

ANNUAL PROGRAM COMPLIANCE REPORT

The City of Soledad is using its Measure X funds towards the Planning, Design and Construction of Pinnacles Parkway Project that will connect Los Coches Road over the UPRR and on to Metz Rd/SR 146. The Pinnacles Parkway Project has been identified in the 2005 Soledad General Plan as one of the improvement projects to the circulation system necessary to meet the present and future needs of the City.

Current Measure X expenditures have been towards the first phase of the project that includes base mapping, property owner engagement and appraisals, Williamson Act review, determining ultimate Right of Way and road cross-sections, engaging with the California Public Utilities Commission (CPUC) regarding the proposed railroad crossing, and California Environmental Quality Act (CEQA)/National Environmental Policy Act (NEPA) compliance.

CITY OF SOLEDAD - YEAR 2018 BALANCE SHEET

REVENUES	
Carryover from Previous Year	\$ 85,771
Measure X Revenues	\$569,545
Earning on Interest	\$ 849
TOTAL REVENUES:	\$656,165
EXPENDITURES	
Pinnacles Parkway Environmental/Design	\$ 72,275
TOTAL EXPENDITURES:	\$ 72,275
FUND BALANCE, END OF PERIOD:	\$583,890

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 FOR MEASURE X FUNDS,
PRIOR FISCAL YEAR

CITY OF SOLEDAD
INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Soledad, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Soledad, California, (the 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Soledad, California, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof 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 budgetary comparison information on pages 42 - 45 and the Schedule of the City's Proportionate Share of Net Pension Liability and the Schedule of Contributions on pages 46 - 47 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

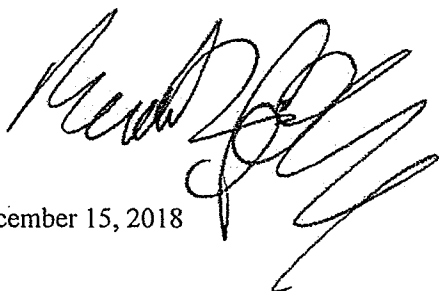
Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements on pages 48 - 49 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

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

A handwritten signature in black ink, appearing to be 'Kendall J. [unclear]', is written over the date.

December 15, 2018

CITY OF SOLEDAD

STATEMENT OF NET POSITION JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 11,791,866	\$ 9,219,160	\$ 21,011,026
Cash and investments with fiscal agent	-	201,858	201,858
Accounts receivable, net	33,035	1,603,583	1,636,618
Internal balances	(185,457)	185,457	-
Due from other governments	903,125	-	903,125
Interest receivable	15,289	1,391	16,680
Prepays	1,391	-	1,391
Notes receivable	8,197,096	-	8,197,096
Deferred charges	-	3,483,276	3,483,276
Capital assets, net of allowance for depreciation	27,342,197	59,994,786	87,336,983
Total assets	<u>48,098,542</u>	<u>74,689,511</u>	<u>122,788,053</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>2,119,791</u>	<u>555,348</u>	<u>2,675,139</u>
LIABILITIES			
Accounts payable and accrued expense	1,583,097	672,271	2,255,368
Accrued interest payable	2,365	11,865	14,230
Deposits payable	116,240	116,324	232,564
Long-term liabilities			
Due within one year	21,128	1,785,094	1,806,222
Due in more than one year	-	34,523,268	34,523,268
Compensated absences	479,432	142,096	621,528
Net pension liability	4,090,356	465,848	4,556,204
Total liabilities	<u>6,292,618</u>	<u>37,716,766</u>	<u>44,009,384</u>
DEFERRED INFLOWS OF RESOURCES	<u>109,917</u>	<u>21,308</u>	<u>131,225</u>
NET POSITION			
Net investment in capital assets	27,321,069	23,624,927	50,945,996
Restricted for debt service	-	201,858	201,858
Restricted for long-term notes receivable	8,197,096	-	8,197,096
Restricted for specific projects and programs	7,978,296	-	7,978,296
Unrestricted	319,337	13,680,000	13,999,337
Total net position	<u>\$ 43,815,798</u>	<u>\$ 37,506,785</u>	<u>\$ 81,322,583</u>

CITY OF SOLEDAD

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2018

Functions/Programs	Program Revenue				Net Revenue/(Expense) and Changes in Net Position		
	Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 1,016,240	\$ -	\$ 7,133	\$ 93,067	\$ (916,040)	\$ -	\$ (916,040)
Public works	1,916,597	-	694,262	722,183	(500,152)	-	(500,152)
Community development	1,056,302	443,606	(90,158)	-	(702,854)	-	(702,854)
Public safety	4,821,326	283,193	278,820	416,856	(3,842,457)	-	(3,842,457)
Community services	695,980	-	-	318,657	(377,323)	-	(377,323)
Debt Service							
Interest and fiscal charges	3,279	-	-	-	(3,279)	-	(3,279)
Total governmental activities	9,509,724	726,799	890,057	1,550,763	(6,342,105)	-	(6,342,105)
Business-type activities							
Water	2,190,074	2,551,263	-	367,687	-	728,876	728,876
Sewer	4,603,022	6,269,704	-	466	-	1,667,148	1,667,148
Garbage	2,596,406	3,020,275	7,406	-	-	431,275	431,275
Total business-type activities	9,389,502	11,841,242	7,406	368,153	-	2,827,299	2,827,299
Total primary government	\$ 18,899,226	\$ 12,568,041	\$ 897,463	\$ 1,918,916	(6,342,105)	2,827,299	(3,514,806)
General Revenue							
Property taxes and assessments					3,384,305	-	3,384,305
Sales taxes					3,514,219	-	3,514,219
Franchise and other taxes					136,088	-	136,088
Transient lodging taxes					146,607	-	146,607
Utility users tax					610,232	-	610,232
Business license tax					67,534	-	67,534
Investment income					40,718	33,863	74,581
Rents and other income					96,547	121,204	217,751
Transfers					350,894	(350,894)	-
Total general revenue and transfers					8,347,144	(195,827)	8,151,317
Change in Net Position					2,005,039	2,631,472	4,636,511
Net Position							
Beginning of year					41,810,759	34,875,313	76,686,072
End of year					\$ 43,815,798	\$ 37,506,785	\$ 81,322,583

See accompanying notes.

CITY OF SOLEDAD

BALANCE SHEET - GOVERNMENTAL FUNDS JUNE 30, 2018

	General	Program Income	Development Impact	Measure X	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$ 3,219,997	\$ 159,945	\$ 4,723,940	\$ 469,825	\$ 2,690,392	\$ 11,264,099
Accounts receivable	33,035	-	-	-	-	33,035
Due from other governments	530,360	-	-	130,379	242,360	903,099
Prepays	1,391	-	-	-	-	1,391
Interest receivable	15,289	-	-	-	-	15,289
Notes receivable	-	6,350,915	-	-	1,846,181	8,197,096
Total assets	<u>\$ 3,800,072</u>	<u>\$ 6,510,860</u>	<u>\$ 4,723,940</u>	<u>\$ 600,204</u>	<u>\$ 4,778,933</u>	<u>\$ 20,414,009</u>
LIABILITIES						
Accounts payable and accrued expense	\$ 1,138,311	\$ -	\$ 188,526	\$ 16,314	\$ 233,705	\$ 1,576,856
Interest payable	1,391	-	-	-	-	1,391
Advance from other funds	185,457	-	-	-	-	185,457
Deposits and other liabilities	116,240	-	-	-	-	116,240
Total liabilities	<u>1,441,399</u>	<u>-</u>	<u>188,526</u>	<u>16,314</u>	<u>233,705</u>	<u>1,879,944</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenues	-	6,350,915	-	-	1,846,181	8,197,096
Total deferred inflows of resources	<u>-</u>	<u>6,350,915</u>	<u>-</u>	<u>-</u>	<u>1,846,181</u>	<u>8,197,096</u>
FUND BALANCE						
Restricted						
Capital improvement projects	-	-	4,535,414	-	-	4,535,414
Circulation improvements	-	-	-	583,890	161,064	744,954
Lighting, landscape & park maintenance	-	-	-	-	1,057,073	1,057,073
Public safety programs	-	-	-	-	338,179	338,179
Low-income housing activities	-	159,945	-	-	1,142,731	1,302,676
Committed for contingency reserve	1,500,000	-	-	-	-	1,500,000
Unassigned	858,673	-	-	-	-	858,673
Total fund balance	<u>2,358,673</u>	<u>159,945</u>	<u>4,535,414</u>	<u>583,890</u>	<u>2,699,047</u>	<u>10,336,969</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 3,800,072</u>	<u>\$ 6,510,860</u>	<u>\$ 4,723,940</u>	<u>\$ 600,204</u>	<u>\$ 4,778,933</u>	<u>\$ 20,414,009</u>

See accompanying notes.

