City of Del Rey Oaks

Annual Financial Report

June 30, 2018

Chavan & Associates, LLP
Certified Public Accountants
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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, each major fund, and the aggregate remaining fund information of the City of Del Rey Oaks (the "City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City's basic financial statements 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

1475 Saratoga Ave, Suite 180, San Jose, CA 95129
Tel: 408-217-8749 • E-Fax: 408-872-4159
info@cnallp.com • www.cnallp.com

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, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the City adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). The City currently funds this obligation on a pay-as-you go basis. The City anticipates that its ongoing funding and current resources are sufficient to meet its obligations as they come due. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Other Information

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

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and

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info@cnallp.com • www.cnallp.com

other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2018 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

December 20, 2018
San Jose, California

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, 2018. It should be read in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- On a government-wide basis the assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the year ended June 30, 2018 by $3.0 million. However, $5.5 million is a net investment in capital assets, leaving an unrestricted deficit net position of $2.6 million.
- The City's total net position decreased by $99 thousand from current year operations and prior period adjustments for OPEB GASB Statement No. 75.
- The City's governmental funds reported combined ending fund balance of $854 thousand. The net change in fund balances was an increase of $510 thousand.
- The General Fund reported a fund balance of $737 thousand. The net change was an increase of $438 thousand.
- The City implemented GASB Statement No. 75 during the year, which required the City to record the unfunded liability from other postemployment benefits offered to employees. The Net OPEB liability as of June 30, 2018 was $263 thousand. In prior years, the City was only required to record the accumulated difference between its annual required contribution and the actual contributions made, which was $279 thousand at June 30, 2017.

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 in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund and the nonmajor governmental 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 decreased by $99 thousand in fiscal year 2018 from fiscal year 2017. The City's net investment in assets of $5.5 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

	2018	2017	Increase (Decrease)
Assets			
Current and other assets	$ 1,436,000	$ 962,000	$ 474,000
Capital assets	9,989,000	10,578,000	(589,000)
Total Assets	$ 11,425,000	$ 11,540,000	$ (115,000)
Deferred Outflows of Resources	$ 900,000	$ 807,000	$ 93,000
Liabilities			
Current and other liabilities	$ 530,000	$ 642,000	$ (112,000)
Noncurrent liabilities	8,454,000	8,258,000	196,000
Total Liabilities	$ 8,984,000	$ 8,900,000	$ 84,000
Deferred Inflows of Resources	$ 353,000	$ 360,000	$ (7,000)
Net Position			
Net investment in capital assets	$ 5,508,000	$ 6,050,000	$ (542,000)
Restricted	118,000	-	118,000
Unrestricted	(2,638,000)	(2,963,000)	325,000
Total Net Position	$ 2,988,000	$ 3,087,000	$ (99,000)

- Current assets increased mainly due to increased revenue from cannabis tax.
- Capital assets decreased primarily due to loss on disposal of capital assets.
- Current liabilities decreased mainly due to decrease in payment on the separation agreement.
- Restricted for Streets/Roads increased due to the current year measure X revenue, which hasn't been spent.
- Unrestricted net position decreased due to the donation of the MRAP capital asset to another City which decreased the value of net investment in capital assets.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

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

Functions/Programs	2018	2017	Increase (Decrease)
Revenue:			
Program Revenues:			
Charges for services	$ 210,000	$ 213,000	$ (3,000)
Operating grants and contributions	266,000	273,000	(7,000)
Capital grants and contributions	98,000	-	98,000
General Revenues:			
Property tax	625,000	609,000	16,000
Sales tax	553,000	514,000	39,000
Transaction tax	726,000	847,000	(121,000)
Franchise tax	180,000	141,000	39,000
Business license tax	200,000	212,000	(12,000)
Other taxes	664,000	280,000	384,000
Investment earnings	1,000	-	1,000
Other revenue	16,000	18,000	(2,000)
Total Revenue	3,539,000	3,107,000	432,000
Expenses:			
General government	962,000	844,000	118,000
Public safety	1,679,000	1,472,000	207,000
Public works	142,000	152,000	(10,000)
Community development	71,000	91,000	(20,000)
Parks	44,000	62,000	(18,000)
Interest on long-term debt	74,000	89,000	(15,000)
Total Expenses	2,972,000	2,710,000	262,000
Special and Extraordinary Items:			
Special item - donated capital asset	(639,000)	(12,000)	(627,000)
Special item - settlement agreement	-	(150,000)	150,000
Total Special and Extraordinary Items	(639,000)	(162,000)	(477,000)
Change in Net Position	(72,000)	235,000	(307,000)
Prior Period Adjustments	(27,000)	-	(27,000)
Net Position, Beginning of Year	3,087,000	2,852,000	235,000
Net Position, End of Year	$ 2,988,000	$ 3,087,000	$ (99,000)

- The increase in capital grants and contributions is due primarily to a one-time Caregiver FORA grant.
- The increase in other taxes is due primarily to cannabis tax.
- The increase in general government and public safety expenses is due primarily to an increase in net pension liability.
- The special item - donated capital asset noted above relates to the City donating a vehicle to another City. The vehicle was previously donated to the City of Del Rey Oaks in fiscal year 2014/15.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets as of June 30, 2018, amounted to $10 million (net of accumulated depreciation). This amount included land, buildings, improvements, furniture, equipment, and vehicles.

