

City of Del Rey Oaks

Annual Financial Report

June 30, 2021



Chavan & Associates, LLP

Certified Public Accountants

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Morgan Hill, CA 95037

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City of Del Rey Oaks
Annual Financial Report
For the year ended June 30, 2021

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FINANCIAL SECTION



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, 2021, 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.



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, as of June 30, 2021, and the respective changes in financial position and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining 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 relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements 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 March 10, 2022 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

C & A LLP

March 10, 2022
Morgan Hill, 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, 2021. 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, 2021 by \$18.97 million. However, \$1.59 million is a net investment in capital assets, restricted net position of \$19.11 million, leaving an unrestricted deficit net position of \$1.62 million.
- The City's total net position increased by \$122,323 from current year operations.
- The City's governmental funds reported combined ending fund balance of \$21.03 million. The net change in fund balances was an increase of \$83,008.
- The General Fund reported a fund balance of \$11.18 million. The net change was an increase of \$49,850.

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 increased by \$122,323 in fiscal year 2021 from fiscal year 2020. The City's net investment in assets of \$1.28 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
As of June 30**

	<u>2021</u>	<u>2020</u>	<u>Increase (Decrease)</u>
Assets			
Current and other assets	\$ 21,403,828	\$ 21,087,445	\$ 316,383
Capital assets	2,332,998	2,089,279	243,719
Total Assets	<u>\$ 23,736,826</u>	<u>\$ 23,176,724</u>	<u>\$ 560,102</u>
Deferred Outflows of Resources			
	<u>\$ 441,269</u>	<u>\$ 384,060</u>	<u>\$ 57,209</u>
Liabilities			
Current and other liabilities	\$ 377,267	\$ 143,685	\$ 233,582
Noncurrent liabilities	4,502,300	4,256,386	245,914
Total Liabilities	<u>\$ 4,879,567</u>	<u>\$ 4,400,071</u>	<u>\$ 479,496</u>
Deferred Inflows of Resources			
	<u>\$ 208,210</u>	<u>\$ 192,718</u>	<u>\$ 15,492</u>
Net Position			
Net investment in capital assets	\$ 1,594,980	\$ 1,284,344	\$ 310,636
Restricted	19,113,651	19,039,139	74,512
Unrestricted	<u>(1,618,313)</u>	<u>(1,355,488)</u>	<u>(262,825)</u>
Total Net Position	<u>\$ 19,090,318</u>	<u>\$ 18,967,995</u>	<u>\$ 122,323</u>

- Current assets and capital assets increased by \$560,102, while current and noncurrent liabilities also increased by \$479,496.
- Increases in capital assets were mainly due to vehicle and equipment purchases, as well as a slurry seal project.
- Increases in noncurrent liabilities were mainly the result of GASB 68 and GASB 75 adjustments to the city's pension and OPEB plans.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Statement of Activities
As of June 30

Functions/Programs	2021	2020	Increase (Decrease)
Revenue:			
Program Revenues:			
Charges for services	\$ 1,216,346	\$ 1,343,856	\$ (127,510)
Operating grants and contributions	229,252	361,583	(132,331)
Capital grants and contributions	72,495	9,682,439	(9,609,944)
General Revenues:			
Property tax	717,621	660,282	57,339
Sales tax	491,759	376,614	115,145
Transaction tax	689,351	808,102	(118,751)
Franchise tax	169,716	163,594	6,122
Business license tax	250,352	213,602	36,750
Other taxes	264,245	651,721	(387,476)
Investment earnings	60,567	36,675	23,892
Other revenue	20,147	14,769	5,378
Total Revenue	4,181,851	14,313,237	(10,131,386)
Expenses:			
General government	1,183,067	1,314,429	(131,362)
Public safety	2,386,032	2,629,147	(243,115)
Public works	294,575	172,593	121,982
Community development	79,619	78,017	1,602
Parks	43,918	92,286	(48,368)
Interest on long-term debt	70,502	85,427	(14,925)
Total Expenses	4,057,713	4,371,899	(314,186)
Special and Extraordinary Items:			
Special item - gain/loss on disposal of capital assets	(1,815)	168,838	(170,653)
Special item - release of obligation due to FORA	-	4,465,100	(4,465,100)
Total Special and Extraordinary Items	(1,815)	4,633,938	(4,635,753)
Change in Net Position	122,323	14,575,276	(14,452,953)
Net Position, Beginning of Year	18,967,995	4,392,719	14,575,276
Net Position, End of Year	\$ 19,090,318	\$ 18,967,995	\$ 122,323

- The decrease in capital grants and contributions is mainly due to contributions received from FORA in 2020.
- The decrease in transaction tax is due to the effects of pandemics.
- The decrease in other taxes is due to the effects of the pandemic on cannabis taxes.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets as of June 30, 2021, amounted to \$2.33 million (net of accumulated depreciation). This amount included land, buildings, improvements, furniture, equipment, and vehicles.

Debt Administration - At fiscal year end, the City had \$2.23 million in debt. Additions to debt were due to compounding interest from the Federal Group International loan, while deletions were due to principal payments on the TAMC Measure X loan and capital lease.

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 \$21.03 million. During the current fiscal year, the fund balance of the City's total governmental funds increased \$83,008.

FUND BUDGETARY HIGHLIGHTS

General Fund - The original budgeted general fund revenues increased \$687 thousand. General Fund estimated budgeted revenues exceeded the actuals by \$351 thousand. The original budgeted general fund expenditures increased by \$100 thousand. Actual expenditures were \$111 thousand more than final budgeted expenditures.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Fiscal year 2020-21 has felt the impact of the COVID-19 pandemic. Due to reductions in Sales tax and cannabis excise taxes, the City took steps to reduce its expenditures and has managed to maintain a balanced budget. As the City and the State come out of the pandemic, the City is seeing a slight increase in sales tax. Cannabis tax is expected to remain low due to the pandemic and the large number of competing dispensaries in the area. The City is expecting to maintain a balanced budget.

