

THE CITY OF CARMEL-BY-THE-SEA
BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

CITY OF CARMEL-BY-THE-SEA
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June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members
of the City Council of the City of Carmel by-the-Sea
Carmel by-the-Sea, 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 Carmel by-the-Sea (City), California, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2015, and the respective changes in financial position, for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principles

As discussed in Note 1 to the basic financial statements, effective July 1, 2014, the City of Carmel by-the-Sea adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Funding Progress of Other Postemployment Benefits, the Schedule of the City's Proportionate Share of the Net Pension Liability, the Schedule of Contributions, and the Budgetary Comparison Schedules of the General Fund and major special revenue funds on pages 4 through 14 and pages 59 through 70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Budgetary Comparison Schedules for the Nonmajor Governmental Funds and the Combining Financial Statements for the Nonmajor Governmental Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Budgetary Comparison Schedules for the Nonmajor Governmental Funds and the Combining Financial Statements for the Nonmajor Governmental Funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is 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 October 24, 2016, 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.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
October 24, 2016

City of Carmel-by-the-Sea, California
Basic Financial Statements
For the fiscal year ended June 30, 2015

Management's Discussion and Analysis

This section provides a narrative overview and analysis of the financial activities of the City of Carmel-by-the-Sea (City) for the fiscal year ended June 30, 2015. It should be read in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- ◆ As of June 30, 2015, total assets of the City exceeded its liabilities by \$23,417,030 (net position). The portion of net position that may be used to meet the government's ongoing obligations to citizens and creditors (unrestricted net position) is \$ (12,992,711). The portion of net position that is restricted and may only be used for specific purposes is \$3,862,473. The remaining \$32,547,268 is invested in capital assets, net of related debt. The large reduction in unrestricted net position is due to the implementation of GASB Statement 68, which requires municipalities to recognize accrued pension liabilities for the first time as of June 30, 2015. The City made a prior period adjustment in the amount of \$15,703,462 to recognize this liability.

- ◆ As of June 30, 2015, the City's governmental funds reported combined ending fund balances of \$12,942,410. Of this balance, \$3,903,533 is restricted because it represents resources that are required to be spent for specific purposes as provided by an external source. The committed balance of \$4,561,070 represents a Council commitment for economic uncertainties and anticipated future short-term structural deficits. The assigned fund balances in the General Fund, Special Revenue Fund, Capital Projects Fund, and Nonmajor Governmental Funds amounted to \$3,621,057 and represented Capital Projects, Library, Parking, Traffic Safety, Streets and Roads, and Forest Theater items. The remaining fund balance is unassigned.

- ◆ Capital assets, net of depreciation, increased to \$39,246,893 from \$38,273,101, mostly due to an increase in Construction in Progress \$1,417,137 and built-out capitals of \$984,320, with an offset of depreciation of \$1,427,665.

City of Carmel-by-the-Sea, California
Basic Financial Statements
For the fiscal year ended June 30, 2015

Management's Discussion and Analysis, Continued

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

This Annual Financial Report includes a Financial Section, which is made up of several different parts:

- 1) **Financial section**, which includes the Management's Discussion and Analysis (this part), the Basic Financial Statements, which include the Government-wide and the Fund Financial Statements along with the notes to these financial statements and Combining and Individual Fund Financial Statements and Schedules.

The Basic Financial Statements

The Basic Financial Statements are comprised of the Government-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and financial position.

The Government-wide Financial Statements

The Government-wide Financial Statements provide a broad overview of the City's activities as a whole and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each the City's programs. The Statement of Activities explains in detail the change in Net Position for the fiscal year.

All of the City's activities are grouped into Governmental Activities and Business-type activities, as explained below. All the amounts in the Statement of Net Position and the Statement of Activities are separated into Governmental Activities and Business-type Activities in order to provide a summary of these two activities of the City as a whole.

- ◆ **Governmental activities** – All of the City's basic services are considered to be governmental activities, including general government, community development, economic development, public safety, animal control, engineering, community events, public improvements, planning and zoning, building inspections, and general administration. These services are supported by general City revenues such as taxes and by specific program revenues such as developer fees.

City of Carmel-by-the-Sea, California
Basic Financial Statements
For the fiscal year ended June 30, 2015

Management's Discussion and Analysis, Continued

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT, Continued

The Government-wide Financial Statements, Continued

- ◆ *Business-type activities* – The City's does not currently have 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 City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government-wide Financial Statements. However, unlike the Government-wide Financial Statements, Governmental 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. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the Governmental Fund Financial Statements 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 for governmental activities in the Government-wide Financial Statement. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The Governmental Fund Financial Statements provide detailed information about each of the City's most significant funds, called major funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them as one total. Instead, each major fund is presented individually, with all non-major funds summarized and presented only in a single column. Subordinate schedules present the detail of these non-major funds. Major funds present the major activities of the City for the fiscal year, and may change from year to year as a result of changes in the pattern of the City's activities.

City of Carmel-by-the-Sea, California
Basic Financial Statements
For the fiscal year ended June 30, 2015

Management's Discussion and Analysis, Continued

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT, Continued

Fund Financial Statements, Continued

For the fiscal year ended June 30, 2015, the City's major funds are as follows:

GOVERNMENTAL FUNDS:

- ◆ General Fund
- ◆ Harrison Memorial Library Special Revenue Fund
- ◆ Parking Special Revenue Fund
- ◆ Ambulance Special Revenue Fund

Notes to the 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. The notes to the basic financial statements can be found on pages 27-57 of this report. Required Supplementary Information follows the notes to the basic financial statements, and begins on Page 58.

Combining and Individual Fund Financial Statements and Schedules

The combining statements referred to earlier in connection with non-major governmental funds are presented following the notes to the financial statements. Combining and individual fund statements can be found on pages 71-81 of this report.

City of Carmel-by-the-Sea, California
Basic Financial Statements
For the fiscal year ended June 30, 2015

Management's Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

In the case of the City, assets exceeded liabilities by \$23,417,030 as of June 30, 2015.

The Summary of Net Position as of June 30, 2015, and 2014, follows:

Summary of Net Position

	<u>2015</u>	<u>2014</u>	
	<u>Governmental</u>	<u>Governmental</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Change</u>
Current and other assets	\$ 14,796,816	\$ 12,925,703	\$ 1,871,113
Noncurrent assets	39,246,893	38,273,101	973,792
Deferred outflows of resources	1,040,712		1,040,712
Total assets and deferred outflows	<u>55,084,421</u>	<u>51,198,804</u>	<u>3,885,617</u>
Current and other liabilities	3,155,654	3,014,549	141,105
Long-term liabilities	24,739,892	13,778,451	10,961,441
Deferred inflows of resources	3,771,845		3,771,845
Total liabilities and deferred inflows	<u>31,667,391</u>	<u>16,793,000</u>	<u>14,874,391</u>
Net position:			
Net investment in			
capital assets	32,547,268	25,522,348	7,024,920
Restricted	3,862,473	2,616,731	1,245,742
Unrestricted	<u>(12,992,711)</u>	<u>6,266,725</u>	<u>(19,259,436)</u>
Total net position	<u>\$ 23,417,030</u>	<u>\$ 34,405,804</u>	<u>\$ (10,988,774)</u>

City of Carmel-by-the-Sea, California
Basic Financial Statements
For the fiscal year ended June 30, 2015

Management's Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

The change in net position for the fiscal years ended June 30, 2015, and 2014, follows:

	Changes in Net Position		
	2015	2014	
	Governmental	Governmental	Changes
	Activities	Activities	
Revenues:			
Program revenues:			
Charges for services	\$ 1,529,097	\$ 924,584	\$ 604,513
Grants and contributions:			
Operating	1,444,296	1,282,214	162,082
Capital	331,719	-	331,719
General revenues:			
Property taxes and assessments	5,127,974	4,881,534	246,440
Transient occupancy taxes	5,593,689	5,185,880	407,809
Sales tax	5,280,418	5,115,880	164,538
Franchises	430,430	994,468	(564,038)
Business licenses	606,128	549,190	56,938
Use of money and property	163,648	76,880	86,768
Other general revenues	631,682	184,660	447,022
Total revenues	<u>21,139,081</u>	<u>19,195,290</u>	<u>1,943,791</u>
Expenses:			
Governmental activities:			
Administration	3,724,546	4,067,934	(343,388)
Building Maintenance	1,832,618	2,924,447	(1,091,829)
Public safety	6,685,310	4,299,954	2,385,356
Public works	2,003,332	2,227,067	(223,735)
Forest, parks and beaches	581,319	484,119	97,200
Culture and recreation	2,605,877	2,453,842	152,035
Economic development	326,956	363,342	(36,386)
Interest and fiscal charges	365,043	346,674	18,369
Total expenses	<u>18,125,001</u>	<u>17,167,379</u>	<u>957,622</u>
Change in net position	3,014,080	2,027,911	986,169
Net position:			
Beginning of fiscal year	34,405,804	32,377,893	2,027,911
Prior period adjustments	(14,002,854)	-	(14,002,854)
End of fiscal year	<u>\$ 23,417,030</u>	<u>\$ 34,405,804</u>	<u>\$ (10,988,774)</u>

City of Carmel-by-the-Sea, California
Basic Financial Statements
For the fiscal year ended June 30, 2015

Management's Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Revenues

The City's total revenues for governmental activities were \$21,139,081 for the fiscal year ended June 30, 2015. Approximately 76% of the City's key revenues are generated from three major sources.

The following discusses variances in key revenues from the prior fiscal year:

1. **Sales Tax.** Annual receipts increased approximately 3.2%. This increase is attributed to a slight increase in spending mainly in the food and beverage sector, along with increased allocations from the countywide pool. We anticipate that sales tax revenue will remain flat next fiscal year.
2. **Property Taxes.** Property taxes increased 5% over last year reflecting the strengthening real estate market over the past year.
3. **Transient occupancy taxes.** Hostelry taxes increased 7.9% reflecting the continuing growth in tourism and potential benefit from citywide and individual marketing efforts.

City of Carmel-by-the-Sea, California
Basic Financial Statements
For the fiscal year ended June 30, 2015

Management’s Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Expenses

Governmental activity expenses of the City for the year totaled \$18,125,001. Safety Services costs represented 37% of total governmental activities expenses. Public safety expenses represented the largest single expense for governmental activities.

Governmental Activities

The following table shows the cost of each of the City’s major programs and the net cost of the programs. Net cost is the total cost less fees and other direct revenue generated by the activities. The net cost reflects the financial burden that was placed on the City’s taxpayers by each of the programs. The total cost of services and the net cost of services for the fiscal years ended June 30, 2015, and 2014, are as follows:

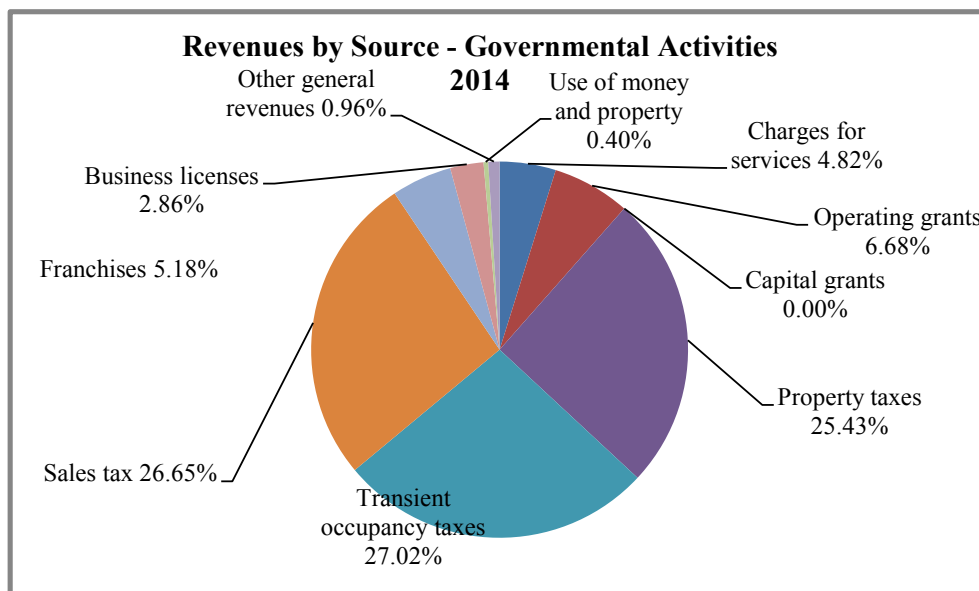
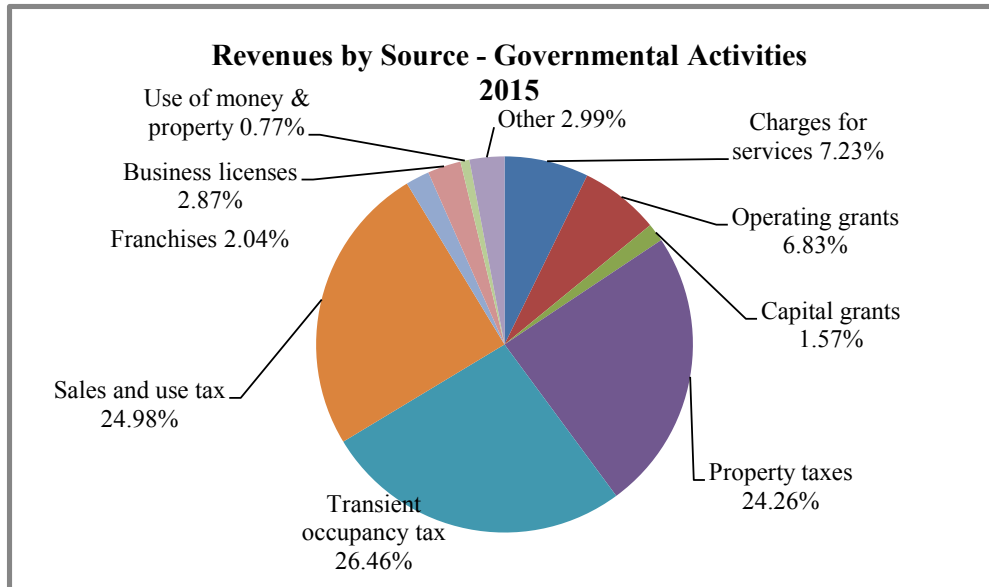
	2015		2014	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Administration	\$ 3,724,546	\$ 3,624,713	\$ 4,067,934	\$ 4,052,290
Building maintenance	1,832,618	1,832,618	2,924,447	2,924,447
Public safety	6,685,310	5,657,933	4,299,954	3,616,052
Public works	2,003,332	660,634	2,227,067	1,290,920
Forest, parks and beaches	581,319	451,093	484,119	318,713
Culture and recreation	2,605,877	1,900,899	2,453,842	2,048,143
Economic development	326,956	326,956	363,342	363,342
Interest and fiscal charges	365,043	365,043	346,674	346,674
Total	<u>\$ 18,125,001</u>	<u>\$ 14,819,889</u>	<u>\$ 17,167,379</u>	<u>\$ 14,960,581</u>

City of Carmel-by-the-Sea, California
Basic Financial Statements
For the fiscal year ended June 30, 2015

Management's Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Revenues by source for the fiscal years ended June 30, 2015, and 2014, are as follows:



City of Carmel-by-the-Sea, California
Basic Financial Statements
For the fiscal year ended June 30, 2015

Management’s Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Financial Analysis of the Government’s Funds

The City of Carmel-by-the-Sea uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of the City government, reporting the City’s operations in more detail than the government-wide financial statements.

