

CITY OF SOLEDAD

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Soledad, California, (the City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Soledad, California, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 42 - 44 and the Schedule of the City's Proportionate Share of Net Pension Liability and the Schedule of Contributions on pages 45 - 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

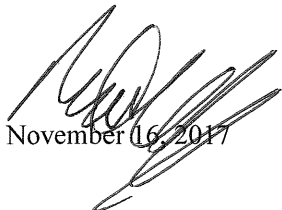
Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements on pages 47 - 48 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2017, on our consideration of the City of Soledad's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Soledad's internal control over financial reporting and compliance.



November 16, 2017

CITY OF SOLEDAD

STATEMENT OF NET POSITION JUNE 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 9,806,463	\$ 8,555,588	\$ 18,362,051
Cash and investments with fiscal agent	-	200,378	200,378
Accounts receivable, net	34,516	1,538,933	1,573,449
Due from other governments	2,198,367	-	2,198,367
Interest receivable	3,757	2,865	6,622
Notes receivable	8,262,254	-	8,262,254
Deferred charges	-	3,788,214	3,788,214
Capital assets, net of allowance for depreciation	25,193,166	60,479,254	85,672,420
Total assets	45,498,523	74,565,232	120,063,755
DEFERRED OUTFLOWS OF RESOURCES	1,344,512	206,535	1,551,047
LIABILITIES			
Accounts payable and accrued expense	824,587	992,386	1,816,973
Accrued interest payable	974	12,368	13,342
Deposits payable	21,942	107,164	129,106
Long-term liabilities			
Due within one year	57,705	1,773,157	1,830,862
Due in more than one year	21,128	36,308,092	36,329,220
Compensated absences	438,119	150,407	588,526
Net pension liability	3,397,165	485,980	3,883,145
Total liabilities	4,761,620	39,829,554	44,591,174
DEFERRED INFLOWS OF RESOURCES	270,656	66,900	337,556
NET POSITION			
Net investment in capital assets	25,114,333	22,325,531	47,439,864
Restricted for debt service	-	200,378	200,378
Restricted for long-term notes receivable	8,262,254	-	8,262,254
Restricted for specific projects and programs	9,051,590	-	9,051,590
Unrestricted	(617,418)	12,349,404	11,731,986
Total net position	\$ 41,810,759	\$ 34,875,313	\$ 76,686,072

CITY OF SOLEDAD

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2017

Functions/Programs	Program Revenue				Net Revenue/(Expense) and Changes in Net Position		
	Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government							
Public works	\$ 1,452,907	\$ -	\$ 14,589	\$ 96,938	\$ (1,341,380)	\$ -	\$ (1,341,380)
Community development	2,511,537	-	980,339	657,788	(873,410)	-	(873,410)
Public safety	1,982,565	580,178	1,268,063	-	(134,324)	-	(134,324)
Community services	4,224,616	271,816	234,603	67,289	(3,650,908)	-	(3,650,908)
Debt Service	752,544	-	18,000	334,552	(399,992)	-	(399,992)
Interest and fiscal charges	6,107	-	-	-	(6,107)	-	(6,107)
Total governmental activities	10,930,276	851,994	2,515,594	1,156,567	(6,406,121)	-	(6,406,121)
Business-type activities							
Water	3,043,488	2,381,429	-	404,346	-	(257,713)	(257,713)
Sewer	4,241,927	6,065,404	-	5,407	-	1,828,884	1,828,884
Garbage	2,392,517	2,855,785	7,244	-	-	470,512	470,512
Total business-type activities	9,677,932	11,302,618	7,244	409,753	-	2,041,683	2,041,683
Total primary government	\$ 20,608,208	\$ 12,154,612	\$ 2,522,838	\$ 1,566,320	(6,406,121)	2,041,683	(4,364,438)
General Revenue							
Property taxes and assessments					3,236,345	-	3,236,345
Sales taxes					2,627,695	-	2,627,695
Franchise and other taxes					127,552	-	127,552
Transient lodging taxes					112,833	-	112,833
Utility users tax					606,027	-	606,027
Business license tax					93,443	-	93,443
Investment income					43,482	18,981	62,463
Rents and other income					94,164	47,099	141,263
Transfers					17,235	(17,235)	-
Total general revenue and transfers					6,958,776	48,845	7,007,621
Change in Net Position					552,655	2,090,528	2,643,183
Net Position							
Beginning of year					41,258,104	32,784,785	74,042,889
End of year					\$ 41,810,759	\$ 34,875,313	\$ 76,686,072

See accompanying notes.

CITY OF SOLEDAD

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2017

	General	CDBG	Program Income	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 385,005	\$ -	\$ 240,424	\$ 8,614,614	\$ 9,240,043
Accounts receivable	33,035	-	-	-	33,035
Due from other governments	632,662	939,200	-	624,382	2,196,244
Due from other funds	1,238,288	-	-	-	1,238,288
Interest receivable	542	-	137	2,888	3,567
Notes receivable	-	-	6,359,976	1,902,278	8,262,254
Total assets	\$ 2,289,532	\$ 939,200	\$ 6,600,537	\$ 11,144,162	\$ 20,973,431
LIABILITIES					
Accounts payable and accrued expense	\$ 692,823	\$ 33,118	\$ -	\$ 98,646	\$ 824,587
Due to other funds	-	906,079	-	332,209	1,238,288
Deposits and other liabilities	21,942	-	-	-	21,942
Total liabilities	714,765	939,197	-	430,855	2,084,817
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues	-	90,159	6,359,976	1,902,278	8,352,413
Total deferred inflows of resources	-	90,159	6,359,976	1,902,278	8,352,413
FUND BALANCE					
Restricted					
Capital improvement projects	-	-	-	6,247,042	6,247,042
Circulation improvements	-	-	-	239,803	239,803
Lighting, landscape & park maintenance	-	-	-	1,018,411	1,018,411
Public safety programs	-	-	-	217,716	217,716
Low-income housing activities	-	-	240,561	1,088,057	1,328,618
Committed for contingency reserve	1,500,000	-	-	-	1,500,000
Unassigned	74,767	(90,156)	-	-	(15,389)
Total fund balance	1,574,767	(90,156)	240,561	8,811,029	10,536,201
Total liabilities, deferred inflows of resources, and fund balance	\$ 2,289,532	\$ 939,200	\$ 6,600,537	\$ 11,144,162	\$ 20,973,431

See accompanying notes.