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 Ray Oaks
Statement of Net Position
June 30, 2021

ASSETS

Current Assets:

Cash and investments	\$	3,473,806
Restricted cash and investments		8,685,795
Receivables:		
Taxes		314,348
Other receivables		25,206
Land held for resale		8,904,673
Total Current Assets		21,403,828

Noncurrent Assets:

Capital Assets:

Nondepreciable		549,500
Depreciable, net of accumulated depreciation		1,783,498
Total Capital Assets - Net		2,332,998
Total Assets	\$	23,736,826

DEFERRED OUTFLOWS OF RESOURCES

OPEB Adjustments	\$	120,096
Pension Adjustments		321,173
Total Deferred Outflows of Resources	\$	441,269

LIABILITIES

Current Liabilities:

Accounts payable	\$	328,683
Payroll related liabilities		23,440
Prepaid business licenses		8,255
Prepaid developer deposits		9,063
Long-term debt - due within one year		7,826
Total Current Liabilities		377,267

Noncurrent Liabilities:

Long-term debt - due in more than one year		2,219,266
Compensated absences		102,059
Net pension liability		1,683,831
Total OPEB liability		497,144
Total Noncurrent Liabilities		4,502,300
Total Liabilities	\$	4,879,567

DEFERRED INFLOWS OF RESOURCES

Pension Adjustments	\$	208,210
Total Deferred Inflows of Resources	\$	208,210

NET POSITION

Net investment in capital assets	\$	1,594,980
Restricted for land held for resale		8,904,673
Restricted for pension		351,751
Restricted for streets and roads		7,520,025
Restricted for habitat management		775,204
Restricted for capital projects		1,561,998
Unrestricted		(1,618,313)
Total Net Position	\$	19,090,318

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

City of Del Ray Oaks
Statement of Activities
For the Fiscal Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues			Total	Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
General government	\$ 1,183,067	360,909	\$ -	\$ 72,495	\$ 433,404	\$ (749,663)
Public safety	2,386,032	727,887	185,251	-	913,138	(1,472,894)
Public works	294,575	89,864	44,001	-	133,865	(160,710)
Community development	79,619	24,289	-	-	24,289	(55,330)
Parks	43,918	13,398	-	-	13,398	(30,520)
Interest and fiscal charges	70,502	-	-	-	-	(70,502)
Total	\$ 4,057,713	\$ 1,216,346	\$ 229,252	\$ 72,495	\$ 1,518,093	(2,539,620)

General Revenues and Special Item:

Taxes:

Property taxes	717,621
Sales tax	491,759
Transaction tax	689,351
Franchise tax	169,716
Business license tax	250,352
Other taxes	264,245
Investment earnings	60,567
Other revenues	20,147

Special item:

Gain (loss) on disposal of capital assets	(1,815)
Total General Revenues and Special Items	2,661,943

Change in Net Position 122,323

Net Position - Beginning of Year 18,967,995

Net Position - End of Year \$ 19,090,318

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

City of Del Ray Oaks
Balance Sheet
Governmental Funds
June 30, 2021

	General Fund	SBR Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 1,950,484	\$ -	\$ 2,579,490	\$ 4,529,974
Restricted cash and investments	360,814	7,268,813	-	7,629,627
Receivables:				
Taxes	305,424	-	8,924	314,348
Other receivables	25,206	-	-	25,206
Land held for resale	8,904,673	-	-	8,904,673
Total assets	\$ 11,546,601	\$ 7,268,813	\$ 2,588,414	\$ 21,403,828
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 328,683	\$ -	\$ -	\$ 328,683
Payroll related liabilities	23,440	-	-	23,440
Prepaid business licenses	8,255	-	-	8,255
Prepaid developer deposits	9,063	-	-	9,063
Total liabilities	369,441	-	-	369,441
Fund Balances:				
Restricted:				
Land held for resale	8,904,673	-	-	8,904,673
Pension	351,751	-	-	351,751
Streets and roads	-	7,268,813	251,212	7,520,025
Habitat management	-	-	775,204	775,204
Capital projects	-	-	1,561,998	1,561,998
Unassigned:				
Economic uncertainties	1,652,182	-	-	1,652,182
Unappropriated	268,554	-	-	268,554
Total fund balances	11,177,160	7,268,813	2,588,414	21,034,387
Total liabilities and fund balances	\$ 11,546,601	\$ 7,268,813	\$ 2,588,414	\$ 21,403,828

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

City of Del Ray Oaks
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2021

Total Fund Balances - Total Governmental Funds \$ 21,034,387

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	\$	3,250,228	
Less: accumulated depreciation		(917,230)	
Total Capital Assets		2,332,998	2,332,998

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:

Difference between actual and expected experience		49,012	
Change in assumptions		67,652	
Contribution subsequent to measurement date		3,432	

Pension adjustments:

Net change in assumptions		(7,323)	
Net difference between expected and actual experience		118,842	
Net difference between projected and actual investment earnings		40,192	
Net differences between employer's contributions and proportionate share of contributions		(164,625)	
Net change in employer's proportion		(1,320)	
Contribution subsequent to measurement date		127,197	

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	\$	(2,227,092)	
Compensated absences		(102,059)	
Net pension liability		(1,683,831)	
Total OPEB liability		(497,144)	
Total Long-Term Obligations		(4,510,126)	(4,510,126)