Debt Administration - At fiscal year end, the City had $2.1 million in debt. New debt for the year was $74 thousand, which was related to compound interest accrued. And the City made payments on debt of $183 thousand, for a net decrease of $109 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 $854 thousand. During the current fiscal year, the fund balance of the City's total governmental funds increased $510 thousand.

FUND BUDGETARY HIGHLIGHTS

General Fund - The original budgeted general fund revenues increased $94 thousand. General Fund revenues exceeded the budget estimate by $178 thousand. The original budgeted general fund expenses decreased by $34 thousand. Actual expenditures were $254 thousand less than final budgeted expenditures.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

As the economy continues to improve 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 continues to 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, 2018

ASSETS		
Current Assets:		
Cash and investments	$	910,699
Restricted cash and investments		42,780
Receivables:		
Taxes		248,675
Accounts		39,008
Other receivables		194,890
Total Current Assets		1,436,052
Noncurrent Assets:		
Capital Assets:		
Nondepreciable		9,454,173
Depreciable, net of accumulated depreciation		534,471
Total Capital Assets - Net		9,988,644
Total Assets	$	11,424,696
DEFERRED OUTFLOWS OF RESOURCES		
OPEB Adjustments	$	6,719
Pension Adjustments		893,773
Total Deferred Outflows of Resources	$	900,492
LIABILITIES		
Current Liabilities:		
Accounts payable	$	322,256
Payroll related liabilities		96,416
Prepaid business licenses		8,580
Prepaid developer deposits		44,054
Long-term debt - due within one year		58,751
Total Current Liabilities		530,057
Noncurrent Liabilities:		
Long-term debt - due in more than one year		2,076,781
Compensated absences		97,989
Net pension obligation		1,551,296
Net OPEB obligation		262,825
Land value due to FORA		4,465,100
Total Noncurrent Liabilities		8,453,991
Total Liabilities	$	8,984,048
DEFERRED INFLOWS OF RESOURCES		
OPEB Adjustments	$	30,501
Pension Adjustments		322,502
Total Deferred Inflows of Resources	$	353,003
NET POSITION		
Net investment in capital assets	$	5,508,272
Restricted for streets and roads		72,343
Restricted for community development		45,341
Unrestricted		(2,637,819)
Total Net Position	$	2,988,137

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

City of Del Rey Oaks
Statement of Activities
For the Fiscal Year Ended June 30, 2018

		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	$ 962,450	$ 69,655	$ 65,162	$ 63,815	$ 198,632	$ (763,818)
Public safety	1,679,710	121,565	160,145	34,405	316,115	(1,363,595)
Public works	141,757	10,259	40,826	-	51,085	(90,672)
Community development	70,615	5,111	-	-	5,111	(65,504)
Parks	43,580	3,154	-	-	3,154	(40,426)
Interest and fiscal charges	74,595	-	-	-	-	(74,595)
Total	$ 2,972,707	$ 209,744	$ 266,133	$ 98,220	$ 574,097	(2,398,610)
General Revenues and Special Items:						
Taxes:						
Property taxes						624,810
Sales tax						552,524
Transaction tax						726,124
Franchise tax						179,768
Business license tax						200,061
Other taxes						664,304
Investment earnings						1,281
Other revenues						16,461
Special items:						
Gain (loss) on disposal of capital assets						(639,103)
Total General Revenues and Special Items						2,326,230
Change in Net Position						(72,380)
Net Position - Beginning of Year						3,087,348
Prior Period Adjustments - OPEB GASB 75						(26,831)
Net Position - Beginning of Year, as Adjusted						3,060,517
Net Position - End of Year						$ 2,988,137

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

City of Del Rey Oaks
Balance Sheet
Governmental Funds
June 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and investments	$ 838,356	$ 72,343	$ 910,699
Restricted cash and investments	42,780	-	42,780
Receivables:			
Taxes	248,675	-	248,675
Accounts	39,008	-	39,008
Other receivables	194,890	-	194,890
Due from other funds	-	45,341	45,341
Total assets	$ 1,363,709	$ 117,684	$ 1,481,393
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 322,256	$ -	$ 322,256
Payroll related liabilities	96,416	-	96,416
Prepaid business licenses	8,580	-	8,580
Prepaid developer deposits	44,054	-	44,054
Due to other funds	45,341	-	45,341
Total liabilities	516,647	-	516,647
Deferred Inflows of Resources:			
Unavailable revenue	110,543	-	110,543
Fund Balances:			
Restricted:			
Streets and roads	-	72,343	72,343
Community development	-	45,341	45,341
Unassigned	736,519	-	736,519
Total fund balances	736,519	117,684	854,203
Total liabilities, deferred inflows of resources, and fund balances	$ 1,363,709	$ 117,684	$ 1,481,393

