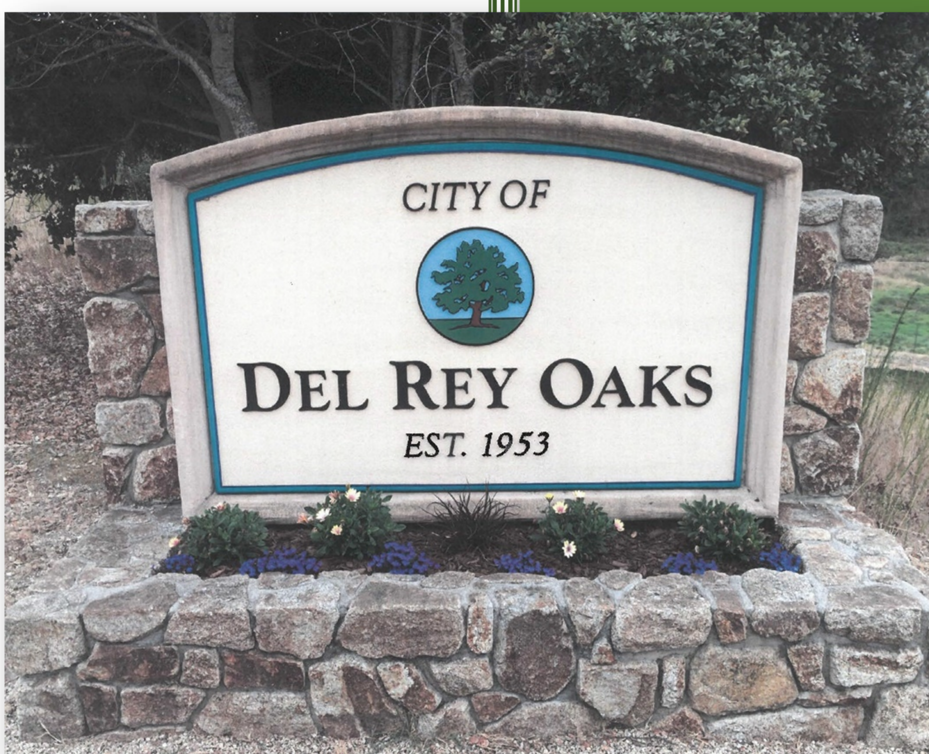
City of Del Rey Oaks

Annual Financial Report

June 30, 2016



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City of Del Rey Oaks
Annual Financial Report
For the year ended June 30, 2016

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FINANCIAL SECTION

Chavan & Associates, LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the
City Council of the City of Del Rey Oaks
Del Rey Oaks, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Del Rey Oaks (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's 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, 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 City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Del Rey Oaks, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

C & A LLP

November 1, 2017
San Jose, California

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MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The discussion and analysis of the City of Del Rey Oaks' (the City) financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended June 30, 2016. It should be read in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the year ended June 30, 2016 by $2.9 million. However, $6.1 million is a net investment in capital assets and $44 thousand is restricted for street/road purposes, leaving an unrestricted deficit of $3.3 million.
- The City's total net position increased by $298 thousand from current year operations.
- At the close of the year ended June 30, 2016, the City's governmental funds reported combined ending fund balance of $293 thousand. The net change in fund balances was an increase of $73 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the City's funds are governmental fund types. Fund financial statements report essentially the same functions as those reported in the government-wide financial statements. However, unlike the government-wide financial statements, fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

Because the focus of the governmental fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide financial statements. Both the governmental fund *Balance Sheet* and the governmental fund *Statement of Revenues, Expenditures and Changes in Fund Balances* provide a reconciliation to facilitate the comparison between the governmental fund and government-wide statements.

The City maintains five individual governmental funds. Information is presented separately in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, Gas Tax Fund, and CDBG Fund. The City considers all of its governmental funds to be major funds.

Notes to Basic Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. The City's net position increased by $67 thousand in fiscal year 2016 from fiscal year 2015. The City's net investment in assets of $6 million is used to provide services to citizens; consequently, these assets are not available for future spending, leaving the City with a deficit for operating purposes.

Summary of Net Position (rounded to the nearest $1,000)
As of June 30

	2016	2015	Increase (Decrease)
Assets			
Current and other assets	$ 778,000	$ 567,000	$ 211,000
Capital assets	10,649,000	10,700,000	(51,000)
Total Assets	$ 11,427,000	$ 11,267,000	$ 160,000
Deferred Outflows of Resources	$ 519,000	$ 74,000	$ 445,000
Liabilities			
Current and other liabilities	$ 611,000	$ 439,000	$ 172,000
Noncurrent liabilities	7,897,000	7,999,000	(102,000)
Total Liabilities	$ 8,508,000	$ 8,438,000	$ 70,000
Deferred Inflows of Resources	$ 586,000	$ 349,000	$ 237,000
Net Position			
Net investment in capital assets	$ 6,078,000	$ 6,179,000	$ (101,000)
Restricted	44,000	203,000	(159,000)
Unrestricted	(3,270,000)	(3,828,000)	558,000
Total Net Position	$ 2,852,000	$ 2,554,000	$ 298,000

- Current assets increased mainly due to increased revenue from transaction tax.
- Capital assets decreased primarily due to depreciation.
- Current and other liabilities increased due to an increase in the accounts payable.
- Restricted for Streets/Roads decreased due to the current year use of gas tax revenue received in prior years.
- Unrestricted net position decreased due to the change in net position, which is described on the following page.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Statement of Activities (rounded to the nearest $1,000)
As of June 30