CITY OF SOLEDAD

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION JUNE 30, 2017

Total governmental fund balance	\$ 10,536,201
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	25,193,166
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	(78,833)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds	(438,119)
Net pension liability applicable to governmental activities are not due and payable in the current period and accordingly is not reported in the governmental funds	(3,397,165)
Contributions to the pension plan in the current fiscal year are not included in the Statement of Activities	1,344,512
Deferred inflows of resources related to net pension liability, represent an acquisition of net pension or fund balance that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time	(270,656)
Interest on long-term debt is reported as an expenditure of the Governmental Funds when paid because it requires the use of current financial resources. However, accrued interest must be recorded when incurred	(974)
Internal service funds are used by management to charge the costs of fleet maintenance and computer services to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Position.	570,214
Certain revenues in Governmental Funds are deferred because they are not collected within the prescribed time period after fiscal year end. Those revenues are recognized on the accrual basis in Governmental Activities	<u>8,352,413</u>
Net position of governmental activities	<u>\$ 41,810,759</u>

CITY OF SOLEDAD

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2017

	General	CDBG	Program Income	Other Governmental Funds	Total Governmental Funds
Revenue					
Taxes and assessments	\$ 6,594,248	\$ -	\$ -	361,591	\$ 6,955,839
Licenses, permits and impact fees	667,994	-	-	1,156,567	1,824,561
Intergovernmental	183,970	1,314,361	53,000	473,861	2,025,192
Charges for services	14,082	-	-	-	14,082
Fines and forfeitures	32,956	-	-	-	32,956
Rents	69,496	-	-	-	69,496
Interest	3,534	-	2,882	548,815	555,231
Loan repayments	-	-	4,397	77,990	82,387
Other	85,093	-	-	2,543	87,636
Total revenue	7,651,373	1,314,361	60,279	2,621,367	11,647,380
Expenditures					
Current					
General government	1,235,053	-	-	-	1,235,053
Public works	314,569	-	-	1,524,217	1,838,786
Community development	326,362	1,334,509	-	331,130	1,992,001
Public safety	4,360,408	-	-	54,948	4,415,356
Community services	691,120	-	-	-	691,120
Capital outlay	5,149	-	-	669,207	674,356
Debt Service					
Principal	18,959	-	-	35,706	54,665
Interest and fiscal charges	2,828	-	-	3,279	6,107
Total expenditures	6,954,448	1,334,509	-	2,618,487	10,907,444
Revenue over/(under) expenditures	696,925	(20,148)	60,279	2,880	739,936
Other Financing Sources/(Uses)					
Transfers in/(out) - net	-	169,246	(169,246)	17,235	17,235
	-	169,246	(169,246)	17,235	17,235
Change in Fund Balance	696,925	149,098	(108,967)	20,115	757,171
Fund Balance					
Beginning of year	877,842	(239,254)	349,528	8,790,914	9,779,030
End of year	\$ 1,574,767	\$ (90,156)	\$ 240,561	\$ 8,811,029	\$ 10,536,201

See accompanying notes.

CITY OF SOLEDAD

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2017

Net change in fund balance - total governmental funds	\$ 757,171
Amounts reported for governmental activities in the Statement of Activities are different because:	
Depreciation expense on capital assets is reported in the Statement of Activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not required as expenditures in Governmental Funds	(864,380)
Repayment of long-term notes receivable is revenue in governmental funds, but the repayment reduces long-term assets in the statement of net position	(181,685)
Governmental Funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets are capitalized as an asset and depreciated over the period of service	674,356
Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position	54,665
Pension expenses reported in the Statement of Activities do no require the use of of current financial resources and, therefore, are not reported as expenditures in the Governmental Funds	300,013
Internal service funds are used by management to charge the costs of fleet maintenance and computer services to individual funds. The net revenue (loss) of certain activities of internal service funds is reported with governmental activities	(83,075)
Compensated absence costs in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in Governmental Funds	<u>(104,410)</u>
Change in net position of governmental activities	<u>\$ 552,655</u>

CITY OF SOLEDAD

STATEMENT OF NET POSITION - PROPRIETARY FUNDS JUNE 30, 2017

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service Fund
	Water	Sewer	Garbage	Total Proprietary Funds	
ASSETS					
Current assets					
Cash and investments	\$ 1,699,271	\$ 6,088,959	\$ 767,358	\$ 8,555,588	\$ 566,420
Cash and investments with fiscal agent	200,378	-	-	200,378	-
Accounts receivable	396,305	711,307	431,321	1,538,933	1,481
Due from other government	-	-	-	-	2,123
Interest receivable	581	2,027	257	2,865	190
Total current assets	2,296,535	6,802,293	1,198,936	10,297,764	570,214
Non-current assets					
Deferred charges	-	3,788,214	-	3,788,214	-
Property, plant and equipment, net of allowance for depreciation	9,252,630	51,154,150	72,474	60,479,254	5,940
Total assets	11,549,165	61,744,657	1,271,410	74,565,232	576,154
	90,181	88,952	27,402	206,535	-
DEFERRED OUTFLOWS OF RESOURCES					
LIABILITIES					
Current liabilities					
Accounts payable and accrued expenses	639,708	135,992	216,686	992,386	-
Accrued interest	12,368	-	-	12,368	-
Deposits	35,694	26,720	44,750	107,164	-
Current portion of long-term debt	190,719	1,582,438	-	1,773,157	-
Total current liabilities	878,489	1,745,150	261,436	2,885,075	-
Non-current liabilities					
Long-term debt	2,294,454	34,013,638	-	36,308,092	-
Net pension liability	212,198	209,305	64,477	485,980	-
Compensated absences	51,378	75,685	23,344	150,407	-
Total noncurrent liabilities	2,558,030	34,298,628	87,821	36,944,479	-
Total liabilities	3,436,519	36,043,778	349,257	39,829,554	-
	29,211	28,813	8,876	66,900	-
DEFERRED INFLOWS OF RESOURCES					
NET POSITION					
Net investment in capital assets	6,767,457	15,558,074	-	22,325,531	5,940
Restricted for debt service	200,378	-	-	200,378	-
Unrestricted/(deficit)	1,205,781	10,202,944	940,679	12,349,404	570,214
Total net position/(deficit)	\$ 8,173,616	\$ 25,761,018	\$ 940,679	\$ 34,875,313	\$ 576,154

See accompanying notes.