City of Del Rey Oaks
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2018

Total Fund Balances - Total Governmental Funds		$ 854,203
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	$ 10,771,946	
Less: accumulated depreciation	(783,302)	
Total Capital Assets		9,988,644
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.		
OPEB adjustments:		
Change in assumptions		(30,501)
Contribution subsequent to measurement date		6,719
Pension adjustments:		
Net change in assumptions		244,205
Difference between expected and actual experience		(11,904)
Difference between projected and actual investment earnings		141,230
Diffferences between employer's contributions and proportionate share of contributions		13,566
Contribution subsequent to measurement date		184,174
Amounts due from others will not be collected soon enough to pay current period expenditures and are reported as deferred inflows of resources in governmental funds.		110,543
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	$ (2,135,532)	
Compensated absences	(97,989)	
Net pension obligation	(1,551,296)	
Net OPEB obligation	(262,825)	
Land value due to FORA	(4,465,100)	
Total Long-Term Obligations		(8,512,742)
Net Position of Governmental Activities		$ 2,988,137

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
For the Fiscal Year Ended June 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Taxes:			
Property taxes	$ 624,810	$ -	$ 624,810
Sales tax	485,071	67,453	552,524
Transaction tax	726,124	-	726,124
Franchise tax	179,768	-	179,768
Business license tax	200,061	-	200,061
Other taxes	699,665	4,639	704,304
Licenses and permits	83,087	-	83,087
Fines, forfeits and penalties	10,284	-	10,284
Charges for current services	39,231	-	39,231
Intergovernmental revenues	323,527	40,826	364,353
Interest, rents and concessions	78,423	-	78,423
Other revenues	16,461	-	16,461
Total Revenues	3,466,512	112,918	3,579,430
EXPENDITURES			
Current:			
General government	827,985	-	827,985
Public safety	1,602,702	-	1,602,702
Public works	47,838	93,642	141,480
Community development	66,865	-	66,865
Parks	34,703	-	34,703
Capital outlay	148,448	107,062	255,510
Debt service			
Principal	91,844	-	91,844
Interest and fiscal charges	139	-	139
Total Expenditures	2,820,524	200,704	3,021,228
Excess (Deficiency) of Revenues over Expenditures	645,988	(87,786)	558,202
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of capital assets	43,851	-	43,851
Transfers in	-	159,878	159,878
Transfers out	(159,878)	-	(159,878)
Total Other Financing Sources (Uses)	(116,027)	159,878	43,851
SPECIAL ITEM			
Separation agreement	(91,667)	-	(91,667)
Net Change in Fund Balances	438,294	72,092	510,386
Fund Balances Beginning	298,225	45,592	343,817
Fund Balances Ending	$ 736,519	$ 117,684	$ 854,203

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 Fiscal Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds	$ 510,386
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	160,093
Depreciation expense	(66,870)
Loss on disposal of capital assets	(682,954)
Revenues that were reported in the government-wide statement of activities in prior year have become current financial resources in the current year and have been reported in the governmental fund statement of revenues, expenditures and changes in fund balances.	(40,000)
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.	(4,656)
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 note in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.	(49,779)
In governmental funds, actual contributions to the OPEB plan is reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year OPEB expense as noted in the plan's valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.	(7,655)
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	91,844
Expenses that were reported in the government-wide statement of activities in prior year have become current financial uses in the current year and have been reported in the governmental fund statement of revenues, expenditures and changes in fund balances.	91,667
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.	(74,456)
Change in Net Position of Governmental Activities	$ (72,380)

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

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, 2018.

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 fund is a major fund:

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.

The following funds are nonmajor funds:

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

SB 1 Fund **-** This special revenue fund was established to account for the financial resources received for transportation purposes.

Measure X Fund **-** This special revenue fund was established to account for the financial resources received as part of the Measure X retail transactions and use tax. The funds are to be used to fund transportation safety and mobility projects in Monterey County.

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, 2018.

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	20-50 Years

G. Deferred Outflows/Deferred Inflows

In addition to assets, the Statement of Net Position includes a separate section for deferred outflow of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expenses/expenditure) until then. The City has recognized deferred outflows of resources related to the recognition of the net pension liability and OPEB liability reported in the Statement of Net Position.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The City has recognized deferred inflows of resources related to the recognition of the pension liability and OPEB liability reported in the Statement of Net Position.