Governmental funds. The City’s governmental funds provide information on near-term inflows, outflows, and balances of spending resources. At the fiscal year ended June 30, 2015, the City’s governmental funds reported combined fund balances of \$12,942,410. This is an increase of \$2,220,070 or 21% over last year. The increase was due to a couple of reasons: (1) prior period adjustments netting a total of \$658,406, and (2) an operating surplus of \$1,561,664. The General Fund is the chief operating fund of the City. At the fiscal year ended June 30, 2015, the General Fund had a fund balance that totaled \$7,849,809 of which \$1,541,150 was unassigned and available for ongoing operations.

General Fund Budgetary Highlights

The difference between the final budget and actual revenues reflects a negative amount of \$2,721,540. This was mainly due to a budgeting discrepancy between revenues and transfers, resulting in total revenues being over-budgeted.

There was no difference between the total original expenditures budget and the total final amended budget. Actual expenditures were \$2,119,910 under budget (12% of budget). This was mainly due to unspent capital outlay for projects and fixed assets.

Capital Assets

The City’s investment in capital assets for its governmental activities as of June 30, 2015, amounted to \$39,246,893. This investment in capital assets includes roads, curbs and gutters, streets and sidewalks, and drainage systems.

	Governmental Activities	
	2015	2014
Land	\$ 5,101,641	\$ 3,633,723
Art	-	1,467,918
Construction in progress	1,664,067	219,284
Buildings and improvements	18,453,572	19,157,975
Vehicles	407,317	406,417
Infrastructure	13,167,775	12,842,666
Machinery and equipment	452,521	545,118
Total	<u>\$ 39,246,893</u>	<u>\$ 38,273,101</u>

City of Carmel-by-the-Sea, California
Basic Financial Statements
For the fiscal year ended June 30, 2015

Management's Discussion and Analysis, Continued

- More detail of the capital assets and current activity can be found in the notes to the financial statements on Pages 31 and 32 for significant accounting policies and Note 5 on Page 44 for other capital asset information.

Debt Administration

Debt, considered a liability of governmental activities, increased by \$10,987,070, reflecting the pay down of the Sunset bond, the Pension Obligation bonds and lease obligations (\$1,375,220), offset by an increase in the OPEB obligation, and most dramatically, by the GASB 68 accrual of the net pension liability, see Note 6 starting on page 45 for detailed information on the long-term debt. Compensated absences increased by \$134,064 to \$603,015.

Economic Outlook

Fiscal year 2015-2016 will continue to be another challenging fiscal year. The continuing global economic slowdown will impact us locally, as we expect international travel to slow, offset to a degree by California travelers visiting "closer to home" destinations.

The City's major General Fund revenue sources, with the exception of property taxes, are expected to flatten as the economy continues to slow locally. Also, with the anticipation of an "El Nino" winter storm pattern, city revenues from tourism are at risk.

The City maintains a multi-year forecasting model to project anticipated revenues and expenditures. The model predicts continued flat to positive earnings through fiscal year 2023-2024. The City's financial reserves will ensure that service levels are maintained until fiscal year 2023-2024.

Requests for Information

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. If you have any questions about this report, need additional financial information, or would like to obtain component unit financial statements, contact the City of Carmel-by-the-Sea Finance Department, P O Box CC, Carmel-by-the-Sea, CA 93921, or visit the City's web page at <http://ci.carmel.ca.us/carmel>.

CITY OF CARMEL-BY-THE-SEA
Statement of Net Position
June 30, 2015

	Governmental Activities
ASSETS	
Cash and investments	\$ 11,426,657
Cash and investments with fiscal agent	400,015
Receivables:	
Accounts, net of allowance	2,452,168
Interest	4,577
Intergovernmental	513,399
Capital assets:	
Non-depreciable assets	6,765,708
Depreciable assets, net	32,481,185
Total Assets	<u>54,043,709</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension	<u>1,040,712</u>
Total Deferred Outflows of Resources	<u>1,040,712</u>
Total Assets and Deferred Outflows of Resources	<u>55,084,421</u>
LIABILITIES	
Accounts payable	974,438
Accrued liabilities	283,401
Interest payable	41,060
Deposits payable	596,567
Long-term liabilities:	
Due within one year	1,260,188
Due in more than one year	24,739,892
Total Liabilities	<u>27,895,546</u>
DEFERRED INFLOWS OF RESOURCES	
Pension	<u>3,771,845</u>
Total Deferred Inflows of Resources	<u>3,771,845</u>
Total Liabilities and Deferred Inflows of Resources	<u>31,667,391</u>
NET POSITION	
Net investment in capital assets	32,547,268
Restricted	
Community development	372,659
Streets and roads	265,806
Measure D	2,865,053
Debt service	358,955
Unrestricted	<u>(12,992,711)</u>
Total Net Position	<u>\$ 23,417,030</u>

See notes to basic financial statements

CITY OF CARMEL-BY-THE-SEA
Statement of Activities
For the Fiscal Year Ended June 30, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>	
Governmental Activities:					
Administration	\$ 3,724,546	\$ 66,190	\$ 33,643	\$ -	\$ (3,624,713)
Building maintenance	1,832,618				(1,832,618)
Public safety	6,685,310	918,644	108,733		(5,657,933)
Public works	2,003,332	525,310	485,669	331,719	(660,634)
Forest, parks, and beaches	581,319		130,226		(451,093)
Culture and recreation	2,605,877	18,953	686,025		(1,900,899)
Economic development	326,956				(326,956)
Interest on long-term debt	365,043				(365,043)
Total Governmental Activities	\$ 18,125,001	\$ 1,529,097	\$ 1,444,296	\$ 331,719	(14,819,889)
General Revenues:					
Taxes:					
					5,127,974
					5,593,689
					5,280,418
					430,430
					606,128
					382,145
					163,648
					249,537
					<u>17,833,969</u>
					<u>3,014,080</u>
					34,405,804
					<u>(14,002,854)</u>
					<u>20,402,950</u>
					<u>\$ 23,417,030</u>

See notes to basic financial statements

CITY OF CARMEL BY-THE-SEA

MAJOR GOVERNMENTAL FUNDS

The Fund Financial Statements present only individual major funds, while nonmajor funds are combined in a single column.

General Fund – This fund is the primary operating fund of the City and accounts for all activities except those legally or administratively required to be accounted for in other funds.

Harrison Memorial Library Special Revenue Fund – This fund is used to account for activities associated with the Harrison Memorial Library.

Parking Special Revenue Fund – This fund is used to account for activities associated with parking in-lieu fees.

Ambulance Special Revenue Fund – This fund is used to account for activities associated with ambulance service billings, which have been outsourced to a third party.

CITY OF CARMEL-BY-THE-SEA
Balance Sheet
Governmental Funds
June 30, 2015

	General Fund	Harrison Memorial Library Special Revenue Fund	Parking Special Revenue Fund
Assets			
Cash and investments	\$ 6,571,124	\$ 1,084,577	\$ 698,086
Cash and investments with fiscal agent			
Receivables:			
Accounts, net of allowance	1,717,988		
Interest	3,930	647	
Intergovernmental			
Due from other funds	1,382,042		
	<u>9,675,084</u>	<u>1,085,224</u>	<u>698,086</u>
Total Assets	<u>\$ 9,675,084</u>	<u>\$ 1,085,224</u>	<u>\$ 698,086</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 945,910	\$ -	\$ -
Accrued liabilities	282,798		
Due to other funds			
Deposits payable	596,567		
	<u>1,825,275</u>		
Total Liabilities	<u>1,825,275</u>		
Fund Balances			
Restricted			
Committed	4,561,070		
Assigned	1,747,589	1,085,224	698,086
Unassigned	1,541,150		
	<u>7,849,809</u>	<u>1,085,224</u>	<u>698,086</u>
Total Fund Balances (Deficit)	<u>7,849,809</u>	<u>1,085,224</u>	<u>698,086</u>
Total Liabilities and Fund Balances	<u>\$ 9,675,084</u>	<u>\$ 1,085,224</u>	<u>\$ 698,086</u>

See notes to basic financial statements

Ambulance Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 3,072,870 400,015	\$ 11,426,657 400,015
726,170	8,010	2,452,168 4,577
	513,399	513,399 1,382,042
<u>\$ 726,170</u>	<u>\$ 3,994,294</u>	<u>\$ 16,178,858</u>
\$ 28,528	\$ - 603	\$ 974,438 283,401
1,382,042		1,382,042 596,567
<u>1,410,570</u>	<u>603</u>	<u>3,236,448</u>
	3,903,533	3,903,533 4,561,070
(684,400)	90,158	3,621,057 856,750
<u>(684,400)</u>	<u>3,993,691</u>	<u>12,942,410</u>
<u>\$ 726,170</u>	<u>\$ 3,994,294</u>	<u>\$ 16,178,858</u>

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CITY OF CARMEL-BY-THE-SEA
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2015

Fund Balances - Total Governmental Funds		\$ 12,942,410
Amounts reported for Governmental Activities in the Statement of Net Position are different because:		
Capital assets net of depreciation have not been included as financial resources governmental fund activity.		39,246,893
Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.		
City's contributions subsequent to the measurement date	\$ 725,205	
Adjustments due to differences in proportions	274,207	
Differences between projected and actual earnings on pension plan investments	<u>(3,730,545)</u>	
		(2,731,133)
Long-term liabilities applicable to the City governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Position.		
Balances at June 30, 2015 are:		
Sunset Center COP	\$ (6,435,000)	
Countywide radio project	(264,625)	
Pension Obligation Bonds	(5,005,000)	
Compensated absences	(603,015)	
Net pension liability	(11,664,146)	
Claims liabilities	(460,000)	
Net OPEB obligation	<u>(1,568,294)</u>	(26,000,080)
Accrued interest payable from the current portion of interest due on bonds payable has not been reported in the governmental funds.		<u>(41,060)</u>
Net Position of Governmental Activities		<u><u>\$ 23,417,030</u></u>

See notes to basic financial statements

CITY OF CARMEL-BY-THE-SEA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2015

	General Fund	Harrison Memorial Library Special Revenue Fund	Parking Special Revenue Fund
Revenues			
Taxes	\$ 14,702,528	\$ -	\$ -
Licenses and permits	504,419		
Intergovernmental			
Use of money and property	161,620	1,988	
Current services charges	256,097	17,603	
Fines and forfeitures	9,246		
Contributions		686,025	
Other revenue	249,537		
	<u>15,883,447</u>	<u>705,616</u>	<u></u>
Total Revenues			
Expenditures			
Current:			
General government	3,586,911		
Building maintenance	1,637,602		
Public safety	5,255,170		
Public works	1,260,593		
Forest, parks, and beaches	544,902		
Culture and recreation	766,242	1,231,357	
Economic development	315,780		
Capital outlay	2,396,667		
Debt service:			
Principal			
Interest and fiscal charges			
	<u>15,763,867</u>	<u>1,231,357</u>	<u></u>
Total Expenditures			
Excess of Revenues Over (Under) Expenditures	<u>119,580</u>	<u>(525,741)</u>	<u></u>
Other Financing Sources (Uses)			
Transfers in	2,073,032	948,596	
Transfers out	<u>(2,156,660)</u>	<u></u>	<u></u>
	<u>(83,628)</u>	<u>948,596</u>	<u></u>
Total Other Financing Sources (Uses)			
Net Changes in Fund Balances	<u>35,952</u>	<u>422,855</u>	<u></u>
Fund Balances (Deficits), July 1, 2014	7,133,421	662,369	698,086
Prior Period Adjustments	<u>680,436</u>	<u></u>	<u></u>
Fund Balances (Deficits), July 1, 2014, restated	<u>7,813,857</u>	<u>662,369</u>	<u>698,086</u>
Fund Balances (Deficits), June 30, 2015	<u>\$ 7,849,809</u>	<u>\$ 1,085,224</u>	<u>\$ 698,086</u>

See notes to basic financial statements

Ambulance Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 2,718,256	\$ 17,420,784
	215,838	720,257
	874,152	874,152
40		163,648
630,476	1,350	905,526
	109,906	119,152
		686,025
		249,537
<u>630,516</u>	<u>3,919,502</u>	<u>21,139,081</u>
	6,183	3,593,094
		1,637,602
1,139,090	4,616	6,398,876
	23,437	1,284,030
		544,902
	2,129	1,999,728
		315,780
		2,396,667
	1,046,128	1,046,128
	360,610	360,610
<u>1,139,090</u>	<u>1,443,103</u>	<u>19,577,417</u>
<u>(508,574)</u>	<u>2,476,399</u>	<u>1,561,664</u>
493,384	1,412,923	4,927,935
<u>(180,000)</u>	<u>(2,591,275)</u>	<u>(4,927,935)</u>
<u>313,384</u>	<u>(1,178,352)</u>	
<u>(195,190)</u>	<u>1,298,047</u>	<u>1,561,664</u>
(479,166)	2,707,630	10,722,340
<u>(10,044)</u>	<u>(11,986)</u>	<u>658,406</u>
<u>(489,210)</u>	<u>2,695,644</u>	<u>11,380,746</u>
<u>\$ (684,400)</u>	<u>\$ 3,993,691</u>	<u>\$ 12,942,410</u>

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CITY OF CARMEL-BY-THE-SEA
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2015

Net change in fund balances - total governmental funds		\$ 1,561,664
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated lives and reported as depreciation expense. This is the amount by which capitalizable capital outlays exceeded depreciation in the current period.</p>		
Capital expenditures	\$ 2,396,667	
Depreciation expense	<u>(1,427,665)</u>	969,002
<p>In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This fiscal year, the difference between accrual-basis pension costs and actual employer contribution was:</p>		
		(189,229)
<p>The issuance of long-term debt provided financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of this difference in the treatment of long-term debt and related items:</p>		
Principal payments	1,046,128	
Net change in OPEB	<u>(234,988)</u>	811,140
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds (net change):</p>		
Interest expense		(4,433)
<p>Compensated absence expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds (net change).</p>		
		<u>(134,064)</u>
Change in net position of governmental activities		<u>\$ 3,014,080</u>

See notes to basic financial statements

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Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Carmel-by-the-Sea (the City) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

A. Description of Reporting Entity

The City of Carmel-by-the-Sea, California was incorporated on October 31, 1916, under the laws and regulations of the State of California (State). The City operates under a City Council/Manager form of government and provides the following services: public works, planning and building, general administrative services, public safety, and fire suppression and prevention services.

The City operates as a self-governing local government unit within the State. It has limited authority to levy taxes and has the authority to determine user fees for the services that it provides. The City's main funding sources include sales taxes, other intergovernmental revenue from state and federal sources, user fees, and federal and state financial assistance. All property taxes are paid to Monterey County (County) as part of the revenue neutrality payment obligation. The financial statements do not reflect the amounts received on behalf of the City and retained by the County.

The financial reporting entity consists of (a) the primary government, the City, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (a) the City has the ability to impose its will on the organization, or (b) there is a potential for the organization to provide a financial benefit to or impose a financial burden on the City.

As required by GAAP, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. These component units are reported on a blended basis. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The financial statements of the individual component units, if applicable as indicated below, may be obtained by writing to the City of Carmel-by-the-Sea, Finance Department, Post Office Box CC, Carmel-by-the-Sea, CA 93921.