CITY OF SOLEDAD

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2017

	Business-Type Activities - Enterprise Funds				Governmental Activities	
	Water	Sewer	Garbage	Total Proprietary Funds	Internal Service Fund	
Operating Revenue						
Charges for services	\$ 2,381,429	\$ 6,065,404	\$ 2,855,785	\$ 11,302,618	\$	697,270
Connection fees	24,503	-	22,596	47,099		-
Total operating income	2,405,932	6,065,404	2,878,381	11,349,717		697,270
Operating Expense						
Contractual services and utilities	527,588	930,698	2,115,610	3,573,896		775,150
Personnel	574,362	1,499,408	234,110	2,307,880		-
Supplies and materials	1,541,439	346,316	31,819	1,919,574		-
Depreciation	284,566	1,133,024	10,978	1,428,568		6,610
Total operating expense	2,927,955	3,909,446	2,392,517	9,229,918		781,760
Operating income/(loss)	(522,023)	2,155,958	485,864	2,119,799		(84,490)
Nonoperating Revenue/(Expense)						
Intergovernmental	-	-	7,244	7,244		-
Development impact fees	404,346	5,407	-	409,753		-
Interest income	5,286	12,108	1,587	18,981		1,415
Interest expense	(115,533)	(332,481)	-	(448,014)		-
Total nonoperating revenue/(expense)	294,099	(314,966)	8,831	(12,036)		1,415
Net income/(loss) before transfers	(227,924)	1,840,992	494,695	2,107,763		(83,075)
Change in Net Position	(227,924)	1,840,992	477,460	2,090,528		(83,075)
Net Position						
Beginning of year	8,401,540	23,920,026	463,219	32,784,785		659,229
End of year	\$ 8,173,616	\$ 25,761,018	\$ 940,679	\$ 34,875,313	\$	576,154

See accompanying notes.

CITY OF SOLEDAD

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2017

	Business-Type Activities - Enterprise Funds				Total Business-Type Funds	Governmental Activities Internal Service Fund
	Water	Sewer	Garbage			
Operating Activities						
Receipts from customers and users	\$ 2,449,611	\$ 6,564,897	\$ 2,877,262	\$	11,891,770	\$ 695,147
Payments for contractual services and utilities	(668,697)	(659,640)	(2,076,603)		(3,404,940)	(782,871)
Payments to employees	(530,563)	(1,533,241)	(243,561)		(2,307,365)	-
Payment to suppliers	(1,541,448)	(346,319)	(31,816)		(1,919,583)	-
Net cash provided by (used in) operating activities	(291,097)	4,025,697	525,282		4,259,882	(87,724)
Non-capital Financial Activities						
Payments from developers	404,346	5,407	-		409,753	-
Proceeds from other government	621,303	-	7,244		628,547	-
Payments (to)/from other funds	-	-	(17,235)		(17,235)	-
Net cash provided by (used in) noncapital financing activities	1,025,649	5,407	(9,991)		1,021,065	-
Capital and Related Financing Activities						
Purchase of property, plant and equipment	(774,707)	(126,071)	(53,702)		(954,480)	-
Principal paid on long-term debt	(183,949)	(1,577,439)	-		(1,761,388)	-
Interest paid on long-term debt	(116,013)	(332,481)	-		(448,494)	-
Net cash provided by (used in) capital and related financing activities	(1,074,669)	(2,035,991)	(53,702)		(3,164,362)	-
Investing Activities						
Interest received	5,118	10,987	1,454		17,559	1,364
Net cash provided by investing activities	5,118	10,987	1,454		17,559	1,364
Net Increase (Decrease) in Cash	(334,999)	2,006,100	463,043		2,134,144	(86,360)
Cash						
Beginning of year	2,234,648	4,082,859	304,315		6,621,822	652,780
End of year	1,899,649	6,088,959	767,358		8,755,966	566,420
Cash Flows from Operating Activities						
Operating income (loss)	\$ (522,023)	\$ 2,155,958	\$ 485,864	\$	2,119,799	\$ (84,490)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	284,566	1,133,024	10,978		1,428,568	6,610
(Increase) Decrease in Accounts Receivable	40,049	495,583	(5,009)		530,623	(2,123)
(Increase) Decrease in Deferred Charges	-	323,370	-		323,370	-
(Increase) Decrease in Deferred Outflow of Resources	(61,221)	(14,138)	(10,508)		(85,867)	-
Increase (Decrease) in Deposits	3,630	3,910	3,890		11,430	-
Increase (Decrease) in Compensated Absences	(2,034)	(7,936)	(3,840)		(13,810)	-
Increase (Decrease) in Net Pension Liability	116,398	25,849	15,127		157,374	-
Increase (Decrease) in Deferred Inflow of Resources	(9,344)	(37,608)	(10,230)		(57,182)	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(141,118)	(52,315)	39,010		(154,423)	(7,721)
Net Cash Provided (Used) by Operating Activities	\$ (291,097)	\$ 4,025,697	\$ 525,282	\$	4,259,882	\$ (87,724)

See accompanying notes.