CITY OF SOLEDAD

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2018

	General	Program Income	Development Impact	Measure X	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$ 3,219,997	\$ 159,945	\$ 4,723,940	\$ 469,825	\$ 2,690,392	\$ 11,264,099
Accounts receivable	33,035	-	-	-	-	33,035
Due from other governments	530,360	-	-	130,379	242,360	903,099
Prepays	1,391	-	-	-	-	1,391
Interest receivable	15,289	-	-	-	-	15,289
Notes receivable	-	6,350,915	-	-	1,846,181	8,197,096
Total assets	<u>\$ 3,800,072</u>	<u>\$ 6,510,860</u>	<u>\$ 4,723,940</u>	<u>\$ 600,204</u>	<u>\$ 4,778,933</u>	<u>\$ 20,414,009</u>
LIABILITIES						
Accounts payable and accrued expense	\$ 1,138,311	\$ -	\$ 188,526	\$ 16,314	\$ 233,705	\$ 1,576,856
Interest payable	1,391	-	-	-	-	1,391
Advance from other funds	185,457	-	-	-	-	185,457
Deposits and other liabilities	116,240	-	-	-	-	116,240
Total liabilities	<u>1,441,399</u>	<u>-</u>	<u>188,526</u>	<u>16,314</u>	<u>233,705</u>	<u>1,879,944</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenues	-	6,350,915	-	-	1,846,181	8,197,096
Total deferred inflows of resources	<u>-</u>	<u>6,350,915</u>	<u>-</u>	<u>-</u>	<u>1,846,181</u>	<u>8,197,096</u>
FUND BALANCE						
Restricted						
Capital improvement projects	-	-	4,535,414	-	-	4,535,414
Circulation improvements	-	-	-	583,890	161,064	744,954
Lighting, landscape & park maintenance	-	-	-	-	1,057,073	1,057,073
Public safety programs	-	-	-	-	338,179	338,179
Low-income housing activities	-	159,945	-	-	1,142,731	1,302,676
Committed for contingency reserve	1,500,000	-	-	-	-	1,500,000
Unassigned	858,673	-	-	-	-	858,673
Total fund balance	<u>2,358,673</u>	<u>159,945</u>	<u>4,535,414</u>	<u>583,890</u>	<u>2,699,047</u>	<u>10,336,969</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 3,800,072</u>	<u>\$ 6,510,860</u>	<u>\$ 4,723,940</u>	<u>\$ 600,204</u>	<u>\$ 4,778,933</u>	<u>\$ 20,414,009</u>

See accompanying notes.

CITY OF SOLEDAD

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION JUNE 30, 2018

Total governmental fund balance	\$ 10,336,969
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Amounts reported for governmental activities 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 governmental funds	27,342,197
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Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	(21,128)
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Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds	(479,432)
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Net pension liability applicable to governmental activities are not due and payable in the current period and accordingly is not reported in the governmental funds	(4,090,356)
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Deferred outflows of resources related to net pension liability, represent an consumption of net pension or fund balance that applies to future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time	2,119,791
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Deferred inflows of resources related to net pension liability, represent an acquisition of net pension or fund balance that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time	(109,917)
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Interest on long-term debt is reported as an expenditure of the Governmental Funds when paid because it requires the use of current financial resources. However, accrued interest must be recorded when incurred	(974)
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Internal service funds are used by management to charge the costs of fleet maintenance and computer services to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Position.	521,552
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Certain revenues in Governmental Funds are deferred because they are not collected within the prescribed time period after fiscal year end. Those revenues are recognized on the accrual basis in Governmental Activities	<u>8,197,096</u>
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Net position of governmental activities	<u>\$ 43,815,798</u>
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CITY OF SOLEDAD

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2018

	General	Program Income	Development Impact	Measure X	Other Governmental Funds	Total Governmental Funds
Revenue						
Taxes and assessments	\$ 7,040,981	\$ -	\$ -	\$ 569,545	\$ 586,594	\$ 8,197,120
Licenses, permits and impact fees	541,393	-	1,055,852	-	-	1,597,245
Intergovernmental	538,356	-	-	-	548,258	1,086,614
Charges for services	6,789	-	-	-	-	6,789
Fines and forfeitures	768	-	-	-	-	768
Rents	70,660	-	-	-	-	70,660
Interest	8,983	3,661	16,136	849	176,548	206,177
Loan repayments	-	9,062	-	-	56,097	65,159
Other	84,437	-	-	-	4,216	88,653
Total revenue	8,292,367	12,723	1,071,988	570,394	1,371,713	11,319,185
Expenditures						
Current						
General government	1,029,209	-	-	-	-	1,029,209
Public works	379,636	-	23,722	53,452	878,571	1,335,381
Community development	298,525	-	1,185,765	-	17,614	1,501,904
Public safety	5,122,540	-	-	-	18,800	5,141,340
Community services	628,327	-	-	-	-	628,327
Capital outlay	23,368	-	-	18,823	2,129,975	2,172,166
Debt Service						
Principal	20,013	-	-	-	37,692	57,705
Interest and fiscal charges	1,987	-	-	-	1,292	3,279
Total expenditures	7,503,605	-	1,209,487	72,275	3,083,944	11,869,311
Revenue over/(under) expenditures	788,762	12,723	(137,499)	498,119	(1,712,231)	(550,126)
Other Financing Sources/(Uses)						
Transfers in/(out) - net	(4,856)	(93,339)	-	-	449,089	350,894
	(4,856)	(93,339)	-	-	449,089	350,894
Change in Fund Balance	783,906	(80,616)	(137,499)	498,119	(1,263,142)	(199,232)
Fund Balance						
Beginning of year	1,574,767	240,561	4,672,913	85,771	3,962,189	10,536,201
End of year	2,358,673	159,945	4,535,414	583,890	2,699,047	10,336,969

See accompanying notes.

CITY OF SOLEDAD

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

Net change in fund balance - total governmental funds	\$ (199,232)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Depreciation expense on capital assets is reported in the Statement of Activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not required as expenditures in Governmental Funds	(937,953)
Repayment of long-term notes receivable is revenue in governmental funds, but the repayment reduces long-term assets in the statement of net position	(155,317)
Governmental Funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets are capitalized as an asset and depreciated over the period of service	3,092,921
Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position	57,705
Pension expenses reported in the Statement of Activities do no require the use of of current financial resources and, therefore, are not reported as expenditures in the Governmental Funds	242,830
Internal service funds are used by management to charge the costs of fleet maintenance and computer services to individual funds. The net revenue (loss) of certain activities of internal service funds is reported with governmental activities	(54,602)
Compensated absence costs in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in Governmental Funds	<u>(41,313)</u>
Change in net position of governmental activities	<u>\$ 2,005,039</u>

CITY OF SOLEDAD

STATEMENT OF NET POSITION - PROPRIETARY FUNDS JUNE 30, 2018

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service Fund
	Water	Sewer	Garbage	Total Proprietary Funds	
ASSETS					
Current assets					
Cash and investments	\$ 1,123,870	\$ 7,259,638	\$ 835,652	\$ 9,219,160	\$ 527,767
Cash and investments with fiscal agent	201,858	-	-	201,858	-
Accounts receivable	397,080	745,687	460,816	1,603,583	26
Interest receivable	-	1,391	-	1,391	-
Advance to other funds	-	185,457	-	185,457	-
Total current assets	1,722,808	8,192,173	1,296,468	11,211,449	527,793
Non-current assets					
Deferred charges	-	3,483,276	-	3,483,276	-
Property, plant and equipment, net of allowance for depreciation	9,865,647	50,067,642	61,497	59,994,786	-
Total assets	11,588,455	61,743,091	1,357,965	74,689,511	527,793
	242,487	239,180	73,681	555,348	-
DEFERRED OUTFLOWS OF RESOURCES					
LIABILITIES					
Current liabilities					
Accounts payable and accrued expenses	236,597	197,131	238,543	672,271	6,241
Accrued interest	11,865	-	-	11,865	-
Deposits	37,834	30,040	48,450	116,324	-
Current portion of long-term debt	202,656	1,582,438	-	1,785,094	-
Total current liabilities	488,952	1,809,609	286,993	2,585,554	6,241
Non-current liabilities					
Long-term debt	2,086,799	32,436,469	-	34,523,268	-
Net pension liability	203,408	200,634	61,806	465,848	-
Compensated absences	42,723	74,548	24,825	142,096	-
Total noncurrent liabilities	2,332,930	32,711,651	86,631	35,131,212	-
Total liabilities	2,821,882	34,521,260	373,624	37,716,766	6,241
	9,304	9,177	2,827	21,308	-
DEFERRED INFLOWS OF RESOURCES					
NET POSITION					
Net investment in capital assets	7,576,192	16,048,735	-	23,624,927	-
Restricted for debt service	201,858	-	-	201,858	-
Unrestricted/(deficit)	1,221,706	11,403,099	1,055,195	13,680,000	521,552
Total net position/(deficit)	\$ 8,999,756	\$ 27,451,834	\$ 1,055,195	\$ 37,506,785	\$ 521,552

See accompanying notes.

CITY OF SOLEDAD

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2018

	Business-Type Activities - Enterprise Funds				Total Proprietary Funds	Governmental Activities Internal Service Fund
	Water	Sewer	Garbage			
Operating Revenue						
Charges for services	\$ 2,551,263	\$ 6,269,704	\$ 3,020,275	\$	11,841,242	\$ 649,672
Connection fees	90,517	-	30,687		121,204	-
Total operating income	2,641,780	6,269,704	3,050,962		11,962,446	649,672
Operating Expense						
Contractual services and utilities	671,537	1,284,516	2,278,884		4,234,937	700,105
Personnel	466,626	1,481,063	260,249		2,207,938	-
Supplies and materials	670,783	385,019	46,296		1,102,098	-
Depreciation	270,768	1,143,368	10,977		1,425,113	5,940
Total operating expense	2,079,714	4,293,966	2,596,406		8,970,086	706,045
Operating income/(loss)	562,066	1,975,738	454,556		2,992,360	(56,373)
Nonoperating Revenue/(Expense)						
Intergovernmental	-	-	7,406		7,406	-
Development impact fees	367,687	466	-		368,153	-
Interest income	6,747	23,668	3,448		33,863	1,771
Interest expense	(110,360)	(309,056)	-		(419,416)	-
Total nonoperating revenue/(expense)	264,074	(284,922)	10,854		(9,994)	1,771
Net income/(loss) before transfers	826,140	1,690,816	465,410		2,982,366	(54,602)
Operating Transfers In/(Out)	0	-	(350,894)		(350,894)	-
Change in Net Position	826,140	1,690,816	114,516		2,631,472	(54,602)
Net Position						
Beginning of year	8,173,616	25,761,018	940,679		34,875,313	576,154
End of year	\$ 8,999,756	\$ 27,451,834	\$ 1,055,195	\$	\$ 37,506,785	\$ 521,552

See accompanying notes.