The City's reporting entity includes the following blended component units:

- Carmel Public Improvement Authority
- Harrison Memorial Library

The above component units are included in the City's basic financial statements using the blended method. There are no component units of the City that meet the criteria for discrete presentation.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Government resources are allocated to and accounted for in individual funds based upon the purpose 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. These statements report information on all of the activities of the primary government.

The government-wide financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets and related 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.

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 regard to interfund activities, payables, and receivables.

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 other governmental funds aggregated. Accompanying reconciliations are presented to explain the differences in net position as presented in these statements to the net position presented in the government-wide financial statements.

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 Sheet. 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.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Accounting and Measurement Focus (Continued)

Governmental Fund Financial Statements (Continued)

Revenues are recorded when received in cash, except those revenues subject to accrual (generally 60 days after year-end) and recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes, sales taxes, intergovernmental revenues, and other taxes. Expenditures are generally recorded in the accounting period in which the related fund liability is incurred, except for principal and interest on long-term liabilities, and compensated absences which are recognized as expenditures only when payment is due.

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

The funds designated as major funds are determined by a mathematical calculation consistent with GASB Statement No. 34. The City has elected to report the Parking Special Revenue Fund as a major fund. The City reports the following major governmental funds:

The General Fund is used to account for all of the general operations and other financial transactions of the City, which are not accounted for by another fund.

The Harrison Memorial Library Special Revenue Fund is used to account for activities associated with the Harrison Memorial Library.

The Parking Special Revenue Fund is used to account for activities associate with parking in-lieu fees.

The Ambulance Special Revenue Fund is used to account with ambulance service billings, which have been outsourced to a third party.

Additionally, the City reports the following fund types:

The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than for debt service) that are restricted by law or administrative action or committed to expenditures for specified purposes.

The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned for the repayment of long-term debt principal, interest, and related costs.

The reconciliations of the Governmental Fund financial statements to the Government-Wide financial statements are provided to explain the differences created by the integrated approach of GASB No. 34.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Equity

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City pools cash and investments from all funds for the purpose of increasing income through investment activities. Highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Market value is used as fair value for those securities for which market quotations are readily available.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include property taxes, sales and use taxes, utility user taxes, intergovernmental subventions, interest earnings, and expense reimbursements.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property tax, sales tax, utility user tax, and intergovernmental subventions since they are usually both measurable and available. Non-exchange transactions collectible but not available, such as property tax, are deferred in the fund financial statements in accordance with the modified accrual basis, but not deferred in the government-wide financial statements in accordance with the accrual basis.

Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. The loans receivable are recorded in the fund statements, but are deferred to indicate they do not represent current financial resources. The loans are recognized when advanced in the government-wide statements. The City's experience is that all accounts receivable are collectible; therefore an allowance for doubtful accounts is unnecessary.

The County of Monterey is responsible for the collection and allocation of property taxes. Under California law, property taxes are assessed and collected by the County up to 1% of the full cash value of taxable property, plus other increases approved by the voters and distributed in accordance with statutory formulas. The City recognizes property taxes when the individual installments are due, provided they are collected within 60 days after year-end.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Equity (Continued)

Receivables (Continued)

Secured property taxes are levied on or before the first day of September of each year. They become a lien on real property on March 1 preceding the fiscal year for which taxes are levied. These taxes are paid in two equal installments; the first is due November 1 and is delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Secured property taxes, which are delinquent and unpaid as of June 30, are declared to be tax defaulted and are subject to redemption penalties, cost, and interest when paid. If the delinquent taxes are not paid at the end of five years, the property is sold at public auction and the proceeds are used to pay the delinquent amounts due. Any excess is remitted, if claimed, to the taxpayer. Additional tax liens are created when there is a change in ownership of property or upon completion of new construction. Tax bills for these new tax liens are issued throughout the fiscal year and contain various payments and delinquent dates, but are generally due within one year. If the new tax liens are lower, the taxpayer receives a tax refund rather than a tax bill. Unsecured personal property taxes are not a lien against real property. These taxes are due on March 1 each year and are delinquent, if unpaid, on August 31.

The County apportions secured property tax revenue in accordance with the alternate methods of distribution, the "Teeter Plan", as described by Section 4717 of the California Revenue and Taxation code. Therefore, the City receives 100 percent of the secured property tax levies to which it is entitled, whether or not collected. Unsecured delinquent taxes are considered fully collectible.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Position. See Note 4 for details of interfund transactions, including receivables and payables at year-end.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. In the governmental fund financial statements, prepaid items are offset as nonspendable fund balance for long-term assets to indicate they do not constitute current resources available for appropriation.

Capital Assets

The City's assets are capitalized at historical cost or estimated historical cost, if actual is unavailable, except for donated Capital Assets which are recorded at their estimated fair value at the date of donation. Policy has set the capitalization threshold for reporting at \$5,000 for non-infrastructure capital assets and \$25,000 for infrastructure capital assets.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Equity (Continued)

Capital Assets (Continued)

Government-Wide Statements

Public domain (infrastructure) capital assets include roads, bridges, curbs and gutters, streets, sidewalks, drainage systems, and lighting systems.

The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized, since then these assets have been valued at estimated historical cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. No depreciation is recorded in the year of acquisition or in the year of disposition.

The range of estimated useful lives by type of asset is as follows:

Buildings and improvements: 20 – 50 years
Infrastructure: 30 years
Vehicles, machinery, and equipment: 5 - 20 years
Computer Software: 10 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same way as in the government-wide statements.

Claims and Judgments

The City records a liability for claims, judgments, and litigation when it is probable that an asset has been impaired or a liability has been incurred prior to fiscal year-end and the probable amount of loss (net of any insurance coverage) can be reasonably estimated.

The City is exposed to various risks of losses related to torts; theft of, damages to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in a number of federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Equity (Continued)

Deferred Outflows

Pursuant to GASB Statement No. 65 the City recognizes deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. Refer to Note 7 for a detailed listing of the deferred outflows of resources that the City has recognized.

Deferred Inflows

Pursuant to GASB Statement No. 65 the City recognizes deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of fund balance or net position by the government that is applicable to a future reporting period. Refer to Note 7 for a detailed listing of the deferred inflows of resources that the City has recognized.

Compensated Absences

Employees accrue vacation, sick, holiday, and compensatory time off benefits. City employees have vested interests in the amount of accrued time off, with the exception of sick time, and are paid on termination. Also, annually an employee may elect to be compensated for up to 40 hours of unused annual leave. However, this is contingent upon the employee using at least 40 hours during the previous year and, the employee having a minimum balance of 80 annual leave hours after the payment. All vacation pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements and is currently payable. The City had no employee resignations or retirements for which compensated absences should be accrued in governmental funds at year-end. The general fund is typically used to liquidate compensated absences.

Fund Balance

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the City is bound to honor constraints on how to specific amounts can be spent.

- *Nonspendable fund balance* - that portion of a fund balance that includes amounts that cannot be spent because they are either not in a spendable form, such as prepaid items, inventories, or loans receivable.
- *Restricted fund balance* - that portion of a fund balance that reflects constraints placed on the use of resources (other than non-spendable items) that are either (a) externally imposed by creditors (such as through debt covenants, grantors, contributors, or laws or regulations of other governments); or (b) imposed by law through constitutional provisions or enabling legislation. Examples of restricted fund balances include Street Maintenance, Library, and debt service funds.
- *Committed fund balance* - that portion of a fund balance that included amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, and remain binding unless removed in the same manner.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Equity (Continued)

Fund Balance (Continued)

- a) The City Council, as the City's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal action taken such as resolution.
 - b) These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use through the same type of formal action taken to establish the commitment
 - c) City Council action to commit fund balance needs to occur within the fiscal reporting periods; however the amount can be determined subsequently.
- *Assigned fund balance* – amounts that are constrained by the City's intent to be used for specific purposes, but are neither Restricted nor Committed, should be reported as Assigned fund balance. This policy hereby delegated the authority to assign amounts to be used for specific purposes to the City Manager for the purpose of reporting these amounts in the City's annual financial statements.
 - *Unassigned fund balance* – these are residual positive net resources in excess of what can properly be classified in one of the other four categories and do not have any specific spending limitations. The General Fund is the only fund that should report this category of fund balance.

Fund Balance Policy

The accounting policies of the City consider restricted fund balance to have been spent first when an expenditure is incurred for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the City considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, committed, assigned, and unassigned fund balance. The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors, such as through debt covenants, grantors, contributors, or laws and regulations. Assigned fund balances include amounts that are constrained by the City's intent to be used for specific purposes.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, followed by the unrestricted, committed, assigned, and unassigned resources as they are needed.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Equity (Continued)

Net Position

The City's financial statements are presented in accordance with the provisions of Governmental Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position Statement* No. 34 established standards for external financial reporting for all state and local governmental entities and Statement No. 63 establishes standards for reporting deferred outflows of resources, deferred inflow of resources, and net position in a statement of financial position. The net position is required to classify into three components – net investment in capital assets; restricted; and unrestricted. These captions apply only to Net Position as determined at the Government-wide level, and are described below:

Net Investment in Capital Assets describes the portion of Net Position which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these capital assets.

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter.

Unrestricted describes the portion of Net Position which is not restricted as to use.

Restricted net position consists of assets that are subject to constraints either (1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulation of other governments or (2) imposed by law through constitutional provisions or enabling legislation. There were no assets at June 30, 2015 that were restricted by enabling legislation.

D. Post-Employment Health Care Benefits

The City provides health care benefits for its retirees. Substantially all of the City's employees may become eligible for these benefits if they reach normal retirement age, have five years of CalPERS service, are eligible for medical coverage, and have actually retired from the City. See Note 8 for further information.

E. Revenues, Expenditures, and Expenses

Property Tax

The County of Monterey (County) is responsible for the collection and allocation of property taxes. Under California law, property taxes are assessed and collected by the County up to 1% of the full cash value of taxable property, plus other increases approved by the voters and distributed in accordance with statutory formulas. The City recognizes property taxes when the individual installments are due, provided they are collected within 60 days after year-end.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues, Expenditures, and Expenses (Continued)

Interfund Transfers

Resources are reallocated between funds by reporting them as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

F. New Accounting Pronouncements

The City has implemented the requirements of Governmental Accounting Standards Board (GASB) Statements No. 68 and 71 during the fiscal year ended June 30, 2015.

Governmental Accounting Standards Board Statement No. 68

For the fiscal year ended June 30, 2015, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement is effective for periods beginning after June 15, 2014. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* as well as the requirements of Statement No. 50, *Pension Disclosures*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to pensions. Implementation of GASB Statement No. 68 did have an impact on the City's financial statements for the fiscal year ended June 30, 2015, see Note 7 and Note 11.

For the fiscal year ended June 30, 2015, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This Statement is effective for periods beginning after June 15, 2014. The objective of this Statement is to address an issue regarding application of the transition of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This statement will eliminate the source of potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. Implementation of the GASB Statement No. 71 did have an impact on the City's financial statements for the fiscal year ended June 30, 2015, see Note 7 and Note 11.

G. Use of Estimates

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

Note 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

The City Council establishes budgets for the General Fund and all Special Revenue Funds, except for certain Special Revenue Funds for which expenditures are controlled by grant funding or by assessments received. Budgetary control is legally maintained at the fund level for these funds. Department heads submit budget requests to the City Manager. The City Manager prepares an estimate of revenues and prepares recommendations for the next year's budget. The preliminary budget may or may not be amended by the City Council and is adopted by resolution by the City Council on or before June 30 in accordance with the municipal code.

The City Council may amend the budget by motion during the fiscal year. Only the Council can authorize transfers between funds and approve inter-fund loans. The City Manager is authorized to transfer budgeted amounts within a fund without formal council action or approval. The City Manager is authorized to increase expenditures in relation to revenues in funds receiving assigned revenues without approval by the City Council.

Expenditures may not legally exceed appropriations at the fund level, which is the legal level of control. Supplemental appropriations, which increase appropriations, may be made during the fiscal year. There were no material supplemental appropriations made for the fiscal year ended June 30, 2015. The budget information is presented on a basis consistent with generally accepted accounting principles. Appropriations, except open project appropriations, and unexpended grant appropriations, lapse at the end of each fiscal year. The City did not adopt a budget for the Parking Fund for the fiscal year ended June 30, 2015.

Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or returned to the taxpayers through revised tax rates or revised fee schedules, or an excess in one year may be offset against a deficit in the following year. For the fiscal year ended June 30, 2015, based on calculations by City management, proceeds of taxes did not exceed appropriations.

City of Carmel-by-the-Sea
Notes to Basic Financial Statements
June 30, 2015

Note 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

B. Deficit Fund Balance/Net Position in Individual Funds

The Ambulance major special revenue fund has a deficit fund balance of \$684,400. It is the City's expectation that fund balance of the general fund will be used to alleviate this deficit.

C. Excess of Expenditures over Appropriations by Department in Individual Funds

Fund	Expenditures	Appropriations	Excess
General Fund:			
General government	\$ 3,586,911	\$ 3,124,839	\$ 462,072
Building maintenance	1,637,602	950,650	686,952
Nonmajor Funds:			
Traffic Safety	4,616		4,616
Forest Theater	2,129		2,129
Gas Tax	23,437		23,437

Note 3 CASH AND INVESTMENTS

Cash and Investments

The following is a summary of cash and investments at June 30, 2015:

Pooled cash and investments - statement of net position	\$ 11,426,657
Cash and investments with fiscal agent - statement of net position	<u>400,015</u>
Total cash and investments	<u><u>\$ 11,826,672</u></u>

Cash and investments as of June 30, 2015 consist of the following:

Cash on hand	\$ 1,335
Demand deposits	2,858,645
Investments	<u>8,966,692</u>
Total cash and investments	<u><u>\$ 11,826,672</u></u>

The City follows the practice of pooling cash and investments of all funds except for funds required to be held by fiscal agents under provisions of bond indentures. Interest income earned on pooled cash and investments is allocated monthly to the various funds based on monthly cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

City of Carmel-by-the-Sea
Notes to Basic Financial Statements
June 30, 2015

Note 3 CASH AND INVESTMENTS (CONTINUED)

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
United States (U.S.) Treasury Issues	5 years	None	None
U.S. Government Agency Securities	5 years	50%	50%
California State and Local Bonds, Notes, & Warrants	None	None	None
Bankers Acceptance	180 days	40%	30%
Commercial Paper	270 days	15%	10%
Medium Term Corporate Notes	5 years	30%	30%
Negotiable Certificates of Deposit	5 years	30%	30%
Repurchase Agreements	92 days	None	None
Passbook Savings/Money Market	None	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None
Federal Instrumentalities	None	None	None

City of Carmel-by-the-Sea
Notes to Basic Financial Statements
June 30, 2015

Note 3 CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
United States (U.S.) Treasury Issues	None	None	None
U.S. Government Agency Securities	None	None	None
Banker's Acceptance	360 days	None	None
Commercial Paper	270 days	None	None
Money Market Funds	None	None	None
Investment Agreements	None	None	None
Local Agency Bonds	None	None	None
Medium Term Notes	None	None	None
Negotiable Certificate of Deposits	None	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term 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 operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

<u>Investment Type</u>	<u>Totals</u>	<u>Remaining Maturity (in Months)</u>					
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-36 Months</u>	<u>37-48 Months</u>	<u>49-60 Months</u>	<u>More Than 60 Months</u>
State investment pool	\$ 6,474,524	\$ 6,474,524	\$ -	\$ -	\$ -	\$ -	\$ -
Money market funds	99,153	99,153					
Certificates of deposit	1,993,000	498,000	1,245,000	250,000			
Held by bond trustees:							
Money market funds	400,015	400,015					
	<u>\$ 8,966,692</u>	<u>\$ 7,471,692</u>	<u>\$ 1,245,000</u>	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Carmel-by-the-Sea
Notes to Basic Financial Statements
June 30, 2015

Note 3 CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating, by Standards and Poor, as of fiscal year end for each investment type:

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
State investment pool	\$ 6,474,524	None	\$ -	\$ -	\$ -	\$ -	\$ 6,474,524
Money market funds	99,153	None		99,153			
Certificates of deposit	1,993,000	None					1,993,000
Held by bond trustees:							
Money market funds	400,015	None		400,015			
Total	\$ 8,966,692		\$ -	\$ 499,168	\$ -	\$ -	\$ 8,467,524

Concentration of Credit Risk

As of June 30, 2015, the City has not invested more than 5% of its total investments in any one issuer. Investments in external investment pools are excluded from this requirement.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The City's investment policy does not contain any additional provisions that would limit the exposure to custodial credit risk for deposits.