CITY OF SOLEDAD

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUNDS JUNE 30, 2017

	The Vineyards Assessment District	Diamond Ridge Assessment District	Total
ASSETS			
Cash and investments	\$ 33,711	\$ 611,165	\$ 644,876
Cash and investments with fiscal agent	128,642	170,496	299,138
Interest receivable	<u>11</u>	<u>205</u>	<u>216</u>
Total assets	<u>162,364</u>	<u>781,866</u>	<u>944,230</u>
LIABILITIES			
Due to bondholders	<u>162,364</u>	<u>781,866</u>	<u>944,230</u>
Total liabilities	<u>\$ 162,364</u>	<u>\$ 781,866</u>	<u>\$ 944,230</u>

CITY OF SOLEDAD

STATEMENT OF FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2017

Assets

Cash and investments	
Held in City Treasury	\$ 1,486,375
Held with trustees	10,851,569
Interest receivable	8,751
Land held for redevelopment	180,000
Land	<u>4,273,968</u>
Total assets	<u>16,800,663</u>

Liabilities

Accounts payable and accrued liabilities	7,952
Interest payable	32,686
Long-term debt	
Due within one year	1,085,000
Due in more than one year	<u>24,295,000</u>
Total liabilities	<u>25,420,638</u>

Net Position

Held in trust for other governments	<u>\$ (8,619,975)</u>
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CITY OF SOLEDAD

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2017

Additions

Property taxes	\$ 1,962,566
Investment earnings and other	<u>60,618</u>
Total additions	<u>2,023,184</u>

Deductions

Administrative costs	163,013
Program expenses	2,621,467
Interest expense	1,148,260
Loss on sale of property	<u>975,764</u>
Total deductions	<u>4,908,504</u>

Change In Net Position (2,885,320)

Net Position

Beginning of year	<u>(5,734,655)</u>
End of year	<u>\$ (8,619,975)</u>

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies

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

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

Reporting Entity

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

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

Basis of Presentation – Fund Accounting

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

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

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

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

The City reports the following major governmental funds:

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

CDBG Fund - This fund accounts for grant monies received from the State of California and for community development.

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

The City reports the following additional fund types:

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

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

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

Basis of Accounting

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

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

Financial Statement Amounts

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

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

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

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

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

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

Note 2 – Stewardship, Compliance and Accountability

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

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

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

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 3 – Cash and Investments

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

Cash and investments as of June 30, 2017, are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments	\$ 18,362,051
Cash and Investments with Fiscal Agent	200,378
Fiduciary Funds:	
Cash and Investments	2,131,251
Cash and Investments with Fiscal Agent	11,150,707
Total Cash and Investments	<u>\$ 31,844,387</u>

Cash and investments as of June 30, 2017, consist of the following:

Cash on hand	\$ 530
Deposits with Financial Institutions	10,479,703
Local Agency Investment Fund	6,768,063
Held by Fiscal Agent:	
Money Market	300,860
U.S. Treasury Obligations	14,295,231
Total Cash and Investments	<u>\$ 31,844,387</u>

Fair Value Measurements

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

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

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 3 – Cash and Investments (Continued)

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

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

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

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

	Level 1	Level 2	Level 3	June 30, 2017 Balance
Investments by fair value level:				
Debt Securities:				
U.S. Treasury Obligations	\$ -	\$ 14,295,231	\$ -	\$ 14,295,231
Total Debt Securities	-	14,295,231	-	14,295,231
Equity Securities:				
LAIF	-	6,768,063	-	6,768,063
Total Equity Securities	-	6,768,063	-	6,768,063
Investments carried at amortized cost:				
Deposits and cash on hand				10,480,233
Money Market Mutual Funds				300,860
Total Investments amortized at cost				10,781,093
Total Investments				\$ 31,844,387

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 3 – Cash and Investments (Continued)

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

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

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

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 3 – Cash and Investments (Continued)

Investments Authorized by Debt Agreements

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

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

Disclosures Relating to Interest Rate Risk

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

Disclosures Relating to Credit Risk

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

Concentration of Credit Risk

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

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 3 – Cash and Investments (Continued)

Custodial Credit Risk

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

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

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

Investment in State Investment Pool

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

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 4 – Notes Receivables

Notes receivable and deferred loans consisted of the following at June 30, 2017:

Orchard Gabilan Associates, L.P. - The HOME Investment Partnership Grant program approved \$1,600,000 of grant funds to be made available for local development of an affordable housing project. The City entered into an agreement with Orchard Gabilan Associates, L.P. to loan such funds for the construction of Gabilan Family Apartments. Payments of principal and interest on the HOME loan are to be deferred until the earlier of repayment in full of the Deferred Development Fee or January 1 of the year in which the 14th anniversary of the date of issuance of the final Certificate of Occupancy. If not paid sooner, the unpaid principal balance of this note, plus any unpaid interest thereon shall be due and payable in full fifty-five years from the date of the note. The note bears 4.46% interest and the face amount of the note at June 30, 2017 was \$1,600,000.

Benito FLC, L.P. - The HOME Investment Partnership Grant program approved \$3,760,000 of grant funds to be made available for local development of an affordable housing project. The City entered into an agreement with Benito FLC, L.P. to loan such funds for the construction of the Benito Street Farm Labor Center. Funds were provided in the form of a deferred payment loan. If not paid sooner, the unpaid principal balance of this note, plus any unpaid interest thereon shall be due and payable in full fifty-five years from the date of the note. The note bears 4% interest and the face amount of the note at June 30, 2017 was \$3,760,000.

Revolving Loan Program – Long-term loans receivable of \$2,302,254 represent monies loaned to homebuyers and small business owners in connection with a downpayment assistance, home rehabilitation and business assistance programs. The loans are secured by real property with repayment due upon the sale of real property or starting at the end of the 30 year deferral period. At the time of sale, the seller pays the loan balance in full plus interest, ranging from 0% to 4%. For the homebuyer loan program, starting at the end of the 30 year deferral period, the borrower is required to repay the loan, without interest, over the following 15 years.

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

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 5 – Interfund Advances, Receivables, Payables and Transfers

Interfund Receivables and Payables

Interfund receivables and payables consist of short-term loans resulting from regular transactions. These loans are expected to be repaid as soon as the borrowing fund has cash, and carry an interest rate equal to the rate earned on pooled cash.