Functions/Programs	2016	2015	Increase (Decrease)
Revenue:			
Program Revenues:			
Charges for services	$ 402,000	$ 365,000	$ 37,000
Operating grants and contributions	139,000	100,000	39,000
Capital grants and contributions	12,000	99,000	(87,000)
General Revenues:			
Property tax	568,000	527,000	41,000
Sales tax	395,000	315,000	80,000
Transaction tax	708,000	479,000	229,000
Other taxes	213,000	152,000	61,000
Other revenue	118,000	51,000	67,000
Investment earnings	45,000	-	45,000
Total Revenue	2,600,000	2,088,000	512,000
Expenses:			
General government	614,000	998,000	(384,000)
Public safety	1,185,000	1,235,000	(50,000)
Public works	271,000	179,000	92,000
Community development	95,000	101,000	(6,000)
Parks	67,000	37,000	30,000
Interest on long-term debt	70,000	73,000	(3,000)
Total Expenses	2,302,000	2,623,000	(321,000)
Special and Extraordinary Items:			
Special item - donated capital asset	-	850,000	(850,000)
Special item - gain on sale of FORA land	-	574,000	(574,000)
Total Special and Extraordinary Items	-	1,424,000	(1,424,000)
Change in Net Position	298,000	889,000	(591,000)
Prior Period Adjustments	-	(1,499,000)	1,499,000
Net Position, Beginning of Year	2,554,000	3,164,000	(610,000)
Net Position, End of Year	$ 2,852,000	$ 2,554,000	$ 298,000

- The increase in transaction tax is due to the full implementation of the City's Sales Tax Measures coupled with an improvement in the economy and the taxation of retail cannabis sales.
- The decrease in capital grants and contributions is due to a decrease in CDBG grants received.
- The decrease in the general government expense is due primarily to decreased legal and planning expenses related to property development expenses in the prior year.
- The decrease in special and extraordinary items is due to one-time items in the prior year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets as of June 30, 2016, amounted to $10.7 million (net of accumulated depreciation). This amount included land, buildings, improvements, furniture, equipment, and vehicles.

Debt Administration - At fiscal year end, the City had $2 million in debt. New debt for the year was $148 thousand, which was related to new capital leases and compound interest accrued. And retirements were made in the amount of $58 thousand, for a net increase of $90 thousand.

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

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

At the end of the current fiscal year, the City's governmental funds reported a total fund balance of $293 thousand. During the current fiscal year, the fund balance of the City's total governmental funds increased $73 thousand.

FUND BUDGETARY HIGHLIGHTS

General Fund - The original budgeted general fund revenues decreased $22,600.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The economy has improved and we are seeing increases in taxable sales and property values, which we anticipate will improve the financial condition of the City in the coming fiscal year. In addition, the impositions of a cannabis excise tax will be a major source of tax revenue for the foreseeable future.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Del Rey Oaks, 650 Canyon Del Rey Road, Del Rey Oaks, California 93940.

BASIC FINANCIAL STATEMENTS

City of Del Rey Oaks
Statement of Net Position
June 30, 2016

ASSETS		
Current Assets:		
Cash and investments	$	415,313
Restricted cash and investments		44,054
Receivables:		
Taxes		213,763
Accounts		31,536
Due from other governments		72,688
Total Current Assets		777,354
Noncurrent Assets:		
Capital Assets:		
Nondepreciable		9,454,173
Depreciable, net of accumulated depreciation		1,194,829
Total Capital Assets - Net		10,649,002
Total Assets	$	11,426,356
DEFERRED OUTFLOWS OF RESOURCES		
Pension Adjustments	$	519,254
LIABILITIES		
Current Liabilities:		
Accounts payable	$	245,370
Payroll related liabilities		74,538
Prepaid business licenses		123,810
Prepaid developer deposits		41,134
Compensated absences - current portion		44,609
Long-term debt - due within one year		81,230
Total Current Liabilities		610,691
Noncurrent Liabilities:		
Long-term debt - due in more than one year		2,048,866
Compensated absences		61,889
Net pension obligation		1,088,059
Net OPEB obligation		232,994
Land value due to FORA		4,465,100
Total Noncurrent Liabilities		7,896,908
Total Liabilities	$	8,507,599
DEFERRED INFLOWS OF RESOURCES		
Pension Adjustments	$	585,578
NET POSITION		
Net investment in capital assets	$	6,077,843
Restricted for:		
Streets and roads		44,183
Unrestricted		(3,269,593)
Total Net Position	$	2,852,433

The accompanying notes are an integral part of these financial statements.

City of Del Rey Oaks
Statement of Activities
For the Year Ended June 30, 2016

		Program Revenues				
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total	Net (Expense) Revenue and Change in Net Position
General government	$ 614,253	$ 110,622	$ 24,122	$ -	$ 134,744	$ (479,509)
Public safety	1,184,547	213,327	114,618	-	327,945	(856,602)
Public works	271,277	48,855	-	-	48,855	(222,422)
Community development	94,595	17,036	-	12,330	29,366	(65,229)
Parks	67,159	12,095	-	-	12,095	(55,064)
Interest and fiscal charges	70,540	-	-	-	-	(70,540)
Total	$ 2,302,371	$ 401,935	$ 138,740	$ 12,330	$ 553,005	(1,749,366)

General Revenues:	
Taxes:	
Property taxes	567,752
Sales tax	395,279
Transaction tax	708,184
Franchise tax	129,581
Gas tax	39,744
Other taxes	44,298
Investment earnings	45,022
Other revenues	117,660
Total General Revenues	2,047,520
Change in Net Position	298,154
Net Position - Beginning of Year	2,554,279
Net Position - End of Year	$ 2,852,433

The accompanying notes are an integral part of these financial statements.

City of Del Rey Oaks
Balance Sheet
Governmental Funds
June 30, 2016

	Major Funds			
	General Fund	Gas Tax Fund	CDBG Fund	Total Governmental Funds
ASSETS				
Cash and investments	$ 374,327	$ 40,986	$ -	$ 415,313
Restricted cash and investments	44,054	-	-	44,054
Receivables:				
Taxes	210,566	3,197	-	213,763
Accounts	31,536	-	-	31,536
Due from other governments	72,688	-	-	72,688
Due from other funds	-	-	45,341	45,341
Total assets	$ 733,171	$ 44,183	$ 45,341	$ 822,695
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 245,370	$ -	$ -	$ 245,370
Payroll related liabilities	74,538	-	-	74,538
Prepaid business licenses	123,810	-	-	123,810
Prepaid developer deposits	41,134	-	-	41,134
Due to other funds	45,341	-	-	45,341
Total liabilities	530,193	-	-	530,193
Fund Balances:				
Restricted:				
Streets and roads	-	44,183	-	44,183
Unassigned	202,978	-	45,341	248,319
Total fund balances	202,978	44,183	45,341	292,502
Total liabilities and fund balances	$ 733,171	$ 44,183	$ 45,341	$ 822,695

The accompanying notes are an integral part of these financial statements.

