Net Position by Component
Last Ten Fiscal Years
(Accrual Basis of Accounting) (Continued)

	Fiscal Year				
	2015-16	2014-15	2013-14 [1]	2012-13	2011-12 [1]
Primary Government					
Net Investment in Capital Assets	$ 3,370,773	$ 3,313,004	$ 3,271,433	$ 3,151,910	$ 3,274,791
Restricted for:					
Expendable					
Other Postemployment Benefits	--	--	--	--	--
Pension Benefits	111,639	112,544	109,986	105,900	96,604
Capital Projects	10,836	6,154	8,661	11,904	16,269
Debt Service	44,879	45,058	44,729	90,737	--
Legally Segregated for Grants and Other Purposes	1,103,257	1,045,897	1,190,106	1,174,791	1,077,117
Regional Park Endowment	144	141	140	139	--
Passenger Facility Charges Approved Capital Projects	14,705	70,538	62,522	55,331	--
Replacements and Renewals	1,000	1,000	1,000	1,000	--
Landfill Closure/Postclosure	33,997	33,337	37,412	40,355	--
Landfill Corrective Action	8,245	8,174	7,141	6,109	--
Wetland	879	879	879	879	--
Prima Deshecha/La Pata Closure	104	104	104	104	--
Airport [2]	--	--	--	--	58,149
Waste Management [2]	--	--	--	--	82,205
Nonexpendable					
Regional Park Endowment	193	188	185	183	319
Unrestricted	(2,514,942)	(2,629,268)	716,279	531,972	388,264
Total Primary Government Net Position	$ 2,185,709	$ 2,007,750	$ 5,450,577	$ 5,171,314	$ 4,993,718

Notes: (1) The balances shown have not been restated to include prior period adjustments.
(2) Starting in FY 2012-13, Restricted Net Position for Business-Type Activities will be shown by activity detail.

(Dollar Amounts in Thousands)

Fiscal Year 2010-11	2009-10	2008-09	2007-08	2006-07	
					Primary Government
					Net Investment
$ 3,217,945	$ 3,097,843	$ 2,939,055	$ 2,698,153	$ 2,633,435	in Capital Assets
					Restricted for:
					Expendable
					Other Postemployment
41,609	43,580	57,322	46,442	--	Benefits
107,807	--	--	--	--	Pension Benefits
56,219	58,947	85,197	211,426	247,277	Capital Projects
87,253	76,936	66,515	168,468	155,918	Debt Service
					Legally Segregated
					for Grants and
1,133,256	1,069,801	1,047,284	990,198	916,563	Other Purposes
--	--	--	--	--	Regional Park Endowment
					Passenger Facility Charges
--	--	--	--	--	Approved Capital Projects
--	--	--	--	--	Replacements and Renewals
--	--	--	--	--	Landfill Closure/Postclosure
--	--	--	--	--	Landfill Corrective Action
--	--	--	--	--	Wetland
					Prima Deshecha/La Pata
--	--	--	--	--	Closure
50,899	48,225	176,225	218,293	194,038	Airport
84,070	86,943	284,943	294,068	292,847	Waste Management
					Nonexpendable
315	154	149	139	125	Regional Park Endowment
239,827	311,792	(1,271)	57,812	135,826	Unrestricted
					Total Primary Government
$ 5,019,200	$ 4,794,221	$ 4,655,419	$ 4,684,999	$ 4,576,029	Net Position

(Dollar Amounts in Thousands)

Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year				
	2015-16	2014-15	2013-14 (1)	2012-13	2011-12 (1)
Expenses					
Governmental Activities:					
General Government	$ 203,394	$ 191,793	$ 131,026	$ 221,110	$ 161,615
Public Protection	1,433,421	1,326,028	1,261,984	1,264,354	1,231,925
Public Ways and Facilities	142,071	114,398	127,561	137,651	144,382
Health and Sanitation	554,872	537,580	626,063	621,381	593,657
Public Assistance	1,097,129	1,049,665	988,735	944,230	930,348
Education	46,170	43,314	41,240	38,548	41,226
Recreation and Cultural Services	115,136	102,069	96,820	101,232	102,762
Interest on Long-Term Debt	20,112	23,560	28,028	31,269	56,765
Subtotal Governmental Activities	3,612,305	3,388,407	3,301,457	3,359,775	3,262,680
Business-Type Activities:					
Airport	120,921	124,778	120,731	122,568	107,120
Waste Management	96,301	69,307	94,161	94,737	94,553
Compressed Natural Gas	283	331	379	305	306
Subtotal Business-Type Activities	217,505	194,416	215,271	217,610	201,979
Total Primary Government Expenses	$ 3,829,810	$ 3,582,823	$ 3,516,728	$ 3,577,385	$ 3,464,659
Program Revenues					
Governmental Activities:					
Charges for Services					
General Government	$ 34,048	$ 36,924	$ 32,016	$ 32,127	$ 26,942
Public Protection	288,185	286,644	273,215	283,031	271,423
Public Ways and Facilities	63,487	53,834	53,071	39,981	62,653
Health and Sanitation	85,392	102,599	93,470	81,039	86,027
Public Assistance	37,975	37,650	42,300	34,780	35,036
Education	1,426	1,480	2,059	1,327	1,437
Recreation and Cultural Cultural Services	46,937	43,882	39,251	39,637	38,888
Operating Grants and Contributions	2,037,311	1,996,861	2,033,550	1,904,858	1,800,296
Capital Grants and Contributions	105,776	33,241	54,478	62,893	39,010
Subtotal Governmental Activities Program Revenues	2,700,537	2,593,115	2,623,410	2,479,673	2,361,712
Business-Type Activities:					
Charges for Services					
Airport	149,894	141,563	136,359	132,941	129,213
Waste Management	147,130	139,493	125,106	106,876	99,249
Compressed Natural Gas	269	312	392	385	293
Operating Grants and Contributions	171	255	900	200	212
Capital Grants and Contributions	2,174	9,215	5,277	3,839	5,216
Subtotal Business-Type Activities Program Revenues	299,638	290,838	268,034	244,241	234,183
Total Primary Government Program Revenues	$ 3,000,175	$ 2,883,953	$ 2,891,444	$ 2,723,914	$ 2,595,895

Notes: (1) The balances shown have not been restated to include prior period adjustments.

(Dollar Amounts in Thousands)

Fiscal Year 2010-11	2009-10	2008-09	2007-08	2006-07	
					Expenses
					Governmental Activities:
$ 223,710	$ 165,489	$ 268,092	$ 264,049	$ 281,739	General Government
1,174,859	1,160,823	1,230,894	1,164,458	1,055,593	Public Protection
136,017	120,135	108,748	131,563	96,776	Public Ways and Facilities
586,525	578,983	593,331	576,160	527,541	Health and Sanitation
931,263	931,469	898,668	862,709	794,862	Public Assistance
39,788	41,009	41,265	37,728	32,722	Education
101,993	90,649	81,896	75,612	80,279	Recreation and Cultural Services
53,806	53,782	59,751	76,210	65,961	Interest on Long-Term Debt
3,247,961	3,142,339	3,282,645	3,188,489	2,935,473	Subtotal Governmental Activities
					Business-Type Activities:
88,059	92,068	91,959	86,750	90,524	Airport
93,985	84,754	79,374	101,990	85,378	Waste Management
349	95	--	--	--	Compressed Natural Gas
182,393	176,917	171,333	188,740	175,902	Subtotal Business-Type Activities
$ 3,430,354	$ 3,319,256	$ 3,453,978	$ 3,377,229	$ 3,111,375	Total Primary Government Expenses
					Program Revenues
					Governmental Activities:
					Charges for Services
$ 33,561	$ 27,452	$ 44,782	$ 40,659	$ 45,647	General Government
310,773	278,355	289,014	295,740	283,215	Public Protection
53,960	45,809	47,283	45,898	41,014	Public Ways and Facilities
93,815	86,430	82,059	95,069	85,305	Health and Sanitation
36,304	30,914	26,636	6,360	5,372	Public Assistance
1,576	1,449	1,338	1,349	4,743	Education
37,560	38,223	40,138	40,449	39,028	Recreation and Cultural Cultural Services
1,706,231	1,741,762	1,641,501	1,735,820	1,759,887	Operating Grants and Contributions
170,516	16,828	94,031	46,308	69,340	Capital Grants and Contributions
2,444,296	2,267,222	2,266,782	2,307,652	2,333,551	Subtotal Governmental Activities Program Revenues
					Business-Type Activities:
					Charges for Services
124,298	126,656	125,095	126,139	127,747	Airport
102,595	82,442	93,456	99,548	111,362	Waste Management
242	129	--	--	--	Compressed Natural Gas
657	1,432	171	569	691	Operating Grants and Contributions
6,544	8,077	7,466	15,188	6,731	Capital Grants and Contributions
234,336	218,736	226,188	241,444	246,531	Subtotal Business-Type Activities Program Revenues
$ 2,678,632	$ 2,485,958	$ 2,492,970	$ 2,549,096	$ 2,580,082	Total Primary Government Program Revenues

(Dollar Amounts in Thousands)

Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting) (Continued)

	Fiscal Year				
	2015-16	2014-15	2013-14 (3)	2012-13	2011-12 (3)
Net (Expense)/Revenue					
Governmental Activities	$ (911,768)	$ (795,292)	$ (678,047)	$ (880,102)	$ (900,968)
Business-Type Activities	82,133	96,422	52,763	26,631	32,204
Total Primary Government Net Revenue/(Expense)	$ (829,635)	$ (698,870)	$ (625,284)	$ (853,471)	$ (868,764)
General Revenue and Other Changes in Net Position					
Governmental Activities:					
Taxes					
Property Taxes, Levied for General Fund	$ 311,902	$ 328,500	$ 277,591	$ 313,299	$ 311,779
Property Taxes, Levied for Flood Control District	82,193	77,090	72,737	69,321	68,184
Property Taxes, Levied for OC Parks	61,048	57,266	54,042	51,550	51,168
Property Taxes, Levied for OC Public Libraries	45,364	42,333	39,734	37,961	37,389
Property Tax Increments (2)	--	--	--	--	18,308
Property Taxes in-Lieu of Motor Vehicle License Fees	333,595	314,957	295,798	309,745	303,955
Other Taxes	78,184	71,613	73,178	108,430	43,568
Grants and Contributions Not Restricted to Specific Programs	4,583	49,476	14,192	6,711	9,377
State Allocation of Motor Vehicle License Fees	1,100	764	895	1,659	2,667
Unrestricted Investment Earnings	17,032	6,796	18,459	11,559	4,195
Miscellaneous	63,825	69,789	54,412	48,478	57,125
Gain on Sale of Capital Assets	--	--	--	--	34
Transfers	21,518	19,959	17,557	10,276	11,767
Subtotal Governmental Activities	1,020,344	1,038,543	918,595	968,989	919,516
Extraordinary Gain/(Loss) Dissolution of OCDA (1)	--	--	--	1,800	(69,639)
Business-Type Activities:					
Other Taxes	72	109	101	93	134
Unrestricted Investment Earnings	6,526	3,042	3,064	2,113	3,530
Miscellaneous Revenues	2,170	1,597	3,177	1,235	1,508
Special Items	--	--	--	--	--
Transfers	(21,518)	(19,959)	(17,557)	(10,276)	(11,767)
Subtotal Business-Type Activities	(12,750)	(15,211)	(11,215)	(6,835)	(6,595)
Total Primary Government	$ 1,007,594	$ 1,023,332	$ 907,380	$ 963,954	$ 843,282
Change in Net Position					
Governmental Activities	$ 108,576	$ 243,251	$ 240,548	$ 90,687	$ (51,091)
Business-Type Activities	69,383	81,211	41,548	19,796	25,609
Total Primary Government	$ 177,959	$ 324,462	$ 282,096	$ 110,483	$ (25,482)

Notes:
(1) Extraordinary item results from dissolution of OCDA which is now reported as a private-purpose trust fund.
(2) Starting in FY 2012-13, there were no property tax increment revenues due to dissolution of OCDA.
(3) The balances shown have not been restated to include prior period adjustments.

