

**CITY OF AVALON, CALIFORNIA**  
**Financial Statements**  
**With Independent Auditor's Report**  
**Year ended June 30, 2019**

**CITY OF AVALON**

**Basic Financial Statements and Supplemental Data**

**Year ended June 30, 2019**

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditor's Report	1
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	6
Statement of Activities	7
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	10
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	12
Statement of Revenues, Expenditures and Changes in Fund Balances	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Proprietary Funds:	
Statement of Net Position	17
Statement of Revenues, Expenses and Changes in Net Position	19
Statement of Cash Flows	21
Private Purpose Trust Fund:	
Statement of Fiduciary Net Position	23
Statement of Changes in Fiduciary Net Position	24
Notes to Basic Financial Statements	25
Required Supplementary Information:	
Pension Plans:	
Miscellaneous Plan:	
Schedule of the Plan's Proportionate Share of the Net Pension Liability	67
Schedule of Plan Contributions	68
Safety Plan:	
Schedule of the Plan's Proportionate Share of the Net Pension Liability	69
Schedule of Plan Contributions	70
Schedule of Changes in Total OPEB Liability and Related Ratios	71
Budget to Actual Schedules:	
General Fund	72
Local Transportation Special Revenue Fund	73
Avalon Housing Authority Special Revenue Fund	74
Notes to Required Supplementary Information	75

**CITY OF AVALON**  
**Basic Financial Statements and Supplemental Data**  
**Year ended June 30, 2019**

TABLE OF CONTENTS  
(CONTINUED)

	<u>Page Number</u>
Other Information:	
Combining and Individual Fund Financial Statements and Schedules:	
Nonmajor Governmental Funds:	
Combining Balance Sheet	77
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	79
Schedules of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual:	
Capital Grant Fund	81
Street Special Revenue Fund	82
Traffic Control and Safety Special Revenue Fund	83
Community Development Block Grant Special Revenue Fund	84
Mclean / Hall / Putnam Trust Fund	85
Internal Service Funds:	
Combining Statement of Net Position	87
Combining Statement of Revenues, Expenses, and Changes in Net Position	88
Combining Statement of Cash Flows	89

## **INDEPENDENT AUDITOR'S REPORT**

City Council  
City of Avalon  
Avalon, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Avalon, California (the City) as of and for the year ended June 30, 2019 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of the Avalon Medical Development Corporation ("Hospital"), a discretely presented component unit, which represents 11.7%, 12.8%, and 28.6% of the assets, net position, and revenues of the reporting City. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Hospital, is based solely on the report of the other auditors. 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 controls 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Avalon, California, as of June 30, 2019, 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.

### ***Report on Summarized Comparative Information***

We have previously audited the City's 2018 financial statements, and we expressed a modified audit opinion on those audited financial statements in our report dated February 7, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Emphasis of Matter Uncertainty Regarding Going Concern***

The accompanying financial statements have been prepared assuming that the City of Avalon, California, will continue as a going concern. As discussed in Note 12 to the financial statements, the City has experienced a significant decrease of tourism-based revenues. These conditions raise substantial doubt about the City's ability to continue as a going concern. Management's plans regarding those matters also are described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Management has omitted 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 the 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 effected by this missing information.

Accounting principles generally accepted in the United States of America require that the, *budgetary comparison schedules, Schedule of Plan Contributions, Schedule of the Plan's Proportioned Share of the Net Pension Liability, and the Schedule of Changes in total OPEB liability and related ratios*, 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, *budgetary comparison schedules, Schedule of Plan Contributions, Schedule of the Plan's Proportioned Share of the Net Pension Liability and the Schedule of Changes in Total OPEB Liability and Related Ratios* in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the

methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

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

The *Combining and Individual Nonmajor Fund Financial Statements and Schedules* are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *Combining and Individual Nonmajor Fund Financial Statements and Schedules* 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 July 26, 2019 on our consideration of the City of Avalon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Avalon's internal control over financial reporting and compliance.

*Davis Farr LLP*

Irvine, California  
March 27, 2020

## BASIC FINANCIAL STATEMENTS

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

### THE STATEMENT OF NET POSITION AND THE STATEMENT ACTIVITIES

One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes within it. You can think of the City's net position - the difference between assets/deferred outflows and liabilities/deferred inflows- as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors; however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

The Statement of Net Position and the Statement of Activities, present information about the following:

Governmental Activities – The City's basic services are considered to be governmental activities, including (1) public safety, (2) fire and ambulance, (3) planning, building and engineering, (4) community services, (5) public works, and (6) general government. Property taxes, sales taxes and transient occupancy taxes finance most of these activities.

Business-type Activities – The City's proprietary funds are considered to be business-type activities, including (1) harbor, (2) sewer, (3) saltwater, (4) solid waste, and (5) transportation.

Discrete Component Unit – The City's governmental activities include the presentation of one separate legal entity - the Avalon Medical Development Corporation ("the Hospital"). Although legally separate, this discrete component unit is important because the City is financially accountable for it.



**CITY OF AVALON**  
**Statement of Net Position**  
**June 30, 2019**  
**(With comparative information for the prior year)**

	Primary Government				Discrete Component Unit
	Governmental Activities	Business-type Activities	Totals		Avalon Medical Development Corporation
			2019	2018	
<b>Assets:</b>					
Current assets:					
Cash and investments (note 2)	\$ 10,492,862	3,729,291	14,222,153	12,413,671	1,338,427
Restricted cash and investments (note 2)	-	2,362,597	2,362,597	2,135,838	-
Receivables net:					
Accounts	78,365	1,024,269	1,102,634	2,029,798	1,987,022
Taxes	1,735,976	210,684	1,946,660	1,629,984	-
Interest	38,753	12,241	50,994	33,320	-
Due from other governments	-	-	-	-	-
Due from ACIA Successor Agency	7,722	-	7,722	1,820,303	-
Advances to ACIA Successor Agency (note 3)	25,960	-	25,960	751,394	-
Notes receivable	632,000	-	632,000	632,000	-
Internal balances	455,193	(455,193)	-	-	-
Inventories	-	-	-	-	365,430
Prepaid items	-	-	-	-	112,947
Noncurrent assets (note 4):					
Capital assets, not being depreciated	3,694,570	840,322	4,534,892	3,954,233	218,507
Capital assets, net of accumulated depreciation	<u>14,971,332</u>	<u>13,779,468</u>	<u>28,750,800</u>	<u>29,339,940</u>	<u>2,258,266</u>
Total assets	<u>32,132,733</u>	<u>21,503,679</u>	<u>53,636,412</u>	<u>54,740,481</u>	<u>6,280,599</u>
Deferred outflows of resources:					
Deferred outflows - pension related	1,199,267	1,017,542	2,216,809	3,043,410	-
Deferred outflows - OPEB related	218,983	173,585	392,568	138,200	-
Deferred outflows - goodwill	-	-	-	-	711,681
Total deferred outflows of resources	<u>1,418,250</u>	<u>1,191,127</u>	<u>2,609,377</u>	<u>3,181,610</u>	<u>711,681</u>
<b>Liabilities:</b>					
Current liabilities:					
Accounts payable	706,701	757,913	1,464,614	1,530,023	425,103
Interest payable	13,647	8,573	22,220	30,885	-
Accrued liabilities	248,513	113,229	361,742	328,281	363,585
Unearned revenue	-	113,858	113,858	133,626	-
Noncurrent liabilities:					
Due within one year (note 5)	502,971	320,876	823,847	719,344	329,964
Due in more than one year (note 5)	681,476	197,238	878,714	977,991	2,259,525
Landfill closure obligation	-	4,333,321	4,333,321	4,116,078	-
Net pension liability (note 6)	5,396,632	4,578,886	9,975,518	10,342,526	-
Net OPEB liability (note 7)	<u>4,298,042</u>	<u>3,407,005</u>	<u>7,705,047</u>	<u>7,376,328</u>	<u>-</u>
Total liabilities	<u>11,847,982</u>	<u>13,830,899</u>	<u>25,678,881</u>	<u>25,555,082</u>	<u>3,378,177</u>
Deferred inflows of resources:					
Deferred inflows - pension related	897,758	761,721	1,659,479	760,132	-
Deferred inflows - OPEB related	<u>362,886</u>	<u>287,656</u>	<u>650,542</u>	<u>699,328</u>	<u>-</u>
Total deferred inflows of resources	<u>1,260,644</u>	<u>1,049,377</u>	<u>2,310,021</u>	<u>1,459,460</u>	<u>-</u>
<b>Net position:</b>					
Net investment in capital assets	18,071,572	14,411,956	32,483,528	32,213,746	1,758,717
Restricted for:					
Low and moderate income housing	5,848,223	-	5,848,223	5,790,195	-
Community development	-	-	-	10,867	-
Capital Projects	36,834	-	36,834	51,278	-
Transportation	32,770	-	32,770	25,830	-
Unrestricted	<u>(3,547,042)</u>	<u>(6,597,426)</u>	<u>(10,144,468)</u>	<u>(7,184,367)</u>	<u>1,855,386</u>
Total net position	<u>\$ 20,442,357</u>	<u>7,814,530</u>	<u>28,256,887</u>	<u>30,907,549</u>	<u>3,614,103</u>

See accompanying notes to the financial statements

**CITY OF AVALON**  
**Statement of Activities**  
**Year ended June 30, 2019**  
**(With comparative information for the prior year)**

Functions/programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
<b>Governmental activities:</b>				
Public safety	\$ 2,409,692	219,951	-	-
Fire and ambulance	2,943,672	404,999	-	-
Planning, building and engineering	786,183	300,019	135,356	-
Community services	941,947	99,269	458	165,604
Public works	2,866,317	19,904	-	175,407
Transportation	1,334,728	-	1,338,299	-
General government	<u>3,111,270</u>	<u>41,810</u>	<u>316,618</u>	<u>-</u>
Total governmental activities	<u>14,393,809</u>	<u>1,085,952</u>	<u>1,790,731</u>	<u>341,011</u>
<b>Business-type activities:</b>				
Harbor	9,133,285	8,111,601	16,067	-
Sewer	2,781,565	2,617,834	-	-
Saltwater	964,984	750,011	-	-
Solidwaste	2,114,125	1,951,462	143,500	-
Avalon transit	<u>511,869</u>	<u>115,668</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>15,505,828</u>	<u>13,546,576</u>	<u>159,567</u>	<u>-</u>
Total primary government	<u>\$ 29,899,637</u>	<u>14,632,528</u>	<u>1,950,298</u>	<u>341,011</u>
<b>Discrete component unit:</b>				
Avalon Medical Development Corporation	<u>\$ 11,108,843</u>	<u>10,264,739</u>	<u>664,422</u>	<u>-</u>

General revenues:

Taxes:

Property taxes

Sales taxes

Transient occupancy taxes

Other taxes

Investment earnings

Miscellaneous income

Special item

Transfers

Total general revenues and transfers

Change in net position

Net position, beginning of year

Net position, end of year

See accompanying notes to the financial statements

Net (Expense) Revenue and Changes in Net Position

Primary Government		Totals		Discrete Component Unit
Governmental Activities	Business-type Activities	2019	2018	Avalon Medical Development Corporation
(2,189,741)	-	(2,189,741)	(1,635,371)	-
(2,538,673)	-	(2,538,673)	(2,754,737)	-
(350,808)	-	(350,808)	(338,942)	-
(676,616)	-	(676,616)	2,670	-
(2,671,006)	-	(2,671,006)	(1,820,387)	-
3,571	-	3,571	(319,843)	-
(2,752,842)	-	(2,752,842)	(2,548,855)	-
(11,176,115)	-	(11,176,115)	(9,415,465)	-
-	(1,005,617)	(1,005,617)	(41,748)	-
-	(163,731)	(163,731)	105,894	-
-	(214,973)	(214,973)	(550,861)	-
-	(19,163)	(19,163)	(145,621)	-
-	(396,201)	(396,201)	(425,647)	-
-	(1,799,685)	(1,799,685)	(1,057,983)	-
(11,176,115)	(1,799,685)	(12,975,800)	(10,473,448)	-
-	-	-	-	(179,682)
1,271,952	-	1,271,952	867,778	-
1,554,762	-	1,554,762	1,646,275	592,030
5,396,940	-	5,396,940	5,348,876	-
1,234,741	219,871	1,454,612	1,426,192	-
246,988	201,927	448,915	208,456	-
197,957	-	197,957	61,500	-
-	-	-	(347,980)	-
(89,500)	89,500	-	-	-
9,813,840	511,298	10,325,138	9,211,097	592,030
(1,362,275)	(1,288,387)	(2,650,662)	(1,262,351)	412,348
21,804,632	9,102,917	30,907,549	32,169,900	3,201,755
<u>\$ 20,442,357</u>	<u>7,814,530</u>	<u>28,256,887</u>	<u>30,907,549</u>	<u>3,614,103</u>

See accompanying notes to the financial statements

## GOVERNMENTAL FUND FINANCIAL STATEMENTS

### GENERAL FUND

The General Fund has been classified as a major fund and is used to account for resources traditionally associated with governments which are not required legally or by sound financial management to be accounted for in another fund.

### SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for a particular purpose. The following funds have been classified as major funds:

Local Transportation – This fund is used to record allocations made by the Los Angeles County Transportation Commission for the construction of streets, roads, bikeways, pedestrian facilities as well as the City’s transportation system as a whole.

Avalon Housing Authority – This fund is used to account for the activity associated with the City’s continuing housing operations. This fund was created effective February 1, 2012 as a result of legislation enacted by the State of California.

### NONMAJOR FUNDS

Nonmajor Funds is the aggregate of all the other governmental funds.

**CITY OF AVALON**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2019**  
**(With comparative information for the prior year)**

	General Fund	Special Revenue Funds	
		Local Transportation Fund	Avalon Housing Authority
<b>Assets:</b>			
Cash and investments	\$ 3,811,822	-	5,543,486
Receivables, net:			
Accounts	69,657	-	120
Taxes	1,355,692	206,630	-
Interest	7,361	-	29,765
Notes receivable	340,000	-	292,000
Due from ACIA Successor Agency	1,679	-	6,043
Due from other funds (note 3)	520,992	-	-
Advances to ACIA Successor Agency (note 3)	-	-	25,960
Total assets	<u>6,107,203</u>	<u>206,630</u>	<u>5,897,374</u>
<b>Liabilities:</b>			
Accounts payable	507,780	5,786	15,017
Accrued liabilities	168,319	-	1,591
Due to other funds (note 3)	-	200,844	26,500
Total liabilities	<u>676,099</u>	<u>206,630</u>	<u>43,108</u>
<b>Deferred inflows of resources:</b>			
Unavailable revenue	97,056	-	-
Total deferred inflows of resources	<u>97,056</u>	<u>-</u>	<u>-</u>
<b>Fund balances:</b>			
<b>Non-spendable:</b>			
Due from ACIA Successor Agency	1,679	-	6,043
Due from Hospital	340,000	-	-
<b>Restricted:</b>			
Low and moderate income housing	-	-	5,848,223
Community development	-	-	-
Capital projects	-	-	-
Street projects	-	-	-
Unassigned	4,992,369	-	-
Total fund balances	<u>5,334,048</u>	<u>-</u>	<u>5,854,266</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 6,107,203</u>	<u>206,630</u>	<u>5,897,374</u>

See accompanying notes to the financial statements

Nonmajor Governmental Funds	Totals	
	2019	2018
78,964	9,434,272	6,929,384
1,330	71,107	1,046,335
173,654	1,735,976	1,474,751
-	37,126	25,854
-	632,000	632,000
-	7,722	1,820,303
-	520,992	707,355
-	25,960	751,394
<u>253,948</u>	<u>12,465,155</u>	<u>13,387,376</u>
21,943	550,526	551,366
4,723	174,633	156,088
<u>165,604</u>	<u>392,948</u>	<u>587,547</u>
<u>192,270</u>	<u>1,118,107</u>	<u>1,295,001</u>
-	97,056	2,026,432
-	97,056	2,026,432
-	7,722	1,820,303
-	340,000	340,000
-	5,848,223	5,790,195
-	-	566
36,834	36,834	51,278
32,770	32,770	25,830
<u>(7,926)</u>	<u>4,984,443</u>	<u>2,037,771</u>
<u>61,678</u>	<u>11,249,992</u>	<u>10,065,943</u>
<u>253,948</u>	<u>12,465,155</u>	<u>13,387,376</u>

See accompanying notes to the financial statements

**CITY OF AVALON**  
**Governmental Funds**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Position**  
**June 30, 2019**

Fund balances of governmental funds \$ 11,249,992

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 funds.

Capital assets	32,592,924
Accumulated depreciation	(14,248,994)

Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.

97,056

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Compensated absences	(401,009)
Capital lease payable	(594,329)
Interest payable	(13,647)

Net pension and OPEB liabilities and related deferred outflows and inflows of resources are not due and payable in the current period and, therefore are not reported in the governmental funds (note 6).

Deferred outflows - pension	1,159,728
Deferred inflows - pension	(868,160)
Net pension liability	(5,218,710)
Deferred outflows - OPEB	218,983
Deferred inflows - OPEB	(362,886)
Other post employment benefits	(4,298,042)

Internal service funds are used by management to charge the costs of employee benefits, liability insurance and vehicle maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.

802,302

Internal service fund receivables/payables representing the cumulative crossover effect of involvement with business-type activities.

327,149

Net position of governmental activities

\$ 20,442,357

**CITY OF AVALON**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year ended June 30, 2019**  
**(With comparative information for the prior year)**

	General Fund	Special Revenue Funds	
		Local Transportation Fund	Avalon Housing Authority
<b>Revenues:</b>			
Taxes	\$ 11,272,790	-	-
Licenses, permits, and fees	488,735	-	-
Fines, forfeitures, and penalties	7,641	-	-
Investment income	103,612	-	111,588
Intergovernmental revenue	580,446	1,333,938	-
Charges for services	523,990	-	-
Other revenue	195,923	-	15,300
<b>Total revenues</b>	<b>13,173,137</b>	<b>1,333,938</b>	<b>126,888</b>
<b>Expenditures:</b>			
<b>Current:</b>			
Public safety	1,845,800	-	-
Fire and ambulance	3,031,281	-	-
Planning, building and engineering	816,978	-	3,284
Community services	749,965	-	12,016
Public works	1,824,949	-	-
Transportation	-	1,334,728	-
<b>General government:</b>			
Services and charges	1,724,116	-	-
Contract services	1,105,984	-	18,612
Special departmental	44,688	-	-
Other	15,030	-	-
Capital expenditures	501,140	-	34,948
<b>Debt service:</b>			
Principal	116,468	-	-
Interest	4,221	-	-
<b>Total expenditures</b>	<b>11,780,620</b>	<b>1,334,728</b>	<b>68,860</b>
Excess of revenues over (under) expenditures	1,392,517	(790)	58,028
<b>Other Financing Sources (Uses):</b>			
Transfers in (note 3)	-	-	-
Transfers out (note 3)	(271,000)	-	-
<b>Total other financing sources (uses)</b>	<b>(271,000)</b>	<b>-</b>	<b>-</b>
Special items	-	-	-
Net change in fund balance	1,121,517	(790)	58,028
Fund balance, beginning of year	4,212,531	790	5,796,238
Fund balance, end of year	\$ 5,334,048	-	5,854,266

See accompanying notes to the financial statements



Nonmajor Governmental Funds	Totals	
	2019	2018
148,559	11,421,349	9,205,393
-	488,735	558,445
66,938	74,579	64,506
3,337	218,537	101,345
169,965	2,084,349	2,288,133
-	523,990	504,557
<u>3,621</u>	<u>214,844</u>	<u>561,500</u>
<u>392,420</u>	<u>15,026,383</u>	<u>13,283,879</u>
-	1,845,800	1,827,490
-	3,031,281	2,947,419
-	820,262	727,013
27,114	789,095	752,602
329,768	2,154,717	1,910,548
-	1,334,728	1,297,965
2,493	1,726,609	1,742,329
8,195	1,132,791	925,378
26,697	71,385	39,025
-	15,030	500,030
174,359	710,447	307,230
-	116,468	120,984
-	<u>4,221</u>	<u>16,025</u>
<u>568,626</u>	<u>13,752,834</u>	<u>13,114,038</u>
<u>(176,206)</u>	<u>1,273,549</u>	<u>169,841</u>
181,500	181,500	349,000
-	<u>(271,000)</u>	<u>(1,247,898)</u>
<u>181,500</u>	<u>(89,500)</u>	<u>(898,898)</u>
-	-	<u>(3,200,580)</u>
5,294	1,184,049	(3,929,637)
<u>56,384</u>	<u>10,065,943</u>	<u>13,995,580</u>
<u>61,678</u>	<u>11,249,992</u>	<u>10,065,943</u>

See accompanying notes to the financial statements

**CITY OF AVALON**  
**Reconciliation of the Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**Year ended June 30, 2019**

Net changes in fund balances - total governmental funds	\$ 1,184,049
Amounts reported for governmental activities in the statement of activities is different because:	
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>	
Capital outlay	867,621
Depreciation expense	(1,219,176)
Other capital related items	(20,500)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt and changes in other long-term liabilities affect the current financial resources of governmental funds. None of these transactions, however, has any affect on net position:</p>	
Principal payments	116,468
Interest on capital lease	2,674
Change in compensated absences	(111,769)
Change in OPEB obligation and related amounts	593,315
Change in net pension liability and related amounts	(748,749)
<p>Some revenues reported in the Statement of Activities are not considered to be available to finance current expenditures and therefore are not reported as revenues in the governmental funds.</p>	(1,929,376)
<p>Internal service funds are used by management to charge the costs of self-insurance, employee separation costs and vehicle maintenance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.</p>	(187,941)
<p>Internal service fund revenues/expenses representing the cumulative crossover effect of involvement with business-type activities.</p>	<u>91,109</u>
Change in net position of governmental activities	<u>\$ (1,362,275)</u>

## PROPRIETARY FUND FINANCIAL STATEMENTS

Harbor – This fund was established to account for all harbor operations.

Sewer – This fund was established to receive and disburse funds collected through sewer service charge fees and sewer facilities charges. This fund is used for the operation and maintenance of sewer disposal facilities and the financing of construction for sewer outlets.

Saltwater – This fund was established to receive charges for operation of the City's saltwater pumping plants and systems.

Solidwaste – This fund was established to account for solid waste collection and disposal costs.

Avalon Transit – This fund was established to account for the City's fixed route, dial-a-ride, ferry commuter subsidy, and other transportation operations.

Internal Service Funds – These funds are used to account for the financing of goods and services provided by one or more departments to other departments of the City and to other government units, on a cost reimbursement basis.