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, 2018 totaled $11,160.

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, 2018:

Description	Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018	Due Within One Year
Government Activities	$ 93,333	$ 4,656	$ -	$ 97,989	$ -

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. 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.

M. 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.

N. 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.

O. 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.

P. 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.

Q. Benefit Plans

Pensions

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

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* (GASB Statement No. 68) requires that the reported results pertain to liability and asset information within certain defined timeframes. Liabilities are based on the results of actuarial calculations performed as of June 30, 2016. For this report, the following timeframes are used for City's pension plans:

Valuation Date (VD) .... June 30, 2016
Measurement Date (MD) .... June 30, 2017
Measurement Period (MP) .... June 30, 2016 to June 30, 2017

Other Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the City's Retiree Benefits Plan (the Plan) and additions to/deductions from the Plan's total OPEB liability have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

R. Subsequent Events

Management has considered subsequent events through December 20, 2018, 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. Implemented New Accounting Pronouncements (Change in Accounting Principles)

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - The provisions in Statement 75 are effective for the fiscal year ended June 30, 2018. 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.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

As of June 30, 2018, according to GASB 75, the City's net OPEB liability must be recognized. Therefore, the previous net OPEB liability as of June 30, 2017 in the amount of $26,831 has been shown as a restatement of net position on the Statement of Activities as a separate line item.

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. This statement did not have an impact on the City's financial statements.

T. Upcoming New Accounting Pronouncements

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 doesn't believe this statement will have a significant impact on the City's financial statements.

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 doesn't believe this statement will have a significant impact on the City's financial statements.

GASB issued Statement No. 87, *Leases*. - The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for the City's fiscal year ending June 30, 2021.

The City doesn't believe this statement will have a significant impact on the City's financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* - This Statement addresses additional information to be disclosed in the notes to the financial statements regarding debt, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. 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. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period.* - This Statement addresses interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged.

The City doesn't believe this statement will have a significant impact on the City's financial statements.

NOTE 2 - CASH AND INVESTMENTS

As of June 30, 2018, cash and investments were reported in the financial statements as follows:

	Statement of Net Position		Total Cash and
	Unrestricted	Restricted	Investments
Cash on hand	$ 894,737	$ 42,780	$ 937,517
Local Agency Investment Fund	15,962	-	15,962
Total cash and investments	$ 910,699	$ 42,780	$ 953,479

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 $948,619 at June 30, 2018 and were different from carrying amounts due to deposits in transit and outstanding checks. As of June 30, 2018, the City’s cash balances exceeded insurance by $698,619 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, 2018:

- California Local Agency Investment Fund (LAIF) of $15,932; 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, 2018, 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/laif/index.asp.

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, 2018, 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, 2018, 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).

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 transferred $159,878 from the General Fund to the Gas Tax Fund during the fiscal year ended June 30, 2018.

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, 2018, 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, 2018:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Non-depreciable:				
Land	$ 9,454,173	$ -	$ -	$ 9,454,173
Total Non-Depreciable	9,454,173	-	-	9,454,173
Depreciable:				
Buildings and Improvements	638,486	-	-	638,486
Furniture, Equipment, and Vehicles	1,469,413	160,093	(1,025,219)	604,287
Structure and Improvements	75,000	-	-	75,000
Total Depreciable	2,182,899	160,093	(1,025,219)	1,317,773
Less Accumulated Depreciation for:				
Buildings and Improvements	(355,484)	(15,692)	-	(371,176)
Furniture, Equipment, and Vehicles	(646,963)	(47,428)	342,265	(352,126)
Structure and Improvements	(56,250)	(3,750)	-	(60,000)
Total Accumulated Depreciation	(1,058,697)	(66,870)	342,265	(783,302)
Total Depreciable Capital Asset - Net	1,124,202	93,223	(682,954)	534,471
Total Capital Assets - Net	$ 10,578,375	$ 93,223	$ (682,954)	$ 9,988,644

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

General Government	$ 14,760
Police Department	39,225
Parks	8,858
Community Development	3,750
Public Works	277
Total depreciation expense	$ 66,870

NOTE 5 - LONG-TERM DEBT

The City's long-term debt consisted of the following as of June 30, 2018:

Description	Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018	Due Within One Year
Capital Leases:					
Vehicles	$ 57,029	$ -	$ 41,757	$ 15,272	$ 10,328
Radio System	6,657	-	6,657	-	-
Subtotal leases	63,686	-	48,414	15,272	10,328
Settlement Payable:					
Separation Agreement	133,334	-	91,667	41,667	41,667
Subtotal Settlement Payable	133,334	-	91,667	41,667	41,667
Loans payable:					
MBASIA	50,186	-	43,430	6,756	6,756
FORA	565,455	-	-	565,455	-
FORA Compound Interest	118,213	33,770	-	151,983	-
Federal Group International, LLC	1,200,000	-	-	1,200,000	-
Federal Group International, LLC Compound Interest	113,713	40,686	-	154,399	-
Subtotal loans payable	2,047,567	74,456	43,430	2,078,593	6,756
Total	$ 2,244,587	$ 74,456	$ 183,511	$ 2,135,532	$ 58,751