(Dollar Amounts in Thousands)

Fiscal Year 2010-11	2009-10	2008-09	2007-08	2006-07	
					Net (Expense)/Revenue
$ (803,665)	$ (875,117)	$ (1,015,863)	$ (880,837)	$ (601,922)	Governmental Activities
51,943	41,819	54,855	52,704	70,629	Business-Type Activities
					Total Primary Government
$ (751,722)	$ (833,298)	$ (961,008)	$ (828,133)	$ (531,293)	Net Revenue/(Expense)
					General Revenue and Other Changes in Net Position
					Governmental Activities:
					Taxes
$ 298,953	$ 290,054	$ 263,893	$ 273,259	$ 283,112	Property Taxes, Levied for General Fund
73,260	67,103	68,747	68,042	63,209	Property Taxes, Levied for Flood Control District
51,554	49,857	51,076	50,551	46,965	Property Taxes, Levied for OC Parks
37,590	37,057	37,932	37,454	34,427	Property Taxes, Levied for OC Public Libraries
30,755	31,917	35,276	32,376	25,828	Property Tax Increments
228,421	229,635	232,760	224,210	206,933	Property Taxes in-Lieu of Motor Vehicle License Fees
83,938	93,024	94,184	84,434	54,644	Other Taxes
27,457	10,299	27,637	23,434	1,917	Grants and Contributions Not Restricted to Specific Programs
49,889	46,697	50,390	54,656	58,487	State Allocation of Motor Vehicle License Fees
23,703	15,541	13,583	27,773	60,856	Unrestricted Investment Earnings
64,563	54,496	49,438	66,887	60,762	Miscellaneous
--	--	--	--	31,460	Gain on Sale of Capital Assets
12,681	11,188	14,129	16,802	14,130	Transfers
982,764	936,868	939,045	959,878	942,730	Subtotal Governmental Activities
--	--	--	--	--	Extraordinary Gain/(Loss) Dissolution of OCDA
					Business-Type Activities:
-	--	--	--	--	Other Taxes
5,509	6,411	17,332	29,206	34,500	Unrestricted Investment Earnings
1,109	2,453	786	2,886	1,206	Miscellaneous Revenues
--	--	--	(6,835)	--	Special Items
(12,681)	(11,188)	(14,129)	(16,802)	(14,130)	Transfers
(6,063)	(2,324)	3,989	8,455	21,576	Subtotal Business-Type Activities
$ 976,701	$ 934,544	$ 943,034	$ 968,333	$ 964,306	Total Primary Government
					Change in Net Position
$ 179,099	$ 61,751	$ (76,818)	$ 79,041	$ 340,808	Governmental Activities
45,880	39,495	58,844	61,159	92,205	Business-Type Activities
$ 224,979	$ 101,246	$ (17,974)	$ 140,200	$ 433,013	Total Primary Government

(Dollar Amounts in Thousands)

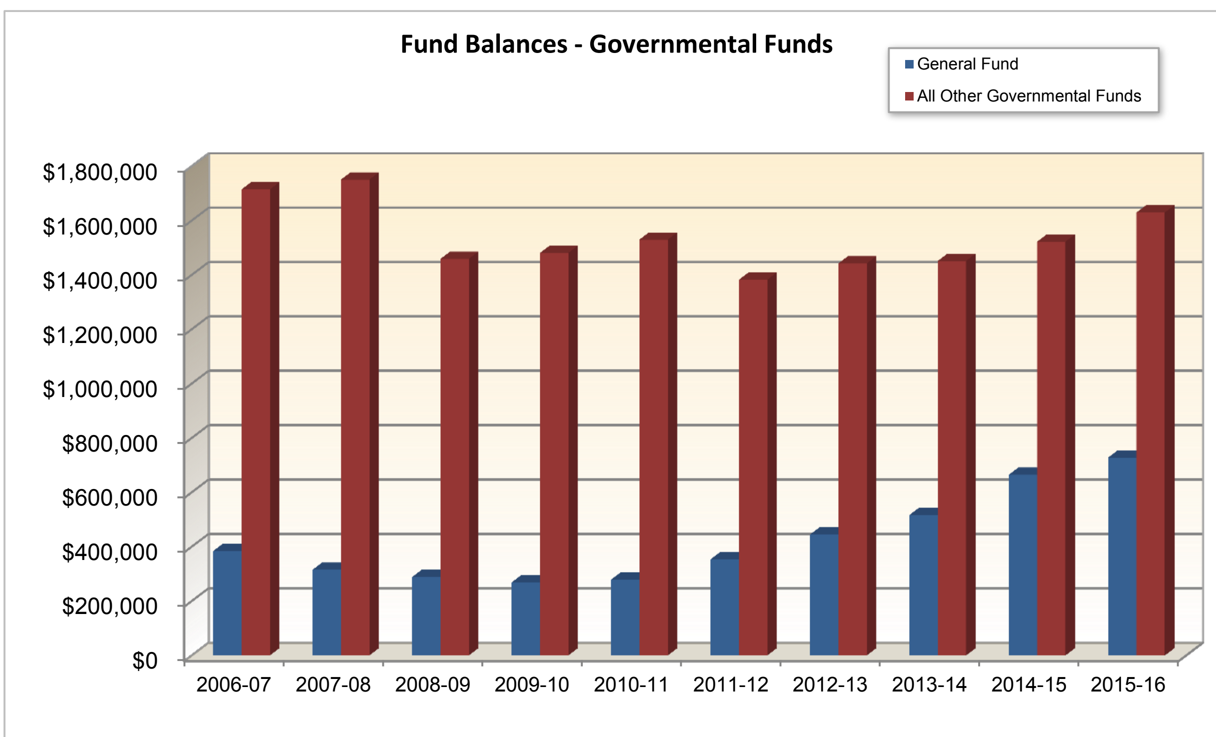
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year				
	2015-16	2014-15	2013-14	2012-13 (2)	2011-12
General Fund					
Reserved	$ --	$ --	$ --	$ --	$ --
Unreserved	--	--	--	--	--
Nonspendable (1)	331,889	336,606	321,022	263,446	225,460
Restricted (1)	49,230	31,486	42,028	34,679	26,336
Assigned (1)	321,064	269,529	153,336	68,157	100,448
Unassigned (1)	25,655	26,887	--	78,264	990
Total General Fund	$ 727,838	$ 664,508	$ 516,386	$ 444,546	$ 353,234
All Other Governmental Funds					
Reserved	$ --	$ --	$ --	$ --	$ --
Unreserved,					
Reported in:					
Special Revenue Funds	--	--	--	--	--
Debt Service Funds	--	--	--	--	--
Capital Projects Funds	--	--	--	--	--
Permanent Fund	--	--	--	--	--
Nonspendable (1)	20,501	21,296	21,207	18,929	23,057
Restricted (1)	1,479,405	1,417,122	1,362,102	1,357,556	1,318,071
Assigned (1)	129,782	83,765	67,929	65,556	43,900
Unassigned (1)	--	--	--	--	(3,016)
Total All Other Governmental Funds	$ 1,629,688	$ 1,522,183	$ 1,451,238	$ 1,442,041	$ 1,382,012

Note: (1) In accordance with GASB Statement No. 54, which was implemented in FY 2010-11, the classification of fund balance was redefined.
(2) The balances shown have not been restated to include prior period adjustments.

(Dollar Amounts in Thousands)

	Fiscal Year 2010-11	2009-10	2008-09	2007-08	2006-07
General Fund					
Reserved	$ --	$ 53,190	$ 49,423	$ 99,877	$ 89,001
Unreserved	--	215,094	238,621	215,096	294,739
Nonspendable (1)	266,328	--	--	--	--
Restricted (1)	10,872	--	--	--	--
Assigned (1)	1,394	--	--	--	--
Unassigned (1)	--	--	--	--	--
Total General Fund	$ 278,594	$ 268,284	$ 288,044	$ 314,973	$ 383,740
All Other Governmental Funds					
Reserved	$ --	$ 540,745	$ 517,375	$ 671,739	$ 626,134
Unreserved,					
Reported in:					
Special Revenue Funds	--	894,148	878,113	880,288	838,291
Debt Service Funds	--	(1,813)	(9,903)	--	17,456
Capital Projects Funds	--	47,362	73,045	198,348	232,317
Permanent Fund	--	154	149	139	125
Nonspendable (1)	20,802	--	--	--	--
Restricted (1)	1,482,755	--	--	--	--
Assigned	34,173	--	--	--	--
Unassigned (1)	(8,074)	--	--	--	--
Total All Other Governmental Funds	$ 1,529,656	$ 1,480,596	$ 1,458,779	$ 1,750,514	$ 1,714,323



(Dollar Amounts in Thousands)

Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Basis of Accounting)