**CITY OF AVALON**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2019**  
(With comparative information for the prior year)

	Business-type Activities		
	Harbor	Sewer	Saltwater
<b>Assets:</b>			
Current assets:			
Cash and investments	\$ 1,786,523	563,982	-
Restricted cash and investments	-	-	-
Receivables, net:			
Accounts	984,037	7,290	5,132
Taxes	49,077	44,322	17,731
Interest	<u>3,454</u>	<u>5,796</u>	<u>773</u>
Total current assets	2,823,091	621,390	23,636
Noncurrent assets:			
Capital assets, not being depreciated	500,385	339,937	-
Capital assets, net of accumulated depreciation	<u>7,209,208</u>	<u>3,941,185</u>	<u>1,408,711</u>
Total noncurrent assets	<u>7,709,593</u>	<u>4,281,122</u>	<u>1,408,711</u>
Total assets	<u>10,532,684</u>	<u>4,902,512</u>	<u>1,432,347</u>
Deferred outflows of resources:			
Deferred outflows - pension related	885,041	74,436	58,065
Deferred outflows - OPEB related	<u>139,568</u>	<u>19,406</u>	<u>14,611</u>
Total deferred outflows of resources	<u>1,024,609</u>	<u>93,842</u>	<u>72,676</u>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable	379,370	116,678	23,812
Interest payable	8,573	-	-
Accrued liabilities	94,557	9,629	6,447
Unearned revenue	113,858	-	-
Due to other funds (note 3)	-	-	128,044
Current portion of noncurrent liabilities	<u>279,623</u>	<u>29,299</u>	<u>11,653</u>
Total current liabilities	<u>875,981</u>	<u>155,606</u>	<u>169,956</u>
Noncurrent liabilities:			
Compensated absences	67,943	7,700	6,274
Net pension liability	3,982,638	334,957	261,291
OPEB obligation	2,739,334	380,888	286,783
Claims payable	-	10,000	-
Loans payable	105,159	-	-
Landfill closure obligation (note 11)	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>6,895,074</u>	<u>733,545</u>	<u>554,348</u>
Total liabilities	<u>7,771,055</u>	<u>889,151</u>	<u>724,304</u>
Deferred inflows of resources:			
Deferred inflows - pension related	662,532	55,722	43,467
Deferred inflows - OPEB related	<u>231,284</u>	<u>32,159</u>	<u>24,213</u>
Total deferred inflows of resources	<u>893,816</u>	<u>87,881</u>	<u>67,680</u>
<b>Net position:</b>			
Net investment in capital assets	7,501,759	4,281,122	1,408,711
Unrestricted	<u>(4,609,337)</u>	<u>(261,800)</u>	<u>(695,672)</u>
Total net position	<u>\$ 2,892,422</u>	<u>4,019,322</u>	<u>713,039</u>

Adjustment to report the cumulative internal balance for the net effect of the activity between the internal service funds and the enterprise funds over time

Net position of business-type activities

Business-type Activities		Total Enterprise Funds		Governmental Activities - Internal Service Funds	
Solidwaste	Avalon Transit	2019	2018	2019	2018
1,376,164	2,622	3,729,291	4,432,897	1,058,590	1,051,390
2,362,597	-	2,362,597	2,135,838	-	-
27,651	159	1,024,269	983,463	7,258	74
99,554	-	210,684	155,233	-	-
2,218	-	12,241	6,538	1,627	928
<u>3,868,184</u>	<u>2,781</u>	<u>7,339,082</u>	<u>7,713,969</u>	<u>1,067,475</u>	<u>1,052,392</u>
-	-	840,322	645,034	-	-
<u>481,570</u>	<u>738,794</u>	<u>13,779,468</u>	<u>13,522,361</u>	<u>321,972</u>	<u>410,793</u>
<u>481,570</u>	<u>738,794</u>	<u>14,619,790</u>	<u>14,167,395</u>	<u>321,972</u>	<u>410,793</u>
<u>4,349,754</u>	<u>741,575</u>	<u>21,958,872</u>	<u>21,881,364</u>	<u>1,389,447</u>	<u>1,463,185</u>
-	-	1,017,542	1,427,420	39,539	38,089
-	-	173,585	50,532	-	-
<u>-</u>	<u>-</u>	<u>1,191,127</u>	<u>1,477,952</u>	<u>39,539</u>	<u>38,089</u>
139,756	98,297	757,913	825,225	156,175	153,432
-	-	8,573	14,564	-	-
2,022	574	113,229	98,320	73,880	73,873
-	-	113,858	133,626	-	-
-	-	128,044	97,509	-	22,299
301	-	320,876	292,389	122,481	122,481
<u>142,079</u>	<u>98,871</u>	<u>1,442,493</u>	<u>1,461,633</u>	<u>352,536</u>	<u>372,085</u>
162	-	82,079	64,598	-	-
-	-	4,578,886	4,850,861	177,922	129,437
-	-	3,407,005	2,697,097	-	-
-	-	10,000	10,000	66,628	-
-	-	105,159	207,830	-	-
<u>4,333,321</u>	<u>-</u>	<u>4,333,321</u>	<u>4,116,078</u>	<u>-</u>	<u>-</u>
<u>4,333,483</u>	<u>-</u>	<u>12,516,450</u>	<u>11,946,464</u>	<u>244,550</u>	<u>129,437</u>
<u>4,475,562</u>	<u>98,871</u>	<u>13,958,943</u>	<u>13,408,097</u>	<u>597,086</u>	<u>501,522</u>
-	-	761,721	356,557	29,598	9,509
-	-	287,656	255,705	-	-
<u>-</u>	<u>-</u>	<u>1,049,377</u>	<u>612,262</u>	<u>29,598</u>	<u>9,509</u>
481,570	738,794	14,411,956	13,797,766	321,972	410,793
(607,378)	(96,090)	(6,270,277)	(4,458,809)	480,330	579,450
<u>(125,808)</u>	<u>642,704</u>	<u>8,141,679</u>	<u>9,338,957</u>	<u>802,302</u>	<u>990,243</u>
		<u>(327,149)</u>	<u>(236,040)</u>		
		<u>\$ 7,814,530</u>	<u>9,102,917</u>		

See accompanying notes to the financial statements

**CITY OF AVALON**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**  
**Year ended June 30, 2019**  
**(With comparative information for the prior year)**

	Business-type Activities		
	Harbor	Sewer	Saltwater
Operating revenues:			
Charges for services	\$ 8,111,601	2,617,834	750,011
Other revenue	76,886	-	-
Total operating revenues	<u>8,188,487</u>	<u>2,617,834</u>	<u>750,011</u>
Operating expenses:			
Salaries and benefits	5,373,812	703,643	637,616
Contractual services	1,087,412	1,197,981	258,726
Office supplies	4,092	-	-
Utilities and rent	520,502	212,060	-
Repairs and maintenance	382,334	215,422	1,777
Operating supplies	441,648	3,077	1,174
Other services and charges	794,342	80,394	722
Depreciation	442,698	361,460	61,539
Total operating expenses	<u>9,046,840</u>	<u>2,774,037</u>	<u>961,554</u>
Operating income (loss)	<u>(858,353)</u>	<u>(156,203)</u>	<u>(211,543)</u>
Nonoperating revenues (expenses):			
Admissions taxes	142,963	-	-
Loss on disposal of capital assets	-	-	-
Grants and other revenues	16,067	-	-
Interest income	21,211	35,592	4,746
Interest expense	(9,724)	-	-
Total nonoperating revenues (expenses)	<u>170,517</u>	<u>35,592</u>	<u>4,746</u>
Income before capital contributions and transfers	(687,836)	(120,611)	(206,797)
Capital contributions and transfers:			
Transfers in (note 3)	-	-	-
Transfers out (note 3)	(20,500)	-	-
Total capital contributions and transfers	<u>(20,500)</u>	<u>-</u>	<u>-</u>
Changes in net position	(708,336)	(120,611)	(206,797)
Net position, beginning of year	<u>3,600,758</u>	<u>4,139,933</u>	<u>919,836</u>
Net position, end of year	<u>\$ 2,892,422</u>	<u>4,019,322</u>	<u>713,039</u>

Adjustment for the net effect of current year activity between the internal service funds and the enterprise funds.

Change in net position of business-type activities

Business-type Activities		Total Enterprise Funds		Governmental Activities - Internal Service Funds	
Solidwaste	Avalon Transit	2019	2018	2019	2018
1,951,462	115,668	13,546,576	13,305,904	3,395,353	3,292,947
-	22	76,908	4,896	-	-
<u>1,951,462</u>	<u>115,690</u>	<u>13,623,484</u>	<u>13,310,800</u>	<u>3,395,353</u>	<u>3,292,947</u>
109,528	43,440	6,868,039	5,744,663	1,572,585	1,539,008
1,685,496	216,529	4,446,144	4,245,140	787,777	617,543
-	1,788	5,880	5,876	78,526	74,760
10,920	-	743,482	832,249	164,916	217,922
217,243	2,850	819,626	932,052	152,220	213,001
-	-	445,899	307,181	83,995	81,533
22,405	30,215	928,078	1,056,718	647,471	201,706
<u>65,103</u>	<u>217,047</u>	<u>1,147,847</u>	<u>1,092,620</u>	<u>119,755</u>	<u>206,555</u>
<u>2,110,695</u>	<u>511,869</u>	<u>15,404,995</u>	<u>14,216,499</u>	<u>3,607,245</u>	<u>3,152,028</u>
<u>(159,233)</u>	<u>(396,179)</u>	<u>(1,781,511)</u>	<u>(905,699)</u>	<u>(211,892)</u>	<u>140,919</u>
-	-	142,963	174,975	-	-
-	-	-	(566,510)	-	-
143,500	-	159,567	375,167	13,950	26,130
140,378	-	201,927	73,884	10,001	7,097
-	-	(9,724)	(16,065)	-	-
<u>283,878</u>	<u>-</u>	<u>494,733</u>	<u>41,451</u>	<u>23,951</u>	<u>33,227</u>
124,645	(396,179)	(1,286,778)	(864,248)	(187,941)	174,146
-	110,000	110,000	2,863,058	-	-
-	-	(20,500)	(1,964,160)	-	-
-	<u>110,000</u>	<u>89,500</u>	<u>898,898</u>	<u>-</u>	<u>-</u>
124,645	(286,179)	(1,197,278)	34,650	(187,941)	174,146
<u>(250,453)</u>	<u>928,883</u>			<u>990,243</u>	<u>816,097</u>
<u>(125,808)</u>	<u>642,704</u>			<u>802,302</u>	<u>990,243</u>
		<u>(91,109)</u>	<u>60,020</u>		
		<u>\$ (1,288,387)</u>	<u>94,670</u>		

See accompanying notes to the financial statements

**CITY OF AVALON**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year ended June 30, 2019**  
**(With comparative information for the prior year)**

	Harbor	Sewer	Saltwater
<b>Cash Flows from Operating Activities:</b>			
Cash received from customers	\$ 8,157,215	2,635,312	743,473
Cash received from interfund services provided	-	-	-
Cash received for operating grants	-	-	-
Cash payments to suppliers for goods and services	(3,091,401)	(1,926,128)	(255,001)
Cash payments to employees for services	(4,591,737)	(506,809)	(356,410)
Net cash provided by operating activities	<u>474,077</u>	<u>202,375</u>	<u>132,062</u>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Cash received from admissions taxes	142,963	-	-
Cash paid to other funds	(20,500)	-	-
Cash received from other funds	16,067	-	-
Net cash provided by noncapital financing activities	<u>138,530</u>	<u>-</u>	<u>-</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Cash received for capital grants	-	-	-
Cash payments to acquire capital and other assets	(985,759)	(275,720)	(136,484)
Principal paid on capital-related debt	(98,271)	(63,526)	-
Interest paid on capital-related debt	(13,778)	(1,937)	-
Net cash provided by capital and related financing activities	<u>(1,097,808)</u>	<u>(341,183)</u>	<u>(136,484)</u>
<b>Cash Flows from Investing Activities:</b>			
Interest received on investments	19,768	32,629	4,422
Net increase (decrease) in cash and cash equivalents	(465,433)	(106,179)	-
Cash and cash equivalents - beginning	2,251,956	670,161	-
Cash and cash equivalents - ending	<u>\$ 1,786,523</u>	<u>563,982</u>	<u>-</u>
<b>Reconciliation of Operating Income (loss) to Net Cash Provided by Operating Activities</b>			
Operating income (loss)	\$ (858,353)	(156,203)	(211,543)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	442,698	361,460	61,539
Other Income	-	-	-
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(6,226)	(7,290)	(5,132)
(Increase) decrease in taxes receivable	(25,046)	24,768	(1,406)
(Increase) decrease in deferred outflows	306,214	(12,024)	(7,365)
Increase (decrease) in accounts payable	137,513	(218,135)	(23,018)
Increase (decrease) in accrued liabilities	13,385	941	(119)
Increase (decrease) in compensated absences	94,142	12,578	11,290
Increase (decrease) in OPEB obligation	440,888	79,875	189,145
Increase (decrease) in unearned revenue	(19,768)	-	-
Increase (decrease) in net pension liability	(393,619)	76,082	45,562
Increase (decrease) in deferred inflows	354,218	40,323	42,574
Increase (decrease) in due to other funds	-	-	30,535
Increase (decrease) in landfill closure obligation	-	-	-
Increase (decrease) in claims payable	(11,969)	-	-
Net Cash Provided by Operating Activities	<u>\$ 474,077</u>	<u>202,375</u>	<u>132,062</u>

There were no significant noncash investing or financing activities the year ending Jun 30, 2019.