The following is a summary of the City's long-term debt as of June 30, 2018:

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. The remaining asset under the lease had a total cost of $38,373 and is fully depreciated as of June 30, 2018. The terms of the leases are as follows:

- 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 Crew Cab - 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. However, in the current year the City traded this lease in for the purchase of a new vehicle.

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 and is fully depreciated as of June 30, 2018. The lease was paid off as of June 30, 2018.

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
2019	$ 10,024	$ 800	$ 10,824	$ 6,756	$ 15	$ 6,771
2020	5,248	164	5,412	154,399	-	154,399
2021	-	-	-	-	-	-
2022	-	-	-	1,917,438	-	1,917,438
Total	$ 15,272	$ 964	$ 16,236	$2,078,593	$ 15	$2,078,608

Settlement Payable
During the fiscal year ending June 30, 2017, the City signed a Separation Agreement with a prior employee. The City agreed to pay a total of $150,000 over a course of 18 months, $8,333 per month. Payments commenced on June 1, 2017 and will be completed November 1, 2018.

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, 2018 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 - CALPERS PENSION PLAN

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, 2018, are summarized as follows:

	Miscellaneous		Safety	
	Tier 1	PEPRA	Police	Police PEPRA
Benefit formula	2% @ 60	2% @ 62	2% @ 55	2% @ 57
Benefit vesting schedule	3 Years	3 Years	3 Years	3 Years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	60	62	55	57
Monthly benefits as a % of eligible compensation	2.000%	2.00%	2.00%	2.000%
Required employee contribution rates	7.000%	6.250%	7.000%	9.500%
Required employer contribution rates	7.200%	6.842%	12.242%	9.513%

Employees Covered - At June 30, 2018, the following employees were covered by the benefit terms for the Plans:

	Miscellaneous	Safety
Active	4	6
Transferred	3	3
Separated	1	-
Retired	5	13
Total	13	22

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, 2018, the City's contributions were \$21,692 and \$40,106 for miscellaneous and safety, respectively.

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

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

	Proportionate Share of Net Pension Liability/(Asset)
Miscellaneous	$ 365,685
Safety	1,185,611
Total	**$ 1,551,296**

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, 2017, 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, 2016 rolled forward to June 30, 2017 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The City's proportionate share of the net pension liability for the Plans as of June 30, 2017 and 2018 was as follows:

	Miscellaneous	Safety
Proportion - June 30, 2017	0.00855%	0.02085%
Proportion - June 30, 2018	0.00928%	0.01984%
Change - Increase/(Decrease)	0.00072%	-0.00101%

For the year ended June 30, 2018, the City recognized pension expense of $374,221 for the plans.

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	$ 264,316	$ 20,111
Differences between Expected and Actual Experience	-	11,904
Differences between Projected and Actual Investment Earnings	346,455	205,225
Differences between Employer's Contributions and Proportionate Share of Contributions	98,828	85,262
Change in Employer's Proportion	-	-
Pension Contributions Made Subsequent to Measurement Date	184,174	-
Total	$ 893,773	$ 322,502

The City reported $61,858 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, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30:	Deferred Outflows/ (Inflows) of Resources Miscellaneous and Safety
2019	$ 85,588
2020	213,224
2021	122,515
2022	(34,230)
Total	$ 387,097

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

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

(1) Varies by age and service
(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 7.15 percent for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected 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.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	4.90%	5.38%
Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
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 and Safety
1% Decrease	6.15%
Net Pension Liability	$ 2,424,169
Current	7.15%
Net Pension Liability	$ 1,551,534
1% Increase	8.15%
Net Pension Liability	$ 835,496

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.

Benefits Provided - The City contributes toward post-retirement benefits for employees who retire after age 50 with at least 5 years of service. The City will pay the minimum CalPERS PEMHCA contribution. The monthly payment is $128 in 2017 and $133 in 2018 and is expected to increase further in future years. Payments are made for as long as the retired employee or dependent spouse is living.

Employees Covered by Benefit Terms - At June 30, 2017 (the valuation date), the benefit terms covered the following employees:

Active employees	7
Inactive employees	1
Total employees	8

Contributions - The City makes contributions based on an actuarially determined rate and are approved by the authority of the City's Council. Total contributions during the year were $6,719. Total contributions included in the measurement period were $770. The City's contributions were 0% of payroll during the measurement period June 30, 2017 (reporting period June 30, 2018). Employees are not required to contribute to the plan. There have been no assets accumulated in a trust to provide for the benefits of this plan.