Individual fund interfund receivables and payables balances as of June 30, 2017, are as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 1,238,288	\$ -
Gas Tax Fund	-	332,209
CDBG Fund	-	906,079
	<u>\$ 1,238,288</u>	<u>\$ 1,238,288</u>

Transfers Between Funds

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

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
CDBG	\$ 169,246	\$ -
Program Income	-	(169,246)
Proprietary Funds:		
Garbage	-	(17,235)
Nonmajor Governmental Funds:		
HOME Grant Fund	17,235	-
	<u>\$ 186,481</u>	<u>\$ (186,481)</u>

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 6 – Capital Assets – Capital asset activities for the year ended June 30, 2017, were as follows:

	Balance July 1, 2016	Additions	Reclassifications/ Retirements	Balance June 30, 2017
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 822,801	\$ -	\$ -	\$ 822,801
Construction in progress	225,797	-	(225,797)	-
Total capital assets, not being depreciated	1,048,598	-	(225,797)	822,801
Capital assets, being depreciated				
Buildings and improvements	4,915,860	-	-	4,915,860
Infrastructure	32,277,690	825,797	-	33,103,487
Machinery and equipment	4,582,022	74,356	-	4,656,378
Total capital assets, being depreciated	41,775,572	900,153	-	42,675,725
Less accumulated depreciation for				
Buildings and improvements	(1,758,195)	(121,541)	-	(1,879,736)
Infrastructure	(11,409,167)	(672,163)	-	(12,081,330)
Machinery and equipment	(4,267,008)	(77,286)	-	(4,344,294)
Total accumulated depreciation	(17,434,370)	(870,990)	-	(18,305,360)
Total capital assets, being depreciated, net	24,851,183	29,163	-	24,370,365
Governmental activities capital assets, net	\$ 25,899,781	\$ 29,163	\$ (225,797)	\$ 25,193,166
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 2,509,996	\$ -	\$ -	\$ 2,509,996
Construction in progress	199,068	801,716	-	1,000,784
Total capital assets, not being depreciated	2,709,064	801,716	-	3,510,780
Capital assets, being depreciated				
Buildings and improvements	55,213,534	46,920	-	55,260,454
Infrastructure	17,391,742	-	-	17,391,742
Machinery and equipment	1,550,880	105,844	-	1,656,724
Total capital assets, being depreciated	74,156,156	152,764	-	74,308,920
Less: accumulated depreciation	(15,911,878)	(1,428,568)	-	(17,340,446)
Total capital assets, being depreciated, net	58,244,278	(1,275,804)	-	56,968,474
Business-type activities capital assets, net	\$ 60,953,342	\$ (474,088)	\$ -	\$ 60,479,254

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 6 – Capital Assets (Continued)

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

Governmental Functions:

General Government	\$	53,434
Public Works		689,531
Public Safety		59,991
Community Services		61,424
Internal Service Fund		6,610
	\$	<u>870,990</u>

Business-Type Functions:

Water	\$	284,566
Sewer		1,133,024
Garbage		10,978
	\$	<u>1,428,568</u>

Note 7 – Long-Term Debt

	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017	Current Portion
<u>Governmental Activity Long Term Debt</u>					
Lease Payable					
2014 Police Cars Captial Lease	\$ 73,398	\$ -	\$ (35,706)	\$ 37,692	\$ 37,692
2015 Police Cars Captial Lease	60,100	-	(18,959)	41,141	20,013
Total Governmental Activity Long Term Debt	<u>\$ 133,498</u>	<u>\$ -</u>	<u>\$ (54,665)</u>	<u>\$ 78,833</u>	<u>\$ 57,705</u>
<u>Business-Type Activity Long Term Debt</u>					
Bonds Payable					
1980 Sewer Revenue Bond	\$ 155,000	\$ -	\$ (35,000)	\$ 120,000	\$ 40,000
1981 Water Revenue Bond	200,000	-	(35,000)	165,000	35,000
Loans Payable					
Water System Improvement Loan	1,713,000	-	(64,000)	1,649,000	67,000
Sewer Plant Loan	37,018,515	-	(1,542,438)	35,476,077	1,542,438
Leases Payable					
Energy Retrofit Capital Lease	756,122	-	(84,950)	671,172	88,719
Total Business-Type Activity Debt	<u>\$ 39,842,637</u>	<u>\$ -</u>	<u>\$ (1,761,388)</u>	<u>\$ 38,081,249</u>	<u>\$ 1,773,157</u>
<u>Compensated Absences</u>					
Government Activities	\$ 333,709	\$ 104,410	\$ -	\$ 438,119	
Business-Type Activities	<u>\$ 164,217</u>	<u>\$ -</u>	<u>\$ (13,810)</u>	<u>\$ 150,407</u>	

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 7 – Long-Term Debt (Continued)

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

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

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

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

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

Sewer Plant Loan – In connection with the City's construction of a new sewer plant, a loan for \$46,451,084 was obtained from the State of California. Although, the loan is non interest bearing, it did require a 16.667% loan fee resulting in an effective interest rate of 1.8%. The loan was to be repaid in twenty equal annual installments of \$2,322,554 beginning January 1, 2011. However, in October 2014, the City renegotiated the payment terms from 20 years to 30 years, resulting in annual payments of \$1,542,438 for the remaining 26 years. Unamortized loan charges of \$3,788,214 remains to be amortized over the remaining life of the loan.

Energy Retrofit Capital Lease – On August 13, 2008, the City entered into a Lease with Option to Purchase agreement for an energy retrofit upgrade at the water plant. The lease bears an interest rate of 6.786% and terminates on February 29, 2024. The outstanding balance of the lease as of June 30, 2017 was \$671,172.

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 7 – Long-Term Debt (Continued)

Compensated Absences – City employees accumulate earned by unused vacation and sick pay benefits which can be converted to cash at termination of employment. Since no means exist to reasonably estimate the amounts that might be liquidated with expendable currently available financial resources, if any, they are reported as long-term debt on the Statement of Net Position. No expenditure is reported for these amounts in the governmental funds statements. However, in the Statement of Activities the expense is allocated to each function based on usage. The non-current portion of these vested benefits, payable in accordance with various collective bargaining agreements, at June 30, 2017, totaled \$438,119 for governmental activities and \$150,407 for business-type activities.

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2017, were as follows:

Years ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 57,705	\$ 3,130	\$ 1,773,157	\$ 433,484
2019	21,128	724	1,785,094	410,467
2020	-	-	1,792,206	386,768
2021			1,759,500	362,626
2022			1,736,984	339,783
2023-2027	-	-	8,353,614	1,398,568
2028-2032	-	-	8,277,191	941,517
2033-2037	-	-	7,976,191	466,888
2038-2040	-	-	4,627,312	91,795
	<u>\$ 78,833</u>	<u>\$ 3,854</u>	<u>\$38,081,249</u>	<u>\$ 4,831,896</u>

Assessment District Debt - The City acts as an agent for bond offerings within two assessment districts in the City. The City is not obligated in the event of default. Accordingly, the debt is not reflected in the City's financial information. The amount of debt outstanding as of June 30, 2017, not reflected in these statements is \$2,715,000 for The Vineyards and \$3,245,000 for Diamond Ridge.