However, the policy does stipulate that mortgage collateral cannot be used to secure deposits, and that the use of a third party bank trust department is to act as the City's safekeeping agent for investments. At June 30, 2015, the City's deposits (bank balances) were insured by the Federal Depository Insurance Corporation or collateralized as required under California Law.

City of Carmel-by-the-Sea
Notes to Basic Financial Statements
June 30, 2015

Note 3 CASH AND INVESTMENTS (CONTINUED)

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Note 4 INTERFUND TRANSACTIONS

Receivables/Payables

The following sets forth amounts due to/from funds. These amounts represent when one fund reflects a deficit in its pooled cash account, generated from expenditures paid before revenue is received. These amounts are short term loans and are expected to be repaid within the next fiscal year.

Due to/Due from Other Funds

<u>Fund</u>	<u>Due From Amount</u>	<u>Due to Amount</u>
Major Funds:		
General Fund	\$ 1,382,042	\$ -
Ambulance Special Revenue Fund		<u>1,382,042</u>
Total	<u>\$ 1,382,042</u>	<u>\$ 1,382,042</u>

Transfers

With City Council approval, resources may be transferred from one City fund to another. The purposes of the transfers are: to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

City of Carmel-by-the-Sea
Notes to Basic Financial Statements
June 30, 2015

Note 4 INTERFUND TRANSACTIONS (CONTINUED)

Transfers (Continued)

Transfers between individual funds during the fiscal year ended June 30, 2015, were as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
<u>Major Governmental Funds:</u>		
General Fund	\$ 2,073,032	\$ 2,156,660
Harrison Memorial Library Special Revenue Fund	948,596	
Ambulance Special Revenue Fund	493,384	180,000
<u>Nonmajor Governmental Funds:</u>		
Traffic Safety Special Revenue Fund		100,000
Road Impact Fees Special Revenue Fund		215,000
Grants Special Revenue Fund		301,702
Forest Theater Special Revenue Fund		90,000
Gas Tax Special Revenue Fund		93,871
Measure D Special Revenue Fund		1,790,702
General Debt Service Fund	1,412,923	
Totals	<u>\$ 4,927,935</u>	<u>\$ 4,927,935</u>

City of Carmel-by-the-Sea
Notes to Basic Financial Statements
June 30, 2015

Note 5 CAPITAL ASSETS

A. A summary of changes in the Governmental Activities capital assets for the fiscal year ended June 30, 2015 is as follows:

	Balance at July 1, 2014	Additions	Prior Period Adjustments	Balance at June 30, 2015
Capital assets not being depreciated:				
Land	\$ 3,633,723	\$ -	\$ 1,467,918	\$ 5,101,641
Art	1,467,918		(1,467,918)	
Construction in Progress	219,284	1,412,347	32,436	1,664,067
Total	<u>5,320,925</u>	<u>1,412,347</u>	<u>32,436</u>	<u>6,765,708</u>
Depreciable capital assets:				
Buildings and improvements	26,989,208	23,967	(32,436)	26,980,739
Infrastructure	13,760,000	810,803		14,570,803
Vehicles	2,498,253	118,974		2,617,227
Machinery & equipment	2,362,456	30,576		2,393,032
Total	<u>45,609,917</u>	<u>984,320</u>	<u>(32,436)</u>	<u>46,561,801</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,831,233)	(700,724)	4,790	(8,527,167)
Infrastructure	(917,334)	(485,694)		(1,403,028)
Vehicles	(2,091,836)	(118,074)		(2,209,910)
Machinery & equipment	(1,817,338)	(123,173)		(1,940,511)
Total	<u>(12,657,741)</u>	<u>(1,427,665)</u>	<u>4,790</u>	<u>(14,080,616)</u>
Total capital assets, being depreciated, net	<u>32,952,176</u>	<u>(443,345)</u>	<u>(27,646)</u>	<u>32,481,185</u>
Governmental activities capital assets, net	<u>\$ 38,273,101</u>	<u>\$ 969,002</u>	<u>\$ 4,790</u>	<u>\$ 39,246,893</u>

Depreciation expense was charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program were as follows:

Governmental Activities:	Total
Administration	\$ 4,283
Building maintenance	137,056
Public safety	59,962
Public works	673,858
Forest, parks and beaches	17,132
Culture and recreation	535,374
	<u>\$ 1,427,665</u>

City of Carmel-by-the-Sea
Notes to Basic Financial Statements
June 30, 2015

Note 6 LONG-TERM LIABILITIES

The following is a summary of changes in Governmental Activities long-term debt for the fiscal year ended June 30, 2015:

	Balance at July 1, 2014	Additions	Deletions	Prior Period Adjustment	Balance at June 30, 2015	Due Within One Year
Sunset Center COP	\$ 6,725,000	\$ -	\$ (290,000)	\$ -	\$ 6,435,000	\$ 295,000
Countywide Radio Project	303,366		(38,741)		264,625	18,379
Capital Lease Obligations	137,387		(137,387)			
Pension Obligation Bonds	5,585,000		(580,000)		5,005,000	585,000
Compensated Absences	468,951	415,435	(281,371)		603,015	361,809
Net Pension Liability			(4,039,316)	15,703,462	11,664,146	
Claims Liabilities	460,000				460,000	
Net OPEB Obligation	1,333,306	282,709	(47,721)		1,568,294	
Total	\$ 15,013,010	\$ 698,144	\$ (5,414,536)	\$ 15,703,462	\$ 26,000,080	\$ 1,260,188

A. Certificates of Participation – Sunset Center COP

In 2010, the Carmel Public Improvement Authority, a component unit of the City, refunded previously issued Certificates of Participation in the amount of \$7,485,000, bearing an average interest rate of 4.73%, secured by general revenues of the City, and matures in October 2031. The original proceeds were used to remodel the Sunset Cultural Center property. Interest is payable semi-annually on October 1st and April 1st with principal payments due each October 1st. The outstanding balance due at June 30, 2015 was \$6,435,000.

Fiscal Years Ended June 30,	Principal	Interest	Total
2016	\$ 295,000	\$ 213,962	\$ 508,962
2017	300,000	208,062	508,062
2018	310,000	202,062	512,062
2019	315,000	194,312	509,312
2020	325,000	186,438	511,438
2021-2025	1,790,000	779,328	2,569,328
2026-2030	2,135,000	453,762	2,588,762
2031-2032	965,000	58,000	1,023,000
Totals	\$ 6,435,000	\$ 2,295,926	\$ 8,730,926

City of Carmel-by-the-Sea
Notes to Basic Financial Statements
June 30, 2015

Note 6 LONG-TERM LIABILITIES (CONTINUED)

B. Countywide Radio Project

In 2009, the City entered into a participation agreement with Monterey County to provide funding related to the "Next Generation Radio Project," a Federal Communications Commission mandated alteration of public safety and local government radio systems. Estimated payments will change should individual local jurisdictions elect out of the project. The outstanding balance due at June 30, 2015 was \$264,625.

<u>Fiscal Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 18,379	\$ 11,285	\$ 29,664
2017	19,105	10,559	29,664
2018	19,860	9,804	29,664
2019	20,645	9,019	29,664
2020	21,460	8,204	29,664
2021-2025	120,705	27,616	148,321
2026-2030	44,471	4,106	48,577
Totals	<u>\$ 264,625</u>	<u>\$ 80,593</u>	<u>\$ 345,218</u>

C. Capital Lease – Vehicle

In 2009, the City entered into a lease purchase agreement to acquire firefighting equipment in the amount of \$435,982, bearing interest at 4.5%, secured by equipment, with interest and principal payments due annually on July 1st, and matures in July 2015. The lease was paid in full during the fiscal year ended June 30, 2015.

D. Pension Obligation Bonds

On November 29, 2012, the City issued \$6,280,000 in 2012 Taxable Pension Obligation Bonds, the purpose of which was to fund certain PERS side fund obligations. The bonds bear an interest rate of 0.55% to 3.1% and mature on June 1, 2023. The outstanding balance due at June 30, 2015 was \$5,005,000.

The annual minimum debt service requirements for these bonds are:

<u>Fiscal Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 585,000	\$ 112,444	\$ 697,444
2017	595,000	105,130	700,130
2018	605,000	96,206	701,206
2019	615,000	85,618	700,618
2020	625,000	73,010	698,010
2021-2023	1,980,000	119,196	2,099,196
Totals	<u>\$ 5,005,000</u>	<u>\$ 591,604</u>	<u>\$ 5,596,604</u>

Note 6 LONG-TERM LIABILITIES (CONTINUED)

E. Compensated Absences

The City records employee absences, such as vacation, illness, and holidays, for which it is expected that employees will be paid as compensated absences. Compensated absences had a balance of \$603,015 at June 30, 2015; of that amount \$361,809 is expected to be paid within a year.

F. Net Pension Liability

In accordance with GASB Statement No. 68, the City has recorded its net pension liability of CalPERS benefits for retirees. See Note 7 for further discussion on the net pension liability.

G. Claims Liabilities

The City has recorded a liability for potential claims in excess of amounts covered by the insurance pool. See Note 10 for further discussion on the City's risk management activities.

H. Net OPEB Obligation

A net OPEB obligation is the cumulative differences between annual OPEB cost and an employer's contributions to a plan. At June 30, 2015, the City had a Net OPEB Obligation of \$1,568,294. See Note 8 for further discussion on OPEB.

Note 7 PUBLIC EMPLOYEES' RETIREMENT SYSTEM

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 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 Financial Office. 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.

A. General Information about the Pension Plan

Plan Descriptions - All qualified employees are eligible to participate in the City's pooled Safety (police and fire) Plan, a cost-sharing multiple-employer defined benefit pension plan and the City's Miscellaneous (all other) Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plan 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 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

City of Carmel-by-the-Sea
Notes to Basic Financial Statements
June 30, 2015

Note 7 PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

A. General Information about the Pension Plan (Continued)

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	City Miscellaneous Plan		
	Tier I	Tier II	Tier III
Hire date	Prior to April 15, 2012	On or after April 15, 2012	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Required employee contribution rates	7.000%	7.000%	6.250%
Required employer contribution rates	11.522%	8.005%	6.250%

	City Safety Plan		
	Tier I	Tier II	Tier III
Hire date	Prior to April 15, 2012	On or after April 15, 2012	On or after January 1, 2013
Benefit formula	3.0% @ 50	2.0% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Required employee contribution rates	9.000%	9.000%	11.500%
Required employer contribution rates	27.849%	20.083%	11.500%

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 Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

B. Net Pension Liability

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 each of the Plans is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The City's proportion of the net pension liability of the Miscellaneous and Safety Plan 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 Miscellaneous and Safety Plans as of June 30, 2013 and June 30, 2014 was as follows:

City of Carmel-by-the-Sea
Notes to Basic Financial Statements
June 30, 2015

Note 7 PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

B. Net Pension Liability (Continued)

	<u>Miscellaneous Plan</u>	<u>Public Safety Plan</u>
Proportion - June 30, 2013	0.25518%	0.15346%
Proportion - June 30, 2014	0.24760%	0.14782%
Change - Increase (Decrease)	-0.00758%	-0.00564%

A summary of principal assumptions and methods used to determine the net pension liabilities is shown below.

Actuarial Assumptions - The total pension liability in the June 30, 2013 actuarial valuation was determined using the following actuarial assumptions:

	<u>Miscellaneous</u>	<u>Safety</u>
Valuation Date	June 30, 2013	June 30, 2013
Measurement Date	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.50%	7.50%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	Varies (1)	Varies (1)
Investment Rate of Return	7.50% (2)	7.50% (2)
Mortality	Derived using CalPERS' Membership Data for all Funds	

(1) Depending on age, service, and type of employment.

(2) Net of pension plan investment expenses, including inflation.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate - The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the 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 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

City of Carmel-by-the-Sea
Notes to Basic Financial Statements
June 30, 2015

Note 7 PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

B. Net Pension Liability (Continued)

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

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

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

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

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

City of Carmel-by-the-Sea
Notes to Basic Financial Statements
June 30, 2015

Note 7 PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

C. Changes in the Net Pension Liability

As of June 30, 2015, the City reported net pension liabilities for its proportionate share of the net pension liability of the Miscellaneous and Public Safety Plans as follows:

Proportionate Share of Net Pension Liability	
<u>Miscellaneous Plan</u>	<u>Public Safety Plan</u>
\$ 6,119,423	\$ 5,544,723

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the City for each Plan, calculated using the discount rate, as well as what the City's 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>Public Safety</u>
1% Decrease	6.50%	6.50%
Net Pension Liability	\$ 10,902,919	\$ 9,541,749
Current Discount Rate	7.50%	7.50%
Net Pension Liability	\$ 6,119,423	\$ 5,544,723
1% Increase	8.50%	8.50%
Net Pension Liability	\$ 2,149,575	\$ 2,251,345

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 Carmel-by-the-Sea
Notes to Basic Financial Statements
June 30, 2015

Note 7 PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

D. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the fiscal year ended June 30, 2015, the City recognized pension expense of \$914,434 (\$446,031 for the Miscellaneous Plan and \$468,403 for the Safety Plan). At June 30, 2015, the Local Government reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Miscellaneous Plans:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 323,796	\$ -
Net differences between projected and actual earnings on plan investments		(2,056,409)
Adjustments due to differences in proportions	193,053	(15,007)
Total	<u>\$ 516,849</u>	<u>\$ (2,071,416)</u>

Public Safety Plans:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 401,409	\$ -
Net differences between projected and actual earnings on plan investments		(1,674,136)
Adjustments due to differences in proportions	122,454	(26,293)
Total	<u>\$ 523,863</u>	<u>\$ (1,700,429)</u>

\$725,205 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred inflows (outflows) of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended	
June 30,	
2016	\$ 834,706
2017	834,706
2018	854,289
2019	932,637

Note 8 OTHER POST EMPLOYMENT BENEFITS

Plan Description

The City of Carmel-by-the-Sea Retiree Healthcare Plan (Plan) is a single-employer defined benefit healthcare plan administered by the City. The Plan provides access to lifetime healthcare benefits to eligible retirees and their dependents. The City provides retiree medical benefits through the California Public Employees' Retirement System healthcare program (PEMHCA). For eligible retirees, the City contributes not less than 5% of the active contribution times years in PEMHCA (max \$100/month increase). The City pays active the PEMHCA minimum, and the City joined PEMHCA in 1998. The City's retiree contribution was \$115 for 2013, \$119 for 2014 and \$122 for 2015.