	Fiscal Year				
	2015-16	2014-15	2013-14	2012-13	2011-12 (1)
Revenues					
Taxes	$ 876,808	822,511	$ 778,936	$ 854,587	$ 784,797
Licenses, Permits and Franchises	27,659	24,583	24,920	15,213	18,046
Fines, Forfeitures and Penalties	61,669	108,115	62,081	79,267	80,180
Use of Money and Property	88,211	73,700	63,611	58,441	81,088
Intergovernmental	2,125,136	2,064,354	2,070,245	1,940,687	1,846,311
Charges for Services	466,659	480,023	470,899	439,224	435,920
Other	69,436	71,207	54,406	77,464	66,920
Total Revenues	3,715,578	3,644,493	3,525,098	3,464,883	3,313,262
Expenditures					
General Government	261,387	212,805	172,195	186,145	170,156
Public Protection	1,289,902	1,230,878	1,194,069	1,157,676	1,125,831
Public Ways and Facilities	123,140	102,732	127,506	112,294	126,809
Health and Sanitation	527,482	515,560	621,891	611,369	580,791
Public Assistance	1,061,647	1,030,404	972,156	932,414	909,296
Education	43,928	41,949	40,008	37,239	37,621
Recreation and Cultural Services	100,381	98,001	98,388	94,051	91,753
Capital Outlay	116,569	102,863	125,781	122,639	105,207
Debt Service					
Principal Retirement	126,319	104,756	111,486	72,499	95,429
Escrow Bond Agent	--	--	--	--	--
Interest	43,039	31,513	35,107	43,777	46,152
Debt Issuance Costs	--	--	200	--	--
Total Expenditures	3,693,794	3,471,461	3,498,787	3,370,103	3,289,045
Excess (Deficit) of Revenues Over Expenditures	21,784	173,032	26,311	94,780	24,217
Other Financing Sources (Uses)					
Capital Contribution	--				
Transfers In	396,952	338,055	294,374	274,363	345,692
Transfers Out	(387,373)	(323,604)	(279,287)	(268,110)	(336,157)
Debt Issued	127,494	31,541	39,639	78,419	10,000
Premium on Debt Issued	11,724	--	--	--	2,927
Principal Payment on Demand Bonds	--	--	--	--	--
Refunding Bonds Issued	--	--	--	--	34,380
Payment to Refunded Bond Escrow	--	--	--	--	(40,491)
Provisions for Increase in Land Held for Resale	--	--	--	--	43
Capital Leases	254	43	--	--	-
Total Other Financing Sources	149,051	46,035	54,726	84,672	16,394
Extraordinary Gain/(Loss)	--	--	--	1,800	(113,615)
Net Change in Fund Balances	$ 170,835	219,067	$ 81,037	$ 181,252	$ (73,004)
Debt Service as a Percentage of Noncapital Expenditures:	4.73%	4.04%	4.34%	3.60%	4.44%

Notes: (1) The balances shown have not been restated to include prior period adjustments.

(Dollar Amounts in Thousands)

Fiscal Year 2010-11	2009-10	2008-09	2007-08	2006-07	
					Revenues
$ 738,109	$ 741,850	$ 727,159	$ 719,742	$ 674,278	Taxes
16,831	14,976	17,965	20,516	23,289	Licenses, Permits and Franchises
93,461	102,959	112,882	89,700	73,353	Fines, Forfeitures and Penalties
89,514	88,350	69,667	146,983	165,042	Use of Money and Property
1,745,066	1,769,253	1,697,017	1,743,637	1,722,951	Intergovernmental
478,916	418,373	443,456	423,611	406,071	Charges for Services
64,125	65,727	89,064	91,197	104,046	Other
3,226,022	3,201,488	3,157,210	3,235,386	3,169,030	Total Revenues
					Expenditures
207,193	211,434	277,369	252,781	204,585	General Government
1,068,267	1,054,947	1,117,882	1,103,442	1,005,737	Public Protection
110,789	106,985	110,548	117,963	90,683	Public Ways and Facilities
576,793	559,315	576,964	564,335	516,901	Health and Sanitation
911,704	903,733	878,436	851,836	788,326	Public Assistance
37,671	38,921	39,666	37,091	35,904	Education
84,506	82,826	79,889	70,084	73,386	Recreation and Cultural Services
84,311	124,077	155,286	143,468	154,373	Capital Outlay
					Debt Service
87,685	88,962	205,268	301,066	191,012	Principal Retirement
--	--	--	--	--	Escrow Bond Agent
40,634	39,565	46,697	53,478	58,586	Interest
--	--	--	--	799	Debt Issuance Costs
3,209,553	3,210,765	3,488,005	3,495,544	3,120,292	Total Expenditures
16,469	(9,277)	(330,795)	(260,158)	48,738	Excess (Deficit) of Revenues Over Expenditures
					Other Financing Sources (Uses)
395,752	382,154	793,528	359,791	298,138	Transfers In
(388,274)	(370,820)	(781,397)	(345,674)	(288,045)	Transfers Out
36,000	--	--	--	32,700	Debt Issued
--	--	--	--	2,140	Premium on Debt Issued
--	--	--	211,065	105,991	Principal Payment on Demand Bonds
--	--	--	--	--	Refunding Bonds Issued
(710)	--	--	--	--	Payment to Refunded Bond Escrow
--	--	--	--	--	Provisions for Increase in Land Held for Resale
133	--	--	2,400	--	Capital Leases
42,901	11,334	12,131	227,582	150,924	Total Other Financing Sources
--	--	--	--	--	Extraordinary Loss
$ 59,370	$ 2,057	$ (318,664)	$ (32,576)	$ 199,662	Net Change in Fund Balances
4.12%	4.18%	7.54%	10.43%	8.44%	Debt Service as a Percentage of Noncapital Expenditures:

(Dollar Amounts in Thousands)

Assessed Value of Taxable Property [1]
Last Ten Fiscal Years

Fiscal Year	Residential Property	Industrial/ Commercial Property	Other Property [2]	Unsecured Roll Gross Total [3]
2015-16	$ 377,592,570	$ 110,440,476	$ 3,294,159	$ 20,394,462
2014-15	352,800,864	105,523,254	3,694,094	20,902,660
2013-14	328,138,473	102,580,010	3,792,261	19,281,087
2012-13	315,635,908	100,074,695	3,489,057	19,905,480
2011-12	310,211,002	96,431,670	2,848,162	20,634,672
2010-11	304,895,403	97,097,750	3,038,747	21,198,638
2009-10	302,855,181	100,686,715	2,814,952	21,516,171
2008-09	310,398,180	97,515,067	3,125,331	21,026,522
2007-08	302,853,813	89,547,612	2,772,022	20,318,430
2006-07	277,879,918	82,230,790	2,948,207	20,831,767

Notes:

(1) Article XIIIA, added to the California Constitution by Proposition 13 in 1978, fixed the base valuation of property subject to taxes at the full cash value appeared on the Assessor's 1975-76 assessment roll. The full cash value can be increased to reflect the annual inflation up to 2 percent, the current market value at time of ownership change and the market value for new construction. Estimated actual value of taxable property cannot easily be determined as the property in the County is not reassessed annually. Reassessment normally occurs when ownership changes.

(2) Other property includes: timeshares, rural/agricultural land, unique miscellaneous, mineral rights, water rights and personal property and fixtures.

(3) Unsecured roll includes properties for which taxes assessed are not a lien on real property and are not sufficient, in the opinion of the Assessor, to secure payment of taxes. It consists of improvements, business personal property, boats and aircrafts, and it can also include land and improvements that are identified as real estate of others, as defined by the Assessor (reference Revenue and Taxation Code Section 134).

Source: Orange County Assessor Department

(Dollar Amounts in Thousands)

Total Taxable Assessed Value	Less: Exempt & Non-Reimbursed Exemptions	Net Taxable Assessed Value	Total Direct Tax Rate Percent [1]
$ 511,721,667	$ (12,722,344)	$ 498,999,323	1.00
482,920,872	(11,661,965)	471,258,907	1.00
453,791,831	(10,943,554)	442,848,277	1.00
439,105,140	(10,634,193)	428,470,947	1.00
430,125,506	(9,729,486)	420,396,020	1.00
426,230,538	(9,452,472)	416,778,066	1.00
427,873,019	(9,063,739)	418,809,280	1.00
432,065,100	(8,051,290)	424,013,810	1.00
415,491,877	(6,757,810)	408,734,067	1.00
383,890,682	(6,613,199)	377,277,483	1.00

(Dollar Amounts in Thousands)

COUNTY OF ORANGE
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(Rate Per $1,000 of Assessed Value)

	Direct Rate (1)	Overlapping Rates (2)				
Fiscal Year	County General	School Districts	Local Special Districts	Cities	Public Utility	Total Direct & Overlapping Rates
2015-16	1.00000	0.05101	0.01455	0.00670	0.00227	1.07453
2014-15	1.00000	0.04579	0.04438	0.00681	-- (3)	1.09698

Notes:
(1) Article XIIIA, added to the California Constitution by Proposition 13 in 1978, fixed the base valuation of property subject to taxes at the full cash value appeared on the Assessor's 1975-76 assessment roll. The full cash value can be increased to reflect the annual inflation up to 2 percent, the current market value at time of ownership change and the market value for new construction. Estimated actual value of taxable property cannot easily be determined as the property in the County is not reassessed annually. Reassessment normally occurs when ownership changes.
(2) These overlapping rates are in addition to the County General rate, but only apply to taxpayers within the borders of the school districts, local special districts, cities, and public utilities that lie within the County.
(3) No rate was available for Public Utility in FY 2014-15.
(4) The schedule is presented to show information for 10 years. However, a full 10-year trend is not currently available; the County will be adding years in the future.

Source: Treasurer-Tax Collector, County of Orange

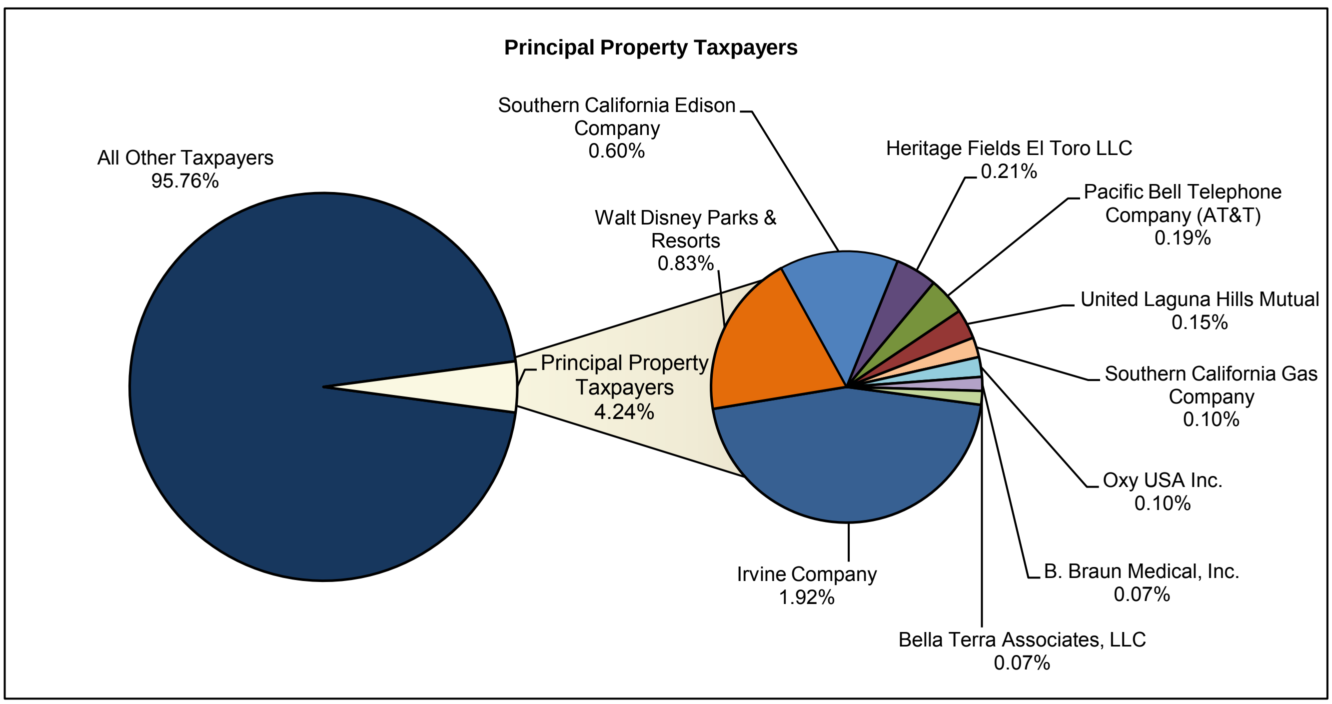
ORANGE COUNTY AUDITOR-CONTROLLER

CALIFORNIA

(Dollar Amounts in Thousands)