Note 8 – Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports the following deferred outflow of resources related to net pension liability in the Statement of Net Position:

Fiscal year 2016-17 pension contributions subsequent to measurement date	\$ 546,285
Adjustment due to differences in proportions	25,535
Net differences between projected and actual earnings on pension plan investments	844,312
Difference between expected and actual experience	5,252
Difference between projected and actual contributions	<u>129,663</u>
Total deferred outflows of resources	<u>\$ 1,551,047</u>

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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

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

Changes in assumptions	\$ 168,026
Adjustment due to differences in proportions	145,779
Difference between expected and actual experience	<u>23,751</u>
Total deferred inflows of resources	<u>\$ 313,805</u>

The City also has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting as deferred inflows of resources. Accordingly, that item, unavailable revenues, is reported only in the governmental funds balance sheet. The City reports in the Program Income and Low-Moderate Housing, \$6,359,976 and \$1,902,278, respectively, as unavailable revenues, related to long-term notes and loans receivables.

Note 9 – Risk Management

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

Description of Self-Insurance Pool Pursuant to Joint Powers Agreement

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

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

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

Adequacy of Protection

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

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 9 – Risk Management (continued)

Contingent Liabilities

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

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

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

Funding Policy – The City pays 7-9% of annual covered salary for active plan members in the City's defined pension plan. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2017 was 7.159%, 6.55%, 16.656%, and 12.082% for the Miscellaneous, PEPR Miscellaneous, Safety, and PEPR Safety, respectively. The contribution requirements of plan members is established by State statute and the employer contribution is established and may be amended by PERS.

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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

The Plans’ provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Miscellaneous	Safety
	Prior to	Prior to
Hire Date	January 1, 2013	January 1, 2013
Benefit Formula	2.0% at 60; maximum 2% COLA	3.0% at 55; maximum 2% COLA
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life
Retirement Age	60	55
Monthly Benefits, as a % of Eligible Compensation	2.00%	3.00%
Required Employee Contribution Rates	7.00%	9.00%
Required Employer Contribution Rates	7.159%	16.656%

	PEPRA Miscellaneous	PEPRA Safety
	On or After	On or After
Hire Date	January 1, 2013	January 1, 2013
Benefit Formula	2.0% at 62; maximum 2% COLA	2.7% at 57; maximum 2% COLA
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life
Retirement Age	62	57
Monthly Benefits, as a % of Eligible Compensation	2.00%	2.70%
Required Employee Contribution Rates	6.25%	11.50%
Required Employer Contribution Rates	6.555%	12.082%

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

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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

For the year ended June 30, 2017, the contributions recognized as part of the pension expense is as follows:

Contributions – employer	\$ 546,285
Contributions – employee	\$ 324,793

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

As of June 30, 2017, the City reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>Proportionate Share of Net Pension Liability/(Asset)</u>
Miscellaneous	\$ 1,058,944
Safety	\$ 2,824,201

The City’s net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plan is measured as of June 30, 2016, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, rolled forward to June 30, 2016, using standard update procedures. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City’s proportionate share of the net pension liability for each Plan as of June 30, 2015, and 2016 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion – June 30, 2015	0.02573%	0.05496%
Proportion – June 30, 2016	<u>0.03048%</u>	<u>0.05453%</u>
Change – Increase/(Decrease)	0.00475%	(0.00043%)

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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

For the year ended June 30, 2017, the City recognized pension expense of \$260,597. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 546,285	\$ -
Adjustment due to differences in proportions	25,535	(145,779)
Difference between projected and actual contributions	129,663	-
Changes in assumptions or other inputs	-	(168,026)
Net differences between projected and actual earnings on pension plan investments	844,312	-
Difference between expected and actual experience in the Total Pension Liability	5,252	(23,751)
Total	<u>\$ 1,551,047</u>	<u>\$ (337,556)</u>

The \$546,285 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2018	\$ (10,361)
2019	51,659
2020	406,549
2021	219,359
Thereafter	-

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership ¹ Date for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter
Investment Rate of Return	7.50%
Mortality	Derived using CalPERS' Membership Data for all Funds

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

All other actuarial assumptions used in the June 30, 2015 valuation was based on the results of an actuarial experience study for fiscal years 1997-2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at CalPERS' website.

Change of assumptions – There were no changes of assumptions during the measurement period ended June 30, 2016. Deferred inflows of resources for changes of assumptions presented in the Schedule of Collective Pension Amounts represents the unamortized portion of the changes of assumptions related to prior measurement periods.

CITY OF SOLEDAD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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

Discount rate – The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for public agency plans, the amortization and smoothing periods recently adopted by the Board were used. For the Plan, the crossover test was performed for a miscellaneous agent rate plan and a safety agent rate plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF C. The crossover test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained on CalPERS’ website under the GASB 68 section.

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

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employees’ Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 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. The expected nominal 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 long-term expected real rates of return by asset class can be found in CalPERS’ Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016.

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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

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

Asset Class	New Strategic Allocation	Real Return Years 1-10 ¹	Real Return Years 11+ ²
Global Equity	51%	5.25%	5.71%
Global Fixed Income	20%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	1%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
Total	100%		

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City’s proportionate share of the net pension liability for each Plan, calculating using the discount rate of each Plan, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.65%) or 1-percentage point higher (8.65%) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
Miscellaneous	\$ 1,859,475	\$ 1,058,944	\$ 397,344
Safety	\$ 4,221,557	\$ 2,824,201	\$ 1,677,116

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

Payable to the Pension Plan

At June 30, 2017, the City has no outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 11 – Deficit Net Position/Fund Balance

Fund Balance Deficit – The CDBG Fund has a deficit fund balance as of June 30, 2017 of \$90,156. The deficit is expected to be relieved from grant income or transfers from the General Fund.