Eligibility: Employees are eligible to participate in the City's Retiree Healthcare Plan if they retire directly from the City under CalPERS with five years of PERS service (there is no minimum service requirement if retirement is due to a service-connected disability.) Since PEMHCA is a community rated plan for most employers, an implied subsidy is not reflected under GASB 45. The City does not provide dental, vision, life, or Medicare Part B reimbursement to retirees. The Retiree Healthcare Plan does not issue a financial report.

Membership of the plan consisted of the following at June 30, 2015:

Retirees and beneficiaries receiving benefits	34
Other participants fully eligible for benefits	25
Other participants not fully eligible for benefits	55
	<hr/>
Total	114
	<hr/> <hr/>

Funding Policy

The contribution requirements of the Plan participants and the City are established by and may be amended by the City. The City currently does not prefund plan benefits.

The Annual Required Contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefit Other Than Pensions. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

For fiscal year 2015, the City contributed \$47,721 for current benefit payments.

Annual OPEB Cost and Net OPEB Obligation

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

City of Carmel-by-the-Sea
Notes to Basic Financial Statements
June 30, 2015

Note 8 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation.

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

Annual required contribution (ARC)	\$ 295,155
Interest on net OPEB obligation	46,666
Adjustment to ARC	<u>(59,112)</u>
Annual OPEB cost (expense)	282,709
Contributions made by City	<u>(47,721)</u>
Increase in net OPEB obligation	234,988
Net OPEB obligations, beginning of fiscal year	1,333,306
Net OPEB obligations, end of fiscal year	<u><u>\$ 1,568,294</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2015 and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2013	\$ 304,008	18%	\$ 1,115,277
6/30/2014	266,541	18%	1,333,306
6/30/2015	282,709	17%	1,568,294

Funded Status and Funding Progress. The funded status of the Plan as of July 1, 2014, the Plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 2,760,357
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,760,357</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan participants)	\$ 5,118,420
UAAL as a percentage of covered payroll	53.93%

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

Note 8 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions.

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

For the July 1, 2014, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 3.5% discount rate. Premiums were assumed to increase at a rate of 4.0% per year. The total UAAL calculated in the July 1, 2014, valuation was amortized as a level percentage of projected payroll over a fixed 25-year period beginning fiscal year 2014.

Note 9 NET POSITION/FUND BALANCES

At June 30, 2015, the City had recorded restricted net position in the governmental activities as follows:

	<u>Governmental Activities</u>
Restricted for:	
Community development	\$ 372,659
Streets and roads	265,806
Measure D	2,865,053
Debt service	<u>358,955</u>
Total Restricted	<u>\$ 3,862,473</u>

City of Carmel-by-the-Sea
Notes to Basic Financial Statements
June 30, 2015

Note 9 NET POSITION/FUND BALANCES (CONTINUED)

The constraints placed on fund balance for the major governmental funds and all other governmental funds at June 30, 2015 are as follows:

Fund Balances	General Fund	Harrison Memorial Library Special Revenue Fund	Parking Special Revenue Fund	Ambulance Special Revenue Fund	Nonmajor Governmental Funds	Total
Community Development	\$ -	\$ -	\$ -	\$ -	\$ 372,659	\$ 372,659
Streets and Roads					265,806	265,806
Measure D					2,865,053	2,865,053
Debt Service					400,015	400,015
<i>Total Restricted</i>					3,903,533	3,903,533
Committed for:						
Economic Stabilization	4,561,070					4,561,070
<i>Total Committed</i>	4,561,070					4,561,070
Assigned for:						
Post-employment benefits	414,283					414,283
Capital Projects	1,333,306					1,333,306
Harrison Memorial Library		1,085,224				1,085,224
Parking			698,086			698,086
Traffic Safety					42,619	42,619
Streets and Roads					29,527	29,527
Forest Theater					18,012	18,012
<i>Total Assigned</i>	1,747,589	1,085,224	698,086		90,158	3,621,057
Unassigned	1,541,150			(684,400)		856,750
<i>Total Fund Balances (Deficits)</i>	\$ 7,849,809	\$ 1,085,224	\$ 698,086	\$ (684,400)	\$ 3,993,691	\$ 12,942,410

Note 10 RISK MANAGEMENT

The City of Carmel-by-the-Sea (City) is a member of CSAC-EIA (California State and County Excess Insurance Authority) which is a shared risk pool. CSAC-EIA covers claims for City for both Workers Compensation and General Liability. The City's Liability SIR is pre-funded through CSAC-EIA for 8 quarters of payments made on behalf of City. Currently, the SIR fund for the City with CSAC-EIA is maintained at \$8,183. If the pre-funded SIR balance drops below this amount, the City is billed by CSAC-EIA to replenish the fund to the \$8,183 level. The City does not make claim payments, they are all issued by the city's third party administrator from a CSA-EIA account.

The City has two layers of Liability coverage through CSAC-EIA and under the first layer, the Primary General Liability layer, there is an SIR (Self Insured Retention) of \$10,000 per claim. Thereafter, the next layer of coverage kicks in (General Liability 1 program) which carries an SIR of \$100,000 which is satisfied by exhausting the coverage limit of \$100,000 under the Primary Liability program. The maximum limit of coverage under the primary General Liability 1 program is \$25 million. The City retains the risk of loss above \$25 million.

Note 10 RISK MANAGEMENT (CONTINUED)

For Workers Compensation, the City is a member of both the CSAC-EIA Primary Workers Compensation program and then, the CSAC-EIA Excess Workers Compensation program. The Primary Workers compensation program provides dollar 1 coverage to the City for Workers Compensation claims. In other words, City has no deductible or SIR. This layer of Workers Compensation coverage carries a maximum limit of \$125,000 per occurrence. Thereafter, CSAC-EIA's excess coverage steps in and the SIR (Self Insured Retention) is \$125,000 which again, is satisfied by exhausting the limits of coverage under the Primary Workers Compensation program. The upper limit of coverage under the Excess Workers Compensation program is "statutory". What this means is that regardless of the total cost of the claim, it is covered under the CSAC-EIA Excess Workers Compensation program. There is absolutely no monetary exposure to the City under these two Workers Compensation programs except for the premium costs to purchase this coverage. The City has had no settlements which exceeded insurance coverage in the last three fiscal years and no significant changes or reductions in insurance coverage during the current year.

Note 11 PRIOR PERIOD ADJUSTMENTS

A prior period adjustment in the amount of (\$14,002,854) was made on the statement of activities due to an overstatement of cash and investments (\$22,943), an overstatement of accrued liabilities of \$233,335, an overstatement of accounts receivable (\$11,986), an understatement of capital assets of \$4,790, and an understatement of net pension liability (\$15,703,462), and an understatement of deferred outflows of resources of \$1,497,412. The adjustment for net pension liability and deferred outflows of resources is due to implementation of GASB Statement No. 68.

A prior period adjustment in the amount of \$680,436 was made in the General Fund due to an overstatement of cash and investments (\$12,899), an overstatement of accrued liabilities of \$233,335, and an overstatement of claims payable \$460,000 in the prior fiscal year.

A prior period adjustment in the amount of (\$10,044) was made in the Ambulance Special Revenue Fund due to an overstatement of cash and investments in the prior fiscal year.

A prior period adjustment in the amount of (\$11,986) was made in the Gas Tax Special Revenue Fund due to an overstatement of accounts receivable in the prior fiscal year.

Note 12 SUBSEQUENT EVENTS

On April 4, 2016, the City Council authorized an agreement with Accela Inc. for implementation of a financial software system and a hosting agreement for a five year term, in an amount not to exceed \$199,500.

On April 4, 2016, the City Council authorized a construction contract with Monterey Peninsula Engineering for the 2016 Street Projects in an amount not to exceed \$1,121,938.

REQUIRED SUPPLEMENTARY INFORMATION

City of Carmel-by-the-Sea
Required Supplementary Information
June 30, 2015

Using the most recent actuarial valuation dated July 1, 2014, the following is the funded status of the OPEB plan as of the actuarial date:

Date	Entry Age Normal Accrued Liability (A)	Actuarial Value of Assets (B)	Unfunded Liability/ (Excess Assets) ((A)-(B))	Funded Ratio ((B)/(A))	Covered Payroll (C)	Actuarial Accrued Liability % of Covered Payroll ((A-B)/C)
6/30/2009	\$ 2,752,948	\$ -	\$ 2,752,948	0%	\$ 5,432,667	50.67%
7/1/2014	2,760,357	-	2,760,357	0%	5,118,420	53.93%

**City of Carmel-by-the-Sea
Required Supplementary Information
June 30, 2015**

**Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Last 10 Fiscal Years***

Note 1: Schedules of the City's Proportionate Share of the Net Pension Liability

	Miscellaneous	
	Fiscal Year 2014-15	
Proportion of the net pension liability		0.09823%
Proportionate share of the net pension liability	\$	6,112,274
Covered employee payroll	\$	2,752,690
Proportionate Share of the net pension liability as a percentage of covered employee payroll		222.05%
Plan's fiduciary net position	\$	29,903,178
Plan's total pension liability	\$	36,015,452
Plan fiduciary net position as a percentage of total pension liability		83.03%

Notes to Schedule

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Change in Assumptions: None

*Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

**Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
 Last 10 Fiscal Years***

Note 1: Schedules of the City's Proportionate Share of the Net Pension Liability (Continued)

		Miscellaneous Tier II
		Fiscal Year 2014-15
Proportion of the net pension liability		0.00011%
Proportionate share of the net pension liability	\$	7,149
Covered employee payroll	\$	425,252
Proportionate Share of the net pension liability as a percentage of covered employee payroll		1.68%
Plan's fiduciary net position	\$	34,975
Plan's total pension liability	\$	42,124
Plan fiduciary net position as a percentage of total pension liability		83.03%

Notes to Schedule

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Change in Assumptions: None

*Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

**City of Carmel-by-the-Sea
Required Supplementary Information
June 30, 2015**

**Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Last 10 Fiscal Years***

Note 1: Schedules of the City's Proportionate Share of the Net Pension Liability (Continued)

	Safety
	Fiscal Year 2014-15
Proportion of the net pension liability	0.08894%
Proportionate share of the net pension liability	\$ 5,534,383
Covered employee payroll	\$ 1,450,728
Proportionate Share of the net pension liability as a percentage of covered employee payroll	381.49%
Plan's fiduciary net position	\$ 24,250,216
Plan's total pension liability	\$ 29,784,599
Plan fiduciary net position as a percentage of total pension liability	81.42%

Notes to Schedule

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Change in Assumptions: None

*Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Last 10 Fiscal Years*

Note 1: Schedules of the City's Proportionate Share of the Net Pension Liability (Continued)

		Safety Tier II
		Fiscal Year 2014-15
Proportion of the net pension liability		0.00016%
Proportionate share of the net pension liability	\$	10,340
Covered employee payroll	\$	266,296
Proportionate Share of the net pension liability as a percentage of covered employee payroll		3.88%
Plan's fiduciary net position	\$	45,305
Plan's total pension liability	\$	55,645
Plan fiduciary net position as a percentage of total pension liability		81.42%

Notes to Schedule

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Change in Assumptions: None

*Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

**Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
 Last 10 Fiscal Years***

Note 3: Schedules of Pension Contributions

	Miscellaneous
	Fiscal Year 2014-15
Actuarially Determined Contribution ²	\$ 268,080
Contributions in Relation to the Actuarially Determined Contribution ²	(268,080)
Contribution Deficiency (Excess)	<u>\$ -</u>
Covered Employee Payroll ³	\$ 2,326,679
Contributions as a Percentage of Covered Employee Payroll ³	11.52%

¹Historical information is required only for measurement periods for which GASB 68 is applicable.

²Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

³Covered Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered employee payroll as the total payroll of employees pension plan. Accordingly, if pensionable earnings are different than total earnings for covered employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2014-15 were from the June 30, 2012 public agency valuations.

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll
Remaining amortization period	19 years
Assets Valuation Method	15 year smoothed market
Inflation	2.75%
Salary Increases	3.30% to 14.20% depending on age, service and type of employment
Payroll Growth	3.00%
Investment Rate of Return	7.50% net of administrative expenses
Retirement Age	50-56 years
Mortality	The mortality assumptions are based on mortality rates resulting from the CalPERS Experience Study adopted by the CalPERS Board, first used in the June 30, 2009 valuation. For purposes of the post-retirement mortality rates, those revised rates include 5 years of projected on-going mortality improvement using Scale AA published by the Society of Actuaries until June 30, 2010.

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

**Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
 Last 10 Fiscal Years***

Note 3: Schedules of Pension Contributions (Continued)

	Miscellaneous Tier II
	Fiscal Year 2014-15
Actuarially Determined Contribution ²	\$ 55,716
Contributions in Relation to the Actuarially Determined Contribution ²	(55,716)
Contribution Deficiency (Excess)	<u>\$ -</u>
Covered Employee Payroll ³	\$ 696,015
Contributions as a Percentage of Covered Employee Payroll ³	8.01%

¹Historical information is required only for measurement periods for which GASB 68 is applicable.

²Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

³Covered Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered employee payroll as the total payroll of employees pension plan. Accordingly, if pensionable earnings are different than total earnings for covered employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2014-15 were from the June 30, 2012 public agency valuations.

Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Remaining amortization period	19 years
Assets Valuation Method	15 year smoothed market
Inflation	2.75%
Salary Increases	3.30% to 14.20% depending on age, service and type of employment
Payroll Growth	3.00%
Investment Rate of Return	7.50% net of administrative expenses
Retirement Age	50-56 years
Mortality	The mortality assumptions are based on mortality rates resulting from the CalPERS Experience Study adopted by the CalPERS Board, first used in the June 30, 2009 valuation. For purposes of the post-retirement mortality rates, those revised rates include 5 years of projected on-going mortality improvement using Scale AA published by the Society of Actuaries until June 30, 2010.

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

**Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
 Last 10 Fiscal Years***

Note 3: Schedules of Pension Contributions (Continued)

	Safety	
	Fiscal Year 2014-15	
Actuarially Determined Contribution ²	\$	360,496
Contributions in Relation to the Actuarially Determined Contribution ²		(360,496)
Contribution Deficiency (Excess)	\$	<u>-</u>
Covered Employee Payroll ³	\$	1,294,467
Contributions as a Percentage of Covered Employee Payroll ³		27.85%

¹Historical information is required only for measurement periods for which GASB 68 is applicable.

²Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

³Covered Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered employee payroll as the total payroll of employees pension plan. Accordingly, if pensionable earnings are different than total earnings for covered employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2014-15 were from the June 30, 2012 public agency valuations.

Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Remaining amortization period	13 years
Assets Valuation Method	15 year smoothed market
Inflation	2.75%
Salary Increases	3.30% to 14.20% depending on age, service and type of employment
Payroll Growth	3.00%
Investment Rate of Return	7.50% net of administrative expenses
Retirement Age	50-55 years
Mortality	The mortality assumptions are based on mortality rates resulting from the CalPERS Experience Study adopted by the CalPERS Board, first used in the June 30, 2009 valuation. For purposes of the post-retirement mortality rates, those revised rates include 5 years of projected on-going mortality improvement using Scale AA published by the Society of Actuaries until June 30, 2010.