CITY OF SOLEDAD

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

	Business-Type Activities - Enterprise Funds				Total Business-Type Funds	Governmental Activities Internal Service Fund
	Water	Sewer	Garbage			
Operating Activities						
Receipts from customers and users	\$ 2,643,145	\$ 6,238,644	\$ 3,025,167	\$	\$ 11,906,956	\$ 651,769
Payments for contractual services and utilities	(1,074,639)	(918,436)	(2,257,030)		(4,250,105)	(692,383)
Payments to employees	(656,284)	(1,660,735)	(313,767)		(2,630,786)	-
Payment to suppliers	(670,792)	(385,022)	(46,293)		(1,102,107)	-
Net cash provided by (used in) operating activities	241,430	3,274,451	408,077		3,923,958	(40,614)
Non-capital Financing Activities						
Payments from developers	367,687	466	-		368,153	-
Proceeds from other government	-	-	7,406		7,406	-
Payments (to)/from other funds	-	(185,457)	(350,894)		(536,351)	-
Net cash provided by (used in) noncapital financing activities	367,687	(184,991)	(343,488)		(160,792)	-
Capital and Related Financing Activities						
Purchase of property, plant and equipment	(883,785)	(56,860)	-		(940,645)	-
Principal paid on long-term debt	(195,718)	(1,577,169)	-		(1,772,887)	-
Interest paid on long-term debt	(110,863)	(309,056)	-		(419,919)	-
Net cash provided by (used in) capital and related financing activities	(1,190,366)	(1,943,085)	-		(3,133,451)	-
Investing Activities						
Interest received	7,328	24,304	3,705		35,337	1,961
Net cash provided by investing activities	7,328	24,304	3,705		35,337	1,961
Net Increase (Decrease) in Cash	(573,921)	1,170,679	68,294		665,052	(38,653)
Cash						
Beginning of year	1,899,649	6,088,959	767,358		8,755,966	566,420
End of year	1,325,728	7,259,638	835,652		9,421,018	527,767
Cash Flows from Operating Activities						
Operating income (loss)	\$ 562,066	\$ 1,975,738	\$ 454,556	\$	2,992,360	\$ (56,373)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	270,768	1,143,368	10,977		1,425,113	5,940
(Increase) Decrease in Accounts Receivable	(775)	(34,380)	(29,495)		(64,650)	2,097
(Increase) Decrease in Deferred Charges	-	304,938	-		304,938	-
(Increase) Decrease in Deferred Outflow of Resources	(152,306)	(150,228)	(46,279)		(348,813)	-
Increase (Decrease) in Deposits	2,140	3,320	3,700		9,160	-
Increase (Decrease) in Compensated Absences	(8,655)	(1,137)	1,481		(8,311)	-
Increase (Decrease) in Net Pension Liability	(8,790)	(8,671)	(2,671)		(20,132)	-
Increase (Decrease) in Deferred Inflow of Resources	(19,907)	(19,636)	(6,049)		(45,592)	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(403,111)	61,139	21,857		(320,115)	7,722
Net Cash Provided (Used) by Operating Activities	241,430	3,274,451	408,077	\$	3,923,958	\$ (40,614)

See accompanying notes.

CITY OF SOLEDAD

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUNDS JUNE 30, 2018

	The Vineyards Assessment District	Diamond Ridge Assessment District	Total
ASSETS			
Cash and investments	\$ 41,662	\$ 620,136	\$ 661,798
Cash and investments with fiscal agent	128,705	172,652	301,357
Total assets	<u>170,367</u>	<u>792,788</u>	<u>963,155</u>
LIABILITIES			
Due to bondholders	<u>170,367</u>	<u>792,788</u>	<u>963,155</u>
Total liabilities	<u>\$ 170,367</u>	<u>\$ 792,788</u>	<u>\$ 963,155</u>

CITY OF SOLEDAD

STATEMENT OF FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2018

Assets

Cash and investments	
Held in City Treasury	\$ 1,008,950
Held with trustees	872,588
Interest receivable	17,206
Land held for redevelopment	180,000
Land	<u>4,273,968</u>
Total assets	<u>6,352,712</u>

Liabilities

Accounts payable and accrued liabilities	4,086
Interest payable	31,852
Long-term debt	
Due within one year	830,000
Due in more than one year	<u>13,260,000</u>
Total liabilities	<u>14,125,938</u>

Net Position

Held in trust for other governments	<u>\$ (7,773,226)</u>
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CITY OF SOLEDAD

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2018

Additions

Property taxes	\$ 1,394,226
Investment earnings and other	<u>111,448</u>
Total additions	<u>1,505,674</u>

Deductions

Administrative costs	154,660
Program expenses	22,104
Interest expense	<u>668,046</u>
Total deductions	<u>658,924</u>

Change In Net Position	846,750
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Net Position

Beginning of year	<u>(8,619,976)</u>
End of year	<u>\$ (7,773,226)</u>

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 1 – Summary of Significant Accounting Policies

The financial statements of the City of Soledad (the City) have been prepared in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

These financial statements present the government and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and data from these units are combined with data of the primary government. Each blended component unit has a June 30 fiscal year end. There are no discretely presented component units included in these financial statements. The following sections further describe the significant accounting policies of the City.

Reporting Entity

The City of Soledad is a municipal incorporation, operating as a general law city, and governed by a city council of five members, under the general laws of the State of California. The City operates under a Council-Manager form of government and provides the following services: general government, public safety, public works, facilities/transportation, culture and leisure, and public utilities.

Also included in this report is the Soledad Public Financing Authority (SPFA). The SPFA is governed by the City officers. Although it is legally separate from the City, the SPFA is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public facilities.

Basis of Presentation – Fund Accounting

Government-Wide Financial Statements - The Government-Wide Financial Statements (the Statement of Net Position and the Statement of Activities) report information of all of the nonfiduciary activities of the primary government and its component units. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely significantly on fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Net position are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

Governmental Fund Financial Statements - The Governmental Fund Financial Statements provide information about the City's funds, including fiduciary funds and the blended component units. Separate statements for each fund category - governmental, proprietary and fiduciary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are separately aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the City. It is used for all financial resources except those required legally, or by sound financial management to be accounted for in another fund. Generally, the General Fund is used to account for those traditional governmental services of the City, such as police and fire protection, planning and general administrative services.

Program Income Fund – This fund accounts for program income received and expenditures related to housing assistance loans for low income individuals.

Development Impact Fee Fund – This fund accounts for impact fees received and costs related to developments.

Measure X Fund – The fund is used to account for the City's Transportation Safety and Investment Plan activities.

The City reports the following additional fund types:

Internal Service Fund – The Internal Service Fund accounts for fleet management provided to other departments or agencies of the government, on a cost reimbursement basis.

Agency Funds – The Agency Funds account for assets held by the City as an agent for various local governments or other entities. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-Purpose Trust Funds – The Private-Purpose Trust Fund accounts for assets held by the City as trustee for the Successor Agency.

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The Government-Wide and Proprietary 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 at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental Funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating.

Financial Statement Amounts

Cash and Cash Equivalents – Cash and cash equivalents represent the City's cash bank accounts including, but not limited to, certificates of deposit, money market funds and cash management pools for reporting purposes in the Statement of Cash Flows. Additionally, investments with maturities of three months or less when purchased are included as cash equivalents in the Statement of Cash Flows.

The City maintains a cash and investment pool that is available for use by all funds. Interest earnings as a result of this pooling are distributed to the appropriate funds based on month end cash balances in each fund.

Investments of the pool include only those investments authorized by the California Government Code such as, United States Treasury securities, agencies guaranteed by the United States Government, registered state warrants, and other investments. Investments primarily consist of deposits in the State of California Local Agency Investment Fund and certificates of deposit. Investments are recorded at amortized cost or fair value. Fair value is based upon quoted market prices.

Accounts Receivable – Billed, but unpaid, services provided to individuals or non-governmental entities are recorded as accounts receivable. The Proprietary Funds include a year end accrual for services through the end of the fiscal year which have not yet been billed. Accounts receivable are reported net of an allowance for uncollectibles.

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

Monterey County is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions. Property taxes are levied in equal installments on November 1 and February 1. They become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year. Property taxes are accounted for in the General Fund. Property tax revenues are recognized when they become measurable and available to finance current liabilities. The City considers property taxes as available if they are collected within 60 days after year end. Property tax on the unsecured roll are due on the January 1 lien date and become delinquent if unpaid on August 31. However, unsecured property taxes are not susceptible to year end accrual.

The City is permitted by Article XIII A of the State of California Constitution (known as Proposition 13) to levy a maximum tax of \$1.00 per \$100 of full cash value.

Interfund Receivables/Payables – Items classified as interfund receivable/payable represent short-term lending/borrowing transactions between funds. This classification also includes the current portion of an advance to or from another fund.

Advances To/From Other Funds – This classification represents non-current portions of any long-term lending/borrowing transactions between funds. This amount will be equally offset by a reserve of fund balance which indicates that it does not represent available financial resources and therefore, is not available for appropriation. The current portion of any interfund long-term loan (advance) is included as an interfund receivable/payable.

Capital Assets – Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the Government-Wide Financial Statements to the extent the City's capitalization threshold is met.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the Government-Wide Financial Statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$10,000 for roadways and \$5,000 for all other assets, and an estimated useful life of at least three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities are included as part of the capitalized value of the assets constructed.

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

	Years
Buildings	40
Improvements	10 - 40
Equipment	5 - 10
Streets	30
Parks	40
Curbs and Gutters	40
Storm Drains	75
Signs and Streetlights	4 - 30

Compensated Absences – Vacation time may be accumulated up to two years entitlement. Cash compensation for accrued vacation is generally not payable until the employee terminates employment with the City.

In fiscal year 1986, the City adopted a policy whereby classified employees with accumulated vacation pay in excess of thirty days may elect to receive one cash payment for up to ten days in excess of the thirty days maximum accrual. Staff with less than thirty days accrued are not eligible to participate in the vacation buy back program.

Cash compensation for unused sick leave is payable to employees only upon termination of employment with the City and is limited to a maximum of 15 days payable upon resignation or dismissal or 30 days payable upon retirement. The calculation is done in accordance with Governmental Accounting Standards Board Statement No. 16.

Long-Term Obligations – In the Government-Wide Financial Statements and in the Proprietary Fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund Type Statement of Net Position. Debt principal payments of both government and business-type activities are reported as decreases in the balance of the liability on the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, however, debt principal payments of Governmental Funds are recognized as expenditures when paid. 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 financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

Pension – 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 Employee Retirement System (CalPERS) plan and additions to/deduction from the Plan's 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.

Unearned Revenue – Unearned revenue is that for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The City typically records unearned revenue related to uncollected outstanding performing loans and intergovernmental revenues received but not earned (qualifying expenditures not yet incurred).

Non-Current Governmental Assets/Liabilities – GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the Government-Wide Statement of Net Position.

Net Position – The government-wide and business-type activities financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- *Net Investment in Capital Assets* – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* – This category presents external restrictions on net position imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – This category represents net position of the City not restricted for any project or other purpose.

Fund Equity – In the fund financial statements, governmental fund balance is made up of the following components:

- *Nonspendable fund balance* typically includes inventories, prepaid items, and other items that must be maintained intact pursuant to legal or contractual requirements, such as endowments.
- *Restricted fund balance* category includes amounts that can be spent only for specific purposes imposed by creditors, grantors, contributors, or laws or regulations of other governments or through enabling legislations.
- *Committed fund balance* classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Council. The City Council has the authority to establish, modify, or rescind a fund balance commitment.

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

- Assigned fund balance are amounts designated by the City Council for specific purposes and do not meet the criteria to be classified as restricted or committed.
- Unassigned fund balance is the residual classification that includes all spendable amounts in the General Fund not contained in other classifications.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City's policy is to apply restricted first. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

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 revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Stewardship, Compliance and Accountability

California law authorizes the City to invest in obligations of the United States Treasury, agencies and instrumentalities, certificates of deposit or time deposits in banks and savings and loan associations which are insured by the Federal Deposit Insurance Corporation.

In accordance with applicable sections of the California Government Code and the Soledad Municipal Code, the City prepares and legally adopts an annual balanced budget on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund, specific Special Revenue Funds, and specific Capital Projects Funds. Budget plans are adopted for Proprietary Funds. A proposed budget is presented to the City Council during May of each year for review. The Council holds public hearings and may add to, subtract from, or change appropriations within the revenues and reserves estimated as available. Expenditures may not legally exceed budgeted appropriations at the fund level. Supplementary appropriations which alter the total expenditures of any fund, or expenditures in excess of total budgeted fund appropriations, must be approved by the City Council.

All annual appropriations lapse at fiscal year end to the extent they have not been expended or encumbered.

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 3 – Cash and Investments

The City pools all of its cash and investments except those funds required to be held by outside fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash is allocated to the various funds on average cash balances. Interest income from cash investments held with fiscal agents is credited directly to the related funds.

Cash and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments	\$ 21,011,026
Cash and Investments with Fiscal Agent	201,858
Fiduciary Funds:	
Cash and Investments	1,670,748
Cash and Investments with Fiscal Agent	1,173,945
Total Cash and Investments	<u>\$ 24,057,577</u>

Cash and investments as of June 30, 2018, consist of the following:

Cash on hand	\$ 880
Deposits with Financial Institutions	15,832,968
Local Agency Investment Fund	6,848,044
Held by Fiscal Agent:	
Money Market	1,375,685
Total Cash and Investments	<u>\$ 24,057,577</u>

Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that categorizes the inputs to valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2: Inputs to valuation methodology include inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 3 – Cash and Investments (Continued)

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

Following is a description of the valuation methodologies used for assets measured at fair value.

LAIF is valued based on the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (Level 2 input).

The City had the following recurring fair value measurements as of June 30, 2018:

	Level 1	Level 2	Level 3	June 30, 2018 Balance
Investments by fair value level:				
Equity Securities:				
LAIF	\$ -	\$ 6,848,044	\$ -	\$ 6,848,044
Total Equity Securities	-	6,848,044	-	6,848,044
Investments carried at amortized cost:				
Deposits and cash on hand				15,833,848
Money Market Mutual Funds				1,375,685
Total Investments amortized at cost				17,209,533
Total Investments				\$ 24,057,577

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 3 – Cash and Investments (Continued)

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. The City's investment policy does not contain any specific provisions intended to limit the City's exposure to interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	20%	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	2 years	20%	None
County Pooled Investment Funds	1 year	20%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 3 – Cash and Investments (Continued)

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
Certificates of Deposits	1 year	None	None
Repurchase Agreements	30 days	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Municipal Bonds	None	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City's investment in the investment pools are available for withdraw in one business day and have an overall maturity of less than one year.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's investments in the investment pools are unrated.

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total City investments (external investment pools and mutual funds are excluded from this disclosure requirement).

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 3 – Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: The City did not have any deposits with financial institutions in excess of federal depository insurance limits and held in uncollateralized accounts.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 4 – Notes Receivables

Notes receivable and deferred loans consisted of the following at June 30, 2018:

Orchard Gabilan Associates, L.P. – The HOME Investment Partnership Grant program approved \$1,600,000 of grant funds to be made available for local development of an affordable housing project. The City entered into an agreement with Orchard Gabilan Associates, L.P. to loan such funds for the construction of Gabilan Family Apartments. Payments of principal and interest on the HOME loan are to be deferred until the earlier of repayment in full of the Deferred Development Fee or January 1 of the year in which the 14th anniversary of the date of issuance of the final Certificate of Occupancy. If not paid sooner, the unpaid principal balance of this note, plus any unpaid interest thereon shall be due and payable in full fifty-five years from the date of the note. The note bears 4.46% interest and the face amount of the note at June 30, 2018 was \$1,600,000.

Benito FLC, L.P. – The HOME Investment Partnership Grant program approved \$3,760,000 of grant funds to be made available for local development of an affordable housing project. The City entered into an agreement with Benito FLC, L.P. to loan such funds for the construction of the Benito Street Farm Labor Center. Funds were provided in the form of a deferred payment loan. If not paid sooner, the unpaid principal balance of this note, plus any unpaid interest thereon shall be due and payable in full fifty-five years from the date of the note. The note bears 4% interest and the face amount of the note at June 30, 2018 was \$3,760,000.

Revolving Loan Program – Long-term loans receivable of \$2,237,096 represent monies loaned to homebuyers and small business owners in connection with a downpayment assistance, home rehabilitation and business assistance programs. The loans are secured by real property with repayment due upon the sale of real property or starting at the end of the 30 year deferral period. At the time of sale, the seller pays the loan balance in full plus interest, ranging from 0% to 4%. For the homebuyer loan program, starting at the end of the 30 year deferral period, the borrower is required to repay the loan, without interest, over the following 15 years.

Multi-Family Affordable Housing Rehabilitation Loans – Long-term notes receivable of \$600,000 represent monies loaned to two developers in connection with construction and rehabilitation of low-income multi-family housing projects. The loans are secured by real property with repayment due upon the sale of real property or starting at the end of the 55 year deferral period. At the time of sale of the project or at the end of the deferral period, the borrower shall pay the loan balance in full with interest at 4 percent per annum.

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 5 – Interfund Advances, Receivables, Payables and Transfers

In June 2017 the City formalized an advance agreement between the City's General Fund and Sewer Fund for the amount of \$185,457. The amount is payable by the Sewer Fund to the General Fund over a period of 10 years at an interest rate of .75 percent payable in annual payments of \$19,319.

Advances from and to balances as of June 30, 2018 are as follows:

	<u>Advance To</u>	<u>Advance From</u>
Sewer Fund	\$ 185,457	\$ -
General Fund	-	185,457
	<u>\$ 185,457</u>	<u>\$ 185,457</u>

Transfers Between Funds

In general, the City uses interfund transfers to (1) move revenues from the funds that collect them to the funds' that statute or budget requires to expend them, (2) use unrestricted revenues collected in the General Fund to help finance various programs and capital projects accounted for in other funds in accordance with budgetary authorization, and (3) move cash to debt service funds from the funds responsible for payment as debt service payments become due. In general, the effect of the interfund activity has been eliminated from the government-wide financial statements. The City had the following interfund transfers during the current fiscal year:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General Fund	\$ -	\$ (4,856)
Program Income	-	(93,339)
Proprietary Funds:		
Garbage	-	(350,894)
Nonmajor Governmental Funds:		
HOME Grant Fund	8,175	-
CDBG	93,338	-
Community Development	347,576	-
	<u>\$ 449,089</u>	<u>\$ (449,089)</u>

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 6 – Capital Assets – Capital asset activities for the year ended June 30, 2018, were as follows:

	Balance July 1, 2017	Additions	Reclassifications/ Retirements	Balance June 30, 2018
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 822,801	\$ -	\$ -	\$ 822,801
Construction in progress	-	2,385,524	-	2,385,524
Total capital assets, not being depreciated	822,801	2,385,524	-	3,208,325
Capital assets, being depreciated				
Buildings and improvements	4,964,148	-	-	4,964,148
Infrastructure	33,103,487	-	-	33,103,487
Machinery and equipment	4,608,093	707,397	-	5,315,490
Total capital assets, being depreciated	42,675,728	707,397	-	43,383,125
Less accumulated depreciation for				
Buildings and improvements	(1,881,480)	(128,535)	-	(2,010,015)
Infrastructure	(12,081,330)	(667,999)	-	(12,749,329)
Machinery and equipment	(4,342,550)	(147,359)	-	(4,489,909)
Total accumulated depreciation	(18,305,360)	(943,893)	-	(19,249,253)
Total capital assets, being depreciated, net	24,851,183	(236,496)	-	24,133,872
Governmental activities capital assets, net	\$ 25,673,984	\$ 2,149,028	\$ -	\$ 27,342,197
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 2,509,996	\$ -	\$ -	\$ 2,509,996
Construction in progress	1,000,785	746,576	-	1,747,361
Total capital assets, not being depreciated	3,510,781	746,576	-	4,257,357
Capital assets, being depreciated				
Buildings and improvements	55,260,442	1,021	-	55,261,463
Infrastructure	17,391,741	159,964	-	17,551,705
Machinery and equipment	1,656,724	33,096	-	1,689,820
Total capital assets, being depreciated	74,308,907	194,081	-	74,502,988
Less: accumulated depreciation	(17,340,446)	(1,425,113)	-	(18,765,559)
Total capital assets, being depreciated, net	56,968,461	(1,231,032)	-	55,737,429
Business-type activities capital assets, net	\$ 60,479,242	\$ (484,456)	\$ -	\$ 59,994,786

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 6 – Capital Assets (Continued)

Depreciation expense was charged to the following functions in the Statement of Activities:

Governmental Functions:

General Government	\$	53,434
Public Works		701,475
Public Safety		121,620
Community Services		61,424
Internal Service Fund		5,940
	\$	<u>943,893</u>

Business-Type Functions:

Water	\$	270,768
Sewer		1,143,368
Garbage		10,977
	\$	<u>1,425,113</u>

Note 7 – Long-Term Debt

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Current Portion
<u>Governmental Activity Long Term Debt</u>					
Lease Payable					
2014 Police Cars Capital Lease	\$ 37,692	\$ -	\$ (37,692)	\$ -	\$ -
2015 Police Cars Capital Lease	41,141	-	(20,013)	21,128	21,128
Total Governmental Activity Long Term Debt	<u>\$ 78,833</u>	<u>\$ -</u>	<u>\$ (57,705)</u>	<u>\$ 21,128</u>	<u>\$ 21,128</u>
<u>Business-Type Activity Long Term Debt</u>					
Bonds Payable					
1980 Sewer Revenue Bond	\$ 120,000	\$ -	\$ (34,731)	\$ 85,269	\$ 40,000
1981 Water Revenue Bond	165,000	-	(40,000)	125,000	40,000
Loans Payable					
Water System Improvement Loan	1,649,000	-	(67,000)	1,582,000	70,000
Sewer Plant Loan	35,476,077	-	(1,542,439)	33,933,638	1,542,438
Leases Payable					
Energy Retrofit Capital Lease	671,172	-	(88,717)	582,455	92,656
Total Business-Type Activity Debt	<u>\$ 38,081,249</u>	<u>\$ -</u>	<u>\$ (1,772,887)</u>	<u>\$ 36,308,362</u>	<u>\$ 1,785,094</u>
<u>Compensated Absences</u>					
Government Activities	\$ 438,119	\$ 41,313	\$ -	\$ 479,432	
Business-Type Activities	<u>\$ 150,407</u>	<u>\$ -</u>	<u>\$ (8,311)</u>	<u>\$ 142,096</u>	

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 7 – Long-Term Debt (Continued)

2014 Police Cars Capital Lease – On August 8, 2014, the City entered into a lease agreement for 3 police vehicles. The lease bears an interest rate of 5.45% and terminates on May 8, 2018.

2015 Police Cars Capital Lease – On August 14, 2015, the City entered into another lease agreement for 2 police vehicles. The lease bears an interest rate of 5.45% and terminates on May 14, 2019.

1980 Sewer Revenue Bond – The 1980 Sewer Revenue Bonds were issued to provide funds for improvement of the municipal sewer system comprising a new wastewater treatment plant and outfall sewer line. The City issued \$750,000 of bonds at an interest rate of 5%. The bonds mature in amounts from \$5,000 to \$40,000 annually, payable on July 1 of each year through 2020, with interest payable semi-annually. The bonds are secured by and payable solely from the net revenues from sewer service charges and are not otherwise secured by the taxing power, property, or credit of the City.

1981 Water Revenue Bond – The 1981 Water Revenue Bonds were issued to provide funds for the improvement of the municipal water system, comprised of new water mains, transmission lines, a pump station, and a storage tank. The city issued \$800,000 of bonds at an interest rate of 5%. The bonds mature in amounts from \$5,000 to \$45,000 annually, payable December 1, of each year through 2021, with interest payable semi-annually. The bonds are secured by and payable solely from the net revenues from water service charges and are not otherwise secured by the taxing power, property, or credit of the City. Unused proceeds of the sale of the bonds are restricted for payment of costs of the improvements specified above.

Note Payable – On May 1, 1994, the City borrowed \$2,593,000 for the purpose of paying for water system improvements. Principal amounts from \$25,000 to \$135,000 are due on May 1 of each year through 2034. The notes carry an interest rate of 4.5% with interest payable semi-annually.

Sewer Plant Loan – In connection with the City's construction of a new sewer plant, a loan for \$46,451,084 was obtained from the State of California. Although, the loan is non interest bearing, it did require a 16.667% loan fee resulting in an effective interest rate of 1.8%. The loan was to be repaid in twenty equal annual installments of \$2,322,554 beginning January 1, 2011. However, in October 2014, the City renegotiated the payment terms from 20 years to 30 years, resulting in annual payments of \$1,542,438 for the remaining 26 years. Unamortized loan charges of \$3,483,276 remains to be amortized over the remaining life of the loan.

Energy Retrofit Capital Lease – On August 13, 2008, the City entered into a Lease with Option to Purchase agreement for an energy retrofit upgrade at the water plant. The lease bears an interest rate of 6.786% and terminates on February 29, 2024. The outstanding balance of the lease as of June 30, 2018 was \$582,455.

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 7 – Long-Term Debt (Continued)

Compensated Absences – City employees accumulate earned by unused vacation and sick pay benefits which can be converted to cash at termination of employment. Since no means exist to reasonably estimate the amounts that might be liquidated with expendable currently available financial resources, if any, they are reported as long-term debt on the Statement of Net Position. No expenditure is reported for these amounts in the governmental funds statements. However, in the Statement of Activities the expense is allocated to each function based on usage. The non-current portion of these vested benefits, payable in accordance with various collective bargaining agreements, at June 30, 2018, totaled \$479,432 for governmental activities and \$142,096 for business-type activities.

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2018, were as follows:

Years ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2019	\$ 21,128	\$ 724	\$ 1,785,094	\$ 410,467
2020	-	-	1,797,475	386,768
2021	-	-	1,759,500	362,626
2022	-	-	1,731,984	339,783
2023	-	-	1,735,669	318,479
2024-2028	-	-	8,263,383	1,305,641
2029-2033	-	-	8,303,191	846,574
2034-2038	-	-	7,847,191	381,920
2039-2040	-	-	3,084,875	46,154
	<u>\$ 21,128</u>	<u>\$ 724</u>	<u>\$36,308,362</u>	<u>\$ 4,398,412</u>

Assessment District Debt – The City acts as an agent for bond offerings within two assessment districts in the City. The City is not obligated in the event of default. Accordingly, the debt is not reflected in the City's financial information. The amount of debt outstanding as of June 30, 2018, not reflected in these statements is \$2,555,000 for The Vineyards and \$3,125,000 for Diamond Ridge.

Note 8 – Deferred Outflows and Deferred 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 element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports the following deferred outflow of resources related to net pension liability in the Statement of Net Position:

Fiscal year 2017-18 pension contributions subsequent to measurement date	\$ 566,099
Change in assumptions	795,117
Adjustment due to differences in proportions	1,012,607
Net differences between projected and actual earnings on pension plan investments	175,697
Difference between expected and actual experience	37,351
Difference between projected and actual contributions	88,268
Total deferred outflows of resources	<u>\$ 2,675,139</u>

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 8 – Deferred Outflows and Deferred Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City reports the following deferred inflows related to net pension in the Statement of Net Position:

Changes in assumptions	\$ 60,868
Difference between projected and actual contributions	4,624
Adjustment due to differences in proportions	23,464
Difference between expected and actual experience	42,269
Total deferred inflows of resources	<u>\$ 131,225</u>

The City also has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting as deferred inflows of resources. Accordingly, that item, unavailable revenues, is reported only in the governmental funds balance sheet. The City reports in the Program Income and Low-Moderate Housing, \$6,350,915 and \$1,846,181, respectively, as unavailable revenues, related to long-term notes and loans receivables.

Note 9 – Risk Management

The City provides for workers' compensation and liability through a self-funded joint powers agency, Monterey Bay Area Self Insurance Authorities. Joint Powers Agreement (JPA) accounts are not separately maintained for each participant.

Description of Self-Insurance Pool Pursuant to Joint Powers Agreement

The City is a member of the Monterey Bay Area Self Insurance Authority (MBASIA). MBASIA is composed of 10 California public entities and is organized under a joint powers agreement pursuant to California Government Code 6500 et seq. The purpose of MBASIA is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance for property and other coverage.

General Liability: The City has a deductible of \$10,000 for each liability claim. Claims above \$10,000 up to \$1,000,000 are paid by MBASIA. Claims above \$1,000,000 up to \$29,000,000 are covered by insurance purchased by MBASIA.

Workers' Compensation: The City does not retain deductible for workers' compensation claims. Annual premiums for coverage up to statutory levels are paid to MBASIA based on a Board approved Budget methodology. A third party claims administrator is contracted by MBASIA to manage claims activity.

Adequacy of Protection

During the past three fiscal (claims) years none of the above programs of protection have had settlements or judgments that exceeded insured coverage. There have been no significant reductions in insured liability coverage from coverage in the prior year. Audited financial statements for MBASIA can be obtained from their management at 100 Pine Street, 11th Floor, San Francisco, CA 94111.

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 9 – Risk Management (continued)

Contingent Liabilities

The City participates in a number of Federal and State assisted grant programs which are subject to financial and compliance audits. Audits for these programs and the respective findings are to be determined at a future date, and the City expects the amount, if any, of the expenditures which may be disallowed by the granting agency to be immaterial.

Note 10 – City Employees' Retirement Plan (Defined Benefit Pension Plan)

Plan Description – The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office - 400 P Street - Sacramento, CA 95814.

Funding Policy – The City pays 7-9% of annual covered salary for active plan members in the City's defined pension plan. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2018 was 7.200%, 6.533%, 16.842%, and 11.990% for the Miscellaneous, PEPRSA Miscellaneous, Safety, and PEPRSA Safety, respectively. The contribution requirements of plan members is established by State statute and the employer contribution is established and may be amended by PERS.

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 10 – City Employees’ Retirement Plan (Defined Benefit Pension Plan) (Continued)

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

	Miscellaneous	Safety
	Prior to	Prior to
Hire Date	January 1, 2013	January 1, 2013
Benefit Formula	2.0% at 60; maximum 2% COLA	3.0% at 55; maximum 2% COLA
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life
Retirement Age	60	55
Monthly Benefits, as a % of Eligible Compensation	2.00%	3.00%
Required Employee Contribution Rates	7.00%	9.00%
Required Employer Contribution Rates	7.200%	16.842%

	PEPRA Miscellaneous	PEPRA Safety
	On or After	On or After
Hire Date	January 1, 2013	January 1, 2013
Benefit Formula	2.0% at 62; maximum 2% COLA	2.7% at 57; maximum 2% COLA
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life
Retirement Age	62	57
Monthly Benefits, as a % of Eligible Compensation	2.00%	2.70%
Required Employee Contribution Rates	6.25%	11.50%
Required Employer Contribution Rates	6.533%	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 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.

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 10 – City Employees' Retirement Plan (Defined Benefit Pension Plan) (Continued)

For the year ended June 30, 2018, the contributions recognized as part of the pension expense is as follows:

Contributions – employer	\$ 566,099
Contributions – employee	\$ 317,583

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/(Asset)</u>
Miscellaneous	\$ 1,303,916
Safety	\$ 3,252,288

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 Plan 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, 2016, and 2017 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion – June 30, 2016	0.03048%	0.05453%
Proportion – June 30, 2017	<u>0.03048%</u>	<u>0.05443%</u>
Change – Increase/(Decrease)	0.00000%	(0.00010%)

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 10 – City Employees’ Retirement Plan (Defined Benefit Pension Plan) (Continued)

For the year ended June 30, 2018, the City recognized pension expense of \$260,597. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 566,099	\$ -
Change in employer's proportion	1,012,607	(23,464)
Difference between employer's contributions and proportionate share of contributions	88,268	(4,624)
Changes in assumptions	795,117	(60,868)
Differences between projected and actual investments earnings	175,697	-
Difference between expected and actual experience	37,351	(42,269)
Total	<u>\$ 2,675,139</u>	<u>\$ (131,225)</u>

The \$566,099 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2019	\$ 1,153,430
2020	576,757
2021	350,988
2022	(103,364)
Thereafter	-

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 10 – City Employees' Retirement Plan (Defined Benefit Pension Plan) (Continued)

Actuarial Assumptions – The total pension liability in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership ¹ Date for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter
Investment Rate of Return	7.50%
Mortality	Derived using CalPERS' Membership Data for all Funds

¹The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available online.

All other actuarial assumptions used in the June 30, 2017 valuation was based on the results of an actuarial experience study for fiscal years 1997-2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at CalPERS' website.

Change of assumptions – In fiscal year 2016-17, the financial reporting discount rate for the PERF C was lowered from 7.65 percent to 7.15 percent. Deferred outflows of resources for changes of assumptions presented in the Schedule of Collective Pension Amounts represent the unamortized portion of this assumption change.

CITY OF SOLEDAD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Note 10 – City Employees’ Retirement Plan (Defined Benefit Pension Plan) (Continued)

Discount rate – The discount rate used to measure the total pension liability was 7.15 percent and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for public agency plans (including PERF C), the amortization and smoothing periods recently adopted by the Board in 2013 were used. For the Plan, the crossover test was performed for a miscellaneous agent rate plan and a safety agent rate plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF C. The crossover test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained on CalPERS’ website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected rate of 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 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 equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The long-term expected real rates of return by asset class can be found in CalPERS’ Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017.

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 10 – City Employees’ Retirement Plan (Defined Benefit Pension Plan) (Continued)

The table below reflects long-term expected real rates of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10 ¹	Real Return Years 11+ ²
Global Equity	47%	4.90%	5.38%
Fixed Income	19%	0.80%	2.27%
Inflation Assets	6%	0.01%	1.39%
Private Equity	12%	6.60%	6.63%
Real Estate	11%	2.80%	5.21%
Infrastructure and Forestland	3%	3.90%	5.36%
Liquidity	2%	-0.40%	-0.90%
Total	100%		

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

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, calculating using the discount rate of 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 (6.15%) or 1-percentage point higher (8.15%) than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Miscellaneous	\$ 2,249,896	\$ 1,303,916	\$ 520,439
Safety	\$ 4,930,952	\$ 3,252,288	\$ 1,880,065

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

Payable to the Pension Plan

At June 30, 2018, the City has no outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Note 11 – Subsequent Events

The City evaluated subsequent events for recognition and disclosure through December 15, 2018, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2018 that required recognition or disclosure in such financial statements.

Note 12 – Maintenance of Effort

The Measure X Master Programs Funding Agreement between the City of Soledad and the Transportation Agency for Monterey County required that the City must expend each fiscal year from its general fund for street and highway purposes an amount not less than the annual average of its expenditures from its general fund during the preceding three fiscal years, as reported to the Controller pursuant to Streets and Highways Code section 2151 (“Maintenance of Effort”). For purposes of this calculation, an average of the prior three (3) years spent for local transportation purposes will be used. Exemptions from this calculation include one-time capital expenses, and expiration of any voter-approved fund sources that were used for local transportation purposes. In the case of expired voter-approved fund sources, the three-year average baseline would be recalculated in the next annual verification period without said expired fund sources. Revenues from a fee imposed or contribution first received by a local jurisdiction on or after January 1, 2016 which are used on or after July 1, 2016, by that local jurisdiction for maintenance or improvement purposes on its streets and highways shall be considered as general fund expenditures for the purposes of compliance with the provisions of this Section in the fiscal year in which such expenditures are made. The following eligible expenditures were made:

For the fiscal year ended June 30, 2015:	\$-
For the fiscal year ended June 30, 2016:	\$-
For the fiscal year ended June 30, 2017:	\$-
Three year average of above expenditures:	\$-

Total expenditures from the general fund for street and highway purposes for the fiscal year ended June 30, 2018 was \$0. The City was in compliance with the Maintenance of Effort requirement of the Measure X Master Programs Funding Agreement between the City of Soledad and the Transportation Agency for Monterey County.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOLEDAD

BUDGETARY COMPARISON SCHEDULE GENERAL FUND YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Revenue				
Taxes	\$ 6,359,000	\$ 6,359,000	\$ 7,040,981	\$ 681,981
Licenses and permits	641,862	641,862	541,393	(100,469)
Intergovernmental	463,084	463,084	538,356	75,272
Charges for services	5,000	5,000	6,789	1,789
Fines and forfeitures	37,000	37,000	768	(36,232)
Interest	65,000	65,000	8,983	(56,017)
Rents	4,000	4,000	70,660	66,660
Other	92,304	92,304	84,437	(7,867)
Total revenue	<u>7,667,250</u>	<u>7,667,250</u>	<u>8,292,367</u>	<u>625,117</u>
Expenditures				
Current				
General government	1,300,779	1,300,779	1,029,209	271,570
Public works	320,926	320,926	379,636	(58,710)
Community development	255,571	255,571	298,525	(42,954)
Public safety	5,499,209	5,499,209	5,122,540	376,669
Community services	849,152	849,152	628,327	220,825
Capital outlay	106,500	106,500	23,368	83,132
Debt Service				
Principal	-	-	20,013	(20,013)
Interest and fiscal charges	-	-	1,987	(1,987)
Total expenditures	<u>8,332,137</u>	<u>8,332,137</u>	<u>7,503,605</u>	<u>828,532</u>
Revenue over (under) expenditures	(664,887)	(664,887)	788,762	1,453,649
Other Financing Sources				
Transfers in (out) - net	-	-	(4,856)	(4,856)
Net Change in Fund Balance	<u>\$ (664,887)</u>	<u>\$ (664,887)</u>	783,906	<u>\$ 1,448,793</u>
Fund Balance				
Beginning of year			1,574,767	
End of year			<u>\$ 2,358,673</u>	

CITY OF SOLEDAD

BUDGETARY COMPARISON SCHEDULE PROGRAM INCOME FUND YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive/ (Negative)
Revenue				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Interest	-	-	3,661	3,661
Loan repayments	12,000	12,000	9,062	(2,938)
Total revenue	12,000	12,000	12,723	723
Expenditures				
Current				
Community development	2,500	2,500	-	2,500
Total expenditures	2,500	2,500	-	2,500
Revenue over (under)expenditures	9,500	9,500	12,723	3,223
Other Financing Sources				
Transfers in (out) - net	-	-	(93,339)	(93,339)
Net Change in Fund Balance	<u>\$ 9,500</u>	<u>\$ 9,500</u>	(80,616)	<u>\$ (90,116)</u>
Fund Balance				
Beginning of year			240,561	
End of year			<u>\$ 159,945</u>	

CITY OF SOLEDAD

BUDGETARY COMPARISON SCHEDULE DEVELOPMENT IMPACT FEE FUND YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive/ (Negative)
	Original	Final	Amounts	
Revenue				
Licenses, permits and impact fees	\$ 2,361,000	\$ 2,361,000	\$ 1,055,852	\$ (1,305,148)
Interest	6,300	6,300	16,136	9,836
Total revenue	<u>2,367,300</u>	<u>2,367,300</u>	<u>1,071,988</u>	<u>(1,295,312)</u>
Expenditures				
Current				
Public works	-	-	23,722	(23,722)
Community development	5,129,880	5,129,880	1,185,765	3,944,115
Total expenditures	<u>5,129,880</u>	<u>5,129,880</u>	<u>1,209,487</u>	<u>3,920,393</u>
Revenue over (under)expenditures	(2,762,580)	(2,762,580)	(137,499)	2,625,081
Other Financing Sources				
Transfers in (out) - net	<u>(500,000)</u>	<u>(500,000)</u>	<u>-</u>	<u>500,000</u>
Net Change in Fund Balance	<u>\$ (3,262,580)</u>	<u>\$ (3,262,580)</u>	<u>(137,499)</u>	<u>\$ 3,125,081</u>
Fund Balance				
Beginning of year			4,672,913	
End of year			<u>\$ 4,535,414</u>	

CITY OF SOLEDAD

BUDGETARY COMPARISON SCHEDULE

MEASURE X FUND

YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Revenue				
Taxes and assessments	\$ 420,000	\$ 420,000	\$ 569,545	\$ 149,545
Interest	-	-	849	849
Total revenue	<u>420,000</u>	<u>420,000</u>	<u>570,394</u>	<u>150,394</u>
Expenditures				
Current				
Public works	-	-	53,452	(53,452)
Capital outlay	-	-	18,823	(18,823)
Total expenditures	<u>-</u>	<u>-</u>	<u>72,275</u>	<u>(72,275)</u>
Revenue over (under)expenditures	420,000	420,000	498,119	78,119
Other Financing Sources				
Transfers in (out) - net	-	-	-	-
Net Change in Fund Balance	<u>\$ 420,000</u>	<u>\$ 420,000</u>	<u>498,119</u>	<u>\$ 78,119</u>
Fund Balance				
Beginning of year			85,771	
End of year			<u>\$ 583,890</u>	

CITY OF SOLEDAD

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY LAST 10 YEARS* YEAR ENDED JUNE 30, 2018

	Miscellaneous				Safety			
	2015	2016	2017	2018	2015	2016	2017	2018
Proportion of the net pension liability	0.03413%	0.02608%	0.03048%	0.03048%	0.06095%	0.05496%	0.05453%	0.05443%
Proportionate share of the net pension liability	\$ 843,493	\$ 706,131	\$1,058,944	\$ 1,303,916	\$ 2,286,046	\$ 2,264,409	\$ 2,824,201	\$ 3,252,288
Covered - employee payroll	\$ 2,268,357	\$2,218,866	\$2,498,215	\$ 2,514,038	\$ 1,379,249	\$ 1,243,281	\$ 1,330,635	\$ 1,446,149
Proportionate share of the net pension liability as a percentage of covered-employee payroll	37.19%	31.82%	42.39%	51.87%	165.75%	182.13%	212.24%	224.89%
Plan's fiduciary net position	\$ 3,997,688	\$4,764,400	\$4,887,163	\$ 5,573,589	\$ 7,353,347	\$ 7,303,514	\$ 7,469,874	\$ 8,745,272
Plan's fiduciary net position as a percentage of the Total Pension Liability	82.580%	86.914%	82.191%	81.041%	76.28%	76.34%	72.565%	72.892%

*Fiscal year 2014-15 was the first year of implementation, therefore only four years are shown.

Changes of Assumptions: In fiscal year 2016-17, the financial reporting discount rate for the PERF C was lowered from 7.65 percent to 7.15 percent. Deferred outflows of resources for changes of assumptions presented in the Schedule of Collective Pension Amounts represent the unamortized portion of this assumption change.

CITY OF SOLEDAD

SCHEDULE OF CONTRIBUTIONS

LAST 10 YEARS*

YEAR ENDED JUNE 30, 2018

	Miscellaneous			Safety		
	2015	2016	2017	2015	2016	2017
Contractually required contribution (actuarially determined)	\$ 181,913	\$ 185,905	\$ 190,660	\$ 245,592	\$ 273,761	\$ 360,960
Contributions in relation to the actuarially determined contributions	(181,913)	(185,905)	(190,660)	(245,592)	(273,761)	(360,960)
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 2,268,357	\$ 2,218,866	\$ 2,498,215	\$ 1,379,249	\$ 1,243,281	\$ 1,330,635
Contributions as a percentage of covered-employee payroll	8.02%	8.38%	7.63%	17.81%	22.02%	27.13%

2018

*Fiscal year 2014-15 was the first year of implementation, therefore only four years are shown.

Notes to Schedule of Contributions

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method Entry Age Normal

Actuarial Assumptions:

Discount Rate

7.65%

Inflation

2.75%

Salary Increases

Varies by Entry Age and Service

Investment Rate of Return

7.50%, net of pension plan investment and administrative expenses, including inflation

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 Retirement 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

Payroll Growth

3.00%

SUPPLEMENTAL ONLY INFORMATION

CITY OF SOLEDAD

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	Special Revenue Funds					Capital Projects Fund			Total
	Maintenance Districts	CDBG	Public Safety	Gas Tax	SBI	Low-Moderate Housing Asset	Vehicle Abatement	Community Development	
ASSETS									
Cash and investments	\$ 1,073,066	\$ -	\$ 321,829	\$ 44,148	\$ 97,485	\$ 1,150,231	\$ 3,046	\$ 587	\$ 2,690,392
Due from other governments	-	-	21,656	165,460	55,244	-	-	-	242,360
Notes receivable	-	-	-	-	-	1,846,181	-	-	1,846,181
Total assets	\$ 1,073,066	\$ -	\$ 343,485	\$ 209,608	\$ 152,729	\$ 2,996,412	\$ 3,046	\$ 587	\$ 4,778,933
LIABILITIES									
Accounts payable and accrued expense	\$ 15,993	\$ -	\$ 8,352	\$ 201,273	\$ -	\$ 7,500	\$ -	\$ 587	\$ 233,705
Total liabilities	15,993	-	8,352	201,273	-	7,500	-	587	233,705
DEFERRED INFLOWS OF RESOURCES									
Unavailable revenues	-	-	-	-	-	1,846,181	-	-	1,846,181
Total deferred inflows of resources	-	-	-	-	-	1,846,181	-	-	1,846,181
FUND BALANCE									
Restricted									
Circulation improvements	-	-	-	8,335	152,729	-	-	-	161,064
Public safety programs	-	-	335,133	-	-	-	3,046	-	338,179
Lighting, landscape & park maintenance	1,057,073	-	-	-	-	-	-	-	1,057,073
Low-income housing activities	-	-	-	-	-	1,142,731	-	-	1,142,731
Total fund balance	1,057,073	-	335,133	8,335	152,729	1,142,731	3,046	-	2,699,047
Total liabilities and fund balance	\$ 1,073,066	\$ -	\$ 343,485	\$ 209,608	\$ 152,729	\$ 2,996,412	\$ 3,046	\$ 587	\$ 4,778,933

CITY OF SOLEDAD

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	Special Revenue Funds						Capital Projects Fund			Total
	Maintenance Districts	CDBG	Public Safety	Gas Tax	SB1	Low-Moderate Housing Asset	Vehicle Abatement	Community Development	Non-major Governmental Funds	
Revenue										
Taxes and assessments	\$ 286,856	\$ -	\$ 147,009	\$ -	\$ 152,729	\$ -	\$ -	\$ -	\$ -	\$ 586,594
Intergovernmental	-	-	10,181	528,802	-	-	9,275	-	-	548,258
Interest	3,449	-	851	165,535	-	6,077	-	636	-	176,548
Loan repayments	-	-	-	-	-	56,097	-	-	-	56,097
Other	-	-	2,756	1,460	-	-	-	-	-	4,216
Total revenue	290,305	-	160,797	695,797	152,729	62,174	9,275	636	-	1,371,713
Expenditures										
Public works	241,493	-	-	637,078	-	-	-	-	-	878,571
Community development	-	3,182	-	-	-	7,500	-	6,932	-	17,614
Public Safety	-	-	12,571	-	-	-	6,229	-	-	18,800
Capital outlay	10,150	-	-	204,416	-	-	-	1,915,409	-	2,129,975
Debt service	-	-	-	-	-	-	-	-	-	-
Principal	-	-	37,692	-	-	-	-	-	-	37,692
Interest	-	-	1,292	-	-	-	-	-	-	1,292
Total expenditures	251,643	3,182	51,555	841,494	-	7,500	6,229	1,922,341	-	3,083,944
Revenue over (under) expenditures	38,662	(3,182)	109,242	(145,697)	152,729	54,674	3,046	(1,921,705)	-	(1,712,231)
Other financing sources/(uses)										
Operating transfers in/(out) - net	-	93,338	8,175	-	-	-	-	347,576	-	449,089
	-	93,338	8,175	-	-	-	-	347,576	-	449,089
Change in Fund Balance	38,662	90,156	117,417	(145,697)	152,729	54,674	3,046	(1,574,129)	-	(1,263,142)
Fund Balance										
Beginning of year	1,018,411	(90,156)	217,716	154,032	-	1,088,057	-	1,574,129	-	3,962,189
End of year	\$ 1,057,073	\$ -	\$ 335,133	\$ 8,335	\$ 152,729	\$ 1,142,731	\$ 3,046	\$ -	\$ -	\$ 2,699,047

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

To the Honorable Mayor and City Council
City of Soledad, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Soledad, California, (the "City") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated December 15, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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.

A handwritten signature in black ink, appearing to be "Newell" followed by a stylized flourish.

December 15, 2018

**INDEPENDENT AUDITORS' COMPLIANCE REPORT WITH
TAMC ORDINANCE NO. 2016-01
TRANSPORTATION SAFETY AND INVESTMENT PLAN**

To the Honorable Mayor and City Council
City of Soledad
Soledad, California

We have audited the financial statements of the City of Soledad's Transportation Safety and Investment Plan Account Fund's (the City) compliance with the types of compliance requirements described in the Transportation Agency for Monterey County's (TAMC) Ordinance No. 2016-01 and in the Measure X Master Programs Funding Agreement between TAMC and the City of Soledad applicable for the fiscal year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the Transportation Safety and Investment Plan Account Fund.

Auditor's Responsibility

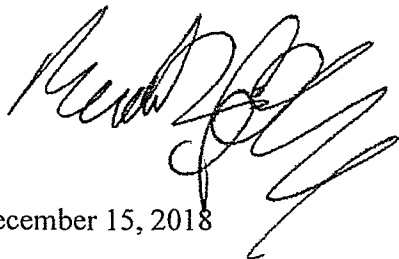
Our responsibility is to express an opinion on the City of Soledad's compliance based on our audit in accordance with the compliance requirements described in the Transportation Agency for Monterey County's (TAMC) Ordinance No. 2016-01 and in the Measure X Master Programs Funding Agreement (the Agreement) between TAMC and the City of Soledad. The Measure X Master Programs Funding Agreement requires that the independent auditor shall perform at least the following tasks: (1) determine whether the recipient expended all Measure X funds received in compliance with Measure X, the Measure X Investment Plan, and the Policies & Project Descriptions, as they may be adopted or amended by TAMC from time to time, and the Agreement, (2) determine whether the Measure X revenues received and expended were accounted for and tracked in its own separate budget and fund titled "Transportation Safety & Investment Plan Account" and were not be comingled with any other funds and that the accounting system provides adequate internal controls and audit trails to facilitate an annual compliance audit for each fund type and the respective usage and application of said funds, and (3) determine whether the City of Soledad met the Maintenance of Effort requirements imposed by Measure X and State law. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, 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 noncompliance with the compliance requirements referred to above that could have a direct and material effect on the state laws and regulations applicable to the City of Soledad occurred. An audit includes examining, on a test basis, evidence about the City of Soledad's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance. However, our audit does not provide a legal determination of the City of Soledad's compliance.

Opinion on Compliance with the Transportation Safety and Investment Plan Account Fund

In our opinion, the funds allocated to and received by the City of Soledad Transportation Safety and Investment Plan Account Fund, complied, in all material respects, with the compliance requirements referred to above that are applicable in accordance to the compliance requirements described in the Transportation Agency for Monterey County's (TAMC) Ordinance No. 2016-01 and in the Measure X Master Programs Funding Agreement between TAMC and the City of Soledad for the fiscal year ended June 30, 2018.

This report is intended solely for the information and use of City Council, management of the Transportation Agency of Monterey County and for filing with the appropriate regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to be "Mendel", written over the date.

December 15, 2018

ATTACHMENT 2

FIVE YEAR CAPITAL IMPROVEMENT PROGRAM

CITY OF SOLEDAD
MEASURE X FIVE-YEAR CAPITAL IMPROVEMENT PROGRAM
FOR YEARS 2018 – 2024

YEAR 1

Project	Description & Phase	Total Cost	Measure X	PCI
Pinnacles Parkway	Planning/Design	\$250,000	\$419,833	N/A
Totals:		\$250,000	\$419,833	

YEAR 2

Project	Description & Phase	Total Cost	Measure X	PCI
Pinnacles Parkway	Environmental/Design	\$650,000	\$419,833	N/A
Totals:		\$650,000	\$419,833	

YEAR 3

Project	Description & Phase	Total Cost	Measure X	PCI
Pinnacles Parkway	Design/ROW Acquisition	\$1M	\$419,833	N/A
Totals:		\$1M	\$419,833	

YEAR 4

Project	Description & Phase	Total Cost	Measure X	PCI
Pinnacles Parkway	Design/ROW Acquisition	\$1M	\$419,833	N/A
Totals:		\$1M	\$419,833	

YEAR 5

Project	Description & Phase	Total Cost	Measure X	PCI
Pinnacles Parkway	Construction	\$15M	\$419,833	100
Totals:		\$15M	\$419,833	

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



Date: January 11, 2019

To: Todd Muck
Deputy Executive Director
Transportation Agency for Monterey County
55-B Plaza Circle
Salinas, CA 93901

Re: Pavement Management Program Annual Report Letter

The City of Soledad confirms that it has a Pavement Management Program that conforms to the criteria established by the Transportation Agency for Monterey County and included in the Measure X Agreement with the Local Agency. An approved Pavement Management Program must be in place to be eligible for Measure X funds.

The Pavement Management Program utilizes a software system developed by:

Metropolitan Transportation Commission StreetSaver, Online Latest Edition

The system was updated by Yamabe & Horn Engineering, Inc. and contains at a minimum the following elements:

- Inventory of all existing pavements under the local agency jurisdiction:

Centerline miles:	35.7
Total lane miles (or equivalent units):	71.4
The last update of the inventory was completed on:	04/26/2018

- Average Pavement Condition Index (PCI) 79
- Identification of sections of roadways brought up to acceptable PCI levels for the current year:

None	PCI = N/A
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- Amount spent to rehabilitate or replace deficient sections for the current year:
\$72,275 (Planning/Design)

You may direct any questions regarding the system to Ryan Rabbon, PE of Yamabe & Horn Engineering, Inc. at 559.244.3123 ext-116 or via email at rrabbon@yhmail.com.

Sincerely,

Donald Wilcox, PE
Public Works Director

ATTACHMENT 4

MAINTENANCE OF EFFORT REPORT

**CITY OF SOLEDAD
THREE-YEAR MAINTENANCE OF EFFORT REPORT
FOR YEARS 2015 – 2018**

Year 1

Fund Source	Amount	Year
General Fund	\$0	FY 15/16
Total Expended on Transportation	\$0	

Year 2

Fund Source	Amount	Year
General Fund	\$0	FY 16/17
Total Expended on Transportation	\$0	

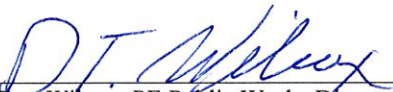
Year 3

Fund Source	Amount	Year
General Fund	\$0	FY 17/18
Total Expended on Transportation	\$0	

Three-Year Average of Transportation Expenditures:

\$ 0 _____

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


Don Wilcox, PE Public Works Director