Note 12 – Subsequent Events

The City evaluated subsequent events for recognition and disclosure through November 16, 2017, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2017 that required recognition or disclosure in such financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOLEDAD

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive/ (Negative)
Revenue				
Taxes	\$ 6,239,500	\$ 6,239,500	\$ 6,594,248	\$ 354,748
Licenses and permits	233,880	233,880	667,994	434,114
Intergovernmental	150,000	150,000	183,970	33,970
Charges for services	-	-	14,082	14,082
Fines and forfeitures	56,000	56,000	32,956	(23,044)
Interest	92,500	92,500	3,534	(88,966)
Rents	1,200	1,200	69,496	68,296
Other	85,200	85,200	85,093	(107)
Total revenue	6,858,280	6,858,280	7,651,373	793,093
Expenditures				
Current				
General government	545,282	545,282	1,235,053	(689,771)
Public works	232,062	232,062	314,569	(82,507)
Community development	269,002	269,002	326,362	(57,360)
Public safety	4,434,839	4,434,839	4,360,408	74,431
Community services	682,500	682,500	691,120	(8,620)
Capital outlay	-	-	5,149	(5,149)
Debt Service				
Principal	-	-	18,959	(18,959)
Interest and fiscal charges	-	-	2,828	(2,828)
Total expenditures	6,163,685	6,163,685	6,954,448	(790,763)
Revenue over (under) expenditures	694,595	694,595	696,925	2,330
Other Financing Sources				
Transfers in (out) - net	-	-	-	-
Net Change in Fund Balance	<u>\$ 694,595</u>	<u>\$ 694,595</u>	696,925	<u>\$ 2,330</u>
Fund Balance				
Beginning of year			877,842	
End of year			<u>\$ 1,574,767</u>	

CITY OF SOLEDAD

BUDGETARY COMPARISON SCHEDULE

CDBG FUND

YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive/ (Negative)
Revenue				
Intergovernmental	\$ 1,100,000	\$ 1,100,000	\$ 1,314,361	\$ 214,361
Total revenue	<u>1,100,000</u>	<u>1,100,000</u>	<u>1,314,361</u>	<u>214,361</u>
Expenditures				
Current				
Community development	<u>1,136,176</u>	<u>1,136,176</u>	<u>1,334,509</u>	<u>(198,333)</u>
Total expenditures	<u>1,136,176</u>	<u>1,136,176</u>	<u>1,334,509</u>	<u>(198,333)</u>
Revenue over (under)expenditures	(36,176)	(36,176)	(20,148)	16,028
Other Financing Sources				
Transfers in (out) - net	<u>-</u>	<u>-</u>	<u>169,246</u>	<u>169,246</u>
Net Change in Fund Balance	<u>\$ (36,176)</u>	<u>\$ (36,176)</u>	149,098	<u>\$ 185,274</u>
Fund Balance				
Beginning of year			(239,254)	
End of year			<u>\$ (90,156)</u>	

CITY OF SOLEDAD

BUDGETARY COMPARISON SCHEDULE PROGRAM INCOME FUND YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Positive/ (Negative)</u>
Revenue				
Intergovernmental	\$ -	\$ -	\$ 53,000	\$ 53,000
Interest	-	-	2,882	2,882
Loan repayments	<u>2,400</u>	<u>2,400</u>	<u>4,397</u>	<u>1,997</u>
Total revenue	<u>2,400</u>	<u>2,400</u>	<u>60,279</u>	<u>57,879</u>
Expenditures				
Current				
Community development	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenue over (under)expenditures	2,400	2,400	60,279	57,879
Other Financing Sources				
Transfers in (out) - net	<u>-</u>	<u>-</u>	<u>(169,246)</u>	<u>(169,246)</u>
Net Change in Fund Balance	<u>\$ 2,400</u>	<u>\$ 2,400</u>	<u>(108,967)</u>	<u>\$ (111,367)</u>
Fund Balance				
Beginning of year			<u>349,528</u>	
End of year			<u>\$ 240,561</u>	

CITY OF SOLEDAD

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY LAST 10 YEARS* YEAR ENDED JUNE 30, 2017

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

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

CITY OF SOLEDAD

SCHEDULE OF CONTRIBUTIONS

LAST 10 YEARS*

YEAR ENDED JUNE 30, 2017

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

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

Notes to Schedule of Contributions

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method Entry Age Normal

Actuarial Assumptions:

Discount Rate 7.65%

Inflation 2.75%

Salary Increases Varies by Entry Age and Service

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

Retirement Age to 2007

Mortality The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries

Payroll Growth 3.00%

SUPPLEMENTAL ONLY INFORMATION

CITY OF SOLEDAD

COMBINING BALANCE SHEET NON-MAJOR GOVERNMENTAL FUNDS JUNE 30, 2017

	Special Revenue Funds					Capital Projects Fund		Total Non-major Governmental Funds
	Maintenance Districts	Public Safety	Gas Tax	Low-Moderate Housing Asset	Development Impact Fees	Community Development		
ASSETS								
Cash and investments	\$ 1,039,892	\$ 198,948	\$ -	\$ 1,095,190	\$ 4,689,706	\$ 1,590,878	\$	8,614,614
Due from other governments	-	26,861	597,521	-	-	-	-	624,382
Interest receivable	349	-	68	367	1,571	533	-	2,888
Notes receivable	-	-	-	1,902,278	-	-	-	1,902,278
Total assets	\$ 1,040,241	\$ 225,809	\$ 597,589	\$ 2,997,835	\$ 4,691,277	\$ 1,591,411	\$	11,144,162
LIABILITIES								
Accounts payable and accrued expense	\$ 21,830	\$ 8,093	\$ 25,577	\$ 7,500	\$ 18,364	\$ 17,282	\$	98,646
Due to other funds	-	-	332,209	-	-	-	-	332,209
Total liabilities	21,830	8,093	357,786	7,500	18,364	17,282		430,855
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenues	-	-	-	1,902,278	-	-	-	1,902,278
Total deferred inflows of resources	-	-	-	1,902,278	-	-	-	1,902,278
FUND BALANCE								
Restricted								
Capital improvement projects	-	-	-	-	4,672,913	1,574,129		6,247,042
Circulation improvements	-	-	239,803	-	-	-	-	239,803
Public safety programs	-	217,716	-	-	-	-	-	217,716
Lighting, landscape & park maintenance	1,018,411	-	-	-	-	-	-	1,018,411
Low-income housing activities	-	-	-	1,088,057	-	-	-	1,088,057
Total fund balance	1,018,411	217,716	239,803	1,088,057	4,672,913	1,574,129		8,811,029
Total liabilities and fund balance	\$ 1,040,241	\$ 225,809	\$ 597,589	\$ 2,997,835	\$ 4,691,277	\$ 1,591,411	\$	11,144,162