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

**Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
 Last 10 Fiscal Years***

Note 3: Schedule of Pension Contributions (Continued)

	Safety Tier II	
	Fiscal Year 2014-15	
Actuarially Determined Contribution ²	\$	40,913
Contributions in Relation to the Actuarially Determined Contribution ²		(40,913)
Contribution Deficiency (Excess)	\$	-
Covered Employee Payroll ³	\$	203,720
Contributions as a Percentage of Covered Employee Payroll ³		20.08%

¹Historical information is required only for measurement periods for which GASB 68 is applicable.

²Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

³Covered Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered employee payroll as the total payroll of employees pension plan. Accordingly, if pensionable earnings are different than total earnings for covered employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2014-15 were from the June 30, 2012 public agency valuations.

Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Remaining amortization period	13 years
Assets Valuation Method	15 year smoothed market
Inflation	2.75%
Salary Increases	3.30% to 14.20% depending on age, service and type of employment
Payroll Growth	3.00%
Investment Rate of Return	7.50% net of administrative expenses
Retirement Age	50-55 years
Mortality	The mortality assumptions are based on mortality rates resulting from the CalPERS Experience Study adopted by the CalPERS Board, first used in the June 30, 2009 valuation. For purposes of the post-retirement mortality rates, those revised rates include 5 years of projected on-going mortality improvement using Scale AA published by the Society of Actuaries until June 30, 2010.

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

CITY OF CARMEL-BY-THE-SEA
Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes and assessments	\$ 16,880,953	\$ 16,880,953	\$ 14,702,528	\$ (2,178,425)
Licenses and permits	495,125	495,125	504,419	9,294
Intergovernmental	15,000	15,000		(15,000)
Use of money and property	232,103	232,103	161,620	(70,483)
Fines and forfeitures	26,250	26,250	9,246	(17,004)
Current service charges	470,270	470,270	256,097	(214,173)
Other revenue	485,286	485,286	249,537	(235,749)
Total Revenues	<u>18,604,987</u>	<u>18,604,987</u>	<u>15,883,447</u>	<u>(2,721,540)</u>
Expenditures:				
Current:				
General government	3,124,839	3,124,839	3,586,911	(462,072)
Building maintenance	950,650	950,650	1,637,602	(686,952)
Public safety	5,353,028	5,353,028	5,255,170	97,858
Public works	2,006,772	2,006,772	1,260,593	746,179
Forest, parks and beaches	720,305	720,305	544,902	175,403
Culture and recreation	884,593	884,593	766,242	118,351
Economic development	319,260	319,260	315,780	3,480
Capital outlay	4,524,330	4,524,330	2,396,667	2,127,663
Total Expenditures	<u>17,883,777</u>	<u>17,883,777</u>	<u>15,763,867</u>	<u>2,119,910</u>
Excess of Revenues Over (Under) Expenditures	<u>721,210</u>	<u>721,210</u>	<u>119,580</u>	<u>(601,630)</u>
Other Financing Sources (Uses)				
Transfers in	1,085,000	1,085,000	2,073,032	988,032
Transfers out	(2,629,607)	(2,629,607)	(2,156,660)	472,947
Total Other Financing Sources (Uses)	<u>(1,544,607)</u>	<u>(1,544,607)</u>	<u>(83,628)</u>	<u>1,460,979</u>
Net Change in Fund Balance	<u>(823,397)</u>	<u>(823,397)</u>	<u>35,952</u>	<u>859,349</u>
Fund Balance, July 1, 2014	7,133,421	7,133,421	7,133,421	
Prior Period Adjustments			680,436	680,436
Fund Balance, July 1, 2014, Restated	<u>7,133,421</u>	<u>7,133,421</u>	<u>7,813,857</u>	<u>680,436</u>
Fund Balance, June 30, 2015	<u>\$ 6,310,024</u>	<u>\$ 6,310,024</u>	<u>\$ 7,849,809</u>	<u>\$ 1,539,785</u>

CITY OF CARMEL-BY-THE-SEA
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Harrison Memorial Library
For the Fiscal Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Use of money and property	\$ 1,000	\$ 1,000	\$ 1,988	\$ 988
Charges for current services	18,100	18,100	17,603	(497)
Contributions	300,200	300,200	686,025	385,825
Total Revenues	<u>319,300</u>	<u>319,300</u>	<u>705,616</u>	<u>386,316</u>
Expenditures				
Current:				
Culture and recreation	<u>1,292,376</u>	<u>1,292,376</u>	<u>1,231,357</u>	<u>61,019</u>
Total Expenditures	<u>1,292,376</u>	<u>1,292,376</u>	<u>1,231,357</u>	<u>61,019</u>
Excess (Deficit) of Revenues over Expenditures	<u>(973,076)</u>	<u>(973,076)</u>	<u>(525,741)</u>	<u>447,335</u>
Other Financing Sources (Uses)				
Transfers in	<u>973,076</u>	<u>973,076</u>	<u>948,596</u>	<u>(24,480)</u>
Total Other Financing Sources (Uses)	<u>973,076</u>	<u>973,076</u>	<u>948,596</u>	<u>(24,480)</u>
Net Change in Fund Balance			422,855	422,855
Fund Balance, July 1, 2014	<u>662,369</u>	<u>662,369</u>	<u>662,369</u>	
Fund Balance, June 30, 2015	<u>\$ 662,369</u>	<u>\$ 662,369</u>	<u>\$ 1,085,224</u>	<u>\$ 422,855</u>

CITY OF CARMEL-BY-THE-SEA
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Ambulance Fund
For the Fiscal Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Use of money and property	\$ -	\$ -	\$ 40	\$ 40
Charges for current services	727,500	727,500	630,476	(97,024)
Total Revenues	<u>727,500</u>	<u>727,500</u>	<u>630,516</u>	<u>(96,984)</u>
Expenditures				
Current:				
Public Safety	1,153,261	1,153,261	1,139,090	14,171
Total Expenditures	<u>1,153,261</u>	<u>1,153,261</u>	<u>1,139,090</u>	<u>14,171</u>
Excess (Deficit) of Revenues over Expenditures	<u>(425,761)</u>	<u>(425,761)</u>	<u>(508,574)</u>	<u>(82,813)</u>
Other Financing Sources (Uses)				
Transfers in	425,761	425,761	493,384	67,623
Transfers out			(180,000)	(180,000)
Total Other Financing Sources (Uses)	<u>425,761</u>	<u>425,761</u>	<u>313,384</u>	<u>(112,377)</u>
Net Change in Fund Balance			<u>(195,190)</u>	<u>(195,190)</u>
Fund Balance (Deficit), July 1, 2014	(479,166)	(479,166)	(479,166)	
Prior Period Adjustments			(10,044)	(10,044)
Fund Balance (Deficit), July 1, 2014, Restated	<u>(479,166)</u>	<u>(479,166)</u>	<u>(489,210)</u>	<u>(10,044)</u>
Fund Balance (Deficit), June 30, 2015	<u>\$ (479,166)</u>	<u>\$ (479,166)</u>	<u>\$ (684,400)</u>	<u>\$ (205,234)</u>

CITY OF CARMEL BY-THE-SEA
NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are restricted by law or administrative action and expenditures for specified purposes. Nonmajor special revenue funds used by the City are listed below:

Traffic Safety Fund – This fund is used to account for court fines collected on the City’s account for moving violations, as well as traffic safety and public safety augmentation funds for police and fire.

Road Impact Fees Fund – This fund is used to account for road impact fees used for transportation related expenditures.

Grants Fund – This fund is used to account for grants utilized for specific purposes.

Forest Theater Fund – This fund is used to account for activities related to the Forest Theater.

Gas Tax Fund – This fund is used to account for revenues collected in accordance with the Streets and Highway Code.

Measure D Fund – This fund is used to account for the transaction and use tax increase to be used to maintain essential services, including fire, ambulance and police response times; fund capital needs, including streets, beach, parks, forest and trails; increase code compliance; maintain libraries, Sunset Center and other public facilities; address CalPERS pension liabilities and other debt; and provide other general City services.

Debt Service Fund

Debt Service Funds are used to account for accumulation of resources for, and payment of, principal and interest on the City’s governmental activities long-term debt. The nonmajor debt service fund of the City is listed below:

Debt Service Fund – This fund is used to account for activities related to the repayment of the Certificate of Participation, Pension Obligation Bond, and capital lease obligations.

CITY OF CARMEL-BY-THE-SEA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2015

	<u>Special Revenue Funds</u>		
	<u>Traffic Safety</u>	<u>Road Impact Fees</u>	<u>Grants</u>
Assets			
Cash and investments	\$ 34,609	\$ 29,527	\$ 364,326
Cash and investments with fiscal agent			
Receivables:			
Accounts	8,010		
Intergovernmental			8,333
	<u>42,619</u>	<u>29,527</u>	<u>372,659</u>
Total Assets	<u>\$ 42,619</u>	<u>\$ 29,527</u>	<u>\$ 372,659</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Accrued liabilities			
	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Restricted			372,659
Assigned	42,619	29,527	
	<u>42,619</u>	<u>29,527</u>	<u>372,659</u>
Total Fund Balances	<u>42,619</u>	<u>29,527</u>	<u>372,659</u>
Total Liabilities and Fund Balances	<u>\$ 42,619</u>	<u>\$ 29,527</u>	<u>\$ 372,659</u>

Special Revenue Funds

Forest Theater	Gas Tax	Measure D	General Debt Service	Total Nonmajor Funds
\$ 18,012	\$ 266,409	\$ 2,359,987	\$ - 400,015	\$ 3,072,870 400,015
		505,066		8,010 513,399
<u>\$ 18,012</u>	<u>\$ 266,409</u>	<u>\$ 2,865,053</u>	<u>\$ 400,015</u>	<u>3,994,294</u>
\$ -	\$ - 603	\$ -	\$ -	\$ - 603
	603			603
18,012	265,806	2,865,053	400,015	3,903,533 90,158
<u>18,012</u>	<u>265,806</u>	<u>2,865,053</u>	<u>400,015</u>	<u>3,993,691</u>
<u>\$ 18,012</u>	<u>\$ 266,409</u>	<u>\$ 2,865,053</u>	<u>\$ 400,015</u>	<u>\$ 3,994,294</u>

CITY OF CARMEL-BY-THE-SEA
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2015

	<u>Special Revenue Funds</u>		
	<u>Traffic Safety</u>	<u>Road Impact Fees</u>	<u>Grants</u>
Revenues:			
Taxes	\$ -	\$ -	\$ -
Licenses and permits		215,838	
Intergovernmental	10,837		747,434
Current service charges			
Fines and forfeitures	109,906		
Total Revenues	<u>120,743</u>	<u>215,838</u>	<u>747,434</u>
Expenditures:			
General government			
Public safety	4,616		
Culture and recreation			
Public works			
Debt service:			
Principal			
Interest and fiscal charges			
Total Expenditures	<u>4,616</u>		
Excess (Deficit) of Revenues over Expenditures	<u>116,127</u>	<u>215,838</u>	<u>747,434</u>
Other Financing Sources (Uses)			
Transfers in			
Transfers out	<u>(100,000)</u>	<u>(215,000)</u>	<u>(301,702)</u>
Total Other Financing Sources (Uses)	<u>(100,000)</u>	<u>(215,000)</u>	<u>(301,702)</u>
Net Change in Fund Balances	<u>16,127</u>	<u>838</u>	<u>445,732</u>
Fund Balances (Deficits), July 1, 2014	26,492	28,689	(73,073)
Prior Period Adjustments			
Fund Balances (Deficits), July 1, 2014, Restated	<u>26,492</u>	<u>28,689</u>	<u>(73,073)</u>
Fund Balances, June 30, 2015	<u>\$ 42,619</u>	<u>\$ 29,527</u>	<u>\$ 372,659</u>

Special Revenue Funds				
Forest Theater	Gas Tax	Measure D	General Debt Service	Total Nonmajor Funds
\$ -	\$ -	\$ 2,718,256	\$ -	\$ 2,718,256
	115,881			215,838
1,350				874,152
				1,350
				109,906
<u>1,350</u>	<u>115,881</u>	<u>2,718,256</u>		<u>1,201,246</u>
			6,183	6,183
				4,616
2,129				2,129
	23,437			23,437
			1,046,128	1,046,128
			360,610	360,610
<u>2,129</u>	<u>23,437</u>		<u>1,412,921</u>	<u>1,443,103</u>
<u>(779)</u>	<u>92,444</u>	<u>2,718,256</u>	<u>(1,412,921)</u>	<u>(241,857)</u>
			1,412,923	1,412,923
<u>(90,000)</u>	<u>(93,871)</u>	<u>(1,790,702)</u>		<u>(2,591,275)</u>
<u>(90,000)</u>	<u>(93,871)</u>	<u>(1,790,702)</u>	<u>1,412,923</u>	<u>(1,178,352)</u>
<u>(90,779)</u>	<u>(1,427)</u>	<u>927,554</u>	<u>2</u>	<u>1,298,047</u>
108,791	279,219	1,937,499	400,013	2,707,630
	(11,986)			(11,986)
<u>108,791</u>	<u>267,233</u>	<u>1,937,499</u>	<u>400,013</u>	<u>2,695,644</u>
<u>\$ 18,012</u>	<u>\$ 265,806</u>	<u>\$ 2,865,053</u>	<u>\$ 400,015</u>	<u>\$ 3,993,691</u>

CITY OF CARMEL-BY-THE-SEA
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Traffic Safety Special Revenue Fund
For the Fiscal Year Ended June 30, 2015

	Budget Final	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Intergovernmental	\$ -	\$ 10,837	\$ 10,837
Fines and forfeitures	150,000	109,906	(40,094)
Total Revenues	<u>150,000</u>	<u>120,743</u>	<u>(29,257)</u>
Expenditures:			
Current:			
Public safety		4,616	(4,616)
Total Expenditures		<u>4,616</u>	<u>(4,616)</u>
Excess (Deficit) of Revenues over Expenditures	<u>150,000</u>	<u>116,127</u>	<u>(33,873)</u>
Other Financing Sources (Uses)			
Transfers out	<u>(150,000)</u>	<u>(100,000)</u>	<u>50,000</u>
Total Other Financing Sources (Uses)	<u>(150,000)</u>	<u>(100,000)</u>	<u>50,000</u>
Net Change in Fund Balance		16,127	16,127
Fund Balance, July 1, 2014	<u>26,492</u>	<u>26,492</u>	
Fund Balance, June 30, 2015	<u>\$ 26,492</u>	<u>\$ 42,619</u>	<u>\$ 16,127</u>

CITY OF CARMEL-BY-THE-SEA
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Road Impact Fees Special Revenue Fund
For the Fiscal Year Ended June 30, 2015

	Budget Final	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Fees and permits	\$ 200,000	\$ 215,838	\$ 15,838
Total Revenues	<u>200,000</u>	<u>215,838</u>	<u>15,838</u>
Excess (Deficit) of Revenues over Expenditures	<u>200,000</u>	<u>215,838</u>	<u>15,838</u>
Other Financing Sources (Uses)			
Transfers out	<u>(200,000)</u>	<u>(215,000)</u>	<u>(15,000)</u>
Total Other Financing Sources (Uses)	<u>(200,000)</u>	<u>(215,000)</u>	<u>(15,000)</u>
Net Change in Fund Balance		838	838
Fund Balance, July 1, 2014	<u>28,689</u>	<u>28,689</u>	
Fund Balance, June 30, 2015	<u>\$ 28,689</u>	<u>\$ 29,527</u>	<u>\$ 838</u>

CITY OF CARMEL-BY-THE-SEA
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Grants Special Revenue Fund
For the Fiscal Year Ended June 30, 2015

	Budget Final	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Intergovernmental	\$ 402,500	\$ 747,434	\$ 344,934
Total Revenues	<u>402,500</u>	<u>747,434</u>	<u>344,934</u>
Other Financing Sources (Uses)			
Transfers out	(402,500)	(301,702)	100,798
Total Other Financing Sources (Uses)	<u>(402,500)</u>	<u>(301,702)</u>	<u>100,798</u>
Net Change in Fund Balance		445,732	445,732
Fund Balance, July 1, 2014	<u>(73,073)</u>	<u>(73,073)</u>	
Fund Balance, June 30, 2015	<u>\$ (73,073)</u>	<u>\$ 372,659</u>	<u>\$ 445,732</u>

CITY OF CARMEL-BY-THE-SEA
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Forest Theater
For the Fiscal Year Ended June 30, 2015

	Budget Final	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Current services charges	\$ 90,000	\$ 1,350	\$ (88,650)
Total Revenues	<u>90,000</u>	<u>1,350</u>	<u>(88,650)</u>
Expenditures:			
Current:			
Culture and recreation		2,129	(2,129)
Total Expenditures		<u>2,129</u>	<u>(2,129)</u>
Excess (Deficit) of Revenues over Expenditures	<u>90,000</u>	<u>(779)</u>	<u>(90,779)</u>
Other Financing Sources (Uses)			
Transfers out	<u>(90,000)</u>	<u>(90,000)</u>	
Total Other Financing Sources (Uses)	<u>(90,000)</u>	<u>(90,000)</u>	
Net Change in Fund Balance		(90,779)	(90,779)
Fund Balance, July 1, 2014	<u>108,791</u>	<u>108,791</u>	
Fund Balance, June 30, 2015	<u>\$ 108,791</u>	<u>\$ 18,012</u>	<u>\$ (90,779)</u>

CITY OF CARMEL-BY-THE-SEA
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Gas Tax Special Revenue Fund
For the Fiscal Year Ended June 30, 2015

	<u>Budget Final</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Intergovernmental	\$ 117,500	\$ 115,881	\$ (1,619)
Total Revenues	<u>117,500</u>	<u>115,881</u>	<u>(1,619)</u>
Expenditures:			
Current:			
Public works		23,437	(23,437)
Total Expenditures		<u>23,437</u>	<u>(23,437)</u>
Excess (Deficit) of Revenues over Expenditures	<u>117,500</u>	<u>92,444</u>	<u>(25,056)</u>
Other Financing Sources (Uses)			
Transfers out	<u>(117,500)</u>	<u>(93,871)</u>	<u>23,629</u>
Total Other Financing Sources (Uses)	<u>(117,500)</u>	<u>(93,871)</u>	<u>23,629</u>
Net Change in Fund Balance		<u>(1,427)</u>	<u>(1,427)</u>
Fund Balance, July 1, 2014	279,219	279,219	
Prior Period Adjustments		<u>(11,986)</u>	<u>(11,986)</u>
Fund Balance, July 1, 2014, Restated	<u>279,219</u>	<u>267,233</u>	<u>(11,986)</u>
Fund Balance, June 30, 2015	<u>\$ 279,219</u>	<u>\$ 265,806</u>	<u>\$ (13,413)</u>

CITY OF CARMEL-BY-THE-SEA
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Measure D Special Revenue Fund
For the Fiscal Year Ended June 30, 2015

	Budget Final	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Taxes	\$ 1,399,000	\$ 2,718,256	\$ 1,319,256
Total Revenues	<u>1,399,000</u>	<u>2,718,256</u>	<u>1,319,256</u>
Other Financing Sources (Uses)			
Transfers out	(1,399,000)	(1,790,702)	(391,702)
Total Other Financing Sources (Uses)	<u>(1,399,000)</u>	<u>(1,790,702)</u>	<u>(391,702)</u>
Net Change in Fund Balance		927,554	927,554
Fund Balance, July 1, 2014	<u>1,937,499</u>	<u>1,937,499</u>	
Fund Balance, June 30, 2015	<u>\$ 1,937,499</u>	<u>\$ 2,865,053</u>	<u>\$ 927,554</u>

CITY OF CARMEL-BY-THE-SEA
MANAGEMENT REPORT
AND
AUDITOR'S COMMUNICATION LETTER

June 30, 2015

CITY OF CARMEL-BY-THE-SEA
June 30, 2015

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MOSS, LEVY & HARTZHEIM LLP

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October 24, 2016

To the Honorable Board of Directors
City of Carmel-by-the-Sea
Carmel-by-the-Sea, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Carmel-by-the-Sea (City) for the fiscal year ended June 30, 2015. Professional standards require that we provide you with the information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 22, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the basic financial statements. As discussed in Note 1G of the notes to the basic financial statements, two new accounting policies were adopted during the fiscal year. The new policies are Governmental Accounting Standards Board (GASB) Statements No. 68 and 71. We noted no transactions entered into by the City during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimates included the funding progress and net pension liability of CalPERS, the estimated historical cost and useful lives of capital assets (specifically infrastructure), and the assumptions used for estimating the other postemployment benefits liability. These estimates are based on CalPERS's actuarial estimates, historical data and industry guidelines for capital assets, and consultant's assumptions developed by consultants for postemployment benefits payable. We evaluated the key factors and assumptions used to develop the estimates above in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit other than reconciling the pooled cash accounts.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, two of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate to the financial statements taken as a whole. These adjustments were for sales tax receivable and pooled cash.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 24, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, the Schedule of Funding Progress of Other Postemployment Benefits, the Schedule of the City's Proportionate Share of the Net Pension Liability, the Schedule of Contributions, and the Budgetary Comparison Schedules of the General Fund and major special revenue funds, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining nonmajor fund financial statements and nonmajor special revenue funds budgetary comparison schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the City Council and management of the City and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



MOSS, LEVY & HARTZHEIM, LLP
Culver City, CA



MOSS, LEVY & HARTZHEIM LLP

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

To the Honorable Board of Directors
City of Carmel-by-the-Sea
Carmel-by-the-Sea, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Carmel-by-the-Sea (City) as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 24, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the current year recommendations section, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the current year recommendations section to be a material weakness (Finding #2015-01).

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. We consider the deficiencies described in the current year recommendations section to be significant deficiencies (Finding #2015-02 to #2015-15).

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 that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that are reported in the current year recommendations section as #2015-16 through #2015-26.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the current year recommendations section. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Very truly yours,



Moss, Levy & Hartzheim, LLP
Culver City, California
October 24, 2016

CURRENT YEAR RECOMMENDATIONS

Material Weakness

2015-01 Finding – Deficiencies in recording of pooled cash:
During our audit of cash, we noted the pooled cash accounts were not reconciled.

Effect:

Without proper reconciliation of pooled cash on a monthly basis, it is difficult to determine if the cash balance is correct at the end of each month. Also, a misappropriation of funds could occur and remain undetected for an extended period of time.

Recommendation:

We recommend that the City reconcile the pooled cash on a monthly basis and the reconciliation be approved by a responsible employee.

Management's Response:

Agreed. Like all of the actual bank accounts, the pooled cash fund should be reconciled on a monthly basis. Our pooled cash accounting structure is a bit different than normal. Because of this difference, the importance of reconciling the actual bank accounts is greater than the reconciliation of the pooled accounts. As mentioned in earlier responses, the Finance Department is short staffed due to covering of the Human Resources and Risk Management areas and does not have the resources to complete in a timely manner many of the tasks that accrue to it on a monthly basis. With the implementation of the new finance system, we anticipate many of the tasks and duties that are required now will be easier to implement or will go away entirely.

Significant Deficiencies

2015-02 Finding – Cash receipts function has overlapping duties:
During our review of internal controls, it was noted the cash receipting function has overlapping duties. The overlapping duties are: preparing/posting receipts, preparing deposit slips, making the deposit, maintaining custody of petty cash, replenishing petty cash, and resolving complaints.

Effect:

With overlapping duties within the cash receipting function, there is an increased risk of a misappropriation of assets to occur and remain undetected.

Recommendation:

We recommend the cash receipting function has adequate segregation of duties in order to decrease the risk of misappropriation of assets.

Management's Response:

Agreed. As has been pointed out by other recent auditors, because of the size of the Finance Department staff, many of the financial internal controls are not as effective as they would be otherwise, were there a greater staff size. While there are certain tasks that, optimally, would be handled by multiple individuals to increase internal control, we have limited staff so that each staff member must complete more tasks in a given process, making the internal control potentially less effective. While we don't have the staff size to maximize internal control strengths, we have analyzed the segregation of duties, and have implemented separation where the greatest risk of loss could occur.

CURRENT YEAR RECOMMENDATIONS

Significant Deficiencies (Continued)

2015-03 Finding – Payroll function has overlapping duties:

During our review of internal controls, it was noted the payroll function has overlapping duties. The overlapping duties are: maintaining personnel files, entering employees into the payroll system, making wage rate changes in the system, entering hours into the system, verifying hours input into the payroll system, reviewing the payroll register, preparing the payroll journal, and preparing payroll checks.

Effect:

With overlapping duties within the payroll function, there is an increased risk of incorrect reporting of payroll expenses or data and a misappropriation of assets to occur and go undetected.

Recommendation:

We recommend the City maintain adequate segregation of duties within the payroll function in order to decrease the risk of misreporting and/or misappropriation of assets related to payroll.

Management's Response:

Agreed. Again, as has been pointed out by other auditors in recent years, because of the size of the Finance Department staff, many of the financial internal controls are not as effective as they would be otherwise, were there a greater staff size. Especially in case of payroll, the City has been without adequate Human Resources personnel that would normally mitigate the internal control risk related to payroll activities. In this case, the staff member who has been taking care of the payroll is also processing as many of the HR tasks as possible. With the hiring of a Human Resources Manager in May, 2016, this risk should be mitigated substantially.

2015-04 Finding – Cash disbursements function has overlapping duties:

During our review of internal controls, it was noted the cash disbursements function has an overlapping duty. The overlapping duty is: preparing checks and also maintaining custody of the checks after they are signed.

Effect:

With overlapping duties within the cash disbursements function, there is an increased risk of misappropriation of assets to occur and remain undetected.

Recommendation:

We recommend the City maintain adequate segregation of duties within the cash disbursements function in order to decrease the risk of misappropriation of assets.

Management's Response:

Agreed. Again, as has been pointed out by other recent auditors, because of the size of the Finance Department staff, many of the financial internal controls are not as effective as they would be otherwise, were there a greater staff size. While there are certain tasks that, optimally, would be handled by multiple individuals to increase internal control, we have limited staff so that each staff member must complete more tasks in a given process, making the internal control potentially less effective. While we don't have the staff size to maximize internal control strengths, we have analyzed the segregation of duties, and have implemented separation where the greatest risk of loss could occur.

CURRENT YEAR RECOMMENDATIONS

Significant Deficiencies (Continued)

2015-05 Finding – No review or sign-off on fuel usage reports:
During our review of internal controls, it was noted appropriate management does not formally review or sign-off on fuel usage reports.

Effect:

Without proper review or sign-offs on fuel usage reports, there is an increased risk of unauthorized use of City fuel.

Recommendation:

We recommend the City implement review and sign-off procedures on fuel usage reports in order to help prevent unauthorized usage of City fuel.

Management's Response:

Agreed. In the past, fuel reporting was not being monitored as closely as it is now. Currently, the fuel usage report is run quarterly and is reviewed for any anomalies by the Streets Supervisor and Public Works Director, signed when approved, and retained.

2015-06 Finding – No supporting receipts for numerous City credit card purchases:
During our review of credit card statements, we noted numerous purchases without receipts (check no. 129239).

Effect:

Without retention of receipts, there is no way to substantiate credit card purchases, and there is an increased risk of unauthorized/unreasonable purchases being charged on the City credit card.

Recommendation:

We recommend City employees retain and submit receipts for all credit card transactions in order to prevent unauthorized transactions from being charged on the City credit card and retain for future verification.

Management's Response:

Agreed. The City has taken the following steps to prevent unauthorized transactions:

- A new card has been issued to Admin Services Dept. and use is strictly monitored. (The card is used only by the Finance and Planning Department if absolutely necessary).
- Receipts are mandatory, and
- The purchase order must be approved by the Director of Budgets and Contracts or the Finance Manager.

The past problem of all Finance and City Admin staff having free access to the Admin Cal-Card has been resolved.

2015-07 Finding – Excessive use of override function at refueling station and lack of vehicle number on vehicle log:

During our review of gasoline usage, we noted the override function was used 65 times in December 2014 and March 2015. Additionally, no vehicle number was logged during 18 different fuelings in December 2014 and March 2015.

CURRENT YEAR RECOMMENDATIONS

Significant Deficiencies (Continued)

Effect:

With an excessive use of the override function over gasoline usage, there is a higher likelihood of unauthorized use of the City's refueling station. Additionally, without a vehicle number being logged, there is no way to validate that the vehicle being fueled was an authorized City vehicle.

Recommendation:

We recommend the City cease the use of or disable the override function, and require that vehicle numbers be logged each time the City's refueling station is accessed.

Management's Response:

Agreed. The override situation has been addressed with a new locking covering and the override switch has been disabled.

2015-08 Finding – No approved position schedule for the 2014-15 fiscal year for non-safety employees:

During our review of payroll, we noted there was no approved position schedule for the 2014-15 fiscal year for non-safety employees.

Effect:

Without an approved position schedule for the 2014-15 there is no way to verify if the employees are being paid at the correct wage rate for their step and range. Also, employee vs. employer litigation could result.

Recommendation:

We recommend the City prepare an approved position schedule every fiscal year for all employees, in accordance with employment agreements.

Management's Response:

Agreed. The City has been without a Human Resources Manager for a number of years, and some of the duties (specifically the ones that are not required in order to get employees paid in a timely and accurate manner) were not attended to. The Finance staff that processes payroll has picked up the necessary duties in order to process payroll, but has not had the time to pick up all of the duties of the HR Manager. The good news is that we hired a new Human Resources Manager last month, and this finding is on her list of issues to address.

2015-09 Finding – Firefighters are using the same employee ID to refuel the fire vehicles:

During our review of internal controls, we noted firefighters are using the same employee ID (#4334) to refuel the vehicles rather than having one unique ID per person.

Effect:

When firefighters use the same employee ID to refuel the vehicles, there is no way to track who is accessing the refueling station. This could lead to a misappropriation of fuel to occur and remain undetected.

Recommendation:

We recommend each firefighter be assigned their own one unique ID and that each firefighter use their individual unique ID each time during refueling of vehicles.

CURRENT YEAR RECOMMENDATIONS

Significant Deficiencies (Continued)

Management's Response:

Agreed. Every firefighter is being assigned their own unique ID and each firefighter will use that ID during refueling of the vehicles.

2015-10 Finding – Deficiencies in police cash receipts:

During our review of internal controls, we noted there was no verification by Finance that all police receipts are accounted for when brought over to the Finance department (no tracking to ensure all days are accounted for). Also, we noted the police department cash receipts are reconciled and the deposit is prepared by an employee who is also one of the employees who receives payments and issues receipts.

Effect:

Without proper review of police receipts to ensure that all days are accounted for, there is no way to verify if any days are missing. Also, there is an increased risk of a misappropriation of funds to occur and remain undetected when there is a lack of segregation of duties in the cash receipts process.

Recommendation:

We recommend the Finance Department verify that all days are accounted for at the time of receipt. We also recommend segregation of duties be implemented in the Police Department so that cash receipts are not reconciled and deposited by an employee who is also one of the employees who receives payments and issues receipts.

Management's Response:

Agree/Disagree. Agree that someone at PD, other than anyone who processes cash receipts should at least verify the reconciliation of cash receipts. The payments recap that Finance receives now has individual receipt numbers segregated by receipt type. Currently, no one reviews that each receipt number is accounted for, and that there are no gaps or double counting. Finance will develop a sign-off sheet that a supervisor at the Police Department can use to verify the numbering sequence is not broken. Finance will double check on our end before posting and depositing.

Finance currently receives the complete packet from the PD, re-counts the cash, checks and credit card receipts, verifies the reconciliation, signs as such, then makes the actual deposits (with the exception of the credit card deposits that are automatically posted by the bank).

2015-11 Finding – Payroll deficiencies:

During our test of payroll, we noted 3 timesheets lacked an employee signature, department signature or both; one W-4 form was missing an employee signature; one employment application was not obtained/retained; one PAR contained a different wage rate than what is being paid; two vacation accrual rates appeared to be incorrect; one employee is not having Medicare tax withheld; the salary schedule for safety employees with extra pay (2.5% and 5%) was calculated incorrectly; and two I-9 forms were not obtained/retained.

CURRENT YEAR RECOMMENDATIONS

Significant Deficiencies (Continued)

Effect:

Without proper approval and retention of personnel/payroll documents, we are unable to verify whether employees are being paid for the correct hours, whether they are being paid at the correct pay rate, or if compensatory time balances are correct. Additionally, missing I-9 forms could result in fines if the City were to be audited by the Department of Justice. Lack of employee signatures on W-4 forms and lack of an employment application could indicate fictitious employees.

Recommendation:

We recommend all timesheets, W-4 forms, I-9 forms, and employment applications be signed and retained for future verification. We also recommend vacation accrual rates be correctly calculated, that Medicare tax be withheld for all employees, and the salary schedule for safety employees with extra pay (2.5% and 5%) be correctly calculated.

Management's Response:

Agreed. We have reviewed the documents in question as well as the policy that guides them. There were oversights made related to procuring all required signatures and paperwork. We will institute a check and balance system to make sure that all signatures and paperwork are collected.

2015-12 Finding – Lack of procurement documentation:

During our test of procurement, we noted two instances out of four where proof of advertisement was not obtained/retained (Silveira and Government Staffing) and there was no record of the bid results for these two vendors.

Effect:

Without proper procurement documentation, we were unable to verify whether the City complied with required procurement procedures.

Recommendation:

We recommend the City maintain records of all procurement procedures for future verification.

Management's Response:

Disagree. There might be some confusion regarding where the relevant documentation resides. During the purchasing process, there are several people involved, and several files that get created: the project manager has important records, a copy of the contract will reside in the eventual accounts payable with Finance, the "advertisement" or relevant noticing will reside in the official publication of notice accounts payable file, also in Finance.

In the two examples noted, there are files that contain either "tear sheets" or other methods that vouch for the fact that a noticing occurred. In the case of Government Staffing, the normal noticing requirements are not used, since we use Government Staffing to secure specialized governmental staffing, in this case, an interim City Clerk.

2015-13 Finding – Master fee schedule has not been approved annually:

During our test of cash receipts, we noted the master fee schedule has not been approved annually by the City Council.

CURRENT YEAR RECOMMENDATIONS

Significant Deficiencies (Continued)

Effect:

Without proper annual approval of the master fee schedule, we were unable to verify whether the City was charging the correct fees to customers.

Recommendation:

We recommend the City Council approve a master fee schedule on an annual basis.

Management's Response:

Agree, but with a caveat. Agree with the fact that the City Council has not approved the master fee schedule for the past two years, but disagree with the assumption that the City Council does not routinely approve the master fee schedule annually. Last year, the City Council chose to not increase the master fee schedule by the normal CPI index amount, leaving it the same as the previous year, so the prior year rates were effectively adopted by default. For FY16-17, the Council is actively engaging with the public to change a number of fees and charges, but that dialog is not yet complete, and will be updated and approved when the new rates have been agreed upon.

2015-14 Finding – Deficiencies in cash disbursements:

During our test of cash disbursements, we noted the following: one purchase order was missing an approval signature (#130878); approval signatures are not recorded on the paid invoice; one purchase order was missing the preparer's signature (#130941); and one invoice was not obtained/retained (#129896).

Effect:

Without proper approvals on invoices and purchase orders, and without the retention of invoices, we were unable to verify if the purchases were authorized. Also, there is an increase in the risk of unauthorized expenditures to occur and go undetected.

Recommendation:

We recommend there are approvals on invoice and purchase orders prior to payment. We also recommend all applicable invoices be retained for future verification.

Management's Response:

Agreed. There have been instances where certain documents work their way through the process without the proper authorization. The issue here is not one of lacking a policy, but making sure that it is followed 100% of the time. We have modified our process a little in that two managers from the Finance Department are currently reviewing all purchase orders and initialing.

2015-15 Finding – Deficiencies in cash receipts:

During our test of cash receipts, we noted the following: two source documents were not obtained or retained (receipt numbers 02842 and 02932); three fees appeared to be calculated incorrectly (receipt numbers 02783, 02953, and 58922); one receipt could not be traced to the deposit slip or bank statement (receipt number 02783); and two fees could not be located in the fee schedule (receipt numbers 57653 and 59610).

CURRENT YEAR RECOMMENDATIONS

Significant Deficiencies (Continued)

Effect:

Without retention of source documents, we were unable to verify if the City charged the correct fees to the customer. Incorrectly calculated fees result in mischarging of customers. Without being able to determine if the cash receipt was deposited to the bank, there is an increased risk of misappropriation of cash receipts to occur and remain undetected. Finally, with the lack of fees listed in the fee schedule, we were unable to verify whether the City was charging appropriate amounts for the services performed.

Recommendation:

We recommend the City retain all source documents involving cash receipts. We also recommend fees be calculated correctly and all cash receipts traceable to the bank statements. Finally, we recommend the City includes all classifications of fees on the fee schedule.

Management's Response:

Disagree. In reviewing the cash receipts cited, the City verified that, in some instances, the retention of source documents is not necessary. For example, a simple private tree trimming (2842) or a day use parking space that is documented in a log book (2932), we feel, is sufficient to verify correct fees. The application for a fixed location sign permit (59064) was properly accounted. The Police Department cash deposit receipt (2783) was verified as deposited on a combined July-August deposit and accounting was correct. Receipts 57653 and 59610 were verified as posting correctly to GL as storage fees and ASBS Storm Drain deposit respectively. The issue of the fee schedule is addressed in a separate finding. Additionally, starting immediately, the Planning & Building Department will start recording the receipt number in their database, as a cross reference.

Other Matters

2015-16 Finding – Lack of video cameras at the Corporation Yard:

During our review of internal controls, it was noted there are no video cameras installed at the Corporation Yard.

Effect:

Without a video camera at the Corporation Yard, there is a lack of oversight over the safeguarding of assets.

Recommendation:

We recommend the City place video cameras at the Corporation Yard to help detect unauthorized activity and to decrease the risk of a misappropriation of assets.

Management's Response:

Agreed. The Police Department has agreed to include the purchase of a Corporation Yard surveillance system when they update their current police department surveillance system this fiscal year (FY16-17).

CURRENT YEAR RECOMMENDATIONS

Other Matters (Continued)

2015-17 Finding – The Public Works building has numerous inventory supplies that are not being used and are not properly safeguarded:

During our review of internal controls, we noted the Public Works building has numerous filters, brake pads, lights, belts, fuses and other auto supplies that are not being used anymore and are not properly safeguarded.

Effect:

With numerous outdated supplies not being safeguarded properly, there is an increased risk that those assets could be misappropriated and remain undetected.

Recommendation:

We recommend the City dispose of outdated inventory supplies and properly safeguard all remaining inventory supplies.

Management's Response:

Agreed. We have changed our process related to this supplies inventory. For the existing auto parts inventory, it now resided in a locked cabinet, within a locked room at Public Works. Only three supervisors/managers have the keys. This inventory is obsolete and will be disposed of via auction. Current small auto parts will be purchased as needed.

2015-18 Finding – Petty cash was not safeguarded

During our audit of petty cash, we noted a majority of the petty cash for Community Services (\$270) was not safeguarded in the petty cash box, but rather the cash and receipts were with an employee.

Effect:

There is the potential for the petty cash and receipts to be lost or misplaced when they are not properly safeguarded.

Recommendation:

We recommend petty cash and related receipts be safeguarded in a petty cash box at all times.

Management's Response:

Agreed. In the incident cited, the employee had withdrawn petty cash, purchased items, and hadn't yet returned the receipt and left over petty cash to the cash box. The process has been tightened up, and now the excess cash withdrawn and receipts are immediately returned to the cash box, which is kept in a locked safe.

2015-19 Finding – The COPS grant revenue was being recorded to fund balance instead of a revenue account:

During our audit of the financial statements, we noted COPS grant money was being recorded to fund balance instead of a revenue account.

Effect:

Misposting of revenues results in misstated financial statements.

Recommendation:

We recommend the City record COPS grant money to the appropriate revenue account instead of recording the revenue in the fund balance account.

CURRENT YEAR RECOMMENDATIONS

Other Matters (Continued)

Management's Response:

Agreed. The "auto" coding for the receipt of our COPS grant was erroneously crediting this revenue to the fund balance instead of the revenue account. We have had this same error in prior years and corrected it for the financial statements.

For this year, we have corrected that coding, and now all COPS grant revenue is being posted correctly.

2015-20 Finding – No contract with Forest Theatre Guild for storage fees:

During our test of cash receipts, we noted there is no contract with the Forest Theatre Guild for storage fees of \$135.

Effect:

Without a signed contract with Forest Theatre Guild, we were unable to verify whether the storage fees of \$135 are correct.

Recommendation:

We recommend the City obtain and retain a signed contract with the Forest Theatre Guild.

Management's Response:

Agreed. The contract had expired in the early 2000s, and the Guild has vacated the storage locker.

2015-21 Finding – Lack of approval signatures on credit card statements:

During our testing of internal control over credit card statements, we noted there were five out of six statements that did not contain an approval signature.

Effect:

Without proper approval signatures on credit card transactions, there is an increased risk of unauthorized credit card transactions occurring.

Recommendation:

We recommend responsible officials of the City review and approve all credit card transactions to ensure that the expenses are for allowable and appropriate purposes.

Management's Response:

Agreed/Disagree. We do agree that we should have a policy where all credit card transactions are reviewed and signed by a responsible official of the City, but we do not agree that the examples do not have the above approval signatures. When we reviewed certain purchase orders/receipts, we did find that some of those receipts were signed by administrators in different places, not the designated areas. We will make sure that all approvers sign exactly where they are instructed, and that all purchases have approval signatures.

2015-22 Finding – Lack of audit committee:

During our review of policies and procedures, we noted the City does not have an audit committee.

Effect:

Lack of additional oversight occurs when there is no audit committee.

CURRENT YEAR RECOMMENDATIONS

Other Matters (Continued)

Recommendation:

We recommend the City form an audit committee for increased oversight.

Management's Response:

Agreed. The addition of an Audit Committee to which the auditors would report would increase control and transparency to the City Council. If the City Council agrees, this could be in place for the next financial audit.

2015-23 Finding – Inconsistent use of time clocks:

During our review of internal controls, we noted only some departments, rather than all departments, were utilizing time clocks.

Effect:

Inconsistency in the reporting of hours worked could lead to misreporting of hours and incorrect payments to employees.

Recommendation:

We recommend all departments utilize time clocks in order to ensure consistent time reporting.

Management's Response:

Agreed. In May, 2015, the City Administrator requested that time clocks be installed for use in the Public Works Department and the Library. In September, 2015 he requested they be removed. Time clocks are not currently being utilized for payroll timekeeping in any department.

2015-24 Finding – Deposit payable accounts and fee collection accounts have debit balances:

During our review of internal controls, we noted seven deposit payable accounts have debit balances and two fee collection accounts have debit balances.

Effect:

With deposit payable accounts and fee collection accounts having debit balances, the City has balances due from customers. Deposit accounts should never have balances due as the City may not be able to collect on the outstanding balances.

Recommendation:

We recommend the City attempt collection of all debit balances on deposit accounts. Fee collection accounts with debit balances should be investigated and adjusted accordingly.

Management's Response:

Agreed. Of the seven non-fee collection accounts, one dates back to 6/30/2011, the others are more recent. We will work on figuring out what the balances represent and correct. The two fee collection accounts have had positive balances of similar balances since 6/30/2011. We will work on figuring out what that represents and correct. With the implementation of the new finance system, we will be utilizing a more proper accounts receivable system to track these types of transactions, and we should not have the same issues in the future.

CURRENT YEAR RECOMMENDATIONS

Other Matters (Continued)

2015-25 Finding – One check issued out of sequence and one outstanding check over one year old:
During our audit of cash, we noted one check was issued out of sequence (check #3140 was issued on July 2, 2015, while #3141-3142 were issued on June 30, 2015). We also noted one outstanding check that was over one year old (check #2167, dated April 23, 2013).

Effect:

Checks being issued out of sequence makes it more difficult to perform bank reconciliations as well as ensuring the accounting of all checks. Stale dated checks could cause the cash balance to be inappropriately understated.

Recommendation:

We recommend the City issue all checks in numerical sequence and all outstanding checks that are over one year old should be investigated, sent to the state as escheat property, or written off/voided.

Management's Response:

Agreed. We will make sure that all checks are issued in sequence and that all stale dated checks have been voided and off of the bank reconciliations.

2015-26 Finding – Petty cash is listed at incorrect amount:
During our review of internal controls, we noted the petty cash is listed as \$460, yet the actual petty cash count was \$230.

Effect:

The petty cash is overstated in the general ledger, resulting in an incorrect balance on the financial statements.

Recommendation:

We recommend the City reconcile and count the petty cash on a regular basis, and that the petty cash be recorded in the general ledger accurately.

Management's Response:

Agreed. The City has multiple petty cash locations: City Hall, Police Department and the Library (2 locations). The balances in each of these locations are as follows: City Hall - \$250, Police Department - \$100, Library #1 - \$100, Library #2 - \$275, for a total of \$725.00. On the general ledger, the City shows two "Petty Cash" accounts. One is listed at \$725.00, and the other at \$150.00. In 2007, a petty cash fund was established for the Fire Department, but was discontinued in 2011. The lock box was returned to Finance, the contents (less receipts) were deposited to bank. The Petty Cash listed is now correct.

STATUS OF PRIOR YEAR RECOMMENDATIONS

No findings noted in the prior fiscal year audit.