Net Position of Governmental Activities **\$ 19,090,318**

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

City of Del Ray Oaks
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2021

	General Fund	SBR Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property taxes	\$ 717,621	\$ -	\$ -	\$ 717,621
Sales tax	409,995	-	81,764	491,759
Transaction tax	665,778	-	-	665,778
Franchise tax	169,716	-	-	169,716
Business license tax	250,352	-	-	250,352
Other taxes	257,990	-	29,828	287,818
Licenses and permits	97,322	-	-	97,322
Fines, forfeits and penalties	2,208	-	-	2,208
Charges for current services	1,049,906	-	-	1,049,906
Intergovernmental revenues	207,746	-	94,001	301,747
Interest, rents and concessions	127,477	-	-	127,477
Other revenues	20,147	-	-	20,147
Total Revenues	<u>3,976,258</u>	<u>-</u>	<u>205,593</u>	<u>4,181,851</u>
EXPENDITURES				
Current:				
General government	1,109,653	-	-	1,109,653
Public safety	2,248,165	-	-	2,248,165
Public works	187,594	-	31,625	219,219
Community development	78,969	-	650	79,619
Parks	28,126	-	-	28,126
Capital outlay	310,922	-	12,734	323,656
Debt service				
Principal	7,619	-	59,298	66,917
Interest and fiscal charges	5,360	-	18,128	23,488
Total Expenditures	<u>3,976,408</u>	<u>-</u>	<u>122,435</u>	<u>4,098,843</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(150)</u>	<u>-</u>	<u>83,158</u>	<u>83,008</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	50,000	-	-	50,000
Transfers out	-	-	(50,000)	(50,000)
Total Other Financing Sources (Uses)	<u>50,000</u>	<u>-</u>	<u>(50,000)</u>	<u>-</u>
Net Change in Fund Balances	49,850	-	33,158	83,008
Fund Balances Beginning	11,127,310	7,268,813	2,555,256	20,951,379
Fund Balances Ending	<u>\$ 11,177,160</u>	<u>\$ 7,268,813</u>	<u>\$ 2,588,414</u>	<u>\$ 21,034,387</u>

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

City of Del Ray 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, 2021

Net Change in Fund Balances - Total Governmental Funds	\$ 83,008
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	389,119
Depreciation expense	(143,585)
Gain (loss) on disposal of capital assets	(1,815)
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.	
	(9,835)
In governmental funds, actual contributions to pension plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year pension expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.	
	(149,349)
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.	
	(65,122)
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	66,917
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.	
	(47,015)
Change in Net Position of Governmental Activities	<u>\$ 122,323</u>

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

City of Del Rey Oaks
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

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, 2021.

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.

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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

City of Del Rey Oaks
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For the Fiscal Year Ended June 30, 2021

expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the unearned revenue is removed from the combined balance sheet and revenue is recognized.

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

The following funds are major funds:

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

SBR Construction Fund - This capital project fund was established to account for the financial resources received as a result of the dissolution of FORA to be used for the completion of construction services for the South Boundary Roadway project that were initiated by FORA.

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.

CARES Act Fund - This special revenue fund was established to account for the financial resources received from the Federal Coronavirus Aid, Relief, and Economic Security Act through the Department of Finance. The funds are to be used to respond to or mitigate COVID-19.

Fora Habitat Management Fund - This special revenue fund was established to account for the financial resources received as a result of the dissolution of FORA to be used maintenance and management of properties that were previously under the purview of FORA.

SBR Engineering Fund - This capital project fund was established to account for the financial resources received as a result of the dissolution of FORA to be used for the completion of engineering services for the South Boundary Roadway that were initiated by FORA.

SBR/GJM Intersection Fund - This capital project fund was established to account for the financial resources received as a result of the dissolution of FORA to be used for the completion of an intersection construction project that was initiated by FORA.

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

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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

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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. Assets Held for Sale

Property that has been classified as held for sale have met the following criteria:

- Management has committed to a plan to sell the asset;
- An active program to locate a buyer and other actions required to complete the plan of sale have been initiated;
- The sale of the property or asset within one year is probable and will qualify for accounting purposes as a sale;
- The asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- Actions required to complete the plan of sale indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

G. 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, 2021.

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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

H. 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.

I. 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.

J. 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. Member contributions for the fiscal year ending June 30, 2021 totaled \$11,400.

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.

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K. 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, 2021:

Description	June 30, 2020	Earned	Taken	June 30, 2021	Due Within One Year
Government Activities	\$ 92,224	\$ 9,835	\$ -	\$ 102,059	\$ 31,290

L. Long-Term Liabilities

In the government-wide financial statements, long-term liabilities 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.

M. Fund Balances

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

Nonspendable

Nonspendable 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.

Committed

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.

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Unassigned

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

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

Flow Assumption /Spending Order Policy

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

N. Net Position

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

Net Investment in Capital Assets

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

Restricted Net Position

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

Unrestricted Net Position

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

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

Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

O. Property Taxes

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

Monterey County is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions. Property taxes are levied in equal installments on November 1 and February 1. They become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year.

City of Del Rey Oaks
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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 XIII A of the State of California Constitution (known as Proposition 13) to levy a maximum tax of \$1.00 per \$100 of full cash value.

P. Unearned Revenue

Unearned revenue arises when assets (such as cash) are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements (such as qualified expenditures) are met are recorded as liabilities from unearned revenue.

Q. Unavailable 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 as unavailable revenue.

R. 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.

S. 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. 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. For this report, the following timeframes were used:

Valuation Date (VD) June 30, 2019
Measurement Date (MD) June 30, 2020
Measurement Period (MP) June 30, 2019 to June 30, 2020

Other Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources, and OPEB expense, information about the City's Retiree Benefits Plan (the Plan) and additions to/deductions are based on when they are due and payable in accordance with the benefit terms for the

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measurement period included in the OPEB plan's actuarial reports.

Valuation Date (VD)	June 30, 2019
Measurement Date (MD)	June 30, 2020
Measurement Period (MP)	June 30, 2019 to June 30, 2020

T. Implementation of New Accounting Pronouncements

GASB Statement No. 84, "Fiduciary Activities." Issued in January 2017, this statement establishes criteria for identifying fiduciary activities for accounting and financial reporting purposes and describes four fiduciary funds that should be reported, if applicable. The statement is effective beginning fiscal year 2021. The City does not meet the fiduciary criteria by classifying activities related to pension and other postemployment benefits as fiduciary and did not report any activities as custodial funds.

U. Upcoming New Accounting Pronouncements

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements of the following recent GASB Statements:

GASB Statement No. 87, "Leases." Issued in June 2017, this statement establishes standards of accounting and financial reporting for leases by lessees and lessors. It provides guidance on accounting treatment of lease assets, lease liability, short-term leases, certain regulated leases, measurement for leases other than short-term leases and contracts that transfer ownership, subleases, lease-leaseback transactions, intra-entity leases, and leases between related parties. The statement will be effective beginning fiscal year 2022.