City of Del Rey Oaks
Reconciliation of the Government Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2016

Total Fund Balances - Total Governmental Funds		$ 292,502
Amounts reported for governmental activities in the statement of net position were different because:		
Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. The capital assets were adjusted as follows:		
Capital assets	11,617,135	
Less: accumulated depreciation	(968,133)	
Total Capital Assets		10,649,002
Contributions made to pension plans will not be included in the calculation of the City's net pension liability of the plan year included in this report and have been deferred and reported as deferred outflows of resources.		519,254
The difference between projected and actual earnings from pension plan assets is not included in the plan's actuarial study until the next fiscal year and are reported as deferred inflows of resources in the statement of net position.		(585,578)
Long-term obligations were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet. The long-term liabilities were adjusted as follows:		
Long-term debt	(2,130,096)	
Compensated absences	(106,498)	
Net pension obligation	(1,088,059)	
Net OPEB obligation	(232,994)	
Land value due to FORA	(4,465,100)	
Total Long-Term Obligations		(8,022,747)
Net Position of Governmental Activities		$ 2,852,433

The accompanying notes are an integral part of these financial statements.

City of Del Rey Oaks
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
June 30, 2016

	Major Funds			
	General Fund	Gas Tax Fund	CDBG Fund	Total Governmental Funds
REVENUES				
Taxes:				
Property taxes	$ 567,752	$ -	$ -	$ 567,752
Sales tax	395,279	-	-	395,279
Transaction tax	708,184	-	-	708,184
Franchise tax	129,581	-	-	129,581
Gas tax	-	39,744	-	39,744
Other taxes	44,298	-	-	44,298
Licenses and permits	260,746	-	-	260,746
Fines, forfeits and penalties	8,668	-	-	8,668
Charges for current services	132,521	-	-	132,521
Intergovernmental revenues	138,740	-	12,330	151,070
Interest, rents and concessions	71	-	44,951	45,022
Other revenues	117,660	-	-	117,660
Total Revenues	2,503,500	39,744	57,281	2,600,525
EXPENDITURES				
Current:				
General government	679,527	-	-	679,527
Public safety	1,354,617	-	-	1,354,617
Public works	125,330	145,947	-	271,277
Community development	29,265	-	65,330	94,595
Parks	67,159	-	-	67,159
Capital outlay	80,328	-	-	80,328
Debt service				
Principal	57,588	-	-	57,588
Interest and fiscal charges	2,635	-	-	2,635
Total Expenditures	2,396,449	145,947	65,330	2,607,726
Excess (Deficiency) of Revenues over Expenditures	107,051	(106,203)	(8,049)	(7,201)
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	80,328	-	-	80,328
Total Other Financing Sources (Uses)	80,328	-	-	80,328
Net Change in Fund Balances	187,379	(106,203)	(8,049)	73,127
Fund Balances - Beginning of Year	15,599	150,386	53,390	219,375
Fund Balances Ending	$ 202,978	$ 44,183	$ 45,341	$ 292,502

The accompanying notes are an integral part of these financial statements.

City of Del Rey Oaks
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities
For the Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds	$ 73,127
Amounts reported for governmental activities in the Statement of Activities and Changes in net position were different because:	
Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in net position, the cost of those assets was allocated over their estimated useful lives as depreciation expense.	
Capital outlay	83,884
Depreciation expense	(135,282)
Long-term compensated absences and claims payables were reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources and were not reported as expenditures in governmental funds.	
Compensated absences	(15,794)
In governmental funds, actual contributions to pension plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year pension expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.	400,958
The governmental funds report debt proceeds as an other financing source, while repayment of debt principal is reported as an expenditure. The net effect of these differences in the treatment of long-term debt and related items is as follows:	
Repayment of debt principal	57,588
Proceeds from capital leases	(80,328)
Certain expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the fund statements as follows:	
Other postemployment benefits	(18,094)
Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in net position, but it did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in governmental funds. The following amount represented the net change in compound interest from current year to prior year.	(67,905)
Change in Net Position of Governmental Activities	$ 298,154

The accompanying notes are an integral part of these financial statements.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Del Rey Oaks, California, (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Financial Reporting Entity

The City of Del Rey Oaks, California was incorporated as a general law city on September 3, 1953. The City operates under a city council-manager form of government and provides a wide range of municipal services.

As required by GAAP, these basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City Council acts as the governing board. In addition, the City staff performs all administrative and accounting functions for these entities and these entities provide their services entirely to the City. Blended component units, although legally separate entities are, in substance, part of the City's operations and data from these units are combined with data of the City. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize their legal separateness from the City. The City had no component units as of June 30, 2016.

The City applies all applicable GASB pronouncements for certain accounting and financial reporting guidance. In December of 2010, GASB issued *GASBS No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. This includes pronouncements by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and the Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, unless those pronouncements conflict with or contradict with GASB pronouncements.

B. Basis of Accounting and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The City's government-wide financial statements include a *Statement of Net Position* and a *Statement of Activities and Changes in Net Position*. These statements present a summary of the governmental activities for the City. Fiduciary activities of the City are not included in these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The City did not have any business-type activities during the year.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets, deferred outflows of resources, liabilities, deferred inflows of resources (including capital assets, as well as infrastructure assets, and long-term liabilities), are included in the accompanying *Statement of Net Position*. The *Statement of Activities* presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those clearly identifiable with a specific function or segment. In conformity with the City's indirect cost allocation plan, certain indirect costs are included in the program expense reported for individual functions and activities.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated. The following interfund activities have been eliminated:

- Transfers in/Transfers out

Governmental Fund Financial Statements

Governmental fund financial statements include a *Balance Sheet* and a *Statement of Revenues, Expenditures and Changes in Fund Balances* for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the government-wide financial statements. The City has presented all major funds that met the applicable criteria.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The *Statement of Revenues, Expenditures and Changes in Fund Balances* present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (up to 90 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, intergovernmental revenues, other taxes, interest revenue, rental revenue and certain charges for services. Fines, forfeitures, and licenses and permits are not susceptible to accrual because they are usually not measurable until received in cash. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Unearned revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the unearned revenue is removed from the combined balance sheet and revenue is recognized.

Major individual governmental funds are reported as separate columns in the fund financial statements.

The following funds are major funds:

General Fund
The General Fund is the general operating fund of the City. It accounts for the City's primary services (Public Safety, Public Works, Park, etc.) and is the primary operating unit of the City.

Gas Tax Fund
This special revenue fund was established to account for the financial resources required to be used on street/road projects.

CDBG Fund
This special revenue fund was established to account for the financial resources related to Community Development Block Grant (CDBG) programs.

C. Cash, Cash Equivalents and Investments

The City pools its cash and investments of all funds. Interest earned as a result of pooling is distributed to the appropriate funds utilizing a formula based on the average daily balance of cash of each fund. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as Cash and Investments.

Deposit and Investment Risk Disclosures - In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures* (Amendment of GASB Statement No. 3), certain disclosure requirements, if applicable, for Deposits and Investment Risks in the following areas:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentrations of Credit Risk
- Foreign Currency Risk

Other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF). Under Federal Law, the State of California cannot declare bankruptcy; therefore deposits in the LAIF shall not be subject to either of the following: (a) transfer or loan pursuant to Government Code Section 16310, 16312, or 16313, or (b) impoundment or seizure by any state official or state agency.

Investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

The following is a summary of the definition of fair value:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.

- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.

- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

D. Interfund Receivables and Payables

Items classified as interfund receivables/payables are referred to as "advances to/advances from other funds" or as "due to/from other funds". Due to/from other funds include short-term lending/borrowing transactions between funds. This classification also includes the current portion of an advance to or from another fund. Advances to/advances from other funds 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.

E. Receivables

Billed, but unpaid, services provided to individuals or non-governmental entities are recorded as accounts receivable. Revenues earned but not collected by year-end are accrued. No allowance for uncollectible accounts receivable has been provided as management has determined that uncollectible accounts have historically been immaterial and the direct write-off method does not result in a material difference from the allowance method.

F. 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, facilities, equipment, and infrastructure purchased or acquired are carried at historical cost or estimated historical cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Infrastructure fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have been capitalized on a prospective basis, from July 1, 2003. Prior to July 1, 2003, infrastructure assets were not capitalized. Capital assets are defined by the City as assets with an initial, individual cost of more than $5,000 for equipment, $25,000 for facilities and improvements, $150,000 for infrastructure, all land, and an estimated useful life in excess of one year.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Interest is capitalized on the construction or acquisition of major assets using debt proceeds. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. No interest was capitalized during the year ended June 30, 2016.

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

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

G. Deferred Outflows/Deferred Inflows

A deferred outflow of resources is defined as a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. A deferred inflow of resources is defined as an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time.

When applicable, unamortized portions of the gain and loss on refunding debt are reported as deferred inflows and deferred outflows of resources, respectively. Deferred outflows and inflows of resources are reported for the changes related to pensions from the implementation of GASB Statement No. 68.

In addition, when an asset is recorded in governmental fund financial statements but the revenue is not available, a deferred inflow of resources is reported until such time as the revenue becomes available.

H. Interest Payable

In the government-wide financial statements, interest payable of long-term debt is recognized as an incurred liability for governmental fund types. The City has not allocated the interest on long-term debt to departments.

In the fund financial statements, governmental fund types do not recognize the interest payable when the liability is incurred. Interest on long-term debt is recorded in the fund statements when payment is made.

I. Deferred Compensation Plan

City employees may defer a portion of their compensation under a City sponsored. Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, and death or in an emergency as defined by the Plan. Contributions for the fiscal year ending June 30, 2016 totaled $102,181.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

J. Compensated Absences

Compensated absences comprise of unpaid vacation, which are accrued as earned. Unused vacation may be accumulated up to 160 hours and is paid at the time of termination from City employment. The liability for compensated absence is determined annually. The long-term portion is recorded in the Statement of Net Position and represents a reconciling item between the fund and government-wide presentations. The following is a summary of the changes in compensated absences for the fiscal year ended June 30, 2016:

Description	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016	Due Within One Year
Government Activities	$ 90,704	$ 60,403	$ 44,609	$ 106,498	$ 44,609

K. Long-Term Obligations

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

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

L. Pension Expense

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

M. Fund Balances

In accordance with Government Accounting Standards Board 54*, Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies governmental fund balances as follows:

Nonspendable
Nonspensable fund balance are amounts that cannot be spent because they are either (a) not in spendable form, such as long term receivables or (b) legally or contractually required to be maintained intact, such as a trust that must be retained in perpetuity.

Restricted
Restricted fund balance are restricted when constrains placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Commited
Committed fund balance are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the City Council.

Assigned
Assigned fund balance are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the City Manager.

Unassigned
The Unassigned Fund Balance category represents fund balance which may be held for specific types of uses or stabilization purposes, but is not yet directed to be used for a specific purpose.

The detail of amounts reported for each of the above defined fund balance categories is reported in the governmental funds balance sheet.

Flow Assumption / Spending Order Policy
When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to be spent first. When expenditures are incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to be spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has directed otherwise.

N. Net Position

In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets
This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position

Restricted Net Position
This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position
This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

The detail of amounts reported for each of the above defined net position categories is reported in the government-wide Statement of Net Position.

Use of Restricted/Unrestricted Net Position
When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

O. Property Taxes

County tax assessments include secured and unsecured property taxes. "Unsecured" refers to taxes on personal property. These tax assessments are secured by liens on the property being taxed.

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 90 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 XIIIA of the State of California Constitution (known as Proposition 13) to levy a maximum tax of $1.00 per $100 of full cash value.

P. Unearned Revenue

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows from unearned revenue.

Q. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

R. Subsequent Events

Management has considered subsequent events through November 1, 2017, the date which the financial statements were available to be issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

S. Upcoming New Accounting Pronouncements

GASB Statement No. 75, ***Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* -** Effective date: the provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. The City is in the process of determining the impact this statement will have on the financial statements.

GASB Statement No. 81, Irrevocable Split-Interest Agreements - The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged. The City doesn't believe this statement will have a significant impact on the City's financial statements.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73* - The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of GASB 82 for selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged. The City is currently evaluating the impact on the financial statements and ensuring the required data will be available for disclosure.

GASB Statement No. 83, *Certain Asset Retirement Obligations* - This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The City is currently evaluating the impact on the financial statements and ensuring the required data will be available for disclosure.

GASB Statement No. 84, *Fiduciary Activities* - The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. Earlier application is encouraged. The City is currently evaluating the impact on the financial statements and ensuring the required data will be available for disclosure.

GASB Statement No. 86, *Certain Debt Extinguishment Issues* - The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Earlier application is encouraged. The City is currently evaluating the impact on the financial statements and ensuring the required data will be available for disclosure.

GASB Statement No. 87, *Leases* - The primary objective of this Statement is to increase the usefulness of governments' financial statement by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The City is currently evaluating the impact on the financial statements and ensuring the required data will be available for disclosure.

NOTE 2 - CASH AND INVESTMENTS

As of June 30, 2016, cash and investments were reported in the financial statements as follows:

	Statement of Net Position		Total Cash and
	Unrestricted	Restricted	Investments
Cash Deposits with Banks	$ 399,626	$ 44,054	$ 443,680
Local Agency Investment Fund	15,687	-	15,687
Total cash and investments	$ 415,313	$ 44,054	$ 459,367

A. Cash Deposits

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest, and places the City ahead of general creditors of the institution.

The market value of pledged securities must equal at least 110 percent of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes that have a value of 150 percent of the City's total cash deposits. The City has waived the collateral requirements for cash deposits which are fully insured to $250,000 by the Federal Deposit Insurance Corporation (FDIC).

The bank balances before reconciling items totaled $432,878 at June 30, 2016 and were different from carrying amounts due to deposits in transit and outstanding checks. As of June 30, 2016, the City’s cash balances exceeded insurance by $182,878 but were collateralized as discussed above.

B. Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques. This hierarchy has three levels.

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable.
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

The City has the following recurring fair value measurements as of June 30, 2017:

- California Local Agency Investment Fund (LAIF) of $15,687; valued using Level 2 inputs.

C. Investment Policies

City Investment Policy
The City doesn’t have their own investment policy, however in accordance with California Government Code, the following investments are authorized:

Authorized Investment Type	Maximum Maturity (1)	Maximum Total of Portfolio	Maximum Investment in Anyone 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

D. External Investment Pool

The City's investments with LAIF at June 30, 2016, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

Structured Notes
These are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities
The bulk of asset-backed securities are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The approved investments policy is listed on the LAIF website, located at http://www.treasurer.ca.gov/pmia-laif/.

E. Risk Disclosures

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 term of an investment's maturity, the greater the sensitivity to changes in market interest rates. It is the City's practice to manage its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for City's operations.

Credit Risk
Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2016, the City's investments were in compliance with the ratings required by the City's investment policy, indenture agreements and Government Code.

Concentrations 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. As of June 30, 2016, the City had no investments in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represented 5% or more of the total City investments.

Custodial Credit Risk
For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The California Government Code does 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).

As of June 30, 2016, the City's investments in LAIF had a maturity of 12 months or less with no yearend rating and a fair market value of $15,687.

NOTE 3 - INTERFUND TRANSACTIONS

A. Transfers In/Out

With Council approval resources may be transferred from one fund to another. Transfers routinely reimburse funds that have made an expenditure on behalf of another fund. Transfers may also be made to pay for capital projects or capital outlays, lease or debt service payments, and operating expenses. The City didn't have any transfers between funds during the fiscal year ended June 30, 2016.

B. Interfund Receivables and Payables

The timing of when cash is received and paid can result in a negative cash balance in a fund as of fiscal year end. At year-end, a liability, "Due To Other Funds" is created to eliminate any negative cash balances along with a corresponding asset, "Due From Other Funds." In the following fiscal year, the liabilities are settled and the assets are liquidated. As of June 30, 2016, interfund receivables and payables consisted of the following:

Due from	Due to	Amount
General Fund	CDBG Fund	$ 45,341

NOTE 4 - CAPITAL ASSETS

Capital assets consisted of the following as of June 30, 2016:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Non-depreciable:				
Land	$ 9,454,173	$ -	$ -	$ 9,454,173
Total Non-Depreciable	9,454,173	-	-	9,454,173
Depreciable:				
Buildings and Improvements	602,159	3,556	-	605,715
Furniture, Equipment, and Vehicles	1,401,919	80,328	-	1,482,247
Structure and Improvements	75,000	-	-	75,000
Total Depreciable	2,079,078	83,884	-	2,162,962
Less Accumulated Depreciation for:				
Buildings and Improvements	(327,376)	(14,054)	-	(341,430)
Furniture, Equipment, and Vehicles	(456,725)	(117,478)	-	(574,203)
Structure and Improvements	(48,750)	(3,750)	-	(52,500)
Total Accumulated Depreciation	(832,851)	(135,282)	-	(968,133)
Total Depreciable Capital Asset - Net	1,246,227	(51,398)	-	1,194,829
Total Capital Assets - Net	$ 10,700,400	$ (51,398)	$ -	$ 10,649,002

Depreciation expense was charged to the functions of the government as follows:

General Government	$ 5,371
Police Department	117,027
Parks	8,857
Community Development	3,750
Public Works	277
Total depreciation expense	$ 135,282

NOTE 5 - LONG-TERM DEBT

The City's long-term debt consisted of the following as of June 30, 2016:

Description	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016	Due Within One Year
Capital Leases:					
Vehicles	$ 8,663	$ 80,328	$ 10,450	$ 78,541	$ 32,845
Radio System	47,577	-	20,059	27,518	15,878
Subtotal leases	56,240	80,328	30,509	106,059	48,723
Loans payable:					
MBASIA	125,039	-	27,079	97,960	32,507
FORA	565,455	-	-	565,455	-
FORA Compound Interest	54,655	31,002	-	85,657	-
Federal Group International, LLC	1,200,000	-	-	1,200,000	-
Federal Group International, LLC					
Compound Interest	38,062	36,903	-	74,965	-
Subtotal loans payable	1,983,211	67,905	27,079	2,024,037	32,507
Total	$ 2,039,451	$148,233	$ 57,588	$ 2,130,096	$ 81,230

The following is a summary of the City's long-term debt as of June 30, 2016:

Ford Motor Credit Company Capital Lease

The City has noncancelable capital lease agreements with Ford Motor Credit Company to finance the acquisition of vehicles. The leases qualify as capital leases for accounting purposes and therefore have been recorded at the present value of future minimum lease payments at the date of the inception of the lease. Assets under the leases total $125,810 with accumulated depreciation of $21,174 at June 30, 2016. The terms of the leases are as follows:

- 2008 Crown Victoria - Principal and interest payments of $3,070 with interest at 6.25% are to be made semi-annually beginning February 18, 2013 and continuing until November 18, 2016.
- 2009 Crown Victoria - Principal and interest payments of $4,332 with interest at 6.3% are to be made semi-annually beginning May 21, 2012 and continuing until February 21, 2015. After the lease was completed, the City kept the 2009 Crown Victoria.
- 2015 Ford Police Interceptor – Principal and interest payments of $5,412 with interest of 6.25% are to be made semi-annually beginning July 4, 2016 and continuing until January 4, 2020.
- 2016 Ford F-150 CrewCab – Principal and interest payments of $2,966 with interest at 5.95% are to be made quarterly beginning September 21, 2016 and continuing until June 21, 2020.

PNC Equipment Finance Capital Lease

The City has a noncancelable capital lease agreement with PNC Equipment Finance to finance the acquisition of radio equipment. The lease qualifies as a capital lease for accounting purposes and therefore has been recorded at the present value of future minimum lease payments at the date of the inception of the lease. Assets under the lease total $98,489 with accumulated depreciation of $68,643 at June 30, 2016. The terms of the lease are principal and interest payments of $5,398 with interest at 3.8% to be made quarterly beginning December 7, 2012 and continuing until September 7, 2017.

Monterey Bay Area Self Insurance Authority (MBASIA) Loan Payable
The City has a loan with MBASIA dated April 26, 2010, which was restructured on April 22, 2013, for worker compensation premiums for the fiscal years 2010-2011 and 2012-2013. The total amount of the revised loan is $194,327, with interest at 1.75%. Monthly payments of $3,385 are due beginning September l, 2013 and continuing until August 1, 2018.

Fort Ord Reuse Authority (FORA) Loan Payable
The City has a Memorandum of Understanding (MOU) with FORA dated July 1, 2013 concerning repayment to FORA of a pollution legal liability insurance loan for the City of Del Rey Oaks former Fort Ord property. The original term of the MOU was two full calendar years, beginning on the effective date of July 1, 2013 and ending on June 30, 2015. However, the MOU was extended for three years, through June 30, 2018. The City agrees to repay the remaining balance of the loan and all compounded interest at a rate of 5% upon the sale of the remaining former Fort Ord property.

Federal Group International, LLC Loan Payable
The City has a promissory note with Federal Group International, LLC in the amount of $1,200,000, $700,000 of the note is the City's obligation to pay for funds loaned by Federal/JER Associates I, LLC to the former Redevelopment Agency of the City of Del Rey Oaks, the remaining $500,000 of the note evidences the City's obligation to pay the holder as settlement of claims between the City and Bellmont Rock Holdings, LLC. Interest is accrued at 5% per annum on the $700,000 beginning June 1, 2014 until the entire outstanding loan amount, plus interest, is paid in full. Payments on the note, once they commence, shall be for a five year period, however if the note is not paid in full at the end of the five year term it shall automatically renew, once, for an additional five year term. No payment shall be due under this loan until commencement of construction on the Fort Ord property and are based on an increase of 50% of City revenue associated with the development of the entire property.

The annual debt service requirements on the bonds are as follows:

	Capital Leases			Loans Payable		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total
2017	$ 37,828	$ 4,663	$ 42,491	$ 51,085	$ 1,745	$ 52,830
2018	25,958	3,439	29,397	40,119	500	40,619
2019	20,500	2,188	22,688	6,756	15	6,771
2020	21,773	915	22,688	74,965	-	74,965
2021	-	-	-	-	-	-
Thereafter	-	-	-	1,851,112	-	1,851,112
Total	$ 106,059	$ 11,205	$117,264	$2,024,037	$ 2,260	$2,026,297

NOTE 6 - LAND VALUE DUE TO FORA

In 2006, the City received property as part of an Economic Development Conveyance through the Fort Ord Reuse Authority (FORA). The Economic Development Conveyance requires that the property be used in a manner that promotes economic development in the area. FORA transferred the property to the City in accordance with Government Code Section 67678, which requires the use of the property consistent with the Base Reuse Plan and that all proceeds from the sale of the property be distributed equally to FORA and the City. The remaining property as of June 30, 2016 has a book value of $8,904,673. The remaining balance due to FORA for the land, if it is sold based on the value originally used to calculate the book value of the land, is $4,465,100.

NOTE 7 - RISK MANAGEMENT

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

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

Financial statements for the Authority may be obtained from www.mbasia.org.

NOTE 8 - RETIREMENT PLANS

General Information about the Pension Plans

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

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. The cost of living adjustments for the Plans are applied as specified by the Public Employees' Retirement Law. The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous	Safety	
	Tier 1	Police	PEPRA Police
Hire date	Before June 27, 2011	N/A	On or after January 1, 2013
Benefit formula	2% @ 60	2% @ 55	2% @ 57
Benefit vesting schedule	3 Years	3 Years	3 Years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	60	55	57
Monthly benefits as a % of eligible compensation	2.00%	2.00%	2.00%
Required employee contribution rates	7.000%	7.000%	9.500%
Required employer contribution rates	6.709%	11.530%	9.418%

Employees Covered - At June 30, 2016, the following employees were covered by the benefit terms for the Plans:

	Miscellaneous	Safety
Active	4	6
Transferred	3	2
Separated	1	1
Retired	4	12
Total Employees Covered	12	21

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

For the year ended June 30, 2016, the contributions recognized as part of pension expense for the Plans were as follows:

	Misc	Safety
Contributions - employer	$ 37,038	$ 143,450
Contributions - employee	46,377	39,205
Total contributions	$ 83,415	$ 182,655

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the City reported net pension liabilities for its proportionate shares of the net pension liability as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	$ 204,200
Safety	883,859
Total Net Pension Liability	$ 1,088,059

The City's net pension liability for the Plans is measured as the proportionate share of the net pension liability. The net pension liability of the Plans are measured as of June 30, 2015, and the total pension liability for the Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 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 the Plans as of June 30, 2014 and 2015 was as follows:

	Safety	Misc
Proportion - June 30, 2014	0.0278%	0.0097%
Proportion - June 30, 2015	0.0215%	0.0074%
Change	-0.0063%	-0.0023%

For the year ended June 30, 2016, the City recognized pension expense of $94,169. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous		Safety	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 44,939	$ -	$ 185,949	$ -
Changes in assumptions	-	(13,701)	-	(56,690)
Differences between expected and actual experiences	-	(1,812)		(7,498)
Change in employer's proportion and differences the employer's contributions and the employer's proportionate share of contributions	12,330	(58,581)	51,018	(242,399)
Net differences between projected and actual earnings on plan investments	43,796	(39,880)	181,222	(165,017)
Total	$ 101,065	$ (113,974)	$ 418,189	$ (471,604)

The City reported $230,888 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

	Miscellaneous	Safety
Fiscal Year Ending:	Deferred Outflows/ (inflows) of Resources	Deferred Outflows/ (inflows) of Resources
2016	$ (27,293)	$ (112,932)
2017	(25,674)	(106,237)
2018	(15,829)	(65,500)
2019	10,948	45,305
Total	$ (57,848)	$ (239,364)

Actuarial Assumptions - The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

(1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation
(3) Derived using CalPERS' membership data for all funds

Discount Rate - The discount rate used to measure the total pension liability was 7.50 percent for the Plans. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plans, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website. According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year.

CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology. 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 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 returns were calculated over the short-term (first 10 years) and the long-term (11-60 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 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 rounded down to the nearest one quarter of one percent. The table below reflects the long-term expected real rate 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. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period.
(b) 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 the Plans, calculated using the discount rate for the Plans, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous	Safety
1% Decrease	6.50%	6.50%
Net Pension Liability	$ 341,035	$1,476,135
Current Discount Rate	7.50%	7.50%
Net Pension Liability	$ 204,200	$ 883,859
1% Increase	8.50%	8.50%
Net Pension Liability	$ 91,794	$ 397,320

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

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description
The City of Del Rey Oaks has contracted with the Public Employees Retirement System {PERS} under the PERS Care Health Plan to provide benefits of the Meyers-Geddes State Employees' Medical and Hospital Care Act per Government Code Section 22850. The Plan provides for continuation of medical insurance benefits for certain retirees or annuitants and their dependents. The Plan can be amended by action of the City Council on passing a resolution. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

- Eligibility and Contributing Requirements – Employees are eligible for postretirement medical benefits upon reaching the age of 50 with a minimum of 5 years of service. The obligations of the Plan members and the City are established by action of the City Council pursuant to the passing of a resolution. The City's contribution for each employee or annuitant shall be the amount necessary to pay the Public Employees Medical and Hospital Care Act (PEMHCA) minimum, which was $125 per month in 2016. The City contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. As of June 30, 2016 there were no employees receiving benefits under the plan so not amounts have been paid.

- Medical Plans - Retirees can enroll in any of the available CalPERS medical plans.

The Plan does not issue a separate financial report.

Funding Policy
The City contributes to the OPEB plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation
The City's annual other postemployment benefit cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and the changes in the City's net OPEB obligation:

	June 30, 2016
Annual required contribution	$ 19,606
Interest on net OPEB obligation	8,596
Adjustment to annual required contribution	(10,108)
Annual OPEB cost (expense)	18,094
Contributions made	-
Increase in net OPEB obligation	18,094
Net OPEB obligation - beginning of year	214,900
Net OPEB obligation - end of year	$ 232,994

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year 2016 and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	$ 29,200	0%	$ 183,800
2015	31,100	0%	214,900
2016	18,094	0%	232,994

Funded Status and Funding Progress

The funded status of the Plan was as follows as of June 30, 2016:

Actuarial accrued liability (AAL)	$ 247,956
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 247,956
Funded ratio (actuarial value of plan assets/AAL)	0%
Projected covered payroll (active Plan members)	$ 980,870
UAAL as a percentage of covered payroll	25%

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan participants) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing costs between the employer and plan participants to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the June 30, 2015, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and a 3.25% general inflation assumption. The Medicare medical cost increase rates were 4% per year. The initial unfunded actuarial accrued liability was amortized as a level percentage of projected payroll over a closed 30-year period beginning July 1, 2009.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

A. Lawsuits

The City is presently involved in certain matters of litigation that have arisen in the normal course of conducting City business. City management believes, based upon consultation with the City Attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the City. Additionally, City management believes that the City's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize.

B. Federal and State Grant Programs

The City participates in Federal and State grant programs. These programs are audited by the City's independent accountants if required by and in accordance with the provisions of the Federal Single Audit Act Amendments of 1996 and applicable State requirements. For Federal programs, the City did not reach the level of qualifying expenditures during the current fiscal year that would require a single audit. Expenditures which may be disallowed, if any, by the granting agencies, cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

NOTE 11 - INTERGOVERNMENTAL AGREEMENTS

The City has an agreement with the City of Seaside for fire protection and related services to be provided by Seaside pursuant to Government Code Section 55632. The annual fee for these services for fiscal year ending June 30, 2016 was $195,000. Either party may cancel the agreement with at least 90 days written notice.

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REQUIRED SUPPLEMENTARY INFORMATION

City of Del Rey Oaks
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (GAAP Basis)
General Fund
June 30, 2016

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Positive (Negative)
REVENUES				
Taxes:				
Property taxes	$ 510,700	$ 510,700	$ 561,283	$ 50,583
Sales tax	295,000	295,000	308,700	13,700
Transaction tax	654,000	580,000	708,184	128,184
Other taxes	304,500	372,500	371,008	(1,492)
Licenses and permits	226,000	213,100	260,840	47,740
Fines, forfeits and penalties	14,000	14,000	8,668	(5,332)
Charges for current services	169,950	169,950	208,869	38,919
Other agency revenue	95,000	92,400	46,989	(45,411)
Interest, rents and concessions	1,200	100	71	(29)
Parks/recreation	36,500	36,500	41,218	4,718
Total Revenues	2,306,850	2,284,250	2,515,830	231,580
EXPENDITURES				
Salaries and benefits	1,472,900	1,469,900	1,593,615	(123,715)
Bank service charges	2,000	2,000	3,867	(1,867)
Supplies	89,000	89,000	83,513	5,487
Miscellaneous	190,150	192,150	141,980	50,170
Outside services	185,945	185,945	194,187	(8,242)
Autos	48,000	48,000	76,315	(28,315)
Fire/police miscellaneous	170,800	170,800	200,433	(29,633)
Street and storm water	33,150	33,150	34,541	(1,391)
Total Expenditures	2,191,945	2,190,945	2,328,451	(137,506)
Excess (Deficiency) of Revenues over Expenditures	114,905	93,305	187,379	94,074
Net Change in Fund Balances	$ 114,905	$ 93,305	187,379	$ 94,074
Fund Balances - Beginning of Year			15,599	
Fund Balances Ending			$ 202,978	

City of Del Rey Oaks
Schedule of Pension Contributions (GASB 68)
June 30, 2016

	2016	2015
Miscellaneous Plan		
Contractually Required Contributions (Actuarially Determined)	$ 44,939	$ 33,822
Contributions in Relation to Actuarially Determined Contributions	44,939	33,822
Contribution Deficiency (Excess)	$ -	$ -
Covered Employee Payroll	**$ 427,975**	**$ 359,359**
Contributions as a Percentage of Covered Payroll	**10.50%**	**9.41%**

	2016	2015
Safety Plan		
Contractually Required Contributions (Actuarially Determined)	$ 185,949	$ 121,758
Contributions in Relation to Actuarially Determined Contributions	185,949	121,758
Contribution Deficiency (Excess)	$ -	$ -
Covered Employee Payroll	**$ 517,291**	**$ 434,355**
Contributions as a Percentage of Covered Payroll	**35.95%**	**28.03%**

Notes to Schedule:

Valuation Date:	June 30, 2014
Assumptions Used:	Entry Age Method used for Actuarial Cost Method
	Level Percentage of Payroll (Closed) Used Amortization Method
	3.8 Years Remaining Amortization Period
	Inflation Assumed at 2.75%
	Investment Rate of Returns set at 7.5%
	CalPERS mortality table using 20 years of membership data for all funds

** Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

City of Del Rey Oaks
Schedule of Proportionate Share of Net Pension Liability (GASB 68)
June 30, 2016

	2016	2015
Miscellaneous Plan		
Proportion of Net Pension Liability	0.74400%	0.38300%
Proportionate Share of Net Pension Liability	$ 204,200	$ 238,626
Covered Employee Payroll	$ 427,975	$ 359,359
Proportionate Share of NPL as a % of Covered Employee Payroll	**47.71%**	**66.40%**
Plan Fiduciary's Net Position as a % of the TPL	**87.85%**	**82.07%**

	2016	2015
Safety Plan		
Proportion of Net Pension Liability	0.02145%	1.67400%
Proportionate Share of Net Pension Liability	$ 883,859	$ 1,041,743
Covered Employee Payroll	$ 517,291	$ 434,355
Proportionate Share of NPL as a % of Covered Employee Payroll	**170.86%**	**239.84%**
Plan Fiduciary's Net Position as a % of the TPL	**77.39%**	**73.41%**

** Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

City of Del Rey Oaks
Retiree Healthcare Plan
Schedule of Funding Progress
June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c))
6/30/2010	$ -	$ 238,600	$ 238,600	0.00%	$ 761,837	31.32%
6/30/2013	$ -	$ 183,100	$ 183,100	0.00%	$ 639,298	28.64%
6/30/2015	$ -	$ 247,956	$ 247,956	0.00%	$ 980,870	25.28%

NOTE 1 - BUDGETARY DATA

The City Council adopts an annual legal budget for the General Fund. All appropriations lapse at fiscal year end and then are rebudgeted for the coming fiscal year. Encumbrance accounting is not used. The budgets are prepared on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

A mid-year budget review is performed and the budget is amended by passage of a resolution. Additional appropriations or interfund transfers not included in the amended budget resolution must be approved by the City Council.

During the fiscal year ending June 30, 2016 the City's General Fund had expenditures in excess of available budget in the amount of $137,506. Fund balance was sufficient to cover the overages during the year.

COMPLIANCE SECTION

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

To the Honorable Mayor and Members of the
City Council of the City of Del Rey Oaks
Del Rey Oaks, California

We have audited, 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, the financial statements of the governmental activities and each major fund information of City of Del Rey Oaks (the "City") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated November 1, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses to be a significant deficiency 2015-001.

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

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results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

C & A LLP

November 1, 2017
San Jose, California

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Current Year Findings:

Finding 2016-001 - Nonstandard Journal Entries - Significant Deficiency

Condition: Both the City's accounts receivable and accounts payable aging reports contain nonstandard journal entries made in place of corrections to the respective ledger.

Criteria: According to Generally Accepted Accounting Principals (GAAP) all expenses should be recognized when incurred and revenue should recognized when earned.

Effect: The accounts payable was understated by $87,970.

Cause: The City does not have adequate controls over the initiating, authorizing, recording, and processing of nonstandard (unusual, nonrecurring, or adjusting) entires in the general ledger.

Recommendation: We recommend the City routinely reconcile both the accounts receivable and payable ledgers and make adjustments to the respective customer bill or vendor payable to avoid making nonstandard journal entries at year end. We also recommend the City review the ending balance for completeness to ensure no missing outstanding balances have been incorrectly removed.

City's Response: The City will implement the auditor's recommendation.

Status of Prior Year Findings:
Finding 2015-001 - Repeat Recommendation, see Finding 2016-001
Finding 2015-002 - Resolved
Finding 2015-003 - Resolved