Total OPEB Liability - The City's total OPEB liability was measured as of June 30, 2017 (measurement date) and was determined by an actuarial valuation as of June 30, 2017 (valuation date) for the fiscal year ended June 30, 2018 (reporting date).

Actuarial Assumptions

Valuation Date:	June 30, 2017
Measurement Date:	June 30, 2017
Actuarial Cost Method:	Entry-Age Normal Cost Method
Amortization Period:	9.9 years
Actuarial Assumptions:	
Discount Rate	2.85%
Inflation	2.75%
Payroll Increases	3.25%
Municipal Bond Rate	2.85%
Medical Cost Increases	4.00%
Mortality	2014 CalPERS Active Mortality for Miscellaneous employees
Retirement	2014 CalPERS OPEB Assumptions Model for miscellaneous public employees with 2.0% at 55 retirement.
Service Requirement	5 years

Discount Rate - The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Changes in the Total OPEB Liability - The following summarizes the changes in the total OPEB liability during the year ended June 30, 2018, for the measurement date of June 30, 2017:

Fiscal Year Ended June 30, 2018 (Measurement Date June 30, 2017)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30,2017	$ 279,722	$ -	$ 279,722
Service cost	9,840	-	9,840
Interest in Total OPEB Liability	7,961	-	7,961
Employer contributions	-	-	-
Employer implicit subsidy	-	-	-
Employee contributions	-	-	-
Balance of diff between actual and exp experience	-	-	-
Balance of diff between actual and exp earnings	-	-	-
Balance of changes in assumptions	-	-	-
Actual investment income	-	-	-
Administrative expenses	-	-	-
Benefit payments	(770)	-	(770)
Assumption changes	(33,928)	-	(33,928)
Net changes	(16,897)	-	(16,897)
Balance at June 30, 2018	$ 262,825	$ -	$ 262,825

Covered Payroll at Measurement Date	$ 977,093
Total OPEB Liability as a % of covered payroll	26.90%
Plan Fid. Net Position as a % of Total OPEB Liability	0.00%
Service cost as a % of covered payroll	1.01%
Net OPEB Liability as a % of covered payroll	26.90%
Contributions as a percent of covered payroll	0.08%

The City's plan is nonfunded, meaning there have not been assets placed into an irrevocable trust, therefore the plan fiduciary net position is zero.

Deferred Inflows and Outflows of Resources - At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ -	$ -
Difference between actual and expected earnings	-	-
Change in assumptions	-	(30,501)
OPEB contribution subsequent to measurement date	6,719	-
Totals	$ 6,719	$ (30,501)

Of the total amount reported as deferred outflows of resources related to OPEB, $6,719 resulting from City contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the total OPEB liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,		
2019	$	(3,427)
2020		(3,427)
2021		(3,427)
2022		(3,427)
2023		(3,427)
Thereafter		(13,366)
Total	$	(30,501)

OPEB Expense - The following summarizes the OPEB expense by source during the year ended June 30, 2018, for the measurement date of June 30, 2017:

Service cost	$	9,840
Interest in TOL		7,961
Expected investment income		-
Other		-
Employee contributions		-
Difference between actual and expected experience		-
Difference between actual and expected earnings		-
Change in assumptions		(3,427)
Administrative expenses		-
OPEB Expense	**$**	**14,374**

The following summarizes changes in the total OPEB liability as reconciled to OPEB expense during the year ended June 30, 2018, for the measurement date of June 30, 2017:

Total OPEB liability ending	$	262,825
Total OPEB liability begining		(279,722)
Change in total OPEB liability		(16,897)
Changes in deferred outflows		-
Changes in deferred inflows		30,501
Employer contributions		770
OPEB Expense	**$**	**14,374**

Sensitivity to Changes in the Municipal Bond Rate - The total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a municipal bond rate (used to determine the discount rate) that is one percentage point lower or one percentage point higher, is as follows:

	Municipal Bond Rate		
	2.58% (1% Decrease)	**3.58% (Current Rate)**	**4.58% (1% Increase)**
Total OPEB Liability	$ 311,082	$ 262,825	$ 225,521

Sensitivity to Changes in the Healthcare Cost Trend Rates - The total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than current healthcare cost trend rates, is as follows

	Trend Rate		
	3.0% (1% Decrease)	**4.0% (Current Rate)**	**5.0% (1% Increase)**
Total OPEB Liability	$ 227,175	$ 262,825	$ 307,753

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, 2018 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
For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Positive (Negative)
REVENUES				
Taxes:				
Property taxes	$ 587,020	$ 587,020	624,810	$ 37,790
Other taxes	2,111,400	2,091,400	2,290,689	199,289
Licenses and permits	214,175	246,211	83,087	(163,124)
Reimbursements	-	150	390	240
Fines, forfeits and penalties	10,260	10,260	10,284	24
Grants	111,175	171,525	323,527	152,002
Current services	114,300	135,910	61,427	(74,483)
Parks and recreation	46,000	46,000	71,017	25,017
Other	-	-	1,281	1,281
Total Revenues	3,194,330	3,288,476	3,466,512	178,036
EXPENDITURES				
Payroll and benefits	1,655,330	1,520,440	1,437,651	82,789
Supplies	87,500	140,500	86,041	54,459
Utility and services	228,800	236,600	119,235	117,365
Travel conference	-	-	77,866	(77,866)
Outside services	396,200	537,800	535,281	2,519
Auto ops	125,700	99,413	85,926	13,487
Police and fire	202,400	202,400	252,909	(50,509)
Streets and storm water	412,300	337,300	133,632	203,668
Debt service				
Principal	-	-	91,844	(91,844)
Interest and fiscal charges	-	-	139	(139)
Total Expenditures	3,108,230	3,074,453	2,820,524	253,929
Excess (Deficiency) of Revenues over Expenditures	86,100	214,023	645,988	431,965
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	43,851	43,851
Transfers in	-	-	-	-
Transfers out	-	-	(159,878)	159,878
Total Other Financing Sources (Uses)	-	-	(116,027)	203,729
SPECIAL ITEMS				
Separation agreement	-	-	(91,667)	91,667
Net Change in Fund Balances	$ 86,100	$ 214,023	438,294	$ 727,361
Fund Balances - Beginning of Year			298,225	
Fund Balances Ending			$ 736,519	

Note: The expenditures noted above in excess of appropriations were covered by fund balance, appropriations available in other categories, or revenues in excess of budget.

City of Del Rey Oaks
Schedule of Pension Plan Contributions
For the Fiscal Year Ended June 30, 2018

Miscellaneous Plan

Plan Measurement Date	2017	2016	2015	2014
Fiscal Year Ended	2018	2017	2016	2015
Contractually Required Contributions	$ 34,721	$ 37,901	$ 44,939	$ 33,822
Contributions in Relation to Contractually Required Contributions	34,721	37,901	44,939	33,822
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered Payroll	**$ 308,903**	**$ 455,312**	**$ 427,975**	**$ 359,359**
Contributions as a Percentage of Covered Payroll	**11.24%**	**8.32%**	**10.50%**	**9.41%**

Safety Plan

Plan Measurement Date	2017	2016	2015	2014
Fiscal Year Ended	2018	2017	2016	2015
Contractually Required Contributions	$ 149,453	$ 162,246	$ 185,949	$ 121,758
Contributions in Relation to Contractually Required Contributions	149,453	162,246	185,949	121,758
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered Payroll	**$ 364,424**	**$ 550,333**	**$ 517,291**	**$ 434,355**
Contributions as a Percentage of Covered Payroll	**41.01%**	**29.48%**	**35.95%**	**28.03%**

Notes to Schedule:

Valuation Date:	June 30, 2016
Assumptions Used:	Entry Age Method used for Actuarial Cost Method
	Level Percentage of Payroll and Direct Rate Smoothing
	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 four years are shown.
There were no changes in benefit terms.
PERS discount rates were reduced from 7.65 to 7.15 in 2018.

City of Del Rey Oaks
Schedule of Proportionate Share of Net Pension Liabilities
For the Fiscal Year Ended June 30, 2018

Miscellaneous Plan

Plan Measurement Date	2017	2016	2015	2014
Fiscal Year Ended	2018	2017	2016	2015
Proportion of Net Pension Liability	0.00928%	0.00858%	0.00744%	0.00966%
Proportionate Share of Net Pension Liability	$ 365,685	$ 298,032	$ 204,200	$ 238,626
Covered Payroll	$ 455,312	$ 427,975	$ 359,359	$ 359,384
Proportionate Share of NPL as a % of Covered Payroll	**80.32%**	**69.64%**	**56.82%**	**66.40%**
Plan's Fiduciary Net Position as a % of the TPL	**79.95%**	**80.64%**	**85.61%**	**81.15%**

Safety Plan

Plan Measurement Date	2017	2016	2015	2014
Fiscal Year Ended	2018	2017	2016	2015
Proportion of Net Pension Liability	0.01984%	0.02084%	0.02145%	0.02777%
Proportionate Share of Net Pension Liability	$ 1,185,611	$ 1,079,376	$ 883,859	$ 1,041,743
Covered Payroll	$ 550,333	$ 517,291	$ 434,355	$ 494,277
Proportionate Share of NPL as a % of Covered Payroll	**215.44%**	**208.66%**	**203.49%**	**210.76%**
Plan's Fiduciary Net Position as a % of the TPL	**73.31%**	**73.00%**	**77.39%**	**78.83%**

Fiscal year 2015 was the first year of implementation, therefore only four years are shown.
There were no changes in benefit terms.
PERS discount rates were reduced from 7.65 to 7.15 in 2018.

City of Del Rey Oaks
Schedule of Changes in Total OPEB Liability
For the Fiscal Year Ended June 30, 2018

	Ended June 30, 2018
Total OPEB liability	
Service cost	$ 9,840
Interest	7,961
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	(33,928)
Benefit payments	(770)
Net change in Total OPEB Liability	(16,897)
Total OPEB Liability - beginning	279,722
Total OPEB Liability - ending	$ 262,825
Plan fiduciary net position	
Employer contributions	$ -
Employer implict subsidy	-
Employee contributions	-
Net investment income	-
Difference between estimated and actual earnings	-
Benefit payments	-
Other	-
Administrative expense	-
Net change in plan fiduciary net position	-
Plan fiduciary net position - beginning	-
Plan fiduciary net position - ending	$ -
Net OPEB liability	$ 262,825
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%
Covered employee payroll	$ 977,093
Net OPEB Liability as a percentage of covered payroll	26.90%
Total OPEB Liability as a percentage of covered payroll	26.90%

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

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.

SUPPLEMENTARY INFORMATION

City of Del Rey Oaks
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Gas Tax Fund	SB 1 Fund	Measure X Fund	CDBG Fund	
ASSETS					
Cash and investments	$ 251	$ 4,639	$ 67,453	$ -	$ 72,343
Due from other funds	-	-	-	45,341	45,341
Total assets	$ 251	$ 4,639	$ 67,453	$ 45,341	$ 117,684
FUND BALANCES					
Restricted:					
Streets and roads	$ 251	$ 4,639	$ 67,453	$ -	$ 72,343
Community development	-	-	-	45,341	45,341
Total fund balances	$ 251	$ 4,639	$ 67,453	$ 45,341	$ 117,684

City of Del Rey Oaks
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2018

	Special Revenue Funds				
	Gas Tax Fund	SB 1 Fund	Measure X Fund	CDBG Fund	Total Nonmajor Governmental Funds
REVENUES					
Taxes:					
Sales tax	$ -	$ -	$ 67,453	$ -	$ 67,453
Other taxes	-	4,639	-	-	4,639
Intergovernmental revenues	40,826	-	-	-	40,826
Total Revenues	40,826	4,639	67,453	-	112,918
EXPENDITURES					
Current:					
Public works	93,642	-	-	-	93,642
Capital outlay	107,062	-	-	-	107,062
Total Expenditures	200,704	-	-	-	200,704
Excess (Deficiency) of Revenues over Expenditures	(159,878)	4,639	67,453	-	(87,786)
OTHER FINANCING SOURCES (USES)					
Transfers in	159,878	-	-	-	159,878
Transfers out	-	-	-	-	-
Total Other Financing Sources (Uses)	159,878	-	-	-	159,878
Net Change in Fund Balances	-	4,639	67,453	-	72,092
Fund Balances Beginning	251	-	-	45,341	45,592
Fund Balances Ending	$ 251	$ 4,639	$ 67,453	$ 45,341	$ 117,684

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OTHER INDEPENDENT AUDITOR'S REPORT

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, each major fund, and the aggregate remaining fund information of City of Del Rey Oaks (the "City") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated December 20, 2018.

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 City'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. 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 material weakness 2018-001.

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

1475 Saratoga Ave, Suite 180, San Jose, CA 95129
Tel: 408-217-8749 • E-Fax: 408-872-4159
info@cnallp.com • www.cnallp.com

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

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The 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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

December 20, 2018
San Jose, California

1475 Saratoga Ave, Suite 180, San Jose, CA 95129
Tel: 408-217-8749 • E-Fax: 408-872-4159
info@cnallp.com • www.cnallp.com

Current Year Findings:

Finding 2018-001 – Accounts Payable – Material Weakness

Condition: During our testwork over the City's accounts payable, we noted the City incorrectly recorded data during an upgrade of accounting systems and incorrectly excluded additional expenses from accrual.

Criteria: According to Generally Accepted Accounting Principles (GAAP) all expenses should be recognized when incurred.

Effect: The City's accounts payable was understated by $306,258.

Cause: During the year, the City changed accounting systems. The initial set up of accounts payable invoices was not performed. In addition, the City incorrectly excluded invoices for work performed during fiscal year.

Recommendation: We recommend the City review the balance of accounts payable at year end, ensuring all work performed before year end by contractors is included in the balance.

City's Response: The City agrees with the auditor's recommendation. The transition to a new accounting system was difficult but was a one-time event not to be repeated for a number of years.

Status of Prior Year Findings:

Finding 2017-001 - Resolved