GASB Statement No. 91, "Conduit Debt Obligations." Issued in May 2019, this statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The statement will be effective beginning fiscal year 2023.

GASB Statement No. 92, "Omnibus 2020." Issued in January 2020, this statement was issued for clarity and consistency by addressing practice issues identified from the implementation and application of certain GASB statements. The statement will be effective beginning fiscal year 2022.

GASB Statement No. 93, "Replacement of Interbank Offered Rates." Issued in March 2020, this statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR) such as the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021. The statement will be effective beginning fiscal year 2022.

GASB Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements." Issued in March 2020, this statement is to improve financial reporting by establishing the definitions of public-private and public-public partnership arrangements (PPPs) and available payment arrangement (APAs) and providing uniform guidance on accounting and financial reporting for transactions that meet those definitions. The statement will be effective beginning fiscal year 2023.

GASB Statement No. 96, "Subscription-Based Information Technology Arrangements." Issued in May 2020, the statement provides guidance on the accounting and financial reporting for subscription based information technology arrangements (SBITAs) for governments by (1) defining a SBITA, (2) establishing

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that a SBITA results in a right-to-use subscription asset-an intangible asset-and a corresponding subscription liability, (3) providing the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA, and (4) requiring note disclosures regarding a SBITA. The statement will be effective beginning fiscal year 2023.

GASB Statement No. 97, "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32." Issued in June 2020, the statement will result in more consistent financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans (e.g., certain Section 457 plans), while mitigating the costs associated with reporting those plans. The statement will be effective beginning fiscal year 2022.

NOTE 2 - CASH AND INVESTMENTS

As of June 30, 2021, cash and investments were reported in the financial statements as follows:

	Statement of Net Position		Total
	Unrestricted	Restricted	Cash and Investments
Cash in bank	\$ 427,927	\$ 9,063	\$ 436,990
Cash with fiscal agent	-	8,676,732	8,676,732
Local Agency Investment Fund	3,045,879	-	3,045,879
Total cash and investments	\$ 3,473,806	\$ 8,685,795	\$ 12,159,601

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 Deposits Insurance Corporation (FDIC).

The bank balances before reconciling items totaled \$504,610 at June 30, 2021 and were different from carrying amounts due to deposits in transit and outstanding checks. As of June 30, 2021, the City's cash balances exceeded insurance by \$254,610 but were collateralized as discussed above.

B. Restricted Cash with Fiscal Agent

For the year ended June 30, 2021, the City had a balance of \$351,751 in a Public Agency Retirement Services (PARS) Pension Rate Stabilization Program (PRSP) 115 irrevocable trust for pensions. Participating agencies maintain oversight of investment management and control over the risk tolerance level. Assets in the plan can be accessed to offset unexpected rate increases or be used as a rainy-day fund related to their pension plan (CalPERS). These assets are not dedicated to providing plan benefits to plan participants and are not directly used to pay benefits until such time as the City transfers the funds from the

City of Del Rey Oaks
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PARS trust to the pension plan (CalPERS). The trust restricts the use of the assets to be used solely for pension related expenses. Amounts held in Trust for FORA Dissolution Administration and Successor Agency obligations are also reported as restricted cash and investments.

C. 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, 2021:

- California Local Agency Investment Fund (LAIF) of \$3,045,879; valued using Level 2 inputs.

D. Investment Policies

City Investment Policy

The City has an investment policy, which is in accordance with the 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

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E. External Investment Pool

The City's investments with LAIF at June 30, 2021, 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>.

F. 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, 2021, 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, 2021, 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).

City of Del Rey Oaks
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

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 \$50,000 from the General Fund to the CARES Act Fund during the fiscal year ended June 30, 2021.

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. The City did not have any interfund receivables and payables as of June 30, 2021.

NOTE 4 - CAPITAL ASSETS

Capital assets consisted of the following as of June 30, 2021:

	Balance June 30, 2020	Additions	Deletions/ Adjustments	Balance June 30, 2021
Non-depreciable:				
Land	\$ 549,500	\$ -	\$ -	\$ 549,500
Total Non-Depreciable	<u>549,500</u>	<u>-</u>	<u>-</u>	<u>549,500</u>
Depreciable:				
Buildings and Improvements	638,486	52,952	-	691,438
Furniture, Equipment, and Vehicles	650,247	208,368	(66,724)	791,891
Structure and Improvements	1,089,600	127,799	-	1,217,399
Total Depreciable	<u>2,378,333</u>	<u>389,119</u>	<u>(66,724)</u>	<u>2,700,728</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(402,562)	(15,692)	-	(418,254)
Furniture, Equipment, and Vehicles	(368,492)	(73,413)	64,909	(376,996)
Structure and Improvements	(67,500)	(54,480)	-	(121,980)
Total Accumulated Depreciation	<u>(838,554)</u>	<u>(143,585)</u>	<u>64,909</u>	<u>(917,230)</u>
Total Depreciable Capital Asset - Net	<u>1,539,779</u>	<u>245,534</u>	<u>(1,815)</u>	<u>1,783,498</u>
Total Capital Assets - Net	<u>\$ 2,089,279</u>	<u>\$ 245,534</u>	<u>\$ (1,815)</u>	<u>\$ 2,332,998</u>

During fiscal year ended June 30, 2019, the City reclassified \$8,904,673 in land to “held for resale” as the City is in the process of selling the land, which the City originally received as part of an Economic Development Conveyance through the Fort Ord Reuse Authority (FORA). The land remained classified as held for sale as of June 30, 2021.

City of Del Rey Oaks
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

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

General Government	\$ 10,452
Police Department	55,820
Parks	10,496
Public Works	<u>66,817</u>
Total depreciation expense	<u>\$ 143,585</u>

NOTE 5 - LONG-TERM LIABILITIES

The City's long-term liabilities consisted of the following as of June 30, 2021:

Description	Balance June 30, 2020	Additions	Retirements	Balance June 30, 2021	Due Within One Year
Capital Leases:					
Software	\$ 40,222	\$ -	\$ 7,619	\$ 32,603	\$ 7,826
Subtotal leases	<u>40,222</u>	<u>-</u>	<u>7,619</u>	<u>32,603</u>	<u>7,826</u>
Loans payable:					
Federal Group International, LLC	1,200,000	-	-	1,200,000	-
Federal Group International, LLC					
Compound Interest	242,059	47,015	-	289,074	-
TAMC Measure X Loan	764,713	-	59,298	705,415	-
Subtotal loans payable	<u>2,206,772</u>	<u>47,015</u>	<u>59,298</u>	<u>2,194,489</u>	<u>-</u>
Total	<u>\$ 2,246,994</u>	<u>\$ 47,015</u>	<u>\$ 66,917</u>	<u>\$ 2,227,092</u>	<u>\$ 7,826</u>

The following is a summary of the City's long-term debt as of June 30, 2021:

Records Management Software Capital Lease

The City entered into a software and service agreement with Sun Ridge System, Inc. to receive computer software and services from Sun Ridge System, Inc. The lease qualifies as a 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 principal and interest payments on the lease are \$8,713 with the interest rate of 2.721%.

As of June 30, 2021, the annual debt service requirements on the Records Management Software Capital Lease are as follows:

Year Ending June 30,	Principal	Interest	Total
2022	\$ 7,826	\$ 887	\$ 8,713
2023	8,039	674	8,713
2024	8,258	455	8,713
2025	<u>8,480</u>	<u>231</u>	<u>8,711</u>
Total	<u>\$ 32,603</u>	<u>\$ 2,247</u>	<u>\$ 34,850</u>

City of Del Rey Oaks
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

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 full balance of the loan, including accrued interest, totaling \$1,442,049 will come due in the fiscal year ending June 30, 2021.

TAMC Measure X Loan Payable

In December 2018, the City entered into an agreement with the Transportation Agency for Monterey County (TAMC) for the purpose of receiving advance funding for the Del Rey Oaks Slurry Seal (the project). As of June 30, 2021, the TAMC had advanced \$817,659 to the City. The loan is payable from Measure X revenue, which can only be estimated year to year, so no amortization schedule has been established at this time. An interest rate of 2.5% is fixed until such time as the Monterey County Pool Quarterly Rate rises above 2.0%, at which point the interest rate will be variable, tied to the Monterey County Pool Quarterly Rate plus 50 basis points, only becoming fixed again at 2.5% when the Monterey County Pool Quarterly Rate drops below 2.0%. The outstanding balance on the loan at June 30, 2021, was \$705,415.

NOTE 6 - 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 7 - 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

City of Del Rey Oaks
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

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. Members with five years of total service are eligible to retire at age 55 with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after 10 years of service. The death benefit is the Optional Settlement 2W Death Benefit. The cost-of-living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2021, are summarized as follows:

	Miscellaneous		Safety	
	Tier 1	PEPRA	Police	Police - PEPRA
Benefit formula	2% @ 60	2% @ 62	2.0% @ 55	2.0% @ 57
Benefit vesting schedule	5 Years	5 Years	5 Years	5 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	2.00%	2.00%	3.00%	2-2.70%
Required employee contribution rates	7.000%	6.750%	7.000%	10.000%
Required employer contribution rates	8.794%	7.732%	14.810%	11.114%

Employees Covered - At June 30, 2021 (fiscal year), June 30, 2019 (the valuation date), the following employees were covered by the benefit terms for the Plans:

	Miscellaneous	Safety
Active	4	11
Transferred	3	1
Separated	2	1
Retired	6	15
Total	15	28

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, 2021, the City's contributions were \$16,607 and \$110,590 for miscellaneous and safety, respectively.

City of Del Rey Oaks
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

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

As of June 30, 2021, 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	\$ 450,973
Safety	1,232,857
Total	\$ 1,683,831

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, 2020, 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, 2019 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, 2020 and 2021 was as follows:

	Miscellaneous	Safety	Combined Plans
Proportion - June 30, 2020	0.01011%	0.01889%	0.01546%
Proportion - June 30, 2021	0.01069%	0.01850%	0.01548%
Change - Increase/(Decrease)	0.00058%	-0.00039%	0.00002%

For the year ended June 30, 2021, the City recognized pension expense of \$276,547 for the plans.

At June 30, 2021, 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	\$ -	\$ 7,323
Differences between Expected and Actual Experience	118,842	-
Differences between Projected and Actual Investment Earnings	40,192	-
Differences between Employer's Contributions and Proportionate Share of Contributions	3,518	168,143
Change in Employer's Proportion	31,424	32,744
Pension Contributions Made Subsequent to Measurement Date	127,197	-
Total	\$ 321,173	\$ 208,210

The City reported \$127,197 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, 2022.

City of Del Rey Oaks
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

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	Deferred Outflows/(Inflows)of Resources		
	Miscellaneous	Safety	Total
Ending June 30:			
2022	\$ (5,922)	\$ (28,301)	\$ (34,223)
2023	685	(9,428)	(8,742)
2024	4,223	4,656	8,879
2025	6,426	13,426	19,852
2026	-	-	-
Thereafter	-	-	-
Total	\$ 5,412	\$ (19,647)	\$ (14,234)

Actuarial Assumptions - The total pension liabilities in the June 30, 2019 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	2.75%
Projected Salary Increase	(1)
Investment Rate of Return	7.15% (2)
Mortality	(3)

- (1) Varies by entry 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 stress test results are presented in a detailed report that can be obtained from the CalPERS' website.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns

City of Del Rey Oaks
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

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 rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

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

<u>Asset Class (a)</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1 - 10 (b)</u>	<u>Real Return Years 11+ (c)</u>
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Sensitive	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

- (a) In the System's ACFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.
- (b) An expected inflation of 2.0% used for this period.
- (c) An expected inflation of 2.92% 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:

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.15%	6.15%
Net Pension Liability	\$ 728,944	1,870,293
Current	7.15%	7.15%
Net Pension Liability	\$ 450,973	1,232,857
1% Increase	8.15%	8.15%
Net Pension Liability	\$ 221,295	709,781

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

City of Del Rey Oaks
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

NOTE 8 - 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 \$139 in 2020 and \$143 in 2021 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, 2019 (the valuation date), the benefit terms covered the following employees:

Active employees	15
Inactive employees	2
Total employees	17

Contributions - The City makes contributions based on an actuarially determined rate and are approved by the authority of the City's Council. Total contributions to the OPEB plan during the year were \$3,432. Total benefit payments included in the measurement period were \$1,668. The actuarially determined contribution for the measurement period was \$74,765. The City's contributions were 0.13% of covered employee payroll during the measurement period June 30, 2019 (reporting period June 30, 2021). 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.

Actuarial Assumptions

Valuation Date:	June 30, 2019
Measurement Date:	June 30, 2020
Actuarial Cost Method:	Entry-Age Normal Cost Method
Amortization Period:	9.8 years
Actuarial Assumptions:	
Discount Rate	2.21%
Inflation	2.75%
Salary Increases	3.25%
Healthcare Trend Rate	4.00%
Mortality	2017 CalPERS OPEB Assumptions Model for miscellaneous
Retirement	2017 CalPERS OPEB Assumptions Model for miscellaneous public employees with 2.0% at 55 retirement.

City of Del Rey Oaks
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

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, 2021, for the measurement date of June 30, 2019:

Fiscal Year Ended June 30, 2021 (Measurement Date June 30, 2020)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30,2020	\$ 340,535	\$ -	\$ 340,535
Service cost	49,908	-	49,908
Interest in Total OPEB Liability	11,770	-	11,770
Balance of changes in assumptions	103,454	-	103,454
Benefit payments	(8,523)	-	(8,523)
Net changes	156,609	-	156,609
Balance at June 30, 2021	\$ 497,144	\$ -	\$ 497,144
Covered Employee Payroll	\$ 1,308,070		
Total OPEB Liability as a % of Covered Employee Payroll	38.01%		
Plan Fid. Net Position as a % of Total OPEB Liability	0.00%		
Service Cost as a % of Covered Employee Payroll	3.82%		
Net OPEB Liability as a % of Covered Employee Payroll	38.01%		

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, 2021, 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	\$ 49,012	\$ -
Change in assumptions	67,652	-
OPEB contribution subsequent to measurement date	3,432	-
Totals	\$ 120,096	\$ -

Of the total amount reported as deferred outflows of resources related to OPEB, \$3,432 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, 2022.

City of Del Rey Oaks
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

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,		
2022	\$	13,731
2023		13,731
2024		13,731
2025		13,729
2026		13,731
Thereafter		48,011
Total	\$	<u>116,664</u>

OPEB Expense - The following summarizes the OPEB expense by source during the year ended June 30, 2021, for the measurement date of June 30, 2019:

Service cost	\$	49,908
Interest in TOL		11,770
Difference between actual and expected experience		7,315
Change in assumptions		6,416
OPEB Expense	\$	<u>75,409</u>

The following summarizes changes in the total OPEB liability as reconciled to OPEB expense during the year ended June 30, 2021, for the measurement date of June 30, 2019:

Total OPEB liability ending	\$	497,144
Total OPEB liability beginning		<u>(340,535)</u>
Change in total OPEB liability		156,609
Changes in deferred outflows		(85,079)
Changes in deferred inflows		(4,644)
Employer contributions and implicit subsidy		8,523
OPEB Expense	\$	<u>75,409</u>

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		
	(1% Decrease)	2.21%	(1% Increase)
Total OPEB Liability	\$ 607,689	\$ 497,144	\$ 413,899

City of Del Rey Oaks
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

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		
	(1% Decrease)	4.00%	(1% Increase)
Total OPEB Liability	\$ 412,042	\$ 497,144	\$ 608,358

NOTE 9 - 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 10 - 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, 2021 was \$208,550. Either party may cancel the agreement with at least 90 days written notice.

The City has an agreement, effective as of October 2018, with the Monterey Peninsula Airport District (Airport), a Special District, for the City to provide law enforcement services to the Airport pursuant to Government Code Sections 54981 and 55632. The City received \$774,306, a portion of the annual fee of \$1,097,408, from the Airport for the initial year, then each subsequent year the fee will be increased by 2.5% per year or 50% of known cost increases, subject to the annual true up of costs to account for actual costs incurred by the City.

NOTE 11 - SUBSEQUENT EVENTS

Management has evaluated all subsequent events from the statement of financial position date of June 30, 2021, through the date the financial statements were available to be issued, March 10, 2022. Beginning in March 2020, the United States economy began suffering adverse effects from the COVID 19 Virus Crisis ("CV19 Crisis"). While the future impact of the CV19 Crisis cannot be reasonably estimated, management believes the District has sufficient reserves to withstand the potential negative impact CV19 may have on the economy and will continue to monitor the District's operating budget to account for CV19 declines.



REQUIRED SUPPLEMENTARY INFORMATION

City of Del Ray Oaks
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (GAAP Basis)
General Fund
For the Fiscal Year Ended June 30, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property taxes	\$ 633,450	\$ 681,950	\$ 717,621	\$ 35,671
Other taxes	1,690,650	2,047,850	1,753,831	(294,019)
Licenses and permits	57,700	82,150	97,322	15,172
Reimbursements	900	900	2,503	1,603
Fines, forfeits and penalties	12,000	5,000	2,208	(2,792)
Grants	129,000	225,000	207,746	(17,254)
Current services	992,300	1,185,536	1,059,422	(126,114)
Parks and recreation	40,000	70,000	66,910	(3,090)
Other	84,000	29,000	68,695	39,695
Total Revenues	<u>3,640,000</u>	<u>4,327,386</u>	<u>3,976,258</u>	<u>(351,128)</u>
EXPENDITURES				
Payroll and benefits	2,256,689	2,627,421	2,297,767	329,654
Office and Supplies	127,370	234,520	119,294	115,226
Utility and services	158,710	164,520	125,858	38,662
Other services	56,120	33,700	38,902	(5,202)
Outside services	470,330	538,860	916,706	(377,846)
Auto ops	80,050	97,030	40,568	56,462
Police and fire	217,720	217,720	219,615	(1,895)
Streets and storm water	251,810	(39,990)	151,432	(191,422)
Capital improvement	130,000	(25,000)	53,287	(78,287)
Debt service				
Principal	16,500	16,500	7,619	8,881
Interest and fiscal charges	-	-	5,360	(5,360)
Total Expenditures	<u>3,765,299</u>	<u>3,865,281</u>	<u>3,976,408</u>	<u>(111,127)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(125,299)</u>	<u>462,105</u>	<u>(150)</u>	<u>(462,255)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	50,000	50,000	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ (125,299)</u>	<u>\$ 512,105</u>	49,850	<u>\$ (462,255)</u>
Fund Balances - Beginning of Year			11,127,310	
Fund Balances Ending			<u>\$ 11,177,160</u>	

The City employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the City Council to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the General Fund are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP. 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 Ray Oaks
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (GAAP Basis)
SBR Construction Capital Projects Fund
For the Fiscal Year Ended June 30, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues	\$ -	\$ -	\$ -	\$ -
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES				
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund Balances - Beginning of Year			<u>7,268,813</u>	
Fund Balances Ending			<u>\$ 7,268,813</u>	

The City employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the City Council to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the SBR Construction Capital Projects Fund are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP. 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, 2021

Miscellaneous Plan

Plan Measurement Date	2014	2015	2016	2017	2018	2019	2020
Fiscal Year Ended	2015	2016	2017	2018	2019	2020	2021
Contractually Required Contributions	\$ 33,822	\$ 44,939	\$ 37,901	\$ 34,721	\$ 23,757	\$ 25,884	\$ 16,607
Contributions in Relation to Contractually Required Contributions	33,822	44,939	37,901	34,721	23,757	25,884	16,607
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 368,033	\$ 374,374	\$ 296,535	\$ 297,685	\$ 434,368	\$ 322,853	\$ 385,980
Contributions as a % of Covered Payroll	9.19%	12.00%	12.78%	11.66%	5.47%	8.02%	4.30%

Safety Plan

Plan Measurement Date	2014	2015	2016	2017	2018	2019	2020
Fiscal Year Ended	2015	2016	2017	2018	2019	2020	2021
Contractually Required Contributions	\$ 121,758	\$ 185,949	\$ 162,246	\$ 149,453	\$ 79,875	\$ 75,687	\$ 110,590
Contributions in Relation to Contractually Required Contributions	121,758	185,949	162,246	149,453	79,875	75,687	110,590
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 483,025	\$ 500,535	\$ 426,293	\$ 301,916	\$ 803,799	\$ 464,127	\$ 964,824
Contributions as a % of Covered Payroll	25.21%	37.15%	38.06%	49.50%	9.94%	16.31%	11.46%

Notes to Schedule:

Valuation Date: June 30, 2019
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 2.5%
Investment Rate of Returns set at 7.15%
CalPERS mortality table based on CalPERS' experience and include 15 years of projected ongoing mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries.

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

The CalPERS discount rate was increased from 7.5% to 7.65% in fiscal year 2016 and then decreased from 7.65% to 7.15% in fiscal year 2018.

The CalPERS mortality assumptions was adjusted in fiscal year 2019.

City of Del Rey Oaks
Schedule of Proportionate Share of Net Pension Liabilities
For the Fiscal Year Ended June 30, 2021

Miscellaneous and Safety Plan							
Plan Measurement Date	2014	2015	2016	2017	2018	2019	2020
Fiscal Year Ended	2015	2016	2017	2018	2019	2020	2021
Proportion of Net Pension Liability (Safety and Misc)	0.02058%	0.01585%	0.01592%	0.01564%	0.01561%	0.01546%	0.01548%
Proportion of Net Pension Liability (Misc Plan Only)	0.00966%	0.00744%	0.00858%	0.00928%	0.00953%	0.01011%	0.01069%
Proportionate Share of Net Pension Liability	\$ 1,280,369	\$ 1,088,059	\$ 1,377,408	\$ 1,551,296	\$ 1,504,158	\$ 1,584,252	\$ 1,683,831
Covered Payroll	\$ 853,661	\$ 851,058	\$ 874,909	\$ 722,828	\$ 599,601	\$ 1,238,167	\$ 786,980
Proportionate Share of NPL as a % of Covered Payroll	149.99%	127.85%	157.43%	214.61%	250.86%	127.95%	213.96%
Plan's Fiduciary Net Position as a % of the TPL	79.31%	76.30%	75.12%	75.25%	75.63%	75.80%	75.17%

Fiscal year 2015 was the first year of implementation, therefore only seven years are shown.
The CalPERS discount rate was increased from 7.5% to 7.65% in fiscal year 2016 and then decreased from 7.65% to 7.15% in fiscal year 2018.
The CalPERS mortality assumptions was adjusted in fiscal year 2019.

City of Del Rey Oaks
Schedule of Changes in Total OPEB Liability
For the Fiscal Year Ended June 30, 2021

Fiscal Year Ended	2018	2019	2020	2021
Total OPEB liability				
Service cost	\$ 9,840	\$ 8,537	\$ 8,242	\$ 49,908
Interest	7,961	9,288	9,987	11,770
Differences between expected and actual experience	-	-	63,643	-
Changes of assumptions	(33,928)	(12,049)	4,378	103,454
Benefit payments	(770)	(6,774)	(7,542)	(8,523)
Net change in Total OPEB Liability	(16,897)	(998)	78,708	156,609
Total OPEB Liability - beginning	279,722	262,825	261,827	340,535
Total OPEB Liability - ending	<u>\$ 262,825</u>	<u>\$ 261,827</u>	<u>\$ 340,535</u>	<u>\$ 497,144</u>
Plan fiduciary net position				
Net change in plan fiduciary net position	\$ -	\$ -	\$ -	\$ -
Plan fiduciary net position - beginning	-	-	-	-
Plan fiduciary net position - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net OPEB liability (asset)	\$ 262,825	261,827	340,535	497,144
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%	0.00%	0.00%
Covered Employee Payroll	\$ 977,093	\$ 953,262	\$ 1,080,538	\$ 1,308,070
Net OPEB liability as a percentage of covered employee payroll	26.90%	27.47%	31.52%	38.01%
Total OPEB liability as a percentage of covered employee payroll	26.90%	27.47%	31.52%	38.01%

Other Notes

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.

There were not changes in benefit terms.

The discount rate was decrease from 3.87% to 3.50% in fiscal year 2020, and down to 2.21% in 2021.

The salary increases increased from 3.00% to 3.25% in fiscal year 2020.

The mortality rates were updated to the 2017 CalPERS OPEB Assumptions model.

City of Del Rey Oaks
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2021

NOTE 1 - BUDGETARY DATA

The City Council adopts an annual legal budget for the General Fund and the SBR Special Revenue 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 Ray Oaks
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2021

	Special Revenue Funds				
	Gas Tax Fund	SB 1 Fund	Measure X Fund	CARES Act Fund	FORA Habitat Management Fund
ASSETS					
Cash and investments	\$ 47,564	\$ 98,753	\$ 95,971	\$ -	\$ 775,204
Receivables:					
Taxes	-	4,586	4,338	-	-
Total assets	<u>\$ 47,564</u>	<u>\$ 103,339</u>	<u>\$ 100,309</u>	<u>\$ -</u>	<u>\$ 775,204</u>
FUND BALANCES					
Restricted:					
Streets and roads	\$ 47,564	\$ 103,339	\$ 100,309	\$ -	\$ -
Habitat management	-	-	-	-	775,204
Capital projects	-	-	-	-	-
Total fund balances	<u>\$ 47,564</u>	<u>\$ 103,339</u>	<u>\$ 100,309</u>	<u>\$ -</u>	<u>\$ 775,204</u>

City of Del Ray Oaks
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2021

	<u>Capital Project Funds</u>		Total Nonmajor Governmental Funds
	<u>SBR Engineering Fund</u>	<u>SBR/GJM Intersection Fund</u>	
ASSETS			
Cash and investments	\$ 505,830	\$ 1,056,168	\$ 2,579,490
Receivables:			
Taxes	-	-	8,924
Total assets	<u>\$ 505,830</u>	<u>\$ 1,056,168</u>	<u>\$ 2,588,414</u>
FUND BALANCES			
Restricted:			
Streets and roads	\$ -	\$ -	\$ 251,212
Habitat management	-	-	775,204
Capital projects	505,830	1,056,168	1,561,998
Total fund balances	<u>\$ 505,830</u>	<u>\$ 1,056,168</u>	<u>\$ 2,588,414</u>

City of Del Ray Oaks
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2021

	Special Revenue Funds				
	Gas Tax Fund	SB 1 Fund	Measure X Fund	CARES Act Fund	FORA Habitat Management Fund
REVENUES					
Taxes:					
Sales tax	\$ -	\$ -	\$ 81,764	\$ -	\$ -
Other taxes	-	29,828	-	-	-
Intergovernmental revenues	44,001	-	-	50,000	-
Total Revenues	<u>44,001</u>	<u>29,828</u>	<u>81,764</u>	<u>50,000</u>	<u>-</u>
EXPENDITURES					
Current:					
Public works	31,625	-	-	-	-
Community development	-	-	-	-	650
Capital outlay	-	-	-	-	-
Debt service					
Principal	-	-	59,298	-	-
Interest and fiscal charges	-	-	18,128	-	-
Total Expenditures	<u>31,625</u>	<u>-</u>	<u>77,426</u>	<u>-</u>	<u>650</u>
Excess (Deficiency) of Revenues over Expenditures	<u>12,376</u>	<u>29,828</u>	<u>4,338</u>	<u>50,000</u>	<u>(650)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	(50,000)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(50,000)</u>	<u>-</u>
Net Change in Fund Balances	12,376	29,828	4,338	-	(650)
Fund Balances Beginning	35,188	73,511	95,971	-	775,854
Prior Period Adjustments - see note 12	-	-	-	-	-
Fund Balances - Beginning of Year, as Adjusted	<u>35,188</u>	<u>73,511</u>	<u>95,971</u>	<u>-</u>	<u>775,854</u>
Fund Balances Ending	<u>\$ 47,564</u>	<u>\$ 103,339</u>	<u>\$ 100,309</u>	<u>\$ -</u>	<u>\$ 775,204</u>

City of Del Ray Oaks
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2021

	<u>Capital Projects Funds</u>		Total Nonmajor Governmental Funds
	SBR Engineering Fund	SBR/GJM Intersection Fund	
REVENUES			
Taxes:			
Sales tax	\$ -	\$ -	\$ 81,764
Other taxes	-	-	29,828
Intergovernmental revenues	-	-	94,001
Total Revenues	<u>-</u>	<u>-</u>	<u>205,593</u>
EXPENDITURES			
Current:			
Public works	-	-	31,625
Community development	-	-	650
Capital outlay	12,734	-	12,734
Debt service			
Principal	-	-	59,298
Interest and fiscal charges	-	-	18,128
Total Expenditures	<u>12,734</u>	<u>-</u>	<u>122,435</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(12,734)</u>	<u>-</u>	<u>83,158</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	(50,000)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(50,000)</u>
Net Change in Fund Balances	(12,734)	-	33,158
Fund Balances Beginning	518,564	1,056,168	2,555,256
Prior Period Adjustments - see note 12	-	-	-
Fund Balances - Beginning of Year, as Adjuste	<u>518,564</u>	<u>1,056,168</u>	<u>2,555,256</u>
Fund Balances Ending	<u>\$ 505,830</u>	<u>\$ 1,056,168</u>	<u>\$ 2,588,414</u>



**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, 2021, and the related notes to the financial statements, which collectively comprise City’s basic financial statements, and have issued our report thereon dated March 10, 2022.

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.

Compliance and Other Matters

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



Purpose of this Report

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

March 10, 2022
Morgan Hill, California

City of Del Rey Oaks
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2021

Current Year Findings:

None Noted

Status of Prior Year Findings:

None Noted