Principal Property Taxpayers
Current Year and Nine Years Ago

	2016			2007		
Taxpayer	Actual Taxes Levied	Rank	Percentage of Total Taxes Levied	Actual Taxes Levied	Rank	Percentage of Total Taxes Levied
Irvine Company	$ 111,040	1	1.92%	$ 50,787	1	1.09%
Walt Disney Parks & Resorts	48,011	2	0.83%	37,935	2 & 6	0.81%
Southern California Edison Company	34,709	3	0.60%	18,548	4	0.40%
Heritage Fields El Toro LLC	11,943	4	0.21%	8,424	5	0.18%
Pacific Bell Telephone Company (AT&T)	10,921	5	0.19%	6,464	8	0.14%
United Laguna Hills Mutual	8,735	6	0.15%	7,470	7	0.16%
Southern California Gas Company	5,934	7	0.10%			
Oxy USA Inc.	5,575	8	0.10%			
B. Braun Medical, Inc.	4,302	9	0.07%			
Bella Terra Associates, LLC	3,999	10	0.07%			
Irvine Apartment Communities				19,409	3	0.42%
Irvine Co. of W VA				5,382	9	0.12%
Irvine Community Development				5,148	10	0.11%
Total	$ 245,169		4.24%	$ 159,567		3.43%

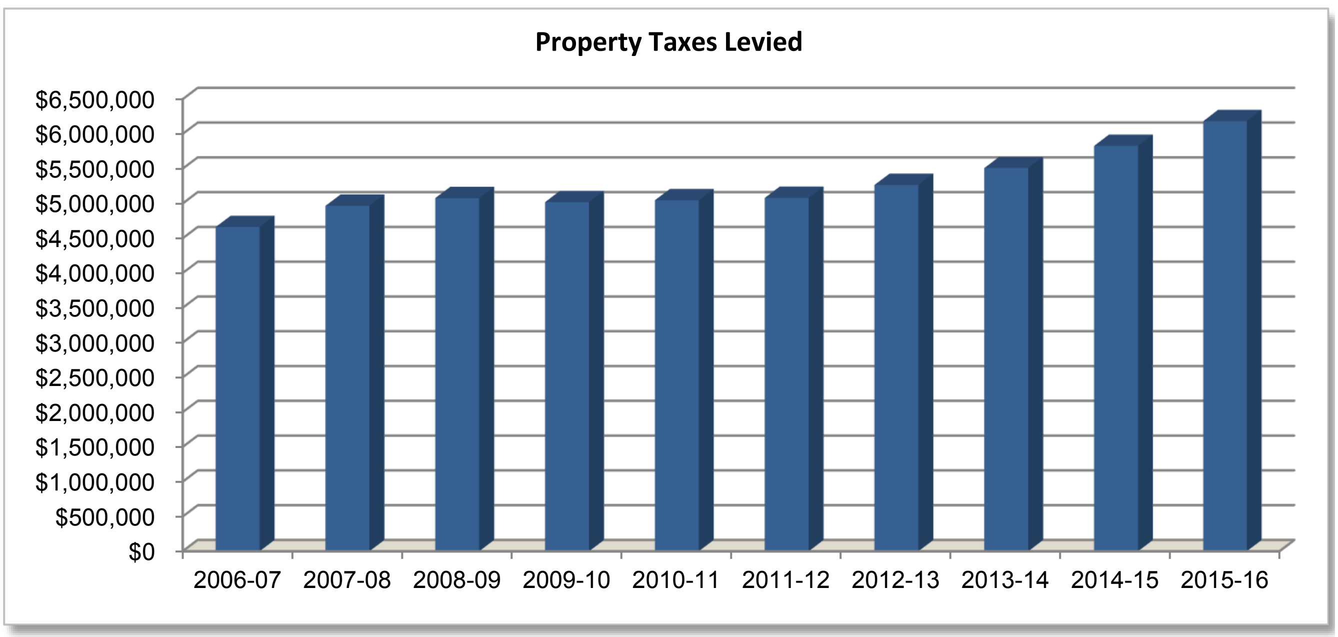


Source: Treasurer-Tax Collector, County of Orange

(Dollar Amounts in Thousands)

Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Taxes Levied for the Fiscal Year[1]	Collections Within the Fiscal Year of the Levy[2]		Collections of Delinquent Taxes from Prior Years[4]	Total Collections for the Fiscal Year[3]	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2015-16	$ 6,183,862	$ 6,119,771	98.96%	$ -	$ 6,119,771	98.96%
2014-15	5,828,106	5,759,699	98.83%	40,387	5,800,086	99.52%
2013-14	5,509,379	5,444,912	98.83%	35,142	5,480,054	99.47%
2012-13	5,265,844	5,194,193	98.64%	36,579	5,230,772	99.33%
2011-12	5,079,589	5,002,490	98.48%	58,963	5,061,453	99.64%
2010-11	5,045,802	4,960,748	98.31%	17,752	4,978,500	98.67%
2009-10	5,019,061	4,904,188	97.71%	8,628	4,912,816	97.88%
2008-09	5,076,796	4,901,574	96.55%	6,882	4,908,456	96.68%
2007-08	4,965,990	4,784,438	96.34%	4,088	4,788,526	96.43%
2006-07	4,661,169	4,499,537	96.53%	1,333	4,500,870	96.56%
2005-06	4,323,550	4,133,562	95.61%	425	4,133,987	95.62%



Notes:
(1) Total tax levy includes secured, supplemental, unsecured and former redevelopment agency increment, including penalties.
(2) Total tax collections include penalties.
(3) Total collections include collections of current year taxes and collections related to prior year levies.
The percentage of levy represents the ratio of total collections to the taxes levied for that fiscal year.
(4) No amounts are shown because the property taxes levied will be collected in the following year.

Source: Auditor-Controller, County of Orange

Ratios of Outstanding Debt [1] by Type
Last Ten Fiscal Years (in Thousands Except Per Capita)
(Accrual Basis of Accounting)

	Governmental Activities					
Fiscal Year	Refunding Recovery Bonds [6]	Redevelopment Bonds [2]	Certificates of Participation [5]	Pension Obligation Bonds [5]	Teeter Plan Revenue Bonds	Teeter Plan Notes
2015-16	$ --	$ --	$ 1,262	$ 19,140	$ --	$ 30,191
2014-15	--	--	1,744	27,227	--	33,823
2013-14	19,172	--	2,262	32,193	--	39,830
2012-13	35,317	--	2,822	37,925	--	43,486
2011-12	51,600	--	3,422	47,523	--	--
2010-11	67,028	47,009	4,064	54,680	--	--
2009-10	81,619	49,729	4,758	59,331	--	--
2008-09	95,206	52,306	5,502	69,711	--	--
2007-08	108,175	54,750	6,306	72,728	123,725	--
2006-07	120,019	57,122	7,165	89,891	123,725	--

Notes:
(1) Details regarding the County's outstanding debt can be found in Note 10, Long-Term Obligations.
(2) Redevelopment Bonds are no longer County debt due to the dissolution of Redevelopment Agency on February 1, 2012. Details regarding the Redevelopment Bonds can be found in Note 11, Conduit Debt Obligations and Successor Agency Debt.
(3) Capital lease obligations arise from lease agreements which are in-substance like purchases. The agreements convey property rights to the lessee and the lessee assumes substantially all the risks and benefits of ownership.
(4) See demographic and economic statistics schedule for personal income and population data. For years prior to FY 2012-13, the personal income ratio and the debt per capita amounts were calculated using personal income and population from the prior fiscal year.
(5) Beginning FY 2012-13, outstanding debt does not include Interest Accretion on capital appreciation bonds (CAB), this was separated and numbers were restated.
(6) Beginning FY 2013-14, outstanding debt does not include deferred amount on refunding due to implementation of GASB Statement No. 65. Prior years have not been restated.
(7) Lease Revenue bonds and Airport Revenue bonds include unamortized premiums and discounts.

Source: Auditor-Controller, County of Orange

(Dollar Amounts in Thousands)

Business-Type Activities							
Lease Revenue Bonds (6), (7)	Capital Lease Obligations (3)	Interest Accretion on CAB	Airport Revenue Bonds (7)	Waste Management System Revenue Bonds	Total Primary Government	Percentage of Personal Income (4)	Per Capita (4)
$ 141,145	$ 67,928	$ 73,926	$ 195,127	$ --	$ 528,719	0.28%	$ 166
105,880	79,168	96,303	202,536	--	546,681	0.29%	174
137,115	62,446	103,377	209,804	--	606,199	0.34%	195
155,828	67,353	110,084	240,540	7,018	700,373	0.41%	227
181,097	71,755	--	248,900	13,666	617,963	0.37%	202
249,924	76,074	--	256,683	19,921	775,383	0.49%	258
309,517	80,114	--	264,099	25,738	874,905	0.57%	276
365,850	84,952	--	33,502	31,144	738,173	0.50%	235
420,668	90,769	--	89,897	36,177	1,003,195	0.65%	321
470,616	93,533	--	101,925	40,881	1,104,877	0.72%	357

Ratios of Net General Bonded Debt [1] Outstanding
Last Ten Fiscal Years (in Thousands Except Per Capita)
(Accrual Basis of Accounting)

	General Debt Outstanding					
Fiscal Year	Refunding Recovery Bonds	Pension Obligation Bonds [3]	Restricted for Debt Payments [3]	Total (Excess)/ Under	Percentage of Assessed Value	Per Capita [2]
2015-16	$ -	$ 87,521	$ 87,521	$ -	0.00%	$ -
2014-15	-	116,494	116,494	-	0.00%	-
2013-14	19,172	127,206	127,206	19,172	0.00%	6
2012-13	35,317	138,484	138,484	35,317	0.01%	11
2011-12	51,600	47,523	47,523	51,600	0.01%	17
2010-11	67,028	54,680	54,680	67,028	0.02%	22
2009-10	81,619	59,331	59,331	81,619	0.02%	26
2008-09	95,206	69,711	69,711	95,206	0.02%	30
2007-08	108,175	72,728	72,728	108,175	0.03%	35
2006-07	120,019	89,891	89,891	120,019	0.04%	39
2005-06	131,420	99,714	99,714	131,420	0.04%	43

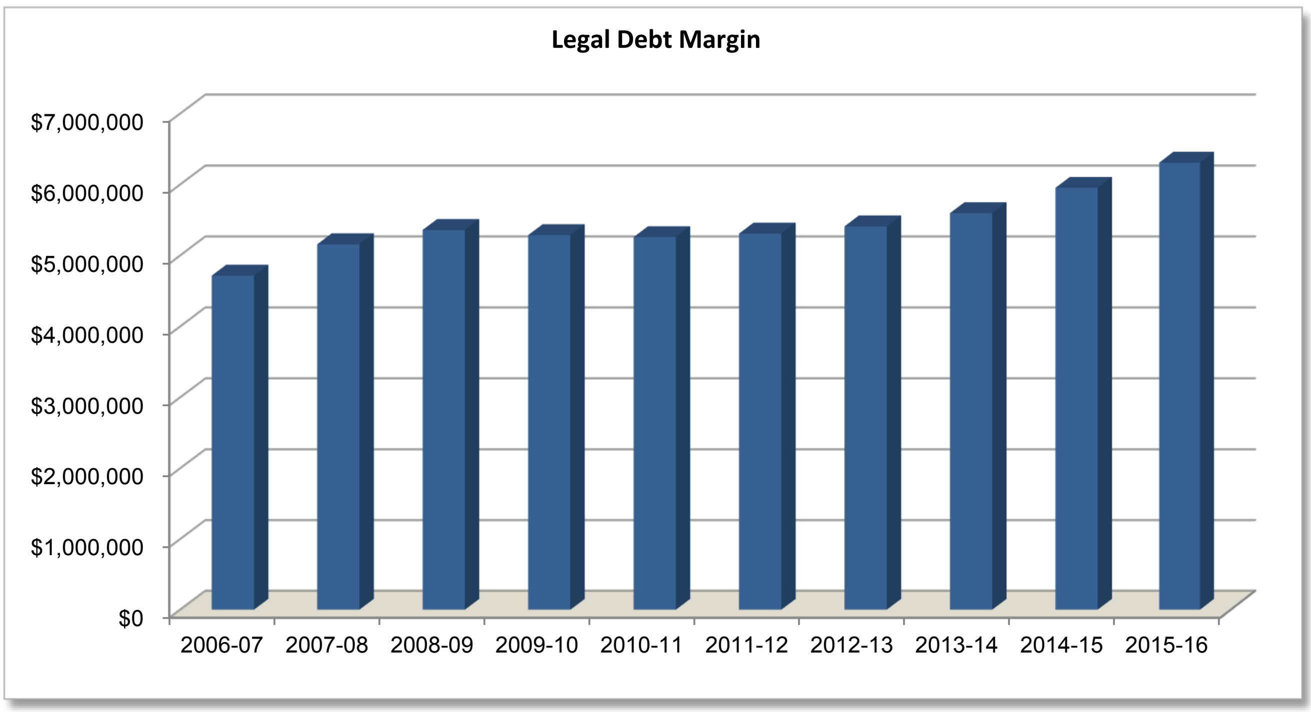
Notes:
(1) Details regarding the County's outstanding debt can be found in Note 10, Long-Term Obligations.
(2) See demographic and economic statistics schedule for population data. For years prior to FY 2012-13, the debt per capita amount was calculated using the population for the prior fiscal year.
(3) Beginning in FY 2012-13, outstanding debt includes accreted interest on capital appreciation bonds.

Source: Auditor Controller, County of Orange

(Dollar Amounts in Thousands)

Legal Debt Margin as a Percentage of Debt Limit
Last Ten Fiscal Years

Fiscal Year	Assessed Value	Legal Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total Net Debt Applicable to the Limit as a Percentage of Debt Limit
2015-16	$ 504,650,360	$ 6,308,130	$ --	$ 6,308,130	0%
2014-15	476,303,290	5,953,791	--	5,953,791	0%
2013-14	447,749,156	5,596,864	--	5,596,864	0%
2012-13	432,902,274	5,411,278	--	5,411,278	0%
2011-12	424,769,642	5,309,621	--	5,309,621	0%
2010-11	420,751,575	5,259,395	--	5,259,395	0%
2009-10	422,965,596	5,287,070	--	5,287,070	0%
2008-09	428,809,224	5,360,115	--	5,360,115	0%
2007-08	412,669,779	5,158,372	--	5,158,372	0%
2006-07	377,277,483	4,715,969	--	4,715,969	0%



Note:

(1) Starting from FY 2007-08, Assessed Value includes for the State assessed properties.

(2) The amount of the general obligation bonded indebtedness the County can incur is limited by law to 1.25 percent of the equalized assessment property tax roll. In order for the County to issue general obligation bonds secured by ad valorem taxes on real property, California Constitution Article XIIIA, section 1 requires the approval of 2/3 of the voting on the proposition.

Source: Auditor-Controller, County of Orange

(Dollar Amounts in Thousands)

Pledged Revenue Coverage[1]
Last Ten Fiscal Years

South Orange County Public Financing Authority

Funding Source: Interest Earnings, Rents and Concessions, and Transfers

Fiscal Year	Gross Revenue	Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
2015-16	$ 5,828	$ 271	$ 5,557	$ 4,920	$ 906	0.95
2014-15	5,830	--	5,830	4,780	1,049	1.00
2013-14	5,825	--	5,825	4,680	1,143	1.00
2012-13	5,841	--	5,841	4,520	1,307	1.00
2011-12	--	262	(262)	--	--	--
2010-11	--	--	--	--	--	--
2009-10	--	--	--	--	--	--
2008-09	--	--	--	--	--	--
2007-08	--	--	--	--	--	--
2006-07	--	--	--	--	--	--

Orange County Public Facilities Corporation Bonds

Funding Source: Interest Earnings and Transfers

Fiscal Year	Gross Revenue	Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
2015-16	$ 2,470	$ --	$ 2,470	$ 482	$ 2,121	0.95
2014-15	2,475	--	2,475	518	2,090	0.95
2013-14	2,459	--	2,459	560	2,045	0.94
2012-13	2,403	44	2,359	600	2,005	0.91
2011-12	2,770	--	2,770	642	1,958	1.07
2010-11	2,525	--	2,525	694	1,906	0.97
2009-10	2,743	--	2,743	744	1,861	1.05
2008-09	2,700	--	2,700	804	1,801	1.04
2007-08	2,789	--	2,789	859	1,741	1.07
2006-07	2,605	--	2,605	927	1,678	1.00

Orange County Public Financing Authority

Funding Source: Interest Earnings, Rents and Concessions, and Transfers

Fiscal Year	Gross Revenue	Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
2015-16	$ 44,418	--	$ 44,418	$ 25,420	$ 3,235	1.55
2014-15	29,928	--	29,928	24,235	4,455	1.04
2013-14	29,949	--	29,949	23,115	5,605	1.04
2012-13	29,952	--	29,952	22,160	6,638	1.04
2011-12	35,697	--	35,697	61,630	10,837	0.49
2010-11	74,725	--	74,725	58,990	13,643	1.03
2009-10	74,838	--	74,838	56,580	16,151	1.03
2008-09	77,027	--	77,027	56,225	18,385	1.03
2007-08	77,308	--	77,308	51,680	20,283	1.07
2006-07	76,162	2,137	74,025	52,050	21,656	1.00

Teeter Plan Notes

Funding Source: Delinquent Property Taxes Collected

Fiscal Year (3)	Gross Revenue	Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
2015-16	$ 316	$ 210	$ 106	$ 74,561	$ 347	0.00
2014-15	174	2,954	(2,780)(4)	37,548	352	(0.07)
2013-14	11,147	251	10,896	43,295	413	0.25
2012-13	15,706	1,032	14,674	14,449	327	0.99
2011-12	--	--	--	--	--	--
2010-11	--	--	--	--	--	--
2009-10	--	--	--	--	--	--
2008-09	--	--	--	--	--	--
2007-08	--	--	--	--	--	--
2006-07	--	--	--	--	--	--

Airport Revenue Bonds

Funding Source: Rents and Concessions, Other Charges for Services, Misc Revenue, Interest Earnings, and Available Passenger Facility Charge Revenue

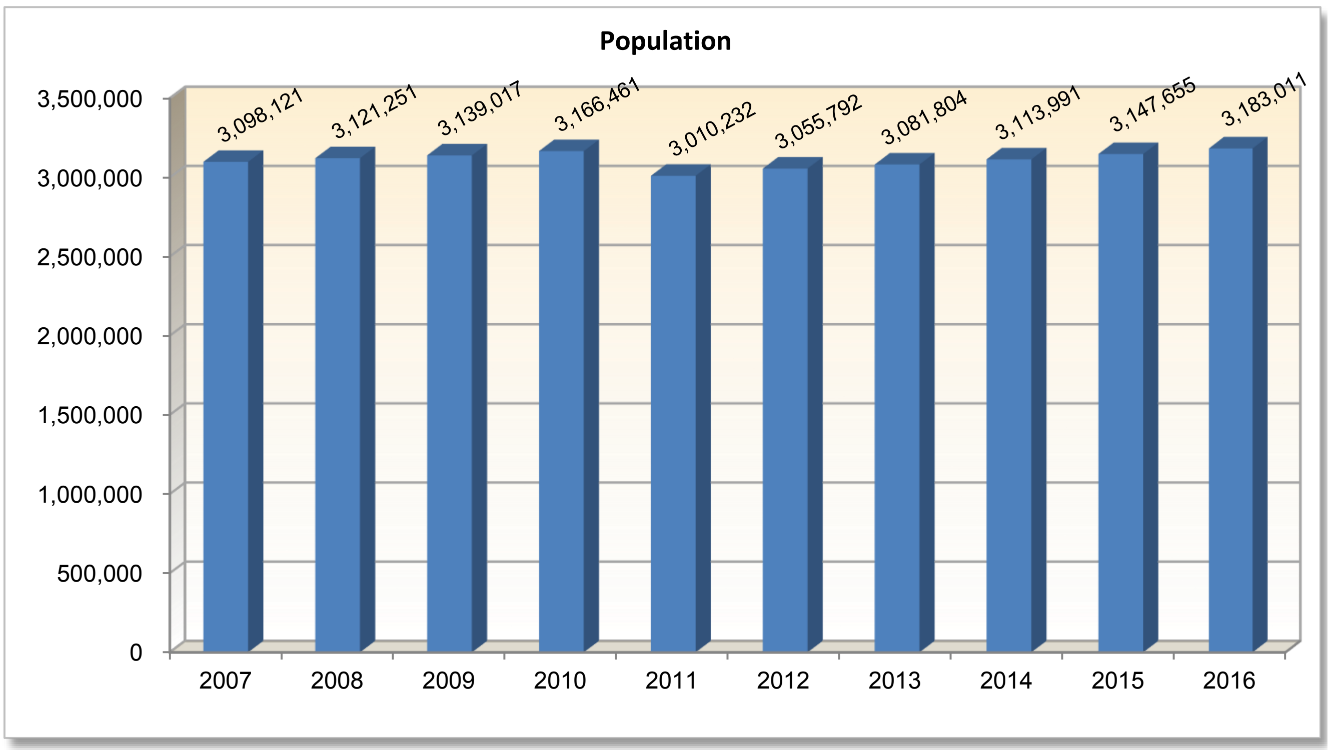
Fiscal Year	Gross Revenue	Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
2015-16	$ 143,661	$ 82,833	$ 60,828	$ 7,205	$ 10,338	3.47
2014-15	135,491	82,558	52,933	6,995	10,603	3.01
2013-14	131,285	84,708	46,577	30,473	11,395	1.11
2012-13	126,966	79,739	47,227	9,250	12,250	2.20
2011-12	124,403	77,628	46,775	7,851	12,592	2.29
2010-11	120,088	70,521	49,567	7,460	12,906	2.43
2009-10	121,761	68,771	52,990	2,865	7,163	5.28
2008-09	115,026	67,749	47,277	13,480	4,567	2.62
2007-08	118,105	63,174	54,931	12,765	5,280	3.04
2006-07	117,879	82,383	35,496	12,120	6,249	1.93

Notes: (1) Details regarding the County's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation or amortization expenses.
(2) For FY 2008-09, there is a deficit balance for Net Available Revenue due to additional expenditures resulting from the establishment of the Teeter tax loss reserves in the Tax Loss Reserve Agency Fund during the first year of the program.
(3) Teeter Plan Notes were converted from short-term commercial paper to long-term note in FY 2012-13, therefore, only long-term note information is presented.
(4) For FY 2014-15, there is a deficit balance for Net Available Revenue due to the change in Teeter Plan Reserve methodology.

Source: Auditor-Controller, County of Orange

Demographic and Economic Statistics
Last Ten Calendar Years

Year	Population [1]	Personal Income [2]	Per Capita Personal Income (Absolute Dollars) [2]	Median Age [3]	Public School Enrollment (In Thousands) [4]	Unemployment Rate [5]
2016	3,183,011	$ 190,978,000	$ 59,999	N/A	493,030	4.4%
2015	3,147,655	185,500,000	58,933	36.7	497,116	4.0%
2014	3,113,991	177,412,900	56,973	36.4	500,487	5.4%
2013	3,081,804	168,966,400	54,827	36.2	501,801	6.7%
2012	3,055,792	166,345,500	54,436	36.7	502,195	8.1%
2011	3,010,232	159,007,100	52,822	37.3	502,895	8.6%
2010	3,166,461	153,098,600	48,350	37.2	502,239	9.6%
2009	3,139,017	148,372,600	47,267	36.9	504,136	9.6%
2008	3,121,251	155,068,400	49,681	36.1	503,225	5.7%
2007	3,098,121	153,446,600	49,529	35.9	503,955	3.8%



N/A means Not Available

Sources:

(1) California Department of Finance, Demographic Research Unit, http://www.dof.ca.gov

(2) Chapman University Economic & Business Review.

(3) U.S. Census Bureau, American Community Survey, http://www.census.gov, 2016 N/A

(4) California Department of Education, http://www.cde.ca.gov

(5) State of California, Employment Development Department, http://www.edd.ca.gov/

(Dollar Amounts in Thousands)

Principal Employers
Current Year and Nine Years Ago

2016

Employer	Number of Employees	Rank	Percentage of Total County Employment
Walt Disney Co.	27,000	1	1.67%
University of California, Irvine	22,385	2	1.39%
County of Orange	18,190	3	1.13%
St. Joseph Health System	12,227	4	0.76%
Kaiser Permanente	7,000	5	0.43%
Boeing Co.	6,890	6	0.43%
Wal-Mart	6,000	7	0.37%
Memorial Care Health System	5,650	8	0.35%
Bank of America	5,500	9	0.34%
Target Corporation	5,400	10	0.33%

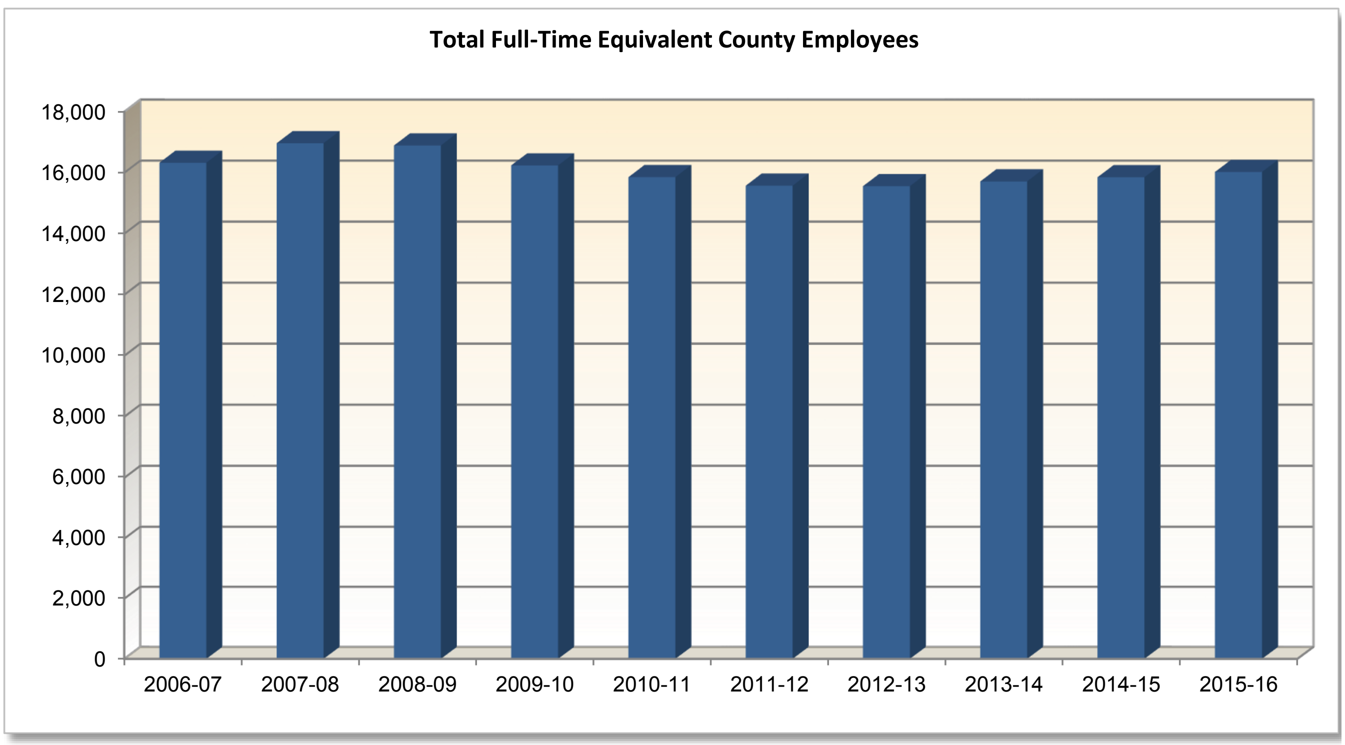
2007

Employer	Number of Employees	Rank	Percentage of Total County Employment
Walt Disney Co.	20,000	1	1.22%
County of Orange	18,301	2	1.12%
University of California, Irvine	17,579	3	1.08%
St. Joseph Health System	10,047	4	0.61%
Boeing Co.	9,961	5	0.61%
Yum! Brands Inc.	7,200	6	0.44%
AT&T Incorporated	6,000	7	0.37%
California State University, Fullerton	5,634	8	0.34%
Home Depot, Incorporated	5,450	9	0.33%
Bank of America Corp.	5,000	10	0.31%

Note: For 2016, used 2015 data for the number of employees, except County of Orange
Source: Source: Orange County Business Journal Book of Lists - County of Orange
http://www.locationOC.com
http://www.labormarketinfo.edd.ca.gov

Full-time Equivalent County Employees by Function
Last Ten Fiscal Years

Function/Program	2015-16	2014-15	2013-14	2012-13(2)	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07
General Government	1,419	1,341	1,322	1,273	1,279	1,314	1,346	1,383	1,377	1,334
Public Protection	6,642	6,674	6,760	6,781	6,653	6,692	6,879	7,298	7,226	6,943
Public Ways and Facilities	435	440	478	508	542	569	585	622	621	579
Health and Sanitation	2,253	2,198	2,128	2,137	2,209	2,292	2,346	2,507	2,550	2,441
Public Assistance	4,306	4,239	4,043	3,876	3,867	3,935	4,023	4,000	4,123	3,992
Education	302	286	290	286	307	324	325	350	360	351
Recreation and Cultural Services	272	265	274	268	283	289	285	277	264	257
Airport	154	159	162	167	168	168	169	168	161	157
Waste Management	233	241	249	255	257	261	267	272	270	258
Children and Families Commission of Orange County	11	11	11	11	13	14	16	17	17	16
Total Full-time Equivalent Employees (1)	16,027	15,854	15,717	15,562	15,578	15,858	16,241	16,894	16,969	16,328



Note: (1) Full-time equivalent employment is calculated by dividing total labor hours by the total of hours in a fiscal year (2,080 hours).
(2) Updated FY 2012-13 numbers due to revaluation of methodology. It was subsequently determined that prior methodology was appropriate.

Source: County Executive Office, County of Orange

(Dollar Amounts in Thousands)

Operating Indicators by Function/Program
Last Ten Fiscal Years

	Fiscal Year				
Function/Program	2015-16	2014-15	2013-14	2012-13	2011-12
General Government					
Auditor-Controller					
Property Tax Bills Prepared	1,141,652	1,216,325	1,220,750	1,186,238	1,153,816
Assessor					
Number of Real Property Valued	930,470	924,791	918,672	914,489	901,840
Number of Unsecured Property Assessed	141,224	145,151	135,551	139,865	159,464
New Parcels Created and Mapped	6,665	6,918	4,519	8,175	3,649
New Construction Events	19,397	18,530	16,904	17,173	17,129
County Executive Office					
Volunteer Program Service Hours	613,277	638,230	700,759	815,407	885,416
Clerk-Recorder					
Marriage Licenses Issued	23,725	23,553	25,244	22,502	22,415
Marriage Ceremonies Performed	11,122	11,213	12,056	*	*
Copies of Birth Certificates Issued	74,508	79,826	82,268	81,775	83,611
Property-Related Document Recordings	617,914	651,866	580,899	839,353	741,935
Passport Applications Filed	7,093	5,016	2,686	*	*
Treasurer-Tax Collector					
Orange County Investment Pool Income	$ 24,877	$ 14,581	$ 11,298	$ 12,958	$ 17,978
Assets Under Management	$ 8,271,502	$ 7,604,246	$ 6,566,145	$ 6,490,056	$ 5,922,768
Number of Property Tax Bills	1,367,275	1,381,808	1,421,654	1,347,596	1,257,709
Percentage of Secured Tax Bill Collection	99.26%	99.21%	99.16%	98.94%	98.51%
Number of Incoming Phone Calls	111,948	121,461	115,123	150,830	148,463
Percentage of Electronic Payments	54.9%	54.2%	53.8%	49.4%	51.1%
Secured Tax Bill Reminders	38,213	35,917	31,988	28,664	25,451
Property Tax Payments by eCheck	309,977	285,932	248,908	213,146	181,151
Registrar of Voters					
Registered Voters	1,395,380	1,424,216	1,411,232	1,683,001	1,612,145
Highest Number of Ballots Cast	691,802	640,358	340,187	1,133,204	145,474
Elections Conducted	4	7	3	2	2
Public Protection					
Sheriff-Coroner					
Patrolled Cities Population	641,753	637,261	631,934	627,447	557,403
Patrolled Unincorporated Areas Population	125,420	124,014	121,473	120,396	119,698
Number of Bookings to Orange County Jail System	56,163	56,135	61,262	63,439	65,256
Average Daily Jail Head Count	6,028	6,055	7,039	6,805	6,265
District Attorney					
Defendants Prosecuted - Adult	61,521	56,233	55,906	57,873	61,759
Defendants Prosecuted - Juvenile	3,564	4,482	5,103	6,651	6,743
Probation					
Physical Arrests - Adult	*	*	*	2,947	2,307
Physical Arrests - Juvenile	*	*	*	640	467
Probationers under Supervision as of June 30th-Adult	11,714	10,725	14,425	14,186	14,788
Probationers under Supervision as of June 30th-Juvenile	2,550	3,124	4,156	4,984	5,399
Avg. Daily Juvenile Hall Population	130	150	229	320	315
Avg. Daily Camp Population	143	203	182	193	169
Public Defender					
Cases Appointed Annually	65,574	79,119	74,101	77,073	73,487

* means Not Available
Sources: County Departments

(Dollar Amounts in Thousands)

Fiscal Year 2010-11	2009-10	2008-09	2007-08	2006-07	Function/Program
					General Government
					Auditor-Controller
1,189,320	1,144,933	1,148,720	1,149,007	1,164,584	Property Tax Bills Prepared
					Assessor
899,644	897,547	888,770	881,233	872,439	Number of Real Property Valued
161,005	168,208	169,821	176,584	171,542	Number of Unsecured Property Assessed
2,739	9,413	9,185	10,252	14,760	New Parcels Created and Mapped
9,372	13,172	16,565	19,380	19,991	New Construction Events
					County Executive Office
935,284	882,680	839,125	675,285	923,689	Volunteer Program Service Hours
					Clerk-Recorder
20,868	20,292	21,339	20,894	21,088	Marriage Licenses Issued
*	*	*	*	*	Marriage Ceremonies Performed
85,773	87,999	98,231	117,226	120,817	Copies of Birth Certificates Issued
725,323	669,332	629,373	658,005	849,739	Property-Related Document Recordings
*	*	*	*	*	Passport Applications Filed
					Treasurer-Tax Collector
$ 22,295	$ 35,656	$ 67,242	$ 141,824	$ 167,107	Orange County Investment Pool Income
$ 6,183,195	$ 5,975,392	$ 5,963,577	$ 6,064,067	$ 6,186,614	Assets Under Management
1,382,198	1,362,221	1,367,901	1,472,466	1,477,237	Number of Property Tax Bills
98.35%	97.61%	96.30%	96.13%	97.18%	Percentage of Secured Tax Bill Collection
162,955	160,067	178,420	175,149	161,832	Number of Incoming Phone Calls
49.3%	43.8%	40.8%	41.2%	*	Percentage of Electronic Payments
21,027	*	*	*	*	Secured Tax Bill Reminders
143,136	126,942	112,114	105,396	*	Property Tax Payments by eCheck
					Registrar of Voters
1,621,934	1,603,312	1,607,989	1,566,951	1,497,397	Registered Voters
898,205	482,708	1,167,657	748,910	756,348	Highest Number of Ballots Cast
5	5	4	5	3	Elections Conducted
					Public Protection
					Sheriff-Coroner
553,148	584,947	581,109	575,909	571,648	Patrolled Cities Population
121,488	120,088	119,480	118,136	120,174	Patrolled Unincorporated Areas Population
63,615	58,322	61,778	64,596	66,869	Number of Bookings to Orange County Jail System
5,721	5,171	6,090	6,183	6,571	Average Daily Jail Head Count
					District Attorney
64,418	64,969	70,058	69,507	74,010	Defendants Prosecuted - Adult
7,907	6,894	7,740	9,076	8,763	Defendants Prosecuted - Juvenile
					Probation
1,926	1,822	1,725	2,470	3,000	Physical Arrests - Adult
488	685	595	1,051	1,363	Physical Arrests - Juvenile
13,243	13,476	15,022	16,223	16,646	Probationers under Supervision as of June 30th-Adult
5,792	6,527	6,492	6,569	6,112	Probationers under Supervision as of June 30th-Juvenile
417	428	455	490	502	Avg. Daily Juvenile Hall Population
194	191	310	438	333	Avg. Daily Camp Population
					Public Defender
77,661	76,191	83,029	79,052	83,299	Cases Appointed Annually

Operating Indicators by Function/Program
Last Ten Fiscal Years (Continued)

Function/Program	2015-16	2014-15	2013-14	2012-13	2011-12
	Fiscal Year				
Parks & Recreation					
OC Community Resources					
Exotic Invasive Plant Removal (acres)	2,782	1,466	1,154	4,102	4,042
Native Vegetation Restoration (acres)	293	312	368	843	994
New Open Space Management (acres)	-	--	--	--	--
Dana Point Harbor					
Slip and Dry Storage Tenants	2,903	3,204	2,679	2,700	2,237
Boat Launches	17,695	15,511	15,606	15,037	14,327
Sailing and Event Center Participants	50,000	75,000	111,838	115,996	111,959
Ocean Institute Students	192,384	41,000	100,000	108,668	110,059
Hotel Guests	29,010	43,073	42,887	41,141	36,800
Catalina Express Passengers	25,711	123,688	123,257	123,257	120,945
Special Events at the Harbor	8	12	15	16	16
Public Ways and Facilities					
OC Public Works (OCPW)					
Building and Home Inspections	40,662	30,324	31,772	19,368	15,591
Health and Sanitation					
OC Community Resources					
Animal Licenses	192,470	198,358	192,320	191,098	200,755
Health Care Agency					
911 Emergency Medical Services Responses	193,538	183,794	170,804	171,420	168,172
Retail Food Facility Inspections Conducted	26,195	31,397	32,689	34,953	35,025
Hazardous Waste Inspections Conducted	8,328	5,950	4,616	6,058	5,444
Number of Home Visits by Public Health Nurses	29,219	31,258	35,101	34,953	32,498
Number of Low Income Children Dental Health Services	496	755	1,225	1,107	1,344
Number of Ocean Water Days of Closure (In Beach-Miles)	22	24	20	8	0.93
Public Assistance					
OC Community Resources					
Adult Day Care Hours of Service	49,971	43,010	50,944	49,129	70,267
Elderly Nutrition Program Meals Delivered	1,374,275	1,406,526	1,347,251	1,360,601	1,636,379
One-Way Transportation Trips Provided to Seniors	198,851	180,899	187,864	155,003	184,476
Social Service Agency					
Average Monthly Medi-Cal Recipients	810,388	718,061	521,078	430,559	418,649
Average Monthly Child Abuse Hotline Calls	4,259	4,049	3,674	3,009	2,880
Average Monthly CalFresh (formerly Food Stamp) Recipients	263,556	258,676	247,517	230,964	213,919
Average Monthly In-Home Supportive Services	22,635	20,787	19,652	19,663	19,240
Average Persons Receiving Cash Assistance	52,081	55,921	55,225	55,008	56,847
Average Children in Foster Care/Relative Care	1,791	1,924	2,119	2,213	2,128
Average Elder and Adult Abuse Unduplicated Reports Received	942	815	710	636	630
Education					
OC Community Resources					
Total Volumes Borrowed at Library Branches	6,634,747	6,411,127	6,642,739	6,564,262	6,741,380
Airport					
Passengers	10,503,228	9,608,873	9,304,295	9,124,172	8,642,116
Air Cargo Tonnage	18,568	16,997	17,564	17,821	16,831
Takeoffs & Landings	276,817	264,726	252,166	252,506	251,191
Waste Management					
Solid Waste Tonnage	4,772,722	4,581,359	4,070,238	3,428,657	3,304,643
Gallons of Leachate and Impacted Ground Water Collected	3,542,736	5,510,821	3,854,530	3,116,108	3,448,964

* means Not Available
Sources: County Departments

Fiscal Year 2010-11	2009-10	2008-09	2007-08	2006-07	Function/Program
					Parks & Recreation
					OC Community Resources
629	61	1,475	*	30	Exotic Invasive Plant Removal (acres)
2,448	82	144	*	13	Native Vegetation Restoration (acres)
--	--	--	250	--	New Open Space Management (acres)
					Dana Point Harbor
2,748	2,750	2,836	2,932	2,932	Slip and Dry Storage Tenants
15,150	18,759	19,903	22,247	22,159	Boat Launches
108,070	83,738	66,163	54,371	54,539	Sailing and Event Center Participants
125,000	125,060	126,957	116,218	149,220	Ocean Institute Students
26,972	25,252	28,650	26,940	29,580	Hotel Guests
114,176	106,305	111,648	114,000	114,708	Catalina Express Passengers
16	16	16	16	16	Special Events at the Harbor
					Public Ways and Facilities
					OC Public Works (OCPW)
13,215	11,222	24,731	31,363	32,365	Building and Home Inspections
					Health and Sanitation
					OC Community Resources
173,570	176,123	158,202	155,875	166,137	Animal Licenses
					Health Care Agency
156,638	158,863	160,369	150,545	147,067	911 Emergency Medical Services Responses
34,962	36,445	33,146	33,451	31,475	Retail Food Facility Inspections Conducted
6,237	6,600	5,847	6,194	6,223	Hazardous Waste Inspections Conducted
29,260	30,091	29,505	30,447	38,245	Number of Home Visits by Public Health Nurses
1,533	1,520	979	660	1,055	Number of Low Income Children Dental Health Services
61	20	26	11	3	Number of Ocean Water Days of Closure (In Beach-Miles)
					Public Assistance
					OC Community Resources
93,425	92,964	101,732	89,584	76,005	Adult Day Care Hours of Service
1,846,571	1,796,596	1,725,058	1,736,877	1,606,272	Elderly Nutrition Program Meals Delivered
287,611	213,832	233,382	225,783	242,415	One-Way Transportation Trips Provided to Seniors
					Social Service Agency
403,142	376,101	343,222	326,506	317,771	Average Monthly Medi-Cal Recipients
3,003	3,165	3,242	3,427	3,049	Average Monthly Child Abuse Hotline Calls
185,489	150,141	109,491	88,284	82,132	Average Monthly CalFresh (formerly Food Stamp) Recipients
18,335	17,595	16,364	14,425	12,765	Average Monthly In-Home Supportive Services
58,770	53,214	44,115	38,840	38,790	Average Persons Receiving Cash Assistance
2,148	2,336	2,466	2,797	2,692	Average Children in Foster Care/Relative Care
604	598	531	549	509	Average Elder and Adult Abuse Unduplicated Reports Received
					Education
					OC Community Resources
7,796,954	7,629,378	7,314,615	6,908,477	6,767,502	Total Volumes Borrowed at Library Branches
					Airport
8,611,054	8,812,169	8,552,590	9,566,043	9,910,016	Passengers
15,150	14,870	15,197	21,084	22,853	Air Cargo Tonnage
260,466	213,404	215,585	319,791	343,572	Takeoffs & Landings
					Waste Management
3,495,649	3,502,715	3,876,902	4,207,649	4,706,367	Solid Waste Tonnage
3,209,725	3,390,965	3,441,343	3,766,898	3,695,743	Gallons of Leachate and Impacted Ground Water Collected

(Dollar Amounts in Thousands)

Capital Asset Statistics by Function
Last Ten Fiscal Years

Function/Program	Fiscal Year 2015-16	2014-15	2013-14	2012-13	2011-12
General Government					
Auditor-Controller					
Hall of Finance and Records	1	1	1	1	1
Clerk-Recorder					
OC Archives Building	1	1	1	1	1
Registrar of Voters					
Trailer	1	1	1	1	1
Vehicle/Truck	4	4	3	3	3
Public Protection					
Sheriff-Coroner					
Crime/Forensic Lab	1	1	1	1	1
Jail Facilities	3	3	3	3	3
Vehicles	917	916	911	918	838
Buses	11	11	11	11	11
Helicopters	4	3	3	2	2
Boats	10	10	10	9	9
Robot Andros	3	3	3	3	3
Haz-mat Vehicles	4	4	4	4	4
K-9 units	28	22	18	13	10
District Attorney					
Justice Center Offices	5	5	5	5	5
Probation Department					
Juvenile Institutions	4	4	4	4	5
Vehicles/Trucks	155	159	156	*	*
Equipment	12	16	12	*	*
Parks and Recreation					
OC Community Resources					
Park Land (acres)	62,900	62,900	60,500	59,318	57,688
Recreational Trails (in miles)	295	295	295	295	295
Zoo	1	1	1	1	1
Urban Regional Parks	15	15	15	15	12
Wilderness Parks	5	5	5	5	5
Nature Preserves	4	4	4	4	4
Harbors	3	3	3	3	2
Beaches	11	11	11	11	9
Historical Sites	7	7	7	7	7
Boats	8	7	7	9	21
Tractors	25	26	28	24	26
Trailers	31	27	29	33	30
Vehicles/Trucks	204	174	170	211	188
Dana Point Harbor					
Harbor	1	1	1	1	1
Marinas	2	2	2	2	2
Public Parking Areas	9	9	9	9	9

* means Not Available
Source: County Departments

Fiscal Year 2010-11	2009-10	2008-09	2007-08	2006-07	Function/Program
					General Government
					Auditor-Controller
1	1	1	1	1	Hall of Finance and Records
					Clerk-Recorder
1	1	1	1	-	OC Archives Building
					Registrar of Voters
1	1	1	1	1	Trailer
3	3	3	3	2	Vehicle/Truck
					Public Protection
					Sheriff-Coroner
1	1	1	1	1	Crime/Forensic Lab
3	3	3	3	3	Jail Facilities
844	844	859	855	777	Vehicles
13	13	13	12	14	Buses
2	2	2	2	3	Helicopters
5	5	5	5	3	Boats
3	3	3	3	3	Robot Andros
4	4	4	4	4	Haz-mat Vehicles
14	14	14	13	12	K-9 units
					District Attorney
5	5	5	6	6	Justice Center Offices
					Probation Department
5	5	5	6	6	Juvenile Institutions
*	*	*	*	*	Vehicles/Trucks
*	*	*	*	*	Equipment
					Parks and Recreation
					OC Community Resources
57,688	39,490	39,490	32,000	32,000	Park Land (acres)
295	292	300	300	300	Recreational Trails (in miles)
1	1	1	1	1	Zoo
12	12	12	12	12	Urban Regional Parks
5	5	5	5	5	Wilderness Parks
4	4	3	3	3	Nature Preserves
2	2	2	2	2	Harbors
9	9	9	9	9	Beaches
7	7	7	7	7	Historical Sites
15	14	14	15	9	Boats
22	18	17	9	16	Tractors
24	20	17	15	21	Trailers
233	208	176	165	135	Vehicles/Trucks
					Dana Point Harbor
1	1	1	1	1	Harbor
2	2	2	2	2	Marinas
9	9	9	9	9	Public Parking Areas

(Dollar Amounts in Thousands)

Capital Asset Statistics by Function
Last Ten Fiscal Years (Continued)

	Fiscal Year				
Function/Program	2015-16	2014-15	2013-14	2012-13	2011-12
Parks and Recreation (Continued)					
Dana Point Harbor (Continued)					
Beaches	1	1	1	1	1
Access Points to Ocean	6	6	6	6	6
Hotel	1	1	1	1	1
Ocean Education Center	1	1	1	1	1
Sailing and Events Center	1	1	1	1	1
Shops	24	23	23	23	25
Restaurants	16	16	16	16	16
Fuel Dock	1	1	1	1	1
Shipyard	1	1	1	1	1
Boater Service Buildings	15	15	15	15	15
Parcel 11 (Former Restaurant)	1	*	*	*	*
Parcel 23 (Yacht Club)	1	*	*	*	*
Public Ways and Facilities					
OC Public Works					
Hall of Administration	1	1	1	1	1
Data Center	1	1	1	1	1
Alternate Fuel Vehicles	50	51	60	60	59
Vehicles/Trucks	42	53	54	51	50
OC Flood Control District					
Watersheds	19	13	13	13	13
Dams	3	3	3	3	3
Dump Trucks	7	7	12	5	5
Tractors	20	14	19	5	5
Trailers	14	24	17	8	12
Vehicles/Trucks	79	156	156	156	165
Roads					
Street Miles	330	320	320	319	320
Dump Trucks	12	11	9	4	11
Tractors	30	18	9	6	3
Trailers	32	30	18	10	5
Health					
Clinics (1)	4	4	3	3	3
Laboratories (1)	2	2	2	2	2
Trailers (1)	12	12	8	11	27
Vehicles and Trucks (1)	24	24	25	25	24
OC Community Resources					
Animal Care Center	1	1	1	1	1
Trailers	3	3	3	3	3

Note: (1) Presentation changed in FY 2014-15 to summarize by asset

(2) * means Not Available

Source: County Departments

Fiscal Year					
2010-11	2009-10	2008-09	2007-08	2006-07	Function/Program
					Parks and Recreation (Continued)
					Dana Point Harbor (Continued)
1	1	1	1	1	Beaches
6	6	6	6	6	Access Points to Ocean
1	1	1	1	1	Hotel
1	1	1	1	1	Ocean Education Center
1	1	1	1	1	Sailing and Events Center
25	25	26	26	26	Shops
15	16	15	15	15	Restaurants
1	1	1	1	1	Fuel Dock
1	1	1	1	1	Shipyard
15	15	15	15	15	Boater Service Buildings
1	*	*	*	*	Parcel 11 (Former Restaurant)
1	*	*	*	*	Parcel 23 (Yacht Club)
					Public Ways and Facilities
					OC Public Works
1	1	1	1	1	Hall of Administration
1	1	1	1	1	Data Center
59	59	59	59	50	Alternate Fuel Vehicles
50	50	47	47	48	Vehicles/Trucks
					OC Flood Control District
19	11	11	11	13	Watersheds
3	3	3	3	3	Dams
13	13	13	14	14	Dump Trucks
10	19	19	20	20	Tractors
15	14	14	13	13	Trailers
161	122	166	162	154	Vehicles/Trucks
					Roads
320	320	320	320	317	Street Miles
9	1	8	8	8	Dump Trucks
4	3	12	13	13	Tractors
9	11	14	14	14	Trailers
					Health
2	2	2	49	37	Clinics (1)
2	2	1	2	2	Laboratories (1)
27	27	27	25	25	Trailers (1)
27	26	25	68	68	Vehicles and Trucks (1)
					OC Community Resources
1	1	1	1	1	Animal Care Center
3	3	3	2	2	Trailers

(Dollar Amounts in Thousands)

Capital Asset Statistics by Function
Last Ten Fiscal Years (Continued)

Function/Program	Fiscal Year 2015-16	2014-15	2013-14	2012-13	2011-12
Public Assistance					
Social Service Agency					
Vehicles	5	5	5	6	10
Office Locations	20	20	19	20	20
Education					
Library Branches	33	33	33	33	33
Library Headquarters	*	*	*	*	*
Airport					
Acres	501	501	501	501	501
Runways	2	2	2	2	2
Public Parking Structures/Lots	5	5	5	5	5
Terminals	3	3	3	3	3
Fire Trucks	4	4	4	4	4
Waste Management					
Active Landfills	3	3	3	3	3
Inactive Landfills	2	2	2	2	2
Household Hazardous Waste Collection Centers	4	4	4	4	4
Dozers	8	7	7	7	8
Dump Trucks	10	10	10	12	12
Loaders	21	20	20	20	21
Scrapers	8	8	8	8	8
Excavator	2	2	2	2	2
Tractors	30	28	29	28	29
Graders	4	4	4	4	4
Compactors	8	8	8	8	8
Water/Fuel Trucks	13	13	13	11	11

* means Not Available

Source: County Departments

Fiscal Year 2010-11	2009-10	2008-09	2007-08	2006-07	Function/Program
					Public Assistance
					Social Service Agency
10	8	7	8	7	Vehicles
19	20	21	27	27	Office Locations
					Education
33	33	33	33	32	Library Branches
1	1	1	1	1	Library Headquarters
					Airport
501	501	501	501	501	Acres
2	2	2	2	2	Runways
5	5	5	5	5	Public Parking Structures/Lots
1	1	1	1	1	Terminals
4	4	4	4	4	Fire Trucks
					Waste Management
3	3	3	3	3	Active Landfills
2	2	2	2	2	Inactive Landfills
4	4	4	4	4	Household Hazardous Waste Collection Centers
8	10	10	10	12	Dozers
14	14	14	14	14	Dump Trucks
22	21	21	21	21	Loaders
11	13	13	15	15	Scrapers
2	-	-	-	-	Excavator
29	29	28	27	26	Tractors
4	3	6	5	5	Graders
8	5	5	6	5	Compactors
11	12	13	12	12	Water/Fuel Trucks

ORANGE COUNTY AUDITOR-CONTROLLER
★ CALIFORNIA ★

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