

CITY OF SAND CITY

ANNUAL PROGRAM COMPLIANCE REPORT FOR FISCAL YEAR 2017-2018

The Annual Program Compliance Report should, at a minimum, describe the efforts of the local jurisdiction to comply with the policies of Measure X over the reporting period. The report should include a narrative of how the jurisdiction spent Measure X funds on local projects including the project title; brief description; discussion of the project benefits; and before and after pictures. A balance sheet should also be included with the report detailing the receipt and expenditure of Measure X funds, as shown in the example below.

During fiscal year 2017-2018 (FY 17-18), the City of Sand City (the City) worked on conceptual improvements to Contra Costa Street between Elder Avenue and Shasta Avenue which included new curb, gutter, sidewalk, decorative crosswalks, and asphalt pavement rehabilitation. The City intends to bank annual revenues from Measure X for up to five (5) years in order to support the construction of these improvements. However, during FY 17-18 the City was awarded a State Water Resources Control Board (SWRCB) Proposition 1 Technical Assistance grant to fund the conceptual design of “green street” and Low Impact Development (LID) improvements on Contra Costa Street and Catalina Street, which became the “West End Stormwater Improvements” project (the WESI project). The WESI project includes the area between Elder Avenue and Shasta Avenue on Contra Costa Street. At this time, the City has now elected to pursue the WESI project in favor of the original improvements to just a portion of Contra Costa Street.

CITY OF SAND CITY – FISCAL YEAR 2017-2018 BALANCE SHEET

REVENUES	
Carryover from Previous Year	\$0.00
Measure X Revenues	\$26,017.28
Earning on Interest	\$0.00
TOTAL REVENUES:	\$26,017.28
EXPENDITURES	
(Listing of Program Expenditures)	\$0.00 (revenues banked)
TOTAL EXPENDITURES:	\$0.00
FUND BALANCE, END OF PERIOD:	\$26,017.28

As attachments to the Annual Program Compliance Report, the jurisdiction should include the following additional reports:

ATTACHMENT 1: Independent Audit of Financial Statements for Measure X Funds, Prior Fiscal Year

ATTACHMENT 2: Five-Year Capital Improvement Program

ATTACHMENT 3: Pavement Management Program Report

ATTACHMENT 4: Maintenance of Effort Report

ATTACHMENT 1

INDEPENDENT AUDIT OF FINANCIAL STATEMENTS

Note: the City of Sand City did not expend Measure X funds during Fiscal Year 17/18. As a result, the City's annual audit will not reflect or include any Measure X spending. However, the City has attached the following document, ***“Financial Statements for the year ended June 30, 2018 and Independent Auditor's Report”***.

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CITY OF SAND CITY

CITY OF SAND CITY

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2018**

AND INDEPENDENT AUDITORS' REPORT

CITY OF SAND CITY

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CITY OF SAND CITY

June 30, 2018

Members of the City Council

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Mary Ann Carbone	Mayor	November, 2018
Jerry Blackwelder	Vice Mayor	November, 2018
Craig Hubler	Council Member	November, 2018
Gregory Hawthorne	Council Member	November, 2020
Kristen McDaniel	Council Member	November, 2020

City Staff

<u>Name</u>	<u>Office</u>
Todd Bodem	City Administrator
Brian Ferrante	Chief of Police
Linda Scholink	Administrative Services Director
Vibeke Norgaard	City Attorney



HAYASHI | WAYLAND

INDEPENDENT AUDITORS' REPORT

**The Honorable Mayor and City Council
City of Sand City
Sand City, California**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *City of Sand City*, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the ***City of Sand City*** as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 11, the Budgetary Comparison Schedule on pages 48 through 49, , the Schedule of Proportionate Share of the Net Pension Liability on page 50, the Schedule of Contributions – Pension on page 51, the Schedule of Changes in the Net OPEB Liability/(Asset) and Related Ratios on page 52, and the Schedule of Contributions – OPEB on page 53 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2018 on our consideration of the ***City of Sand City's*** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the ***City of Sand City's*** internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ***City of Sand City's*** internal control over financial reporting and compliance.

November 15, 2018

Hayashi Wayland, LLP



CITY OF SAND CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018

The discussion and analysis of the City of Sand City's financial performance provides an overview and analysis of the City's financial activities for the year ended June 30, 2018. It should be read in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City of Sand City exceeded its liabilities at the close of the year ended June 30, 2018 by \$27 million. However, \$12 million is a net investment in capital assets, and \$10 million is a noncurrent receivable due from the Successor Agency.
- The City of Sand City's total net position increased by \$1.3 million, \$831,000 of which is due to a land transfer from the Successor Agency.
- The assets and liabilities include \$543,000 that is due to TAMC in regards to a development project.
- A prior period adjustment in the amount of \$1.9 million was made to increase beginning net position due to the implementation of GASB 75.
- At the close of the year ended June 30, 2018, the City of Sand City's governmental funds reported combined ending fund balances of \$17 million, \$10 million of which is a noncurrent receivable. The net change in fund balances was an increase of \$564,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis serves as an introduction to the City's financial statements. The City's financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements – The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Net Position combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. Other nonfinancial factors should also be taken into consideration, such as changes in the City's property tax base, and the condition of the City's infrastructure (i.e. roads, drainage improvements, storm and sewer lines, etc.) to assess the overall health or financial condition of the City.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Government-wide Financial Statements (Continued)

The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes).

The government-wide financial statements include all the governmental activities of the City. The governmental activities of the City include public safety, streets, parks, planning, community development and general administration. The City does not operate any business-type activities.

The government-wide financial statements can be found on pages 12 and 13 of this report.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All of the funds of the City can be divided into two categories, governmental funds and fiduciary funds:

Governmental Funds – The focus of governmental funds is narrower than that of 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 effect of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside the government. It is in these funds that the City accounts for the former assets and liabilities of the Redevelopment Agency that were transferred to a Successor Agency. Fiduciary funds are not included in the government-wide statements because the resources of those funds are not available to support the City's own programs. The accounting for fiduciary funds is much like that used for proprietary funds.

The City maintains two individual governmental funds. Information is presented separately in the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, which is considered to be a major fund. Data from the other governmental fund is presented as other governmental funds.

The fund financial statements can be found on pages 14 to 19 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 through 47 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. The City's net position increased by \$1.3 million in fiscal year 2017–2018 from fiscal year 2016–2017. The City's net investment in assets of \$12 million is used to provide services to citizens; consequently, these assets are not available for future spending. Another \$10 million is a noncurrent receivable leaving approximately \$5 million available for operations.

GASB 75 was implemented in fiscal year 2018. Prior year amounts below were not restated to reflect the implementation.

Summary of Net Position (Rounded to the nearest \$1,000) For the Year Ended June 30

	2018	2017	Change
Current and other assets	\$ 19,039,000	\$ 17,585,000	\$ 1,454,000
Capital assets	<u>12,096,000</u>	<u>11,356,000</u>	<u>740,000</u>
Total assets	<u>31,135,000</u>	<u>28,941,000</u>	<u>2,194,000</u>
Deferred outflows of resources	<u>2,480,000</u>	<u>1,618,000</u>	<u>862,000</u>
Current and other liabilities	839,000	193,000	646,000
Long-term liabilities	<u>5,533,000</u>	<u>6,226,000</u>	<u>(693,000)</u>
Total liabilities	<u>6,372,000</u>	<u>6,419,000</u>	<u>(47,000)</u>
Deferred inflows of resources	<u>240,000</u>	<u>431,000</u>	<u>(191,000)</u>
Net investment in capital assets	12,040,000	11,284,000	756,000
Restricted for –			
Streets/roads	29,000	2,000	27,000
Unrestricted	<u>14,934,000</u>	<u>12,423,000</u>	<u>2,511,000</u>
Total net position	<u>\$ 27,003,000</u>	<u>\$ 23,709,000</u>	<u>\$ 3,294,000</u>

Current assets increased due to an increase in cash and investments as revenue exceeded expenditures, the \$543,000 being held that is due to TAMC, and the net OPEB asset of \$379,000.

Capital assets and net investment in capital assets increased due to depreciation of \$684,000 offset by net capital additions of \$1.4 million.

Deferred outflow of resources and deferred inflow of resources changed due to the implementation of GASB 75.

Current and other liabilities increased due to the amount being held for TAMC.

Long-term liabilities decreased due to a decrease of \$1.3 million in the OPEB obligation offset by an increase of \$621,000 in the pension liability.

The increase in restricted for Streets/Roads is due to a new restricted revenue source, Measure X.

Unrestricted net position increased due to a prior period adjustment in the amount of \$1.9 million and the change in net position, which is described on the following page.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Change in Net Position (Rounded to the nearest \$1,000) For the Year Ended June 30

GASB 75 was implemented in fiscal year 2018, prior year amounts below were not restated to reflect the implementation.

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 1,651,000	\$ 1,702,000	\$ (51,000)
Operating grants and contributions	156,000	156,000	—
Capital grants and contributions	116,000	—	116,000
General revenues:			
Property taxes	216,000	151,000	65,000
Sales and transaction taxes	4,912,000	4,802,000	110,000
Other taxes	294,000	267,000	27,000
Investment earnings	<u>74,000</u>	<u>33,000</u>	<u>41,000</u>
Total revenues	<u>7,419,000</u>	<u>7,111,000</u>	<u>308,000</u>
Expenses:			
General government	1,893,000	1,728,000	165,000
Public safety	3,050,000	2,850,000	200,000
Public works	1,449,000	1,255,000	194,000
Community development	498,000	494,000	4,000
Parks	15,000	35,000	(20,000)
Interest on long-term debt	<u>3,000</u>	<u>4,000</u>	<u>(1,000)</u>
Total expenses	<u>6,908,000</u>	<u>6,366,000</u>	<u>542,000</u>
Transfer of land from Successor Agency	<u>831,000</u>	<u>—</u>	<u>831,000</u>
Change in net position	1,342,000	745,000	597,000
Net position, beginning of year, as restated	<u>25,661,000</u>	<u>22,964,000</u>	<u>2,697,000</u>
Net position, end of year	<u>\$ 27,003,000</u>	<u>\$ 23,709,000</u>	<u>\$ 3,294,000</u>

The decrease in charges for services is due to a decrease in numerous categories such as administrative fees from the Successor Agency, funds for the Art Committee and the Mayor's Retirement.

The increase in property taxes is due to completion of new housing.

The increase in sales and transactions taxes is due to an increase in sales within the City.

The increase in other taxes is due to Measure X.

The increase in investment earnings is due to an increase in both the balance in investments and the rate of return.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The increase in general government public safety and public works expenses is mainly due to the change in pension and OPEB costs.

The decrease in parks is due to a decrease in contract services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – At June 30, 2018, the City's net investment in capital assets amounted to \$12 million, (net of accumulated depreciation) a net increase of \$756,000 over the prior year due to depreciation offset by the purchase of equipment, vehicles and infrastructure and the transfer of land from the Successor Agency. Capital assets included land, land improvements, infrastructure, buildings, equipment, vehicles, furniture and fixtures and construction in progress.

Debt Administration – At June 30, 2018, the City had \$5.5 million in long-term debt. Net change to debt during the year was an increase of \$660,000 due to the increase of the pension obligation.

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

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

At the end of the current fiscal year, the City's governmental funds reported a total fund balance of \$17 million. This fund balance includes a noncurrent receivable of \$10 million. The General Fund has an unassigned fund balance of \$5 million.

During the current fiscal year, the fund balance of the City's General Fund increased \$537,000.

FUND BUDGETARY HIGHLIGHTS

General Fund – The original budgeted revenues were decreased by \$130,000 due to a decrease of the developer fees. The actual revenues were over budget by \$130,000 due to sales and transaction taxes being more than budgeted.

The original budgeted expenditures were decreased by \$914,000 due to decreases in all activities. The actual expenditures were under budget by \$187,000 due to being under budget in all activities but capital outlay.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City of Sand City has seen a property tax value increase of 25.67%, from \$ 271,337,059 in 2016-2017 to \$340,996,489 in 2017-2018. This increase is due mainly to the re-assessment of the Ghandour site. There are some questions as to if this re-assessment will stay on the tax rolls as it is, or may be challenged in the near future. The 18-19 fiscal year is expecting around an 8% property tax value increase primarily due to the sale of the 10 houses known as the Bungalows in the East Dunes.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (Continued)

The Budget for fiscal year 18-19 is anticipating additional revenues over the 17-18 budget, due to expectations of additional sales/use tax, transaction tax, and a small increase in Grant funding. The main increases in the expenditures for 18-19 are projected in the police department and the general department, with the largest increase in the capital outlay account due to the anticipated new wells construction that will help increase the desalination plant production.

The Vibrancy Plan is close to being completed. The primary goal of the Sand City Vibrancy Plan is to continue to recreate the West End as a vibrant pedestrian friendly destination, and should be moving towards the next steps of holding workshops with the Technical Advisory Committee and the City Council. The final draft will include a plan and prioritize future actions and is expected to be on the City Council agenda by early 2019 for final approval and implementation.

The City's development continues moving forward. The development known as "Bungalows at East Dunes," a residential development of ten (10) single-family homes that were completed in 2017, where eight of ten houses have now been sold.

The "Orosco Group", developer for the South of Tioga project, is expected to be completed in three (3) phases. The hotel development will be situated on 2.18 acres within the Project area and expected to include 216 guest rooms. The development plans will also provide hotel parking, recreational facilities, meeting and dining room, kitchen, office, laundry, and other facilities to serve hotel guests. A portion of the hotel development is anticipated to operate as an extended stay hotel, with 135 guest rooms allocated for extended stay purposes. There are two multi-family residential developments planned for the Project area. The residential component will include 356 units (scaled down from 420 units) and includes 52 units to be classified as affordable housing. One of the residential developments is situated on 1.78 acres and will include up to 125 residential units. The current development plan is that approximately 50% of the residential units within the Residential 1 building will be developed as "for sale" condominium properties and the other 50% of the residential units will be developed as rental properties. The Residential 2 development is situated on 3.70 acres and will include up to 231 residential units. Residential 2 developments will include a parking garage, recreational facilities, meeting room, and office and storage areas. The current residential plan development 2 anticipates that all of the residential units will be developed as rental properties. Once this project is completed this will more than double the population of Sand City.

Phase 1 consists of the public improvements; completion of new public streets and rights of way, utility and infrastructure installation, and preparation of development pads on each of the Vested Tentative Maps, (VTM) newly created parcels. Phase 2 consists of one (1) hotel with hotel parking. Phase 3 consists of two multi-family residential developments. Phase 1 will be completed by the applicant, and is anticipated to take place in 2019. Phase 2 is projected to be complete in 2019-2020, with the residential project following as Phase 3 in either 2019-2020 or 2020-2021. This project will add additional property tax revenue currently projected over \$300,000 annually, transient occupancy tax projected over \$1,000,000 annually once completed, and sales/use tax bringing in approximately \$225,000 annually to the City coffers.

The Collections at Monterey Bay (King Ventures) is working with the California Coastal Commission on removal cleanup of the debris fronting the entire development site, emergency vehicle access, and setback/reconfiguration of Tioga. The Final EIR was approved by the City in December of 2013. The City approved Coastal development permit was appealed to the Coastal Commission, where the project developer is now working with the Commission staff. No date has been set for a hearing with the Coastal Commission. This project originally proposed 340 hotel rooms comprised of studios, 1 & 2 bedroom suites on approximately 26 + Acres. The first phase included 105-room vacation club units. The second phase, (which could be included with the first phase depending on market conditions) is proposed to be 235 room resort and conference center. This is subject to change by the Coastal Commission.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (Continued)

The Monterey Bay Shores Eco-Resort (MBSR) project had a ground breaking ceremony in February of 2018. This project is a City beachfront hotel-resort with spectacular views and is touted as the model of environmental sensitivity by a developer. This is a mixed use resort, celebrating the existing historic dunes and natural marine environment, and will improve and restore the ecosystem functionally, bio-diversity and community. The MBSR is a 368 unit upscale resort consisting of 184 rooms' hotel, spa, conference facilities, 92 condominium hotel units and 92 residential condominiums. Once construction is completed, the MBSR will provide an estimated 250 permanent jobs. There was some preliminary grading done in 2018 and the commencement of the water line extension is anticipated to be completed in 2019. Expectations are this project will begin construction in 2019-2020 or soon thereafter.

New openings have occurred in the Edgewater shopping center including the opening of 5-Guys Burgers in July of 2018 replacing Papa Chanos, the Habit Burger replacing Burger King restaurant in July of 2018. Home Goods replaced the vacancy left by Sports Authority in May of 2017. At this time the Edgewater shopping center is close to being totally leased out. The Sand Dollar shopping center is fully leased with the expectations that Orchard Supply will no longer be in business as 2019 arrives. The sales at the two shopping centers have remained steady over the past few years. The City is aware of the strong increase in internet sales and is closely watching the shopping centers and their retail sales.

Other projects being worked on in Sand City include the Sand City Water Supply Project (SCWSP) Phase 1 New Intake Wells. This project involves the construction of up to six new intake wells and associated infrastructure in phases to support operation of the City's reverse-osmosis desalination plant (RO plant). Phase 1 includes the construction of 3 new intake wells that will draw brackish water from the subsurface aquifer and will be used in conjunction with the existing four intake wells to provide a water quantity and quality sufficient to support the RO plant operation.

The City of Sand City received Proposition 1 grant funding from the State Water Resources Control Board to provide technical assistance for the development of a water resource project that provides benefit in the areas of water quality, water supply, and community benefit. The technical assistance team, in conjunction with the City, has developed a conceptual project involving the reconstruction of Contra Costa Street and Catalina Street in Sand City to incorporate a mix of grey/green and Low Impact Development (LID) infrastructure to reduce flooding, improvement water quality, and enhance the community.

The Coastal Access Repair Project - West Bay Street involves the repair of an observation platform, wooden boardwalks, and storm drainage infrastructure that was damaged during the winter storms of January and February 2017. The City applied for and received funding from FEMA and CalOES for the project and anticipates construction of the project in late 2018 or early 2019.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Sand City, 1 Pendergrass Way, Sand City, California 93955.

BASIC FINANCIAL STATEMENTS

CITY OF SAND CITY
STATEMENT OF NET POSITION
JUNE 30, 2018

ASSETS

Cash and cash equivalents	\$ 1,007,145
Investments	6,599,038
Receivables	76,692
Receivables from other governments	728,620
Loans due from Successor Agency	10,249,173
Net OPEB asset	379,000
Capital assets, net:	
Nondepreciable	2,104,752
Depreciable	<u>9,990,832</u>
Total assets	<u>31,135,252</u>

DEFERRED OUTFLOWS OF RESOURCES

PERS contributions	1,006,454
Deferred pension adjustments	1,157,087
OPEB contributions	<u>316,000</u>
Total deferred outflows of resources	<u>2,479,541</u>

LIABILITIES

Accounts payable	229,354
Due to other governments	543,422
Accrued liabilities	25,863
Developer fees received in advance	40,150
Noncurrent liabilities:	
Due within one year	92,831
Due in more than one year	<u>5,440,312</u>
Total liabilities	<u>6,371,932</u>

DEFERRED INFLOWS OF RESOURCES

Deferred pension adjustments	185,943
Deferred OPEB adjustments	<u>54,000</u>
Total deferred inflows of resources	<u>239,943</u>

NET POSITION

Net investment in capital assets	12,038,916
Restricted for streets and roads	29,157
Unrestricted	<u>14,934,845</u>
Total net position	<u>\$ 27,002,918</u>

See Notes to the Basic Financial Statements.

CITY OF SAND CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<u>FUNCTIONS/PROGRAMS</u>					
Governmental activities:					
General government	\$ 1,893,318	\$ 1,441,556	\$ 12,500	\$ —	\$ (439,262)
Public safety	3,049,709	10,034	143,251	—	(2,896,424)
Public works	1,449,205	7,358	—	116,407	(1,325,440)
Community development	497,809	191,531	—	—	(306,278)
Parks	15,503	—	—	—	(15,503)
Interest on long-term debt	2,774	—	—	—	(2,774)
Total governmental activities	<u>\$ 6,908,318</u>	<u>\$ 1,650,479</u>	<u>\$ 155,751</u>	<u>\$ 116,407</u>	<u>(4,985,681)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					216,493
Sales tax					2,601,571
Transaction tax					2,310,595
Utility user's tax					144,135
Franchise taxes					108,694
Gas taxes					13,430
Road maintenance and rehabilitation					1,770
Measure X					26,017
Investment earnings					<u>73,833</u>
Total general revenues					<u>5,496,538</u>
TRANSFER OF LAND FROM SUCCESSOR AGENCY					<u>831,322</u>
CHANGE IN NET POSITION					1,342,179
NET POSITION, BEGINNING OF YEAR, AS RESTATED					<u>25,660,739</u>
NET POSITION, END OF YEAR					<u>\$ 27,002,918</u>

See Notes to the Basic Financial Statements.

CITY OF SAND CITY
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 979,358	\$ 27,787	\$ 1,007,145
Investments	6,599,038	–	6,599,038
Receivables	76,692	–	76,692
Receivables from other governments	727,250	1,370	728,620
Loans due from Successor Agency	<u>10,249,173</u>	<u>–</u>	<u>10,249,173</u>
Total assets	<u>18,631,511</u>	<u>29,157</u>	<u>18,660,668</u>
<u>LIABILITIES</u>			
Accounts payable	229,354	–	229,354
Due to other governments	543,422	–	543,422
Accrued liabilities	25,863	–	25,862
Developers fees paid in advance	<u>40,150</u>	<u>–</u>	<u>40,150</u>
Total liabilities	<u>838,789</u>	<u>–</u>	<u>838,789</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred tax revenue	3,469	–	3,469
Deferred interest on Successor Agency loans	<u>774,766</u>	<u>–</u>	<u>774,766</u>
Total deferred inflows of resources	<u>778,235</u>	<u>–</u>	<u>778,235</u>
<u>FUND BALANCES</u>			
Nonspendable –			
Noncurrent receivable	10,415,876	–	10,415,876
Restricted –			
Street and roads	–	29,157	29,157
Committed:			
Tioga beach	120,000	–	120,000
OPEB Funding	142,244	–	142,244
Contracts	1,146,282	–	1,146,282
Unassigned	<u>5,190,085</u>	<u>–</u>	<u>5,190,085</u>
Total fund balances	<u>17,014,487</u>	<u>29,157</u>	<u>17,043,644</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 18,631,511</u>	<u>\$ 29,157</u>	<u>\$ 18,660,668</u>

See Notes to the Basic Financial Statements.

CITY OF SAND CITY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$ 17,043,644
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Amounts reported in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	12,095,584
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Amounts paid to the trust for other post-employment benefits in excess of the required contributions, the net OPEB asset, are not financial resources and therefore are not reported in the funds.	379,000
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Other assets are not available to pay for the current period expenditures and therefore are deferred in the funds.	778,235
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Deferred outflows and inflows of resources associated with net pension and OPEB are not financial resources and therefore are not reported in the funds:	
Deferred outflows	2,479,541
Deferred inflows	(239,943)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	<u>(5,533,143)</u>
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NET POSITION	<u>\$ 27,002,918</u>
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See Notes to the Basic Financial Statements.

CITY OF SAND CITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total</u>
REVENUES:			
Property taxes	\$ 216,493	\$ —	\$ 216,493
Sales tax	2,666,651	—	2,666,651
Transaction tax	2,380,022	—	2,380,022
Utility user's tax	144,135	—	144,135
Franchise taxes	108,694	—	108,694
Business licenses	480,029	—	480,029
Licenses and permits	126,162	—	126,162
Fines, forfeits and penalties	4,868	1,264	6,132
Charges for current services	103,641	—	103,641
Revenue from other agencies	263,381	41,217	304,598
Investment earnings	73,833	—	73,833
Rental income	866,571	—	866,571
Other revenue	<u>76,721</u>	<u>—</u>	<u>76,721</u>
Total revenues	<u>7,511,201</u>	<u>42,481</u>	<u>7,553,682</u>
EXPENDITURES:			
Current:			
General government	1,915,297	—	1,915,297
Public safety	3,038,756	—	3,038,756
Public works	897,021	—	897,021
Community development	513,985	—	513,985
Parks	14,688	—	14,688
Debt service:			
Principal	15,492	—	15,492
Interest and other charges	2,774	—	2,774
Capital outlay	<u>591,361</u>	<u>—</u>	<u>591,361</u>
Total expenditures	<u>6,989,374</u>	<u>—</u>	<u>6,989,374</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>521,827</u>	<u>42,481</u>	<u>564,308</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	14,913	—	14,913
Transfers out	<u>—</u>	<u>(14,913)</u>	<u>(14,913)</u>
Total other financing sources (uses)	<u>14,913</u>	<u>(14,913)</u>	<u>—</u>
NET CHANGE IN FUND BALANCES	536,740	27,568	564,308
FUND BALANCES, BEGINNING OF YEAR	<u>16,477,747</u>	<u>1,589</u>	<u>16,479,336</u>
FUND BALANCES, END OF YEAR	<u>\$ 17,014,487</u>	<u>\$ 29,157</u>	<u>\$ 17,043,644</u>

See Notes to the Basic Financial Statements.

CITY OF SAND CITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

NET CHANGE IN FUND BALANCES	\$	564,308
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Amounts reported in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period these amounts are:

Capital outlay		591,361
Current year depreciation		(683,775)
Transfer of land from the Successor Agency		831,322

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.		(134,507)
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The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, it has no effect on net assets. In the current period the amount is:		
Principal payments on long-term debt		15,492

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 governmental funds:		
Compensated absences		(54,437)
Current year OPEB cost difference		43,000
Current year pension cost difference		<u>169,415</u>

CHANGE IN NET POSITION	\$	<u>1,342,179</u>
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See Notes to the Basic Financial Statements.

CITY OF SAND CITY
STATEMENT OF FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

ASSETS:

Cash and cash equivalents	\$ 1,117,688
Investments	6,322,183
Capital assets, net:	
Nondepreciable	1,127,500
Depreciable	<u>2,555</u>
Total assets	<u>8,569,926</u>

LIABILITIES:

Developer fees received in advance	1,455,000
Noncurrent liabilities:	
Due within one year	5,445,000
Due in more than one year	<u>15,224,173</u>
Total liabilities	<u>22,124,173</u>

DEFERRED INFLOWS OF RESOURCES –

Deferred ROPS revenue	<u>797,274</u>
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NET POSITION –

Enforceable obligations	<u>(14,351,521)</u>
Total net position (deficit)	<u>\$ (14,351,521)</u>

See Notes to the Basic Financial Statements.

CITY OF SAND CITY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

ADDITIONS:

Property taxes	\$ 995,636
Interest income	<u>40,691</u>
Total additions	<u>1,036,327</u>

DEDUCTIONS:

Administrative expenses	141,594
Legal expenses	14,916
Contract services	21,540
Interest expense	373,835
Seaside settlement	364,522
Transfer of land to the City	831,322
Depreciation	<u>1,614</u>
Total deductions	<u>1,749,343</u>

NET DECREASE (713,016)

NET POSITION, (DEFICIT) BEGINNING OF THE YEAR (13,638,505)

NET POSITION, (DEFICIT) END OF THE YEAR \$ (14,351,521)

See Notes to the Basic Financial Statements.

CITY OF SAND CITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The City of Sand City (the City), California, was incorporated as a general law city on May 31, 1960. On November 2, 1992, the citizens passed a measure to establish Sand City as a Charter City. The City operates under a city council – administrator form of government and provides a wide range of municipal services. The City is not financially accountable for any other organization.

Basis of Presentation and Accounting – The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund based financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The City has no proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

Measurement Focus and Basis of Accounting – The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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 have been met.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Continued]

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Ad valorem, franchise and sales tax revenues are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash as the resulting receivable is immaterial. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to the purpose of expenditure and are usually revocable only for failure to comply with the prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

The City reports the following major governmental fund –

General Fund, accounts for the City's primary services (Public Safety, Public Works, Parks, etc.) and is the primary operating unit of the City.

Additionally, the City reports the following fund type –

Fiduciary Funds include the Successor Agency. This fund was established as a result of the dissolution of the Redevelopment Agency and is used to account for assets held by the City in a trustee capacity.

Fair Value – The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All of the City's investments are level one.

Cash, Cash Equivalents and Investments – The City follows the practice of pooling cash and investments of all funds. Investments of the pooled cash consist of deposits with the Local Agency Investment Fund and are accounted for at fair market value. Interest earned as a result of pooling is distributed to the appropriate funds utilizing a formula based on the average daily balance of cash of each fund. The City considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Continued]

Receivables and Deferred Inflows of Resources – Receivables are amounts due representing revenues earned or accrued in the current period. Receivables which have not been remitted within 60 days subsequent to year end are offset by deferred inflows of resources, and accordingly have not been recorded as revenue in the governmental fund. When the revenue becomes available, the revenue is recognized in the governmental fund. Deferred inflows are detailed on the Balance Sheet.

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. The allowance is based on an assessment of the current status of individual accounts. At June 30, 2018, the allowance was estimated to be zero.

Capital Assets – Property, facilities, equipment and infrastructure purchased or acquired is carried at historical cost or estimated historical cost. Contributed fixed assets are recorded at acquisition value at the time received. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 for equipment; \$25,000 for facilities and improvements, \$150,000 for infrastructure and all land, and an estimated useful life in excess of one year.

Property, facilities, equipment and infrastructure is depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 Years
Improvements	5–20 Years
Equipment	5–10 Years
Vehicles	8 Years
Furniture and Fixtures	10 Years
Infrastructure	20–50 Years

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Compensated Absences – Unused paid time off (PTO) which includes vacation, sick, and comp time may be accumulated up to 800 hours and is paid at the time of termination from City employment. Hours accumulated over the 800 hours are paid out as compensation at the end of each calendar year. PTO is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Interfund Activity – During the course of operations, transactions occur between individual funds that result in amounts owed between funds, which are classified as “due to/from other funds.” Eliminations have been made on the government-wide statements for amounts due to/from within the governmental funds.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Continued]

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized in the current period.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pensions – For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefits (OPEB) – For purposes of measuring the net OPEB liability/(asset), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

Net Position – The Statement of Net Position presents the City's assets and deferred outflows of resources, and liabilities, and deferred inflows of resources with the difference reported as net position. Net position is reported in three categories.

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Restricted* results when constraints placed on net positions use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* consist of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

Fund Balances – Fund balance classifications are based primarily on the extent to which the City is bound to honor constraints on the use of the resources reported in each governmental fund.

The City reports the following classifications:

- *Nonspendable* – Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form, such as long term receivables or (b) legally or contractually required to be maintained intact, such as a trust that must be retained in perpetuity.
- *Restricted* – Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed* – Committed fund balances are amounts that can only be used for specific purposes as a result of constraints imposed by the City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints by taking some type of action (passage of a resolution). Amounts in the committed fund balance classification may be used for other purposes with appropriate due process by the City Council. Committed fund balances differ from restricted balances because the constraints on their use do not come from outside parties, constitutional provisions or enabling legislation.
- *Assigned* – Assigned fund balances are amounts that are constrained by the City's intent to be used for specific purpose, but are neither restricted nor committed. Intent is expressed by (a) the City Administrator or (b) the City Council. The City Council has the authority to remove or change the assignment of the funds with a simple majority vote.
- *Unassigned* – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When restricted and other fund balance resources are available for use, it is the City's policy to use restricted resources first, followed by committed, assigned and unassigned amounts, respectively.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Tax Levy, Collection and Maximum Rates – State of California (State) Constitution Article 13 provides for a maximum general property tax rate statewide of \$1 per \$100 of assessed value. Assessed value is calculated at 100% of market value as defined by the above referenced Article 13. The State Legislature has determined the method of distribution of receipts from \$1 tax levy among counties, cities, schools and other districts. Counties, cities and school districts may levy such additional tax rates as necessary to provide for voter approved debt service.

The County of Monterey assesses properties, bills for and collects property taxes, as follows:

	<u>Secured</u>	<u>Unsecured</u>
Valuation dates	January 1	January 1
Lien/levy dates	July 1	July 1
Due dates	50% on November 1 50% on February 1	July 1
Delinquent as of	December 10 (for November) April 10 (for February)	August 31

The term "Unsecured" refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed.

Property tax revenues are recorded in governmental funds as receivables and deferred revenues at the time the tax levy is billed. Current year revenues are those collected within the current period or soon enough thereafter to pay current liabilities, generally within sixty days of year-end. No allowance is provided for delinquent taxes as the lien is considered an enforceable legal obligation.

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

Subsequent Events – Subsequent events have been evaluated through November 15, 2018, which is the date the financial statements were available to be issued.

Effects of New Pronouncements – 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 and No. 57 related to postemployment benefits other than pensions. Statement No. 75 establishes new accounting and financial reporting requirements for OPEB plans. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for other postemployment benefits (OPEB). The Statement establishes standards for measuring and recognizing liabilities/(assets), deferred outflows of resources and deferred inflows of resources and expense/expenditures. Note disclosures and required supplementary information requirements about OPEB are also addressed. The requirements of this Statement will improve the decision usefulness of

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire net OPEB liability/(asset) and a more comprehensive measure of OPEB expense. The City implemented this Statement in fiscal year 2018. As a result of this implementation, the City reported a prior period adjustment to net position in the amount of \$1,951,747 and recognized a net OPEB liability/(asset) and deferred outflows of resources and deferred inflows of resources associated with the OPEB liability/(asset) as of June 30, 2018.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. The City implemented this Statement in fiscal year 2018. There was no significant impact to the City's financial statements due to this implementation.

In May 2017, GASB issued Statement No. 86 *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The City implemented this Statement in fiscal year 2018. There was no significant impact to the City's financial statements due to this implementation.

NOTE 2. DEPOSITS AND INVESTMENTS

Custodial Credit Risk-Deposits – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a deposit policy that complies with California Government Code Section commencing at 53630 (Public Deposits). As of June 30, 2018, \$1,331,253 of the City's bank balances of \$1,581,253 was exposed to custodial credit risk as uninsured, but it's collateralized by the pledging bank's trust department not in the City's name.

Investments – The City's investments consist of the State Treasurer's Local Agency Investment Fund and certificates of deposit held with a local financial institution. All investments are recorded at fair market value. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal 110% of the total amount deposited by the public agencies. The investment of state pooled funds is governed by State law, by policies adopted by the Pooled Money Investment Board (PMIB) and by accepted norms for prudent fiduciary management of investments. PMIB funds may be invested in a wide range of interest bearing securities, such as Treasury notes, prime commercial paper, certain California municipal and agency obligations, highly rated corporate bonds, obligations of such agencies as Fannie Mae, and negotiable certificates of deposit. Also allowed are time deposits in California

NOTE 2. DEPOSITS AND INVESTMENTS [Continued]

banks, savings and loans, and credit unions that have not less than a "satisfactory" CRA rating. The value of each participating dollar equals the fair value divided by the amortized cost. The City's fair value of the position in the pool is the same as the value of the pool shares. Investments at June 30, 2018 consisted of the following:

Local Agency Investment Fund	\$ 5,416,429
Certificates of Deposit	<u>1,182,609</u>
Total	<u>\$ 6,599,038</u>

As of June 30, 2018, all of the City's investments had a maturity of less than one year.

NOTE 3. RECEIVABLES

Receivables at June 30, 2018 for the City's individual major funds and nonmajor fund in the aggregate, are as follows:

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Receivables:			
Accounts	\$ 50,941	\$ —	\$ 50,941
Interest	<u>25,751</u>	<u>—</u>	<u>25,751</u>
Total	<u>\$ 76,692</u>	<u>\$ —</u>	<u>\$ 76,692</u>
Other Governments:			
Property taxes	\$ 3,469	\$ —	\$ 3,469
Sales tax	363,350	—	363,350
Transaction tax	343,763	—	343,763
Gas tax	—	1,370	1,370
Grants	<u>16,668</u>	<u>—</u>	<u>16,668</u>
Total	<u>\$ 727,250</u>	<u>\$ 1,370</u>	<u>\$ 728,620</u>

NOTE 4. LOANS DUE FROM SUCCESSOR AGENCY

The Redevelopment Agency (the Agency) received loans from the City to pay its share of administrative expenses, to make payments on non-tax incremental borrowings and to reimburse the City for payments made on Certificates of Participation. Upon dissolution of the Agency, these loans became the obligation of the Successor Agency. In addition, the City elected to be the Housing Successor Agency of the former Agency and in doing so, they will receive the funds borrowed by the Agency's Debt Service Fund from the Housing Fund to make the SERAF payments. Balances as of June 30, 2018 are as follows:

Operating Expenses	\$ 3,626,058
Costco/Seaside Agreements	4,650,000
COP Reimbursement	1,454,766
SERAF Receivable	<u>518,349</u>
Total	<u>\$ 10,249,173</u>

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance 6/30/17	Additions and Transfers	Deletions and Transfers	Balance 6/30/18
Capital assets not being depreciated:				
Land	\$ 1,005,872	\$ 831,322	\$ —	\$ 1,837,194
Construction in progress	<u>434,915</u>	<u>87,315</u>	<u>254,672</u>	<u>267,558</u>
Total capital assets not being depreciated	<u>1,440,787</u>	<u>918,637</u>	<u>254,672</u>	<u>2,104,752</u>
Capital assets being depreciated:				
Infrastructure	4,518,558	690,456	—	5,209,014
Land improvements	441,563	—	—	441,563
Equipment	2,418,458	31,580	—	2,450,038
Vehicles	579,196	36,681	38,713	577,164
Buildings	8,538,775	—	—	8,538,775
Furniture and fixtures	<u>114,514</u>	<u>—</u>	<u>—</u>	<u>114,514</u>
Total capital assets being depreciated	<u>16,611,064</u>	<u>758,717</u>	<u>38,713</u>	<u>17,331,068</u>
Less accumulated depreciation for:				
Infrastructure	2,342,230	133,531	—	2,475,761
Land improvements	342,154	25,110	—	367,264
Equipment	1,820,083	233,168	—	2,053,251
Vehicles	361,460	81,317	38,713	404,064
Buildings	1,714,733	210,649	—	1,925,382
Furniture and fixtures	<u>114,514</u>	<u>—</u>	<u>—</u>	<u>114,514</u>
Total accumulated depreciation	<u>6,695,174</u>	<u>683,775</u>	<u>38,713</u>	<u>7,340,236</u>
Total capital assets being depreciated — net	<u>9,915,890</u>	<u>74,942</u>	<u>—</u>	<u>9,990,832</u>
Capital assets — net	<u>\$ 11,356,677</u>	<u>\$ 993,579</u>	<u>\$ 254,672</u>	<u>\$ 12,095,584</u>

NOTE 5. CAPITAL ASSETS (Continued)

Depreciation expense for the year ending June 30, 2018 was charged to functions/programs of the primary government as follows:

General government	\$	39,988
Public safety		75,141
Public works		567,832
Parks		<u>814</u>
Total depreciation expense	\$	<u>683,775</u>

NOTE 6. LONG-TERM LIABILITIES

Capital Lease – The City has a noncancelable capital lease agreement with a financial institution to finance the acquisition of a street sweeper. The lease meets the criteria of a capital lease since it transfers benefits and risks of ownership to the lessee at the end of the lease term and therefore has been recorded at the present value of future minimum lease payments at the date of the inception of the lease as follows:

Street Sweeper – The asset under the lease totals \$96,561 with accumulated depreciation of \$48,280 at June 30, 2018. Principal and interest payments of \$1,522 with interest at 4.26% are to be made monthly beginning October 6, 2015 and continuing until October 6, 2021.

Annual debt service requirements to maturity are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Capital Lease</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2019	\$ 16,165	\$ 2,099	\$ 18,264
2020	16,868	1,396	18,264
2021	17,600	664	18,264
2022	<u>6,035</u>	<u>54</u>	<u>6,089</u>
Total	<u>\$ 56,668</u>	<u>\$ 4,213</u>	<u>\$ 60,881</u>

NOTE 6. LONG-TERM LIABILITIES (Continued)

General long-term liability balances and transactions for the fiscal year ended June 30, 2018 are as follows:

	<u>Balance</u> <u>6/30/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/18</u>	<u>Due Within</u> <u>One Year</u>
Capital Lease – Street sweeper	\$ <u>72,160</u>	\$ <u>–</u>	\$ <u>15,492</u>	\$ <u>56,668</u>	\$ <u>16,165</u>
Subtotal capital leases	72,160	–	15,492	56,668	16,165
Other liabilities:					
Compensated absences	539,287	54,437	–	593,724	76,666
Net pension liability	<u>4,261,356</u>	<u>1,180,074</u>	<u>558,679</u>	<u>4,882,751</u>	<u>–</u>
Total	<u>\$4,872,803</u>	<u>\$1,234,511</u>	<u>\$ 574,171</u>	<u>\$5,533,143</u>	<u>\$ 92,831</u>

In prior years, the General Fund has been used to liquidate compensated absences.

NOTE 7. INTERFUND ACTIVITY

Transfers between funds during the year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 14,913	\$ –
Special revenue fund	<u>–</u>	<u>14,913</u>
Total	<u>\$ 14,913</u>	<u>\$ 14,913</u>

Transfers were made for expenditures covered by Gas Tax and Traffic Safety monies.

NOTE 8. PENSION PLAN**General Information about the Pension Plans**

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the City's separate Safety (police) and Miscellaneous (all other) Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

NOTE 8. PENSION PLAN (Continued)

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

<u>Hire date</u>	<u>Miscellaneous</u>	
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Benefit formula	3% @ 60	2% @ 55, 2 @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	60	55, 62
Monthly benefits, as a % of eligible compensation	3%	2%
Required employee contribution rates	8%	7%, 6.25%
Required employer contribution rates	12.698%	8.921%, 6.533%

<u>Hire date</u>	<u>Safety</u>	
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Benefit formula	3% @ 55	2 @ 50, 2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	55	50, 57
Monthly benefits, as a % of eligible compensation	3.0%	2.0% to 2.7%
Required employee contribution rates	9%	9%, 11.5%
Required employer contribution rates	17.875%	15.928%, 11.990%

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2018, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Contributions	\$ 284,073	\$ 274,606

NOTE 8. PENSION PLAN (Continued)**Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

As of June 30, 2018, the City reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$ 2,823,013
Safety	<u>2,059,738</u>
Total Net Pension Liability	<u>\$ 4,882,751</u>

The City's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2017, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for each Plan as of June 30, 2017 and 2018 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion - June 30, 2017	0.07245%	0.04925%
Proportion - June 30, 2018	0.07161%	0.04923%
Change - Increase (Decrease)	(0.00084)%	(0.00001)%

For the year ended June 30, 2018, the City recognized pension expense of \$837,039. Pension expense is allocated to the functions based on full time equivalents. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between Expected and Actual Experience	\$ 29,410	\$ 54,454
Change of Assumptions	790,977	60,491
Difference between Projected and Actual Investment Earnings	175,815	—
Change in Employer's Proportion	90,114	70,998
Differences between Employer's Contributions and Proportionate Share of Contributions	70,771	—
Pension Contributions Made Subsequent to Measurement Date	<u>1,006,454</u>	<u>—</u>
Total	<u>\$ 2,163,541</u>	<u>\$ 185,943</u>

NOTE 8. PENSION PLAN (Continued)

\$1,006,454 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended</u> <u>June 30</u>	
2019	\$ 214,082
2020	\$ 528,164
2021	\$ 332,574
2022	\$ (103,676)

Actuarial Assumptions – The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous/Safety</u>
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by entry age and service
Mortality Rate Table	Derived using CalPERS' membership data for all funds (1)
Post Retirement Benefit Increase	Contract Cola up to 2.75% Until Purchasing Power Protection Allowance Floor On Purchasing Power applies 2.75% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using society of Actuaries Scale BB.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be found on the CalPERS website.

Change of Assumption – In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent.

NOTE 8. PENSION PLAN (Continued)

Discount Rate – The discount rate used to measure the total pension liability was 7.15% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects the long-term expected real rates of return by asset class. The rates of return were calculated using the capital market assumptions applied to determine the discount rate.

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1 - 10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	47.0%	4.90%	5.38%
Fixed Income	19.0%	0.80%	2.27%
Inflation Assets	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	(0.40)%	(0.90)%
Total	<u>100%</u>		

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

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

NOTE 8. PENSION PLAN (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes In the Discount Rate – The following presents the City’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.15%	6.15%
Net Pension Liability	\$ 4,183,382	\$ 3,309,415
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$ 2,823,013	\$ 2,059,738
1% Increase	8.15%	8.15%
Net Pension Liability	\$ 1,696,331	\$ 1,038,188

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 9. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457, through the California Public Employee’s Retirement System (CalPERS) 457 Deferred Compensation Program. All employees of the City are eligible for the plan. Participation in the plan is optional. The funds of the plan are invested by the City, through CalPERS, as directed by and on behalf of the employees in various investment options.

NOTE 10. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – The City contracts with the Public Employees Retirement System (PERS) under the PERS Care Health Plan to provide benefits of the Meyer-Geddes State Employees’ Medical and Hospital Care Act per Government Code Section 22850. The Plan provides employees and option members (City Council members and City Attorney) who retire directly from the City under CalPERS continuation of medical insurance benefits for them, one dependent and surviving spouse. The Plan can be amended by action of the City Council on passing a resolution. The City pays premium up to the PEMHCA Other Northern California PERSCare single party non-Medicare and Medicare eligible premiums at 100% for retirees and 50% for dependents and surviving spouse. For the fiscal year 2018, the non-Medicare premium was \$867 and the Medicare eligible was \$382. Retirees pay blended medical premiums rather than expected medical costs by age and gender and active premiums subsidize non-Medicare eligible retiree medical costs as implied subsidies.

Employees Covered – As of the June 30, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the plan:

Active employees	22
Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to, but not yet receiving benefits	<u>3</u>
Total	<u>32</u>

NOTE 10. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Contributions – The obligations of the Plan members and the City are established by action of the City Council pursuant to the passing of a resolution. The annual contribution is based on the actuarially determined contribution, which is paid to the California Employer's Retiree Benefit Trust Program (CERBT). Cash subsidy and implied subsidy benefit payments and PEMCHA administrative fees are currently paid with City assets on a pay-as-you-go basis and are not reimbursed by CERBT. For the fiscal year ended June 30, 2018, the City's pay-as-you-go payments were \$63,000 and the estimated implied subsidy was \$20,000 resulting in total payments of \$83,000 and contributions to CERBT were \$2,650,000 for a total contribution of \$2,733,000.

Net OPEB Liability/(Asset) – The City's net OPEB liability/(Asset) was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability/(Asset) was determined by an actuarial valuation dated June 30, 2017 based on the following actuarial methods and assumptions:

Actuarial Assumptions:	
Discount Rate	6.75%
Inflation	2.75%
Salary Increases	3.00% annually
Investment Rate of Return	6.75%
Mortality Rate (1)	Derived using CalPERS' Membership Data for all funds
Pre-Retirement Turnover(1)	Derived using CalPERS' Membership Data for all funds
Healthcare Trend Rate	7.50% decreasing to 4.00%

Notes:

- (1) Information was derived from data collected during 1997 to 2011 CalPERS Experience Study dated January 2014 and post-retirement mortality information was derived from the 2007 to 2011 CalPERS Experience Study. The Experience Study Reports may be accessed on the CalPERS website www.calpers.ca.gov under Forms and Publications.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term expected real Rate of return</u>
Global Equity	57%	4.82%
Fixed Income	27%	1.47%
TIPS	5%	1.29%
REITs	8%	3.76%
Commodities	3%	0.84%
	<u>100%</u>	

NOTE 10. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Discount Rate – The discount rate used to measure the total OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the Net OPEB Liability/ (Asset) – The changes in the net OPEB liability/(Asset) for the Plan are as follows:

	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability/(Asset)</u>
Balance at June 30, 2016	\$ 2,135,000	\$ –	\$ 2,135,000
<i>Changes recognized for measurement period:</i>			
Service cost	234,000	–	234,000
Interest	157,000	–	157,000
Difference between expected and actual experience	–	–	–
Changes of assumptions	–	–	–
Contributions - employer	–	2,733,000	(2,733,000)
Net investment income	–	173,000	(173,000)
Benefit payments (outside trust)	(83,000)	(83,000)	–
Administrative expense	–	(1,000)	1,000
Net Changes	<u>\$ 308,000</u>	<u>\$ 2,822,000</u>	<u>\$ (2,514,000)</u>
Balance at June 30, 2017	<u>\$ 2,443,000</u>	<u>\$ 2,822,000</u>	<u>\$ (379,000)</u>

Sensitivity of the Net OPEB Liability/(Asset) to Changes in the Discount Rate – The following presents the net OPEB liability/(Asset) of the City if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	<u>1% Decrease (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
Net OPEB Liability/ (Asset)	\$(46,000)	\$(379,000)	\$(655,000)

Sensitivity of the Net OPEB Liability/(Asset) to Changes in the Health Care Cost Trend Rates – The following presents the net OPEB liability/(Asset) of the City if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Net OPEB Liability/ (Asset)	\$(703,000)	\$(379,000)	\$19,000

NOTE 10. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

OPEB Plan Fiduciary Net Position- CERBT issues a publicly available financial report that may be obtained from California Employer's Retiree Benefit Trust Program at the CalPERS website.

Recognition of Deferred Outflows and Deferred Inflows of Resources – Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The recognition period differs depending on the source of the gain or loss:

Net difference between projected and
Actual earnings on OPEB plan investments

5 years

All other amounts

Expected average remaining
service lifetime (EARSL)
(6.7 years at June 30, 2017)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – For the fiscal year ended June 30, 2018, the City recognized OPEB expense of \$273,000. As of fiscal year ended June 30, 2018, the City reported deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
OPEB contributions subsequent to measurement date	\$ 316,000	\$ –
Net difference between projected and actual earnings on OPEB plan investments	\$ –	\$ 54,000
Total	\$ 316,000	\$ 54,000

The \$316,000 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized as expense as follows:

Fiscal Year Ended June 30:	Deferred Outflows/(Inflows) Of Resources
2019	\$ (13,000)
2020	\$ (13,000)
2021	\$ (13,000)
2022	\$ (15,000)

NOTE 11. JOINTLY GOVERNED ORGANIZATIONS

The City participates on the Boards of Community Human Services, a joint powers agency, Monterey Regional Waste Management District, the Monterey Peninsula Water Management District, Monterey Regional Water Pollution Control Agency, Monterey Peninsula Regional Water Authority, Monterey One Water, Association of Monterey Bay Area Governments, Transportation Agency for Monterey County, Fort Ord Reuse Authority, Seaside/Sand City Chamber of Commerce, the Monterey Peninsula Chamber of Commerce, League of California Cities, Monterey County Convention and Visitor's Bureau, Monterey County Business Council, Monterey County Mayor's Association, and Monterey Bay Area Self Insurance Authority. The Boards of these entities are comprised of representatives from local municipalities, districts, and unincorporated areas. The City made various disbursements to the organizations in the amount of \$376,331 for the fiscal year ended June 30, 2018.

NOTE 12. RISK FINANCING

The City is exposed to various risks of loss related to torts, thefts, damage to, or destruction of assets; errors and omissions; injuries to workers; and natural disasters. These risks are covered by a combination of commercial insurance purchased from independent third parties and participation in the Monterey Bay Area Self Insurance Authority (MBASIA), which is a public entity risk pool. There have not been any significant reductions in insurance coverage as compared to the previous year. Settled claims from these risks have not exceeded commercial coverage for the past three fiscal years.

MBASIA was formed under a joint powers agreement (JPA) pursuant to California Government Code Section 6500 et seq. effective July 1, 1982. MBASIA is administered by a Board of Directors consisting of thirteen members appointed by the cities participating. The Board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by member cities beyond their representation on the Board. Each member city pays a premium commensurate with the amount of predicted losses and shares surpluses and deficits proportionate to their participation in the JPA.

NOTE 13. OPERATING LEASES

On October 30, 2009, the City and California-American Water Company (CAW) entered into an Amended and Restated Lease Agreement whereby CAW leases and operates the desalination facility plant. CAW will hold the leased property for a term of thirty (30) years. At June 30, 2018, leased property carried at cost is as follows:

Building	\$ 8,065,207
Equipment	<u>1,835,430</u>
	9,900,637
Less: Accumulated depreciation	<u>3,270,468</u>
Net property under operating lease	<u>\$ 6,630,169</u>

The depreciation expense relating to the facility was \$385,173 for the year ended June 30, 2018.

NOTE 13. OPERATING LEASES (Continued)

On May 15, 2007, the City and T-Mobile entered into a Site Lease Agreement for certain premises of the property located at 1 Pendergrass Way, Sand City, California. The term of the lease started on the first day of December 2007 and continued for 60 months, expiring on November 30, 2012 with the right to renew the lease for up to 5 additional 60-month periods. The current renewal period is until November 30, 2022. On January 25, 2013, the City was notified that T-Mobile entered into an agreement with an affiliate of Crown Castle International Corp. to control and operate the site.

The minimum future rentals under these leases as of June 30, 2018 are as follows:

<u>June 30</u>	<u>CAW</u>	<u>Crown Castle</u>	<u>Total</u>
2019	\$ 850,000	\$ 16,571	\$ 866,571
2020	850,000	16,571	866,571
2021	850,000	16,571	866,571
2022	850,000	16,571	866,571
2023	—	—	—
Thereafter	<u>105,000</u>	<u>—</u>	<u>105,000</u>
Total	<u>\$ 3,505,000</u>	<u>\$ 66,284</u>	<u>\$ 3,571,284</u>

Rental revenue recognized for the year ended June 30, 2018 was \$866,571.

NOTE 14. COMMITMENTS AND CONTINGENCIES

In the fiscal year ending June 30, 2018, the City has various service and project contracts totaling \$1,223,080, of which \$1,146,282 on contract commitments still remained as of June 30, 2018.

NOTE 15. PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to Net Position as follows:

Net Position at June 30, 2017	\$ 23,708,992
Implementation of GASB 75:	
Net OPEB Liability	\$ (781,253)
Deferred outflows – OPEB contributions made during fiscal year 2017	<u>2,733,000</u>
Prior period adjustment	<u>1,951,747</u>
Restated Net Position at June 30, 2017	<u>\$ 25,660,739</u>

NOTE 16. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Sand City that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the City or another unit of local government will agree to serve as the "Successor Agency" to hold the assets until they are distributed to other units of state and local government. On October 18, 2011, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution number SC-11-104. Accordingly, the City established the Successor Agency Trust fund, a private-purpose trust fund, which is a fiduciary type fund.

Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution. In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the Successor Agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

Following are disclosures specific to the Successor Agency Trust Funds:

NOTE A. DEPOSITS AND INVESTMENTS

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a deposit policy that complies with California Government Code Section commencing with 53630 (Public Deposits). As of June 30, 2018, \$867,688 of the Fiduciary Fund's bank balance of \$1,117,688 was exposed to custodial credit risk as uninsured, but was collateralized by the pledging bank's trust department not in the City's name. All cash held by the Fiduciary Fund must be used to repay enforceable obligations.

Investments – The Fiduciary Fund investments consist of money market funds, certificates of deposit and a U.S. Treasury Note held with various financial institutions. All investments are recorded at fair market value. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal 110% of the total amount deposited by the public agencies. Investments at June 30, 2018 consisted of the following:

Money Market Funds	\$ 225,526
Certificates of Deposit	1,057,691
U.S. Treasury Note	<u>5,038,966</u>
Total	<u>\$ 6,322,183</u>

NOTE 16. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (Continued)

As of June 30, 2018, all of the Fiduciary Fund's investments had a maturity of less than one year.

NOTE B. CAPITAL ASSETS

	Balance 6/30/17	Additions	Deletions	Balance 6/30/18
Capital assets not being				
Depreciated –				
Land	\$ 1,958,822	\$ –	\$ 831,322	\$ 1,127,500
Total capital asset not being				
depreciated	<u>1,958,822</u>	<u>–</u>	<u>831,322</u>	<u>1,127,500</u>
Capital assets being				
Depreciated:				
Land improvements	182,631	–	–	182,631
Sculpture	<u>40,218</u>	<u>–</u>	<u>–</u>	<u>40,218</u>
Total capital assets being				
depreciated	<u>222,849</u>	<u>–</u>	<u>–</u>	<u>222,849</u>
Less accumulated				
depreciation for:				
Land improvements	178,462	1,614	–	180,076
Sculpture	<u>40,218</u>	<u>–</u>	<u>–</u>	<u>40,218</u>
Total accumulated				
depreciation	<u>218,680</u>	<u>1,614</u>	<u>–</u>	<u>220,294</u>
Total capital assets being				
depreciated - net	<u>4,169</u>	<u>(1,614)</u>	<u>–</u>	<u>2,555</u>
Capital assets-net	<u>\$ 1,962,991</u>	<u>\$ (1,614)</u>	<u>\$ 831,322</u>	<u>\$ 1,130,055</u>

NOTE C. DEVELOPER FEES RECEIVED IN ADVANCE

The former Redevelopment Agency entered into a Disposition and Development Agreement (DDA) with a developer that required the developer to pay certain negotiation fees. In the event that the DDA is terminated by either party, the DDA requires a portion of the fees in the amount of \$1,455,000 be refunded to the developer. The fees subject to refund will not be earned until the property connected with the DDA is conveyed to the developer, at which time the fees will be recognized as revenue.

NOTE D. LONG-TERM DEBT

Tax Allocation Bonds, 2008 Series A – Tax Allocation Bonds, 2008 Series A in the amount of \$7,015,000 were issued January 30, 2008, at a premium of \$22,667, to refinance the Tax Allocation bonds, Series 1996 and to help finance redevelopment activities within and for the benefit of the Sand City Redevelopment Project. The Bonds consist of Serial Bonds in the amount of \$3,315,000 with interest rates ranging from 4.0% to 4.5%, payable semi-annually on each May 1 and November 1, commencing May 1, 2008. Principal on the Serial Bonds is due annually on November 1st beginning in 2010 and ending in 2021. The Serial Bonds maturing on or before November 1, 2018 are not subject to optional redemption prior to maturity. The Bonds maturing on or after November 1, 2019 are subject to Redemption at the option of the former Redevelopment Agency on any date on or after November 1, 2018, as a whole or in part, from any available source of funds, at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption without premium. The remaining \$3,700,000 is Term Bonds due November 1, 2027 with an interest rate of 4.2%, also with interest payable semi-annually on each May 1 and November 1, commencing May 1, 2008.

NOTE 16. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (Continued)

NOTE D. LONG TERM DEBT (Continued)

The Term Bonds are subject to mandatory redemption, in part by lot, from sinking account payments scheduled to begin November 1, 2022 until November 1, 2027, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption. The Bonds are payable solely from tax increment revenue, which has been pledged for repayment of the Bonds.

The Successor Agency issued Refunding Bonds on August 10, 2017 to advance refund the Tax Allocation Bonds, 2008 Series A (Refunded Bonds). The proceeds from the Refunding Bonds are being held in Escrow. The Escrow Agent will pay the debt service requirements of the Refunded Bonds on each scheduled payment date through and including November 1, 2018 and will redeem the Refunded Bonds maturing on November 1, 2019 and thereafter, at a redemption price equal to 100% of par, on November 1, 2018, which is the optional redemption date. The Successor Agency will save approximately \$354,625 on the refunding.

Taxable Tax Allocation Bonds, 2008 Series B – Taxable Tax Allocation Bonds, 2008 Series B in the amount of \$2,135,000 were issued January 30, 2008 at a discount of \$50,916, to help finance redevelopment activities within and for the benefit of the Sand City Redevelopment Project. The Bonds consist of Term Bonds as follows: \$465,000 at a 4.75% interest rate, due November 1, 2013, \$720,000 at a 5.50% interest rate, due November 1, 2018 and \$950,000 at a 5.75% interest rate, due November 1, 2023. Interest on the Bonds is payable semi-annually on each May 1 and November 1, commencing May 1, 2008. All Bonds are subject to mandatory redemption, in part by lot, from sinking account payments scheduled to begin November 1, 2010 and ending November 1, 2023 at a redemption price equal to the principal amount thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption. The Bonds are payable solely from tax increment revenue, which has been pledged for repayment of the Bonds.

2017 Subordinate Tax Allocation Refunding Bonds – 2017 Subordinate Tax Allocation Refunding Bonds in the amount of \$4,690,000 were issued August 10, 2017 to advance refund the Tax Allocation Bonds, 2008 Series A bonds. The Bonds consist of coupon bonds with a price of \$115,000 at an interest rate of 2.850%. Interest on the Bonds is payable semi-annually on each May 1st and November 1st, commencing November 1, 2017. The Bonds are subject to mandatory sinking fund redemption in part by lot on November 1, 2017, and on each November 1st thereafter, to and including November 1, 2027. The Bonds are not subject to optional redemption prior to maturity. The Bonds are payable solely from tax increment revenue, which has been pledged for repayment of the Bonds.

Loans from the City – The former Redevelopment Agency received loans from the City to pay its share of administrative expenses and make payments on non-tax increment borrowings. The City accrued interest at a rate of 7% on these advances. There is no formal repayment schedule in place at this time. In the year ending June 30, 2013, interest on these loans was recalculated based on the average Local Agency Investment Fund rate of return for the period in which the loans existed as required by Assembly Bill 1484, in the amount of \$3,626,058 for Operating Expenditures and \$4,650,000 for Costco/Seaside.

NOTE 16. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (Continued)

Reimbursements Payable – The City issued Certificates of Participation (Certificates) to refinance certain real property legally owned by the former Redevelopment Agency. Under a Reimbursement Agreement with the City, the former Redevelopment Agency agreed to reimburse the City for all the Base Rental Payments made by the City to the Trustee of Certificates. The Reimbursements were to be made from available monies of the former Redevelopment Agency; therefore no formal repayment schedule is in place at this time.

SERAF – The California State Legislature enacted ABx4 26 requiring redevelopment agencies to make certain payments to its County Supplemental Education Revenue Augmentation Fund (SERAF). The Agencies were allowed to borrow the amount required from the Housing Set-aside Fund. The Debt Service Fund borrowed the amount from the Housing Set-aside Fund to make the required payments. The City elected to assume the housing function of the former Redevelopment Agency; as such they will receive the payback of the funds. There is no formal repayment schedule in place at this time.

Long-term debt balances and transactions for the fiscal year ended June 30, 2018 are as follows:

	Balance 6/30/17	Additions	Reductions	Balance 6/30/18	Due Within One Year
Bonds, loans and reimbursements:					
Tax Allocation Bonds, 2008 Series A	\$ 5,265,000	\$ –	\$ 285,000	\$ 4,980,000	\$ 4,980,000
Tax Allocation Bonds, 2008 Series B	1,260,000	–	150,000	1,110,000	160,000
2017 Subordinate Tax Allocation Refunding Bonds	–	4,690,000	360,000	4,330,000	305,000
Subtotal	<u>6,525,000</u>	<u>4,690,000</u>	<u>795,000</u>	<u>10,420,000</u>	<u>5,445,000</u>
Loans from the City:					
Operating Expenditures	3,626,058	–	–	3,626,058	–
Costco/Seaside	4,650,000	–	–	4,650,000	–
SERAF	518,349	–	–	518,349	–
Subtotal	<u>8,794,407</u>	<u>–</u>	<u>–</u>	<u>8,794,407</u>	<u>–</u>
Reimbursement due to City	<u>1,454,766</u>	<u>–</u>	<u>–</u>	<u>1,454,766</u>	<u>–</u>
Total bonds, loans and reimbursement	<u>\$ 16,774,173</u>	<u>\$ 4,690,000</u>	<u>\$ 795,000</u>	<u>\$ 20,669,173</u>	<u>\$ 5,445,000</u>

Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Series A Bonds		Series B Bonds		2017 Refunding Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 4,980,000	\$ 104,050	\$ 160,000	\$ 59,025	\$ 305,000	\$ 120,059
2020	–	–	170,000	49,737	315,000	110,224
2021	–	–	180,000	39,675	325,000	101,104
2022	–	–	190,000	29,037	335,000	91,699
2023	–	–	200,000	23,862	345,000	52,009
2024-2028	–	–	210,000	–	2,705,000	172,211
	<u>\$ 4,980,000</u>	<u>\$ 104,050</u>	<u>\$ 1,110,000</u>	<u>\$ 201,336</u>	<u>\$ 4,330,000</u>	<u>\$ 647,306</u>

NOTE 16. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (Continued)

NOTE E. DEFERRED ROPS REVENUE

The deferred ROPS revenue represents Real Property Tax Transfer Funds (RPTTF) received in advance for future obligation payments. The revenue will be recognized in the period in which the obligation payments are made. At June 30, 2018 this amount was \$797,274.

NOTE 17. AUTHORITATIVE PRONOUNCEMENT ISSUED BUT NOT YET ADOPTED

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefore. This Statement requires similar disclosures for a government's minority shares of AROs. The requirements in this Statement are effective for fiscal years beginning after June 30, 2018. Earlier application is encouraged. The City has no plan for early implementation of this Statement. At this time the City is not certain of the effect the adoption of Statement No. 83 will have on the accompanying financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements in this Statement are effective for fiscal years beginning after June 30, 2019. Earlier application is encouraged. The City has no plan for early implementation of this Statement. At this time the City is not certain of the effect the adoption of Statement No. 84 will have on the accompanying financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for fiscal years beginning after June 30, 2020.

NOTE 17. AUTHORITATIVE PRONOUNCEMENT ISSUED BUT NOT YET ADOPTED (Continued)

Earlier application is encouraged. The City has no plan for early implementation of this Statement. At this time the City is not certain of the effect the adoption of Statement No. 87 will have on the accompanying financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledge as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The City has no plans for early implementation of this Statement. At this time the City is not certain of the effect the adoption of Statement No. 88 will have on the accompanying financial statements.

In June 2018, GASB issued Statement No. 89 *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement established accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The City has no plans for early implementation of this Statement. At this time the City is not certain of the effect of the adoption of Statement No. 89 will have on the accompanying financial statements.

In August 2018, GASB issued Statement No. 90 *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority

NOTE 17. AUTHORITATIVE PRONOUNCEMENT ISSUED BUT NOT YET ADOPTED (Continued)

equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement established that ownership of majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The City has no plans for early implementation of this Statement. At this time the City is not certain of the effect of the adoption of Statement No. 90 will have on the accompanying financial statements.

**REQUIRED
SUPPLEMENTARY INFORMATION**

CITY OF SAND CITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE,
BUDGET AND ACTUAL – GENERAL
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
REVENUES:				
Property taxes	\$ 217,600	\$ 209,950	\$ 216,493	\$ 6,543
Sales tax	2,600,000	2,600,000	2,666,651	66,651
Transaction tax	2,250,000	2,250,000	2,380,022	130,022
Utility user's tax	130,000	150,000	144,135	(5,865)
Franchise taxes	101,800	117,100	108,694	(8,406)
Business licenses	483,500	482,500	480,029	(2,471)
Licenses and permits	125,910	125,815	126,162	347
Fines, forfeits and penalties	2,650	4,000	4,868	868
Charges for current services	104,000	156,200	103,641	(52,559)
Revenue from other agencies	250,150	261,200	263,381	2,181
Developer fees	250,000	—	—	—
Investment earnings	35,780	73,620	73,833	213
Rental income	865,000	867,900	866,571	(1,329)
Other revenue	94,900	82,900	76,721	(6,179)
Total revenues	<u>7,511,290</u>	<u>7,381,185</u>	<u>7,511,201</u>	<u>130,016</u>
EXPENDITURES:				
Current:				
General government	2,220,865	1,971,040	1,915,297	55,743
Public safety	3,200,997	3,134,895	3,038,756	96,139
Public works	947,930	924,952	897,021	27,931
Community development	820,160	528,323	513,985	14,338
Parks	46,500	21,000	14,688	6,312
Debt Service:				
Principal	15,500	15,500	15,492	8
Interest and other charges	2,800	2,800	2,774	26
Capital outlay	836,000	578,007	591,361	(13,354)
Total expenditures	<u>8,090,752</u>	<u>7,176,517</u>	<u>6,989,374</u>	<u>187,143</u>
EXCESS (DEFICIENCY) OF				
REVENUES OVER EXPENDITURES	<u>(579,462)</u>	<u>204,668</u>	<u>521,827</u>	<u>317,159</u>
OTHER FINANCING SOURCES (USES) –				
Transfer in	<u>—</u>	<u>—</u>	<u>14,913</u>	<u>14,913</u>
Total other financing sources (uses)	<u>—</u>	<u>—</u>	<u>14,913</u>	<u>14,913</u>
NET CHANGE IN FUND BALANCE	<u>\$ (579,462)</u>	<u>\$ 204,668</u>	<u>\$ 536,740</u>	<u>\$ 332,072</u>

See Accompanying Notes to Required Supplementary Information.

CITY OF SAND CITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1. BUDGETARY DATA

The City legally adopts an annual budget for the General Fund. The City adopts the budget before June 30 for each ensuing fiscal year.

Budgets submitted to the Council include both proposed appropriations and the means of financing them. A mid-year budget review is performed and the budget is amended by passage of a resolution. Additional appropriations or interfund transfers not included in the amended budget resolution must be approved by the City Council.

All budgets have been prepared on a basis consistent with generally accepted accounting principles, which is the same basis of accounting as used to reflect actual revenues and expenditures.

Appropriations lapse at each fiscal year end and then are rebudgeted for the coming fiscal year. Encumbrance accounting is not used.

CITY OF SAND CITY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last 10 Years*
FOR THE YEAR ENDED JUNE 30, 2018

Measurement Period	Proportion of the net pension liability	Proportionate share of the net pension liability	Covered employee payroll	Proportionate share of the net pension liability as percentage of covered employee payroll	Plan's fiduciary net position	Plan fiduciary net position as a percentage of the total pension liability
2014						
Miscellaneous Plan	0.03280%	\$ 2,041,105	\$ 979,700	208.34%	\$6,029,465	74.71%
Safety Plan	0.02186%	\$ 1,360,244	\$ 1,018,285	133.58%	\$5,420,795	79.94%
2015						
Miscellaneous Plan	0.07699%	\$ 2,112,302	\$ 957,621	220.58%	\$6,420,707	75.25%
Safety Plan	0.03227%	\$ 1,329,846	\$ 1,095,485	121.39%	\$5,777,967	81.29%
2016						
Miscellaneous Plan	0.07245%	\$ 2,516,961	\$ 973,812	258.46%	\$6,397,880	87.17%
Safety Plan	0.04925%	\$ 1,744,395	\$ 1,179,383	147.91%	\$5,595,515	76.23%
2017						
Miscellaneous Plan	0.07161%	\$ 2,823,013	\$ 964,572	292.67%	\$7,067,205	71.46%
Safety Plan	0.04923%	\$ 2,059,738	\$ 1,306,040	157.71%	\$6,871,827	76.94%

Notes to Schedule:

Benefit Changes:

In 2015, benefit terms were modified to base public safety employee pensions on a final three-year average salary instead of a final five-year average salary.

The figures above do not include any liability impact that may have resulted from plan changes which occurred after the valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in assumptions:

In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

In 2016, the discount rate was changed from 7.50 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

In 2017, the discount rate was changed from 7.65 percent to 7.15 percent.

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

CITY OF SAND CITY
SCHEDULE OF CONTRIBUTIONS – PENSIONS
Last 10 Years*
FOR THE YEAR ENDED JUNE 30, 2018

<u>Fiscal Year</u>	<u>Contractually required contribution (actuarially determined)</u>	<u>Contributions in relation to the actuarially determined contributions</u>	<u>Contribution deficiency (excess)</u>	<u>Covered employee payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
2015					
Miscellaneous Plan	\$ 232,159	\$ 232,159	\$ –	\$ 957,621	24.24%
Safety Plan	\$ 214,913	\$ 214,913	\$ –	\$ 1,095,485	19.62%
2016					
Miscellaneous Plan	\$ 272,359	\$ 272,359	\$ –	\$ 973,812	27.97%
Safety Plan	\$ 213,436	\$ 213,436	\$ –	\$ 1,179,383	18.10%
2017					
Miscellaneous Plan	\$ 284,073	\$ 284,073	\$ –	\$ 964,572	29.45%
Safety Plan	\$ 274,606	\$ 274,606	\$ –	\$ 1,306,040	21.03%
2018					
Miscellaneous Plan	\$ 602,399	\$ 602,399	\$ –	\$ 968,615	62.19%
Safety Plan	\$ 404,055	\$ 404,055	\$ –	\$ 1,346,212	30.01%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for the fiscal year are as follows:

FYE 2014-2015 - June 30, 2013 funding valuation report
FYE 2015-2016 - June 30, 2014 funding valuation report
FYE 2016-2017 - June 30, 2015 funding valuation report
FYE 2017-2018 - June 30, 2016 funding valuation report

Actuarial Cost Method	Entry age normal
Amortization Method/Period	Level percentage of payroll
Asset Valuation Method	Market value
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.15%
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

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

CITY OF SAND CITY
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY/(ASSET) AND RELATED RATIOS
For the Measurement Periods Ended June 30

Measurement Period	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 234,000
Interest on the total OPEB liability	157,000
Actual and expected experience difference	—
Changes in assumptions	—
Changes in benefit terms	—
Benefit payments	<u>(83,000)</u>
Net change in total OPEB liability	308,000
Total OPEB liability - beginning	<u>2,135,000</u>
Total OPEB liability - ending (a)	<u>2,443,000</u>
Plan Fiduciary Net Position	
Contribution - employer	2,733,000
Net investment income	173,000
Benefit payments	(83,000)
Administrative expense	<u>(1,000)</u>
Net Change in plan fiduciary net position	2,822,000
Plan fiduciary net position - beginning	<u>—</u>
Plan fiduciary net position - ending (b)	<u>2,822,000</u>
Net OPEB liability/(asset) - ending (a)-(b)	<u>\$ (379,000)</u>
Plan fiduciary net position as percentage of the total OPEB liability	115.51%
Covered-employee payroll	\$ 2,270,612
Net OPEB liability/(asset) as a percentage of covered-employee payroll	(16.69)%

Notes to Schedule:

Historical information is required only for measurement periods for which GASB 75 is applicable.
Future years' information will be displayed up to 10 years as information becomes available.

CITY OF SAND CITY
SCHEDULE OF CONTRIBUTIONS – OPEB
Last 10 Years*
FOR THE YEAR ENDED JUNE 30, 2018

Fiscal Year Ended June 30	<u>2018</u>
Actuarially Determined Contribution (ADC)	\$ 225,000
Contributions in relation to the ADC	<u>(83,000)</u>
Contribution deficiency (excess)	<u>\$ 142,000</u>
Covered-employee payroll	\$ 2,314,827
Contributions as a percentage of covered-employee payroll	3.59%

Notes to Schedule:

*Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2018 were from the June 30, 2017 actuarial valuation.

Methods and assumptions used to determine contributions:

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level percent of payroll over a closed rolling 15-year period
Asset Valuation Method	Market Value
Inflation	2.75% annually
Payroll Growth	3% annually
Investment Rate of Return	6.75%
Healthcare cost-trend rates	7.50% decreasing to 4.00%
Retirement Age	<u>Misc</u> <u>Police</u>
Hired < 1/1/13	3% @ 60 3% @ 55
Hired > 12/31/12	2% @ 55 2% @ 50
Hired >= 1/1/13	
New Member	2% @ 62 2.7% @ 57
Mortality	Pre-retirement mortality probability based on 2014 CalPERS 1997-2011 Experience Study covering CalPERS participants. Post-retirement mortality probability based on CalPERS Experience Study 2007-2011 covering participants in CalPERS.

Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS



HAYASHI | WAYLAND

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

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and City Council
City of Sand City
Sand City, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **City of Sand City**, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the **City of Sand City's** basic financial statements, and have issued our report thereon dated November 15, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the **City of Sand City's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **City of Sand City's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **City of Sand City's** internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

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

Purpose of this Report

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

November 15, 2018

Hayashi Wayland, LLP



ATTACHMENT 2

FIVE YEAR CAPITAL IMPROVEMENT PROGRAM

CITY OF SAND CITY
MEASURE X FIVE-YEAR CAPITAL IMPROVEMENT PROGRAM
FOR FISCAL YEARS 2018/19 – 2022/23

YEAR 1 – FY 18/19

Project	Description & Phase	Total Cost	Measure X	PCI
West End Stormwater Improvements Project	Description: The project is a retrofit of Contra Costa St. and Catalina St. to integrate “green street” infrastructure and Low Impact Development (LID) elements such as bioretention/biofiltration and permeable pavement. The project will provide multiple community, water resource, environmental, and aesthetic benefits. Phase: 30-60% concept design, initial sizing, initial quantified performance and cost have been completed.	\$2,070,000 (estimate based on concept design)	\$0.00 (assumes City will “bank” funds for use in year 5)	60-65
Totals:				

YEAR 2 – FY 19/20

Project	Description & Phase	Total Cost	Measure X	PCI
West End Stormwater Improvements Project	Description: The project is a retrofit of Contra Costa St. and Catalina St. to integrate “green street” infrastructure and Low Impact Development (LID) elements such as bioretention/biofiltration and permeable pavement. The project will provide multiple community, water resource, environmental, and aesthetic benefits. Phase: 60-100% design.	\$2,070,000 (estimate based on concept design)	\$0.00 (assumes City will “bank” funds for use in year 5)	60-65
Totals:				

YEAR 3 – FY 20/21

Project	Description & Phase	Total Cost	Measure X	PCI
West End Stormwater Improvements	Description: The project is a retrofit of Contra Costa St. and Catalina St. to integrate “green	\$2,070,000 (estimate based on concept	\$0.00 (assumes City will	60-65

Project	street” infrastructure and Low Impact Development (LID) elements such as bioretention/biofiltration and permeable pavement. The project will provide multiple community, water resource, environmental, and aesthetic benefits. Phase: complete design, begin construction.	design)	“bank” funds for use in year 5)	
Totals:				

YEAR 4 – FY 21/22

Project	Description & Phase	Total Cost	Measure X	PCI
West End Stormwater Improvements Project	Description: The project is a retrofit of Contra Costa St. and Catalina St. to integrate “green street” infrastructure and Low Impact Development (LID) elements such as bioretention/biofiltration and permeable pavement. The project will provide multiple community, water resource, environmental, and aesthetic benefits. Phase: construction	\$2,070,000 (estimate based on concept design)	\$0.00 (assumes City will “bank” funds for use in year 5)	100
Totals:				

YEAR 5 – FY 22/23

Project	Description & Phase	Total Cost	Measure X	PCI
West End Stormwater Improvements Project	Description: The project is a retrofit of Contra Costa St. and Catalina St. to integrate “green street” infrastructure and Low Impact Development (LID) elements such as bioretention/biofiltration and permeable pavement. The project will provide multiple community, water resource, environmental, and aesthetic benefits. Phase: construction	\$2,070,000 (estimate based on concept design)	\$50,000 (assumes City will “bank” funds for use in year 5)	100
Totals:				

DEFINITIONS OF REQUESTED INFORMATION:

1. Project: The title of the project to receive Measure X funding.
2. Description & Phase: A general description of the project and the phase (e.g. Environmental; Design; Right-of-Way; or Construction) that will be funded in the given year.
3. Total Cost: The total cost of the project.
4. Measure X: The amount of Measure X funding that will be expended on the project.
5. PCI: The Pavement Condition Index for the roadway, from the local jurisdiction's Pavement Management Program.

ATTACHMENT 3

PAVEMENT MANAGEMENT PROGRAM REPORT

Attachment 3

ATTACHMENT 4

MAINTENANCE OF EFFORT REPORT

**CITY OF SAND CITY
THREE-YEAR MAINTENANCE OF EFFORT REPORT
FOR FISCAL YEARS 2014/15 – 2016/17**

Year 1

Fund Source	Amount	Year
Total Expended on Transportation	\$175,365	FY 2014/15

Year 2

Fund Source	Amount	Year
Total Expended on Transportation	\$398,323	FY 2015/16

Year 3

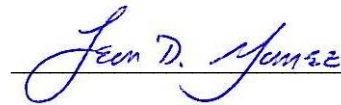
Fund Source	Amount	Year
Total Expended on Transportation	\$497,886	FY 2016/17

Note: these values include new street and sidewalk construction including design costs (engineering, surveying, etc) and maintenance including asphalt patching and street lights.

Three-Year Average of Transportation Expenditures:

\$ 357,191

I, the undersigned, certify that the above information is true and correct to the best of my knowledge.



Leon D. Gomez, P.E., City Engineer