CITY OF SOLEDAD

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NON-MAJOR GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2017

	Special Revenue Funds					Capital Projects Fund		Total
	Maintenance Districts	Public Safety	Gas Tax	Low-Moderate Housing Asset	Development Impact Fees	Community Development	Non-major Governmental Funds	
Revenue								
Taxes and assessments	\$ 144,523	\$ 131,297	\$ 85,771	\$ -	\$ -	\$ -	\$ -	\$ 361,591
Licenses, permits and impact fees	-	-	-	-	1,156,567	-	-	1,156,567
Intergovernmental	-	5,272	468,589	-	-	-	-	473,861
Interest	2,424	384	512,088	18,946	10,364	4,609	4,609	548,815
Loan repayments	-	-	-	77,990	-	-	-	77,990
Other	-	-	2,543	-	-	-	-	2,543
Total revenue	146,947	136,953	1,068,991	96,936	1,166,931	4,609	-	2,621,367
Expenditures								
Public works	185,890	-	1,181,342	-	156,985	-	-	1,524,217
Community development	-	-	-	15,000	235,220	80,910	-	331,130
Public Safety	-	54,948	-	-	-	-	-	54,948
Capital outlay	2,284	-	42,959	-	23,964	600,000	-	669,207
Debt service	-	-	-	-	-	-	-	-
Principal	-	35,706	-	-	-	-	-	35,706
Interest	-	3,279	-	-	-	-	-	3,279
Total expenditures	188,174	93,933	1,224,301	15,000	416,169	680,910	-	2,618,487
Revenue over (under) expenditures	(41,227)	43,020	(155,310)	81,936	750,762	(676,301)	-	2,880
Other financing sources/(uses)								
Operating transfers in/(out) - net	-	17,235	-	-	-	-	-	17,235
	-	17,235	-	-	-	-	-	17,235
Change in Fund Balance	(41,227)	60,255	(155,310)	81,936	750,762	(676,301)	-	20,115
Fund Balance								
Beginning of year	1,059,638	157,461	395,113	1,006,121	3,922,151	2,250,430	-	8,790,914
End of year	\$ 1,018,411	\$ 217,716	\$ 239,803	\$ 1,088,057	\$ 4,672,913	\$ 1,574,129	\$ -	\$ 8,811,029

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Soledad, California, (the "City") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated November 16, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

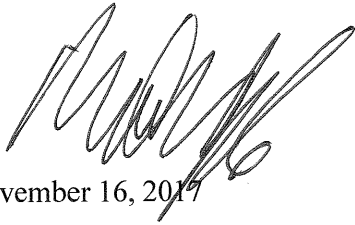
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

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

November 16, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE; AND
REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Soledad's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2017. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

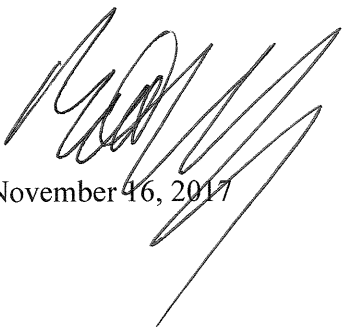
Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



November 16, 2017

CITY OF SOLEDAD

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2017

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development			
Passed through from the California Department of Housing and Community Development			
Community Development Block Grant	14.228	13-CDBG-8952	\$ <u>1,334,509</u>
<i>Total Federal Expenditures</i>			\$ <u>1,334,509</u>

CITY OF SOLEDAD

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2017

Note 1 – Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all federal award programs of the City of Soledad, California (the City). Federal awards received directly from federal agencies as well as federal awards passed through other nonfederal agencies, primarily the State of California, are included in the SEFA. The City's reporting entity is defined in Note 1 to the City's basic financial statements.

Note 2 – Basis of Accounting

The accompanying SEFA is presented using the modified accrual basis of accounting for grants accounted for in the governmental fund types and the accrual basis of accounting for grants accounted for in the proprietary fund types, as described in Note 1 to the City's basic financial statements. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in, or used in the preparation of, the SEFA may differ from amounts presented in the basic financial statements.

Note 3 – Catalog of Federal Domestic Assistance (CFDA) Numbers

The CFDA numbers included in the accompanying SEFA were determined based on program name, review of grant contract information, and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

Note 4 – Relationship to the Financial Statements

Expenditures of federal awards are reported in the City's basic financial statements as expenditures/expenses in the General Fund, nonmajor special revenue funds, nonmajor capital project funds, and the enterprise funds.

Note 5 – Indirect Cost Rate

The City did not elect to use the 10% de minimus cost rate as covered in 2 CFR §200.414.

CITY OF SOLEDAD

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2017

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- | | | | | |
|--|--------------------------|-----|-------------------------------------|---------------|
| • Material weaknesses identified? | ☐ | Yes | ☒ | No |
| • Significant deficiencies identified that are not considered to be material weaknesses? | ☐ | Yes | ☒ | None reported |
| • Non-compliance material to financial statements noted? | ☐ | Yes | ☒ | No |

Federal Awards

Internal control over major programs:

- | | | | | |
|--|--------------------------|-----|-------------------------------------|---------------|
| • Material weaknesses identified? | ☐ | Yes | ☒ | No |
| • Significant deficiencies identified that are not considered to be material weaknesses? | ☐ | Yes | ☒ | None reported |

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

☐	Yes	☒	No
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Identification of Major Programs

CFDA Number

Name of Federal Program or Cluster

14.228

Community Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

☐	Yes	☒	No
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B. Findings – Financial Statements Audit

None noted.

C. Findings and Questioned Costs – Major Federal Award Programs Audit

None noted.

CITY OF SOLEDAD

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS YEAR ENDED JUNE 30, 2017

Summary Schedule of Prior Audit Findings

There were no prior year audit findings.