Solidwaste	Avalon Transit	Total Enterprise Funds		Governmental Activities - Internal Service Funds	
		2019	2018	2019	2018
1,875,258	115,917	13,527,175	12,908,203	-	-
-	-	-	-	3,393,886	3,292,947
143,500	-	143,500	10,000	-	-
(1,706,281)	(227,787)	(7,206,598)	(7,115,144)	(1,878,842)	(1,761,152)
(109,528)	(43,440)	(5,607,924)	(5,587,925)	(1,500,162)	(1,534,992)
<u>202,949</u>	<u>(155,310)</u>	<u>856,153</u>	<u>215,134</u>	<u>14,882</u>	<u>(3,197)</u>
-	-	142,963	174,975	-	-
-	-	(20,500)	(982,080)	-	-
-	110,000	126,067	1,875,145	-	-
<u>-</u>	<u>110,000</u>	<u>248,530</u>	<u>1,068,040</u>	<u>-</u>	<u>-</u>
-	-	-	-	13,950	-
(202,279)	-	(1,600,242)	(2,425,143)	(30,934)	(28,137)
-	-	(161,797)	(155,682)	-	-
-	-	(15,715)	(21,825)	-	-
<u>(202,279)</u>	<u>-</u>	<u>(1,777,754)</u>	<u>(2,602,650)</u>	<u>(16,984)</u>	<u>(28,137)</u>
<u>139,405</u>	<u>-</u>	<u>196,224</u>	<u>74,415</u>	<u>9,302</u>	<u>32,614</u>
140,075	(45,310)	(476,847)	(1,245,061)	7,200	1,280
<u>3,598,686</u>	<u>47,932</u>	<u>6,568,735</u>	<u>7,813,796</u>	<u>1,051,390</u>	<u>1,050,110</u>
<u>3,738,761</u>	<u>2,622</u>	<u>6,091,888</u>	<u>6,568,735</u>	<u>1,058,590</u>	<u>1,051,390</u>
(159,233)	(396,179)	(1,781,511)	(905,699)	(211,892)	140,919
65,103	217,047	1,147,847	1,092,620	119,755	206,555
143,500	-	143,500	381,000	-	-
(22,437)	279	(40,806)	(355,492)	(7,184)	77
(53,767)	-	(55,451)	(47,731)	-	-
-	-	286,825	(77,998)	(1,450)	(2,428)
12,733	23,595	(67,312)	(242,638)	2,743	(32,140)
754	(52)	14,909	(31,051)	7	5,556
(947)	-	117,063	(147,481)	-	-
-	-	709,908	(78,622)	-	-
-	-	(19,768)	(3,016)	-	-
-	-	(271,975)	548,866	20,089	(9,316)
-	-	437,115	(83,601)	48,485	11,681
-	-	30,535	(90,993)	(22,299)	175
217,243	-	217,243	205,229	-	-
-	-	(11,969)	51,741	66,628	(324,276)
<u>202,949</u>	<u>(155,310)</u>	<u>856,153</u>	<u>215,134</u>	<u>14,882</u>	<u>(3,197)</u>

See accompanying notes to the financial statements

**CITY OF AVALON**  
**Statement of Fiduciary Net Position**  
**Private Purpose Trust Fund**  
**June 30, 2019**  
**(With comparative information for the prior year)**

	2019	2018
<b>Assets:</b>		
Current assets:		
Cash and investments (note 2)	\$ 2,148,134	4,115,181
Interest receivable	<u>145</u>	<u>105</u>
Total current assets	<u>2,148,279</u>	<u>4,115,286</u>
<b>Liabilities:</b>		
Current liabilities:		
Due to other governments	6,042	1,820,303
Interest payable	316,209	329,109
Current portion of long-term liabilities:		
Advances from City of Avalon (note 3)	25,960	722,434
Bonds payable (note 5)	<u>1,225,383</u>	<u>1,194,749</u>
Total current liabilities	<u>1,573,594</u>	<u>4,066,595</u>
Long-term liabilities:		
Advances from City of Avalon (note 3)	-	28,960
Bonds payable (note 5)	20,244,617	21,375,251
Bond premium	<u>709,204</u>	<u>803,953</u>
Total long-term liabilities	<u>20,953,821</u>	<u>22,208,164</u>
Total liabilities	<u>22,527,415</u>	<u>26,274,759</u>
<b>Net position:</b>		
Held in trust for successor agency	<u>(20,379,136)</u>	<u>(22,159,473)</u>
Total net position (deficit)	<u>\$ (20,379,136)</u>	<u>(22,159,473)</u>

See accompanying notes to the financial statements

**CITY OF AVALON**  
**Statement of Changes in Fiduciary Net Position**  
**Private Purpose Trust Fund**  
**Year ended June 30, 2019**  
**(With comparative information for the prior year)**

	2019	2018
<b>Additions:</b>		
Taxes	\$ 3,059,021	3,015,216
Investment income	5,107	2,643
Total additions	3,064,128	3,017,859
<b>Deductions:</b>		
Community development	423,813	790,442
Interest	859,978	893,324
Total deductions	1,283,791	1,683,766
Special item	-	347,980
Change in net position	1,780,337	1,682,073
Net position, beginning of year	(22,159,473)	(23,841,546)
Net position, end of year	\$ (20,379,136)	(22,159,473)

See accompanying notes to the financial statements

# CITY OF AVALON

## Notes to the Financial Statements

Year ended June 30, 2019

### (1) Summary of Significant Accounting Policies

The basic financial statements of the City of Avalon, California, (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

#### (a) Description of the Reporting Entity

The City of Avalon was incorporated in 1913 under the General Laws of the State of California. The City operates under a Council-Manager form of government and provides the following municipal services to its citizens: public safety (police and fire), harbor, streets, water sanitation, health and social services, public improvements, planning and zoning, and general administrative services.

The financial reporting entity presented in the accompanying basic financial statements consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The component unit of the City, as described below, is a legally separate entity for which the City is financially accountable. The primary government's officials appoint a voting majority of the component unit's governing board and either they are able to impose their will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific burdens on the primary government.

The following component unit is presented using the discrete presentation method. A discretely presented component unit is a legally separate, tax-exempt entity that operates with a greater or lesser degree of autonomy from the primary government. It is presented separately from the financial data of the primary government.

#### Discretely Presented Component Unit - The Avalon Medical Development Corporation DBA Catalina Island Medical Center (the Hospital):

The Hospital provides medical services to the community. The Hospital is managed by the Avalon Medical Development Corporation, whose Board of Directors is appointed by the City Council. Although the Board of Directors approves the budget and expenditures incurred, the oversight responsibility lies with the City Council, as any debt issuance must be approved by the City Council. In addition, the City provides ongoing financial support to the Hospital. The Hospital's financial statements have been included within the reporting entity as a discretely presented component unit. Separate financial statements of the Hospital may be obtained from the Hospital.

# CITY OF AVALON

## Notes to the Financial Statements

(Continued)

### (1) Summary of Significant Accounting Policies (Continued)

#### (b) Basis of Accounting and Measurement Focus

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transaction are recognized in accordance with the requirements of GASB Statement No. 33.

#### Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units), as well as its discretely presented component unit. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the City.

Program revenues include charges for services and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the Statement of Activities to present the net cost of each program. Taxes and other items not included among program revenues are reported instead as general revenues.

As a general rule the effect of interfund activity has been eliminated from the government-wide statements. Amounts paid to acquire capital assets have been reclassified as an addition to the related asset in the government-wide financial statements, rather than reporting them as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

# CITY OF AVALON

## Notes to the Financial Statements

(Continued)

### (1) Summary of Significant Accounting Policies (Continued)

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate.

Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

#### Fund Financial Statements

Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental and proprietary funds. Fiduciary statements include financial information for fiduciary funds and similar component units. Fiduciary funds of the City primarily represent assets held by the City in a custodial capacity for other individuals or organizations.

Net position is classified in the following categories:

In the government-wide financial statements, net position is reported in one of three categories:

- Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of capital assets.
- Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This amount is all net position that does not meet the definition of "Net Investment in Capital Assets" or "Restricted Net Position".

#### Governmental Funds

In the fund financial statements, governmental funds are presented using the modified-accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City uses a sixty day availability period. The City accrues the following revenue types: taxes, licenses, fines and forfeitures, and other miscellaneous revenues.

# CITY OF AVALON

## Notes to the Financial Statements

(Continued)

### (1) Summary of Significant Accounting Policies (Continued)

Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. Imposed non-exchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary non-exchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as other financing sources rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

#### Governmental Fund Balances

Fund balances are reported in the fund statements in the following classifications:

##### *Nonspendable Fund Balance*

Nonspendable Fund Balance – this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).

# CITY OF AVALON

## Notes to the Financial Statements

(Continued)

### (1) Summary of Significant Accounting Policies (Continued)

#### *Spendable Fund Balance*

Restricted Fund Balance – This includes amounts that can be spent only for specific purposes stipulated by legal requirements imposed by other governments, external resource providers, or creditors. City Council imposed restrictions do not create restricted fund balance unless the legal document that initially authorized the revenue (associated with that portion of fund balance) also included language that specified the limited use for which the authorized revenues were to be expended.

Committed Fund Balance – This includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (for example, resolution, ordinance, minutes action, etc.) that it employed to previously commit those amounts. If the Council action that limits the use of the funds was separate from the action that initially created the revenues that form the basis for the fund balance, then the resultant fund balance is considered to be committed, not restricted. The City considers a resolution to constitute a formal action of the City Council for the purposes of establishing committed fund balance.

Assigned Fund Balance – This includes amounts that are intended to be used for specific purposes as indicated either by the Council or by persons to whom authority has been delegated to assign amounts for specific purposes. The City Council has not delegated such authority as of the date of this report.

Unassigned Fund Balance – This includes the remaining spendable amounts which are not included in one of the other classifications.

It is the City's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the City Council.

#### Proprietary and Fiduciary Funds

The City's enterprise funds are proprietary funds. In the fund financial statements, proprietary funds are presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are presented using the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with 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, taxes, and investment earnings result from non-exchange



# CITY OF AVALON

## Notes to the Financial Statements

(Continued)

### (1) Summary of Significant Accounting Policies (Continued)

transactions or ancillary activities. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as nonoperating expenses. Amounts paid to acquire capital assets are capitalized as assets in the proprietary fund financial statements, rather than reported as an expense. Proceeds of long-term debt are recorded as a liability in the proprietary fund financial statements, rather than as another financing source.

Amounts paid to reduce long-term indebtedness of the proprietary funds are reported as a reduction of the related liability, rather than as expenditure.

Agency funds are custodial in nature (assets equal liabilities) and do not involve the recording of City revenue and expenses. Agency funds are accounted for on the accrual basis of accounting. The private-purpose trust funds are reported using the economic resources measurement focus and the accrual basis of accounting.

#### (c) Major Funds and Fiduciary Fund Types

The City reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the City. All general tax revenues and other receipts not allocated by law or contractual agreement to other funds are accounted for in this fund. Expenditures of this fund include general operating costs not paid through other funds.

Local Transportation Fund – The Local Transportation Special Revenue Fund is used to record Measure R funds, Prop 1B funds, and allocations made by the Los Angeles County Transportation Commission for the construction of streets, roads, bikeways, pedestrian facilities and the City's transportation system. Separate annual audited financial statements from the Los Angeles County Metropolitan Transportation Authority (MTA) can be obtained from the City at [www.cityofavalon.com/finance](http://www.cityofavalon.com/finance).

Avalon Housing Authority Fund – The Avalon Housing Authority Fund is used to account for the activity of the City's continuing housing operations. This fund was created effective February 1, 2012 in response to legislation enacted by the State of California to dissolve California Redevelopment Agencies. Separate Annual Housing Reports can be obtained from the City at [www.cityofavalon.com/finance](http://www.cityofavalon.com/finance).

The City reports the following major enterprise funds:

Harbor Fund – The Harbor Fund is used to account for all harbor operations.

Sewer Fund – The Sewer Fund is used to receive and disburse funds collected through sewer service charge fees and sewer facilities charges. These funds are used for the operation and maintenance of sewer disposal facilities and the financing of construction of outlet sewers.

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(1) Summary of Significant Accounting Policies (Continued)**

Saltwater Fund – The Saltwater Fund is used to receive charges for operation of the City’s saltwater pumping plants and systems.

Solidwaste Fund – The Solidwaste Fund is used to account for solid waste collection and disposal costs.

Avalon Transit Fund – The Avalon Transit Fund is used to account for the City’s fixed route, dial-a-ride, ferry commuter subsidy, and other transportation operations.

The City reports the following fund types:

Special Revenue Funds – Used to account for the proceeds of specific revenue sources that are legally restricted or otherwise designated for specific purposes.

Internal Service Funds – Used to account for the financing of goods and services provided by one or more departments or agencies to other departments or agencies of the City and to other government units, on a cost reimbursement basis.

Capital Projects Funds – Used to account for financial resources segregated for the acquisition and construction of major capital facilities, other than those financed by the proprietary funds).

Additionally, the City reports the following fiduciary fund type:

Private Purpose Trust Fund – Used to account for the activities related to the Successor Agency to Avalon Community Improvement Agency (ACIA) and the revenue received from the Redevelopment Property Tax Trust Fund (RPTTF) to fund the recognized obligations of ACIA and administrative costs.

**(d) Cash and Investments**

The City pools cash and investments of all funds, except for assets held by fiscal agents and the Avalon Medical Development Corporation. Each fund’s share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income earned by pooled investments is allocated to the various funds based on each fund’s average cash and investment balance.

Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

For purposes of the statement of cash flow, cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(1) Summary of Significant Accounting Policies (Continued)**

**(e) Interfund Transactions**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

Externally related transactions are accounted for as revenue, expenditures, or expenses, as appropriate. Transactions that constitute reimbursements to a fund for expenditures / expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursed fund. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

**(f) Capital Assets and Depreciation**

Capital assets, which consist of land, buildings and improvements, improvements other than buildings, machinery and equipment, vehicles, infrastructure and construction in progress, are reported in the government-wide financial statements. Capital assets are defined by the City as assets with an initial cost of more than \$5,000 and an estimated life in excess of 1 year; and infrastructure assets of more than \$50,000. 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 cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide statements. Depreciation is charged as an expense against operations, and accumulated depreciation is reported in the respective statement of net position. The ranges of estimated useful lives used for depreciation purposes for each capital asset class are as follows:

Buildings and improvements	20 - 50 years
Improvements other than buildings	5 - 20 years
Machinery and equipment	5 - 20 years
Vehicles	5 - 20 years
Infrastructure	10 - 50 years

**(g) Compensated Absences**

The City is obligated to compensate employees for all earned but unused vacation days accumulated. Liabilities for vacation, holiday benefits, sick pay and compensatory time are recorded as earned by employees. City employees earn from 10 to 20 vacation days each year, depending upon length of service.

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(1) Summary of Significant Accounting Policies (Continued)**

In governmental funds, compensated absences (accumulated vacation, holiday benefits, sick pay and compensatory time) are recorded as an expenditure and a fund liability of the governmental fund that will pay them (primarily the General Fund), if they are expected to be liquidated with currently expendable available resources. The balance of unpaid compensated absences is recorded as a long-term liability, as these amounts will be liquidated from future resources rather than currently expendable available resources upon retirement or separation of employment. The expenses for accumulated compensated absences are recorded in the General Administration Internal Service Fund. Unpaid compensated absences in proprietary funds are recorded as liabilities in those funds as vested benefits to the employees.

**(h) Property Taxes**

Property taxes are levied annually in July by the Los Angeles County Assessor for the succeeding fiscal year. Taxes are billed in August and are due and collectible in first and second installments on November 1 and March 1, respectively. The first installment is considered delinquent if not paid by December 10, and the second installment is considered delinquent if not paid by April 10 of each year. All unpaid taxes as of January 1 of the following year are considered delinquent and attach an enforceable lien on the related property on that date.

Distributions of collected property taxes to the City are made by the County in accordance with the following schedule:

Secured:

35% of tax levy	December
5% of tax levy	January
Balance of first installment collections	February
75% of adjusted tax, less previous remittance	April
Balance of second installment collections	May
Balance of collections for fiscal year	July/August

Unsecured:

80% of tax levy	August
Balance of March - August collections	October
September - December collections	March
January - June collections	August

**(i) Deferred Outflows/Inflows of Resources**

When applicable, the statement of net position and balance sheet will report a separate section for deferred outflows of resources. Deferred outflows of resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, are not recognized as an expense or expenditure until that time. The City has two items that qualify for reporting in this category, deferred outflow of resources for pension and deferred outflow of resources for Other Post-Employment Benefits ("OPEB").

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(1) Summary of Significant Accounting Policies (Continued)**

When applicable, the statement of net position and the balance sheet will report a separate section for deferred inflows of resources. Deferred inflows of resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as an inflow of resources (revenue) until that time. The City has three items that qualify for reporting in this category, deferred inflows – pension related, deferred inflow of resources for OPEB and unavailable revenue.

**(j) Pensions**

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)	June 30, 2017
Measurement Date (MD)	June 30, 2018
Measurement Period (MP)	June 30, 2017 to June 30, 2018

**(k) Other Post Employment Benefits (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense and information about the plan (OPEB Plan), have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms.

Generally accepted accounting principles require that the reported results must pertain to liability information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)	June 30, 2017
Measurement Date (MD)	June 30, 2018
Measurement Period (MP)	June 30, 2017 to June 30, 2018

# CITY OF AVALON

## Notes to the Financial Statements

(Continued)

### (1) Summary of Significant Accounting Policies (Continued)

#### (k) Fair Value Measurements

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

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable input reflect the City's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the City's own data.

#### (l) Use of Estimates

The preparation of basic 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 basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

#### (m) Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived. In addition, certain minor reclassifications of the prior year data have been made to enhance their comparability to the current year.

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(2) Cash and Investments**

Cash and investments at June 30, 2019 are classified in the accompanying financial statements as follows:

	Primary Government	Discrete Component Unit
Statement of net position		
Cash and investments	\$ 14,222,153	1,338,427
Restricted cash and investments	2,362,597	-
Statement of fiduciary net position		
Cash and investments	2,148,134	-
Total cash and investments	\$ 18,732,884	1,338,427

Cash and investments at June 30, 2019 consisted of the following:

	Primary Government	Discrete Component Unit
Petty cash	\$ 500	850
Demand deposits	4,171,875	778,010
Investments	10,588,598	559,567
Cash and investments with fiscal agent	3,971,911	-
Total cash and investments	\$ 18,732,884	1,338,427

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

The table below identifies the investment types that are authorized for the City by the California Government Code, or the City's investment policy where more restrictive. The table also identifies certain provisions of the California Government Code, (or the City's investment policy where more restrictive, that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond 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. The investments held by fiscal agent is jointly registered in the name of the City and Cal Recycle and is not subject to the City's investment policy.

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(2) Cash and Investments (Continued)**

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage or Amount of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Obligations	5 years	N/A	N/A
Certificates of Deposits	5 years	N/A	\$ 250,000
Local Agency Investment Fund (LAIF)	N/A	\$ 60,000,000	60,000,000
Los Angeles County Investment Fund (LACIF)	N/A	N/A	N/A
Money Market Mutual Funds	N/A	15%	N/A

\*Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

N/A - Not Applicable

**Investments Authorized by Debt Agreements**

Investments of debt proceeds held by the 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. Investments authorized for funds held by the bond trustee include, United States Treasury Obligations or any other federal agency obligations for which the full faith and credit of the United States are pledged for payment of principal and interest, United States Government Sponsored Agency Securities, Commercial Paper, Local Agency Bonds, Banker's Acceptances, Money Market Mutual Funds and Investment Contracts. There were no limitations on the maximum amount that can be invested in one issuer, maximum percentage allowed or the maximum maturity of an investment, except for the maturity of Banker's Acceptances, which are limited to one year.

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City and the Hospital manage their exposure to interest rate risk is by purchasing, a combination of shorter term and longer term investments and by timing, cash flows from maturities so that a portion of the portfolio is maturing or coming, close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the investments by maturity:



**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(2) Cash and Investments (Continued)**

<u>Investment Type:</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>	
		<u>Within 12</u>	<u>Beyond 12</u>
Primary government:			
LAIF	\$ 8,088,343	8,088,343	-
Certificate of deposits	2,500,255	2,500,255	-
Held by trustee:			
Money market mutual funds	1,609,314	1,609,314	-
Mutual funds	<u>2,362,597</u>	<u>2,362,597</u>	<u>-</u>
Total primary government	<u>\$ 14,560,509</u>	<u>14,560,509</u>	<u>-</u>
Discrete Component Unit:			
LAIF	\$ 559,567	-	559,567
Total discrete component unit	<u>\$ 559,567</u>	<u>-</u>	<u>559,567</u>

Disclosures Relating to Credit Risk

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

	<u>Fair Value Hierarchy</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Primary government:				
Certificates of deposit	\$ -	2,500,255	-	2,500,255
Held by trustee:				
Money market mutual funds	-	1,609,314	-	1,609,314
Mutual funds	2,362,597	-	-	2,362,597
Investments not subject to fair value hierarchy	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,088,343</u>
Total primary government	<u>\$ 2,362,597</u>	<u>4,109,569</u>	<u>-</u>	<u>14,560,509</u>
Discrete Component Unit:				
Investments not subject to fair value hierarchy	<u>-</u>	<u>-</u>	<u>559,567</u>	<u>559,567</u>
Total discrete component unit	<u>-</u>	<u>-</u>	<u>559,567</u>	<u>559,567</u>

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(2) Cash and Investments (Continued)**

Fair Value Measurement

The City categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The City has the following recurring fair value measurements as of June 30, 2019:

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
Primary government:				
Certificates of deposit	\$ -	2,500,255	-	2,500,255
Held by trustee:				
Money market mutual funds	-	1,609,314	-	1,609,314
Mutual funds	2,362,597	-	-	2,362,597
Investments not subject to fair value hierarchy	-	-	-	8,088,343
Total primary government	<u>\$ 2,362,597</u>	<u>4,109,569</u>	<u>-</u>	<u>14,560,509</u>

Concentration of Credit Risk

The investment policies of the City and the Hospital contain no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

Custodial Credit Risk:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code, the City's investment policy and the Hospital's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, 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 the City's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2019, the City's and Hospital's deposits (bank balances) were insured by the Federal Deposit Insurance Corporation or collateralized as required under California Law.

**CITY OF AVALON**

**Notes to the Financial Statements**

(Continued)

**(2) Cash and Investments (Continued)**

Investment in State Investment Pool

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

**(3) Interfund Balances and Transfers**

The composition of interfund balances as of June 30, 2019 is as follows:

Advances to other funds	Advances from other funds	Amount
Avalon Housing Authority	ACIA Successor Agency	\$ 25,960 (a)

(a) The advances from the Avalon Housing Authority Fund to the ACIA Successor Agency were to defer tax increment deposits in the former Low and Moderate Housing Income Fund to make the Supplemental Educational Revenue Augmentation Fund payment required of all Redevelopment Agencies in previous years.

Fund Reporting Payable	Fund Reporting Receivable	Amount
Local Transportation Fund	General Fund	\$ 200,844 (a)
Avalon Housing Authority	General Fund	26,500 (b)
Saltwater Fund	General Fund	128,044 (a)
Non-Major Gov't Funds	General Fund	165,604 (a)
		\$ 520,992

(a) These amounts due to the General Fund are short term borrowings to cover negative cash balances.

(b) This amount due to the General Fund is a short term borrowing to cover administrative expenses.

Transfers in	Transfers out	Amount
Avalon Transit Fund	General Fund	\$ 110,000 (a)
Non-Major Gov't Funds	General Fund	161,000 (b)
Non-Major Gov't Funds	Harbor	20,500 (c)
		\$ 291,500

(a) To transfer funds from the General fund to the Avalon Transit fund to cover operating expenses.

(b) To transfer funds from the General fund to the Traffic Control and Safety non-major Governmental fund (\$127,000) and the Community Development Block Grant non-major Governmental fund (\$34,000) to cover operations expense within the funds.

(c) To transfer funds from the Harbor fund to the Capital Projects fund for capital related costs.

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(4) Capital Assets**

A summary of changes in the capital assets at June 30, 2019 is as follows:

	Balance at 7/1/2018	Additions	Deletions	Transfers	Balance at 6/30/2019
<b>Governmental Activities:</b>					
Non-depreciable assets:					
Land	\$ 2,852,600	-	-	-	2,852,600
Construction in progress	456,599	867,581	(20,500)	(461,710)	841,970
Total non-depreciable assets	3,309,199	867,581	(20,500)	(461,710)	3,694,570
Depreciable assets:					
Building and improvements	9,563,598	-	-	-	9,563,598
Improvements other than buildings	17,928,716	-	-	340,228	18,268,944
Machinery and equipment	3,819,687	30,974	(72,455)	121,482	3,899,688
Total depreciable assets	31,312,001	30,974	(72,455)	461,710	31,732,230
Less accumulated depreciation:					
Buildings and improvements	(3,572,040)	(244,910)	-	-	(3,816,950)
Improvements other than buildings	(8,666,087)	(919,273)	-	-	(9,585,360)
Machinery and equipment	(3,256,295)	(174,748)	72,455	-	(3,358,588)
Total accumulated depreciation	(15,494,422)	(1,338,931)	72,455	-	(16,760,898)
Total depreciable assets	15,817,579	(1,307,957)	-	461,710	14,971,332
Total capital assets	\$ 19,126,778	(440,376)	(20,500)	-	18,665,902
<b>Business-Type Activities</b>	<b>Balance at 7/1/2018</b>	<b>Additions</b>	<b>Deletions</b>	<b>Transfers</b>	<b>Balance at 6/30/2019</b>
Non-depreciable assets:					
Construction in progress	\$ 645,034	1,471,279	-	(1,275,991)	840,322
Depreciable assets:					
Buildings and improvements	5,487,830	-	-	-	5,487,830
Improvements other than buildings	14,497,827	71,663	-	737,956	15,307,446
Machinery and equipment	4,933,614	57,301	(297,323)	337,049	5,030,641
Infrastructure	4,861,699	-	-	200,986	5,062,685
Total depreciable assets	29,780,970	128,964	(297,323)	1,275,991	30,888,602
Less accumulated depreciation:					
Buildings and improvements	(2,804,849)	(112,064)	-	-	(2,916,913)
Improvements other than buildings	(8,324,431)	(511,267)	-	-	(8,835,698)
Machinery and equipment	(3,363,843)	(379,855)	297,323	-	(3,446,375)
Infrastructure	(1,765,487)	(144,661)	-	-	(1,910,148)
Total accumulated depreciation	(16,258,610)	(1,147,847)	297,323	-	(17,109,134)
Total depreciable assets	13,522,360	(1,018,883)	-	1,275,991	13,779,468
Total capital assets	\$ 14,167,394	452,396	-	-	14,619,790

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(4) Capital Assets (Continued)**

Discrete Component Unit – Hospital:	Balance at 7/1/2018	Additions	Deletions	Balance at 6/30/2019
Non-depreciable assets:				
Construction in progress	\$ 704,504	112,762	(598,759)	218,507
Depreciable assets:				
Building and improvements	2,201,501	-	-	2,201,501
Machinery and equipment	3,050,798	1,314,845	-	4,365,643
Vehicles	46,708	3,000	-	49,708
Total depreciable assets	5,299,007	1,317,845	-	6,616,852
Less accumulated depreciation:				
Buildings and improvements	(1,697,018)	(79,280)	-	(1,776,298)
Machinery and equipment	(2,356,518)	(188,395)	-	(2,544,913)
Vehicles	(35,708)	(1,667)	-	(37,375)
Total accumulated depreciation	(4,089,244)	(269,342)	-	(4,358,586)
Total depreciable assets	1,209,763	1,048,503	-	2,258,266
Total capital assets	\$ 1,914,267	1,161,265	(598,759)	2,476,773

Depreciation expense was charged to functions / programs as follows:

Public safety	\$ 19,974
Planning, building and engineering	18,455
Community services	186,693
Public works	681,809
General government	312,245
Internal service funds depreciation charged to programs	119,755
Total depreciation expense - governmental activities	\$ 1,338,931
<u>Business-Type Activities</u>	
Harbor	\$ 442,698
Sewer	361,460
Salt water	61,539
Solid waste	65,103
Avalon Transit	217,047
Total depreciation expense - business-type activities	\$ 1,147,847
<u>Discrete Component Unit</u>	
Hospital	\$ 269,342

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(5) Long-term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2019 is as follows:

	Balance at 7/1/2018	Additions	Deletions	Balance at 6/30/2019	Due Within One Year
<u>Governmental Activities</u>					
Compensated absences	\$ 289,239	426,349	(314,580)	401,008	260,656
Claims payable	122,481	248,762	(182,134)	189,109	122,481
Capital lease liability	710,798	-	(116,468)	594,330	119,834
Total Governmental	<u>\$ 1,122,518</u>	<u>675,111</u>	<u>(613,182)</u>	<u>1,184,447</u>	<u>502,971</u>
<u>Business-type Activities</u>					
State Department of Boating & Waterways Loan	\$ 306,101	-	(98,271)	207,830	102,671
Compensated absences	117,449	247,074	(130,011)	234,512	152,433
Claims payable	87,741	81,673	(93,642)	75,772	65,772
Capital lease liability	63,526	-	(63,526)	-	-
Total Business-type	<u>\$ 574,817</u>	<u>328,747</u>	<u>(385,450)</u>	<u>518,114</u>	<u>320,876</u>
<u>ACIA Successor Agency</u>					
Bonds Payable:					
2003A TAB	\$ 1,360,000	-	-	1,360,000	-
2015A TAB	15,650,000	-	(835,000)	14,815,000	865,000
2015B TAB	5,560,000	-	(265,000)	5,295,000	270,000
Bond premium	803,953	-	(94,749)	709,204	90,383
Total ACIA Successor Agency	<u>\$ 23,373,953</u>	<u>-</u>	<u>(1,194,749)</u>	<u>22,179,204</u>	<u>1,225,383</u>
<u>Discrete Component Unit - Hospital</u>					
Capital lease liability	\$ 173,952	632,609	(44,347)	762,214	203,470
Notes payable	1,896,880	69,833	(139,438)	1,827,275	126,494
Total Hospital	<u>\$ 2,070,832</u>	<u>702,442</u>	<u>(183,785)</u>	<u>2,589,489</u>	<u>329,964</u>

Compensated absences have typically been paid from the City's General Fund and the Enterprise Funds.

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(5) Long-term Liabilities**

ACIA Successor Agency Activities

(a) 2003 Tax Allocation Bonds, Series A

On December 3, 2003, the Agency issued \$27,350,000 in Tax Allocation Refunding Bonds, Series A, to refund the 1998 Refunding Tax Allocation Bonds and to finance redevelopment activities.

Serial bonds mature annually each September 1 through 2023. In addition, term bonds in the amount of \$5,890,000 and \$6,185,000 mature September 1, 2029 and September 1, 2034, respectively. The term bonds are subject to mandatory sinking fund requirements that commence September 1, 2024 and September 1, 2030, respectively. The bonds bear interest at rates ranging from 2.00% to 4.95%. Interest is payable semiannually, on March 1 and September 1. These bonds were partially refunded on July 1, 2015 through issuance of the 2015 Tax Allocation Bonds.

The annual debt service requirements on these bonds at June 30, 2019, were as follows:

Year ending June 30,	Principal	Interest	Total
2020	\$ -	67,320	67,320
2021	-	67,320	67,320
2022	-	67,320	67,320
2023	-	67,320	67,320
2024	-	67,320	67,320
2025-2029	-	336,600	336,600
2030-2034	-	336,600	336,600
2035	<u>1,360,000</u>	<u>33,660</u>	<u>1,393,660</u>
Total	<u>\$ 1,360,000</u>	<u>1,043,460</u>	<u>2,403,460</u>

(b) 2015 Tax Allocation Refunding Bonds, Series A

On July 1, 2015 the Agency issued \$17,160,000 Tax Allocation Refunding Bonds, Series A, to partially refund the 2003A Tax Allocation Bonds and fully refund the 2003 Tax Allocation Bonds, Series B. The net proceeds of the 2015A Bonds were deposited into an irrevocable trust with an escrow agent for payment of the 2003A Tax Allocation Bonds. The refunding of the 2003A Tax Allocation Bonds resulted in a reduction in total debt service payments over the next 19 years by \$2.2 million, and an economic gain of \$1.7 million.

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(5) Long-term Liabilities (Continued)**

**(b) 2015 Tax Allocation Refunding Bonds, Series A**

A term bond in the amount of \$3,450,000 matures September 1, 2033. The term bond is subject to mandatory sinking fund requirements that commence September 1, 2031, September 1, 2032 and September 1, 2033. The term bond bears interest at the rate of 4.00%. The 2015 Tax Allocation Refunding Bonds includes principal installments annually from September 2016 to September 2033 with interest payable semi-annually from September 2016 to September 2033 at an interest rate between 2.00% and 5.00%.

The annual debt service requirements on these bonds at June 30, 2019, were as follows:

Year ending June 30,	Principal	Interest	Total
2020	\$ 865,000	633,888	1,498,888
2021	900,000	594,088	1,494,088
2022	945,000	547,963	1,492,963
2023	900,000	501,838	1,401,838
2024	945,000	455,713	1,400,713
2025-2029	4,710,000	1,584,813	6,294,813
2030-2034	5,550,000	562,806	6,112,806
Total	<u>\$ 14,815,000</u>	<u>4,881,109</u>	<u>19,696,109</u>

**(c) 2015 Tax Allocation Refunding Bonds, Series B**

On July 1, 2015, the Agency issued \$6,035,000 Tax Allocation Refunding Bonds, Series B, to partially refund the 2003A Tax Allocation Bonds and fully refund the 2003B Tax Allocation Bonds. The net proceeds of the 2015B Bonds were deposited into an irrevocable trust with an escrow agent for payment of the 2003A Tax Allocation Bonds and the 2003B Tax Allocation Bonds. As a result of these payments the 2003B Tax Allocation Bonds are considered defeased and the liability for the certificates has been removed from the statement of Net Position. The refunding of the 2003A Tax Allocation Bonds and the 2003B Tax Allocation Bonds resulted in a reduction in total debt service payments over the next 19 years by \$1.0 million, and an economic gain of \$0.6 million.

Term bonds in the amount of \$1,530,000 and \$1,355,000 mature September 1, 2030, and September 1, 2033, respectively. The term bonds are subject to mandatory sinking fund requirements that commence September 1, 2030 and September 1, 2033, respectively.



**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(5) Long-term Liabilities (Continued)**

(c) 2015 Tax Allocation Refunding Bonds, Series B

The term bonds bear interest at rates of 4.75% and 5.00%, respectively. The 2015 Tax Allocation Refunding Bonds Series B includes principal installments annually from September 2016 to September 2033 with interest payable semi-annually from September 2016 to September 2033 at an interest rate between 1.00% and 5.00%.

The annual debt service requirements on these bonds at June 30, 2019, were as follows:

Year ending June 30,	Principal	Interest	Total
2020	\$ 270,000	226,744	496,744
2021	270,000	219,319	489,319
2022	285,000	210,638	495,638
2023	295,000	200,475	495,475
2024	305,000	188,844	493,844
2025-2029	1,715,000	733,709	2,448,709
2030-2034	2,155,000	277,850	2,432,850
Total	<u>\$ 5,295,000</u>	<u>2,057,579</u>	<u>7,352,579</u>

(d) Pledged Revenues

The ACIA Successor Agency debt issues are collateralized by the pledging of tax increment revenue. The amount and term of the remainder of these commitments are indicated in the debt service to maturity tables presented in the accompanying notes. The purpose for which the proceeds of the related debt issuances were utilized are disclosed in the debt descriptions in the accompanying notes.

As a result of the state's action to dissolve all redevelopment agencies in the State of California, the Successor Agency to the dissolved Avalon Community Improvement Agency no longer receives the full amount of tax increment previously pledged by the dissolved redevelopment agency to its bondholders. In its place is a new revenue stream, Redevelopment Property Tax Trust Fund distributions (RPTTF), provided to the Successor Agency that represents only that portion of tax increment that is necessary to pay for the approved enforceable obligations that come due for that fiscal year.

For the year ended June 30, 2019, annual pledged revenues exceeded debt service requirements by \$3,059.021

CITY OF AVALON

Notes to the Financial Statements

(Continued)

(5) Long-term Liabilities (Continued)

(e) Advances from the County of Los Angeles

The former ACIA and the County of Los Angeles entered into an agreement dated December 13, 1983 whereby the County agreed to defer its share of tax increment (County Deferrals) generated within the project area and remit it to the Agency to meet the Agency's debt service obligations. Per the agreement the County Deferrals accrued simple interest of 5% for the year following the origination of the deferral amount. After that, no further interest accrues. The County Deferrals were payable from property tax increment revenues received by the Agency in excess of its debt service requirements. In light of the state mandated dissolution of all redevelopment agencies and the associated restructuring of tax increment revenue, the enforceability of this obligation is uncertain. The City believes that under the new revenue structure it will never receive a tax increment in excess of its debt service requirements, rather it would only receive up to the debt service requirements until the debt is extinguished, at which point the ACIA will be completely dissolved. Accordingly, the ACIA Successor Agency is still receiving the available tax increment funds under the agreement. Permitted Administrative Expenses funding of \$270,247 was received from the County for the fiscal year ending June 30, 2019. The accompanying financial statements do not reflect a liability to the City for this matter.

Business-type Activities

(a) Loans Payable from the State Department of Boating and Waterways

A summary of loans payable from the State Department of Boating and Waterways at June 30, 2019 is as follows:

	<u>Amount Outstanding</u>
Original Issue \$900,000, due in annual installments of \$55,890 through August 1, 2019, including interest of 4.5% per annum	\$ 154,372
Original Issue \$859,101, due in annual installments of \$56,155 through August 1, 2021, including interest of 4.5% per annum	<u>53,458</u>
Total	<u>\$ 207,830</u>

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(5) Long-term Liabilities (Continued)**

Business-type Activities (Continued)

Loans Payable from the State Department of Boating and Waterways (Continued)

The annual debt service requirements on these loans payable at June 30, 2019, were as follows:

Year Ending June 30,	Principal	Interest	Total
2020	\$ 102,670	9,352	112,022
2021	51,423	4,732	56,155
2022	53,737	4,731	58,468
Total	\$ 207,830	18,815	226,645

Governmental Activities

Capital Leases

During the year ending June 30, 2017 the City of Avalon entered into a lease agreement for financing the acquisition of equipment and artificial turf valued at \$831,782. The equipment and turf has a ten-year estimated useful life. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The future minimum lease obligations and the value of these minimum lease payments as of June 30, 2019 were as follows:

Year Ending June 30,	
2020	\$ 137,010
2021	137,010
2022	137,010
2023	137,010
2024	96,520
Total minimum lease payments	644,560
Less: amount representing interest	(50,230)
Value of minimum lease payments	\$ 594,330

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(5) Long-term Liabilities (Continued)**

Discrete Component Unit – The Hospital

The Hospital has a note payable to the California Department of Health Care Services (DHCS) in the amount of \$283,412 as of June 30, 2019. The note is payable in 29 yearly payments of \$20,000 and a final payment of \$14,390, with the first payment due July 1, 2016. There is no provision for interest included in the note. The note payable is part of a settlement between the Hospital and DHCS concerning certain amounts the Hospital was paid under various DHCS programs for which the Hospital did not meet eligibility requirements in prior years. The note was discounted with interest imputed at a 5% rate.

The Hospital has a note payable to individuals in the amount of \$800,000 as of June 30, 2019. The note bears interest at a rate of 6.75% with monthly interest payments and a balloon payment of \$80,000 due on May 31, 2022. The note is secured by the Hospital's ownership in Leo's Catalina Drug Store, Inc. and all Hospital receivables and equipment.

The Hospital has a note payable to the City in the amount of \$340,000 as of June 30, 2019. The note bears interest at a rate of 2.0% due annually and a balloon payment of \$300,000 due on May 24, 2022. The note is secured by all assets of the Hospital.

The Hospital has a note payable to the City in the amount of \$235,830 as of June 30, 2019. The note bears interest at a rate of 4.6% with monthly interest payments of \$3,567 until February 2026.

During the year ended June 30, 2017 the Hospital entered into various lease agreements for financing the acquisition of equipment valued at a total of \$235,075. These lease agreements qualify as a capital leases for accounting purposes and, therefore, has been recorded at the value of the future minimum lease payments as of the inception date. Total amount outstanding as of June 30, 2019 is \$134,007.

During the year ended June 30, 2018, the Hospital received a note payable in the amount of \$275,000. The note bears interest at a rate of 7.857% with monthly principal and interest payments of \$5,315 until July 2022. Total principal amount outstanding as of June 30, 2019 is \$172,966.

During the year ended June 30, 2019, the Hospital received a note payable in the amount of \$69,833. The note bears interest at a rate of 2.50% with monthly principal and interest payments of \$4,522 until November 2020. Total principal amount outstanding as of June 30, 2019 is \$39,225.

During the year ended June 30, 2019 the Hospital entered into various lease agreements for financing the acquisition of equipment valued at a total of \$632,609. These lease agreements qualify as a capital leases for accounting purposes and, therefore, has been recorded at the value of the future minimum lease payments as of the inception date. Total amount outstanding as of June 30, 2019 is \$584,049.

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(5) Long-term Liabilities (Continued)**

Interest and principal payments subsequent to June 30, 2019 and thereafter under the above obligations are as follows:

Year Ending June 30,	Principal	Interest	Total
2020	329,964	129,592	459,556
2021	280,932	108,148	389,080
2022	585,862	87,184	673,046
2023	160,103	22,287	182,390
2024	135,130	17,365	152,495
Thereafter	<u>1,097,498</u>	<u>165,068</u>	<u>1,262,566</u>
Total	<u>\$ 2,589,489</u>	<u>529,644</u>	<u>3,119,133</u>

**(6) Pension Plan**

Plan Description

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

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. The Plans' provisions and benefits in effect at June 30, 2019, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.0% @ 55	2% @ 62 5 years of
Benefit vesting schedule	5 years service	service
Benefit payments	monthly for life	monthly for life
Retirement age	59	59
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	8.89%	12.14%

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(6) Pension Plan (Continued)**

	Safety	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	54	54
Required employee contribution rates	9.00%	12.00%
Required employer contribution rates	15.72%	6.84%

**Contribution Description**

Section 20814(c) of the California Public Employees’ Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS’ annual actuarial valuation process. 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. Employer contribution rates may change if plan contracts are amended. Payments made by the City to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

**Actuarial Methods and Assumptions used to determine Total Pension Liability**

For the measurement period ending June 30, 2018 (the measurement date), the total pension liability was determined using the following actuarial methods and assumptions:

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(6) Pension Plan (Continued)**

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Actuarial Assumptions	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table*	Derived using CalPERS' Membership Data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.0% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

\* - The mortality table was used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on the table, please refer to the 2017 experience study report (based on CalPERS demographics data from 1997 to 2015) that can be found on the CalPERS website.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at the statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on plan on investment was applied to all periods of projected benefit payments to determine the total pension liability.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, except compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund.

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(6) Pension Plan (Continued)**

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

The expected real rate of return by asset class:

<u>Asset Class<sup>1</sup></u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1 – 10<sup>2</sup></u>	<u>Real Return Years 11+<sup>3</sup></u>
Global Equity	50.0%	4.80%	5.98%
Global Fixed Income	28.0	1.00	2.62
Inflation Sensitive	0.0	0.77	1.81
Private Equity	8.0	6.30	7.23
Real Estate	13.0	3.75	4.93
Liquidity	1.0	0.00	(0.92)

<sup>1</sup>In the System’s CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments, Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

<sup>2</sup>An expected inflation of 2.0% used for this period

<sup>3</sup>An expected inflation of 2.92% used for this period

The following table shows the plan’s proportionate share of the net pension liability over the measurement period:

	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (c) = (a) - (b)</u>
Miscellaneous Plan:			
Balance at: 6/30/17 (VD)	\$ 16,312,852	11,884,930	4,427,922
Balance at: 6/30/18 (MD)	<u>17,646,188</u>	<u>13,445,252</u>	<u>4,200,936</u>
Net Changes during 17-18	<u>1,333,336</u>	<u>1,560,322</u>	<u>(226,986)</u>
Safety Plan:			
Balance at: 6/30/17 (VD)	20,227,117	14,312,513	5,914,604
Balance at: 6/30/18 (MD)	<u>22,020,622</u>	<u>16,246,040</u>	<u>5,774,582</u>
Net Changes during 17-18	<u>1,793,505</u>	<u>1,933,527</u>	<u>(140,022)</u>
Total:			
Balance at: 6/30/17 (VD)	36,539,969	26,197,443	10,342,526
Balance at: 6/30/18 (MD)	<u>39,666,810</u>	<u>29,691,292</u>	<u>9,975,518</u>
Net Changes during 17-18	<u>\$ 3,126,841</u>	<u>3,493,849</u>	<u>(367,008)</u>



**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(6) Pension Plan (Continued)**

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

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion - June 30, 2017	0.112%	0.099%
Proportion - June 30, 2018	0.115%	0.098%
Change - Increase (Decrease)	0.003%	-0.001%

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	<u>Discount Rate -1% (6.15%)</u>	<u>Current Discount Rate (7.15%)</u>	<u>Discount Rate +1% (8.15%)</u>
Miscellaneous Plan's Net Pension Liability	\$ 6,587,956	4,200,936	2,230,489
Safety Plan's Net Pension Liability	8,810,267	5,774,582	3,287,384
Total	\$ 15,398,223	9,975,518	5,517,873

**Recognition of Gains and Losses**

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5 year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lifetime (EARSL) of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(6) Pension Plan (Continued)**

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2019, the City recognized pension expense of \$556,873 for the Miscellaneous Plan and \$102,032 for the Safety Plan. As of June 30, 2019, the City reported other amounts for the Plan as deferred outflow and deferred inflow of resources related to pensions as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Miscellaneous Plan:		
Pension Contributions	\$ 252,837	-
Difference between expected and actual experience	161,182	(54,849)
Change in proportion and differences between employer contributions and proportionate share of contribution	-	(353,445)
Changes of assumptions	478,919	(117,374)
Net Difference between Projected and Actual Earnings on Pension Plan		
Investments	20,768	-
Adjustment due to Differences in Proportions	<u>50,742</u>	<u>(111,492)</u>
Total Miscellaneous Plan	<u>964,448</u>	<u>(637,160)</u>

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(6) Pension Plan (Continued)**

Employer contributions subsequent to the measurement date reported as deferred outflows of resources in the amount of \$589,311 will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

Safety Plan:		
Pension Contributions	336,474	-
Difference between expected and actual experience	124,076	(471)
Change in proportion and differences between employer contributions and proportionate share of contribution	-	(382,186)
Changes of assumptions	566,587	(76,441)
Net Difference between Projected and Actual Earnings on Pension Plan		
Investments	39,097	-
Adjustment due to Differences in Proportions	<u>186,127</u>	<u>(563,221)</u>
Total Safety Plan	<u>1,252,361</u>	<u>(1,022,319)</u>
Total:		
Pension Contributions	589,311	-
Difference between expected and actual experience	285,258	(55,320)
Change in proportion and differences between employer contributions and proportionate share of contribution	-	(735,631)
Changes of assumptions	1,045,506	(193,815)
Net Difference between Projected and Actual Earnings on Pension Plan		
Investments	59,865	-
Adjustment due to Differences in Proportions	<u>236,869</u>	<u>(674,713)</u>
Total City	<u>\$ 2,216,809</u>	<u>(1,659,479)</u>

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(6) Pension Plan (Continued)**

Other amounts reported as deferred outflows and deferred inflows of resources in the previous chart, including the employer-specific item, will be recognized in future pension expense as follows:

Fiscal Year <u>Ending June 30,</u>	Deferred Outflows/(Inflows) <u>of Resources</u>
Miscellaneous Plan:	
2020	\$ 218,538
2021	105,438
2022	(211,738)
2023	(37,787)
2024	-
Safety Plan:	
2020	239,927
2021	(67,255)
2022	(239,105)
2023	(39,999)
2024	-
Total:	
2020	458,465
2021	38,183
2022	(450,843)
2023	(77,786)
2024	-

**(7) Other Post-Employment Benefits (OPEB)**

Plan Description

The City provides medical and dental benefits for retired employees and their spouses through a single employer plan. The City contributes to the CalPERS Health Plan single-employer defined benefit healthcare plan. The benefits are available to employees who retire from the City and commence pension benefits under PERS (on or after age 50) with at least 5 years of service.

Employees retiring with at least 20 years of service receive a City contribution for the full cost of coverage for medical and dental coverage. As of the June 30, 2018 measurement date, 21 retired employees were eligible to receive medical and dental benefits. The Plan does not issue a publicly available financial report.

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(7) Other Post-Employment Benefits (OPEB) Continued**

Employees Covered

As of the June 30, 2018 measurement date, the following current and former employees were covered by the benefit terms under the Plan:

Active employees	64
Inactive employees or beneficiaries currently receiving benefits	<u>25</u>
Total	<u>89</u>

**Contributions**

The City pays the cost of the postemployment healthcare and dental benefits for retirees and their spouses during the life of the retiree. The surviving spouse of an eligible retiree who elected spouse coverage under CalPERS is eligible for the contribution upon the death of the retiree. Substantially all of the government's employees may become eligible for these benefits if they reach normal retirement age while working for the City.

The contribution requirements of the City are established and may be amended by the City, the City Council, and/or the employee associations. Plan members are not currently required to contribute. The City is currently funding this OPEB obligation on a pay-as-you-go basis.

The City's total OPEB liability was measured as of June 30, 2018 by an actuarial valuation based on the following actuarial methods and assumptions:

Discount Rate: 3.62% per annum. This discount rate is the average, rounded to 5 basis points, of the range of 3-20 year municipal bond rate indices: Fidelity 20-year Municipal GO AA index.

Inflation Rate: 2.50% per year

Aggregate Payroll Increases: 2.75% per year. This assumption is used to amortize the unfunded actuarial accrued liability and to determine the Entry Age Normal actuarial liabilities.

Mortality Rate: Based on assumptions for Public Agency Miscellaneous, Police and Fire members published in the December 2017 CalPERS Experience Study.

Turnover Rate: Assumption used to project terminations (voluntary and involuntary) prior to meeting minimum retirement eligibility for retiree health coverage. The rates represent the probability of termination in the next 12 months. The termination rates are based on those used in the most recent CalPERS pension valuation.

Retirement Rate: Annual retirement rates are based on those used in the most recent CalPERS pension valuation.

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(7) Other Post-Employment Benefits (OPEB) (Continued)**

Changes in the Total OPEB Liability

The changes in the Plan's total OPEB liability is as follows:

	<b>Net OPEB Liability/(Asset)</b>
Balance at June 30, 2018	\$ 7,376,328
Changes recognized for the measurement period:	
Service cost	321,604
Interest	270,662
Changes of assumptions	(73,428)
Contributions - employer	(190,119)
Net investment income	-
Benefit payments	-
Administrative expense	-
Net Changes	328,719
Balance at June 30, 2019 <i>(Measurement Date June 30, 2017)</i>	\$ 7,705,047

Sensitivity of the OPEB Liability to Changes in the Discount Rate

The following presents the City's OPEB liability if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2018:

	1% Decrease (2.62%)	Current Discount Rate (3.62%)	1% Increase (4.62%)
OPEB Liability	\$ 9,068,173	7,705,047	6,613,058

Sensitivity of the OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the OPEB liability of the City if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2018:

	1% Decrease (5.00%HMO/5.50%PPO decreasing to 4.00%HMO/4.00%PPO)	Current Healthcare Cost Trend Rates (6.00%HMO/6.50%PPO) decreasing to 5.00%HMO/5.00%PPO)	1% Increase (7.00%HMO/7.50%PPO decreasing to 6.00%HMO/6.00%PPO)
OPEB Liability	\$ 6,416,519	7,705,047	9,367,504

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(7) Other Post-Employment Benefits (OPEB) (Continued)**

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The initial amortization period for deferred inflows and deferred outflows is three years.

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2019, the City recognized OPEB expense of \$215,684. At June 30, 2019, the City reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 392,568	-
Changes in assumptions	-	650,542
Total	\$ 392,568	650,542

The \$392,568 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2018 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2020. Other amounts reported as deferred inflows of resources related to OPEB will be recognized as expense as follows:

Fiscal Year Ended June 30:	Deferred Outflows/(Inflows) of Resources
2020	\$ (122,214)
2021	(122,214)
2022	(122,214)
2023	(122,214)
2024	(122,214)
Thereafter	(39,472)

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(8) Risk Management and Self-Insurance**

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, error and omissions, injuries to employees and natural disaster. The City retains the risk of loss for general liability, property damage and automobile related claims of up to \$25,000 per occurrence. All risk management activities are accounted for in an internal service fund.

Changes in the aggregate estimated claims payable resulted from the following:

	Claims Liability	
	Gov't Funds	Enterprise Funds
Liability as of June 30, 2017	\$ 446,757	36,000
Claims incurred and changes in estimates	(104,730)	51,741
Claim payments	(219,546)	-
Liability as of June 30, 2018	122,481	87,741
Claims incurred and changes in estimates	248,762	81,673
Claim payments	(182,134)	(93,642)
Liability as of June 30, 2019	\$ 189,109	75,772

The City is a member of the Public Agency Risk Sharing Authority of California (PARSAC). The PARSAC is made up of 37 California municipalities and provides joint protection wherein cities pool their losses and claims, jointly purchase excess insurance, and share administrative and related costs. Under the pooling arrangement, the City is to contribute a premium based upon its assessed risk factor for general liability and yearly payroll expenses for workers' compensation and employer's liability.

The annual deposits made with the PARSAC include estimates of amounts to be paid for reported claims and incurred but not yet reported claims based upon past experience and modified for current trends and information. Such claims are paid by the PARSAC and, in effect charged back to the City via future insurance deposits, no accruals have been made for outstanding claims.

Settlement claims have not exceeded any of the coverage amounts in any of the last three fiscal years, and there were no reductions in the City's insurance coverage during the year ended June 30, 2019.

The City carries commercial insurance on all significant property and equipment owned by the City, as well as fidelity bonds for all applicable public officials and employees.



**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(9) Individual Fund Disclosures**

The following funds reported a deficit fund balance:

Major Funds:		
Solidwaste	125,808	(a)
Nonmajor Special Revenue Funds:		
Traffic Control and Safety	6,623	(a)
Community Development Block Grant	1,303	(a)
Internal Service Funds		
General Administration	105,281	(b)

- (a) The City expects to eliminate the Solidwaste and Traffic Control and Safety, and Community Development Block fund deficits when future reimbursements are received from granting agencies.
- (b) The General Administration Fund deficit is expected to be eliminated through future interdepartmental charges.

The following fund reported an excess of expenditures over appropriations:

	Budget	Actual	Excess
Major Funds:			
Local Transportation Fund	\$ 1,308,922	1,334,728	(25,806)
Non-major Special Revenue Funds:			
Street	114,000	148,105	(34,105)
Traffic Control and Safety	191,704	200,561	(8,857)
Community Development Block Grant	189,300	201,473	(12,173)
Mclean/Hall/Putnam	503	18,487	(17,984)

**(10) Commitments and Contingencies**

(a) Lawsuits

Avalon K-12 School/California Department of Toxic Substance Control Matter

In March 2012, the California Environmental Protection Agency's Department of Toxic Substances Control (DTSC) issued an Imminent and Substantial Endangerment Determination and Remedial Action Order (Order) to the City, the Santa Catalina Island Company, and the Long Beach Unified School District regarding three parcels of property totaling approximately 14 acres, which include the Avalon K-12 School and the adjacent City warehouse property. The Order states that there may be an imminent and/or substantial endangerment to the public health or welfare or to the environment because of a release and/or the threatened release of hazardous substances at the site and requires the named parties to undertake certain response actions to address the contamination. Each of the parties is jointly and severally liable to DTSC for the required response actions.

## CITY OF AVALON

### Notes to the Financial Statements

(Continued)

#### (10) Commitments and Contingencies (Continued)

Since issuance of the Order, the City and the other two parties have entered into a cooperating agreement, whereby they have jointly retained a consultant and are sharing the cost to prepare and implement the Remedial Investigation/Feasibility Study (RI/FI). The Remedial Investigation, namely the soil sampling and excavation activities on-site was performed in September 2013, the report on which was approved by the DTSC on February 12, 2014. Feedback from the DTSC called for a Human Health Risk Assessment (HHRA), preparation of a Feasibility Study workplan, and further investigations. Following completion and approval of the Feasibility Study, the parties will confer with the DTSC on the appropriate actions to address any contamination identified in the investigation, which will be implemented in the Remedial Action Plan. The nature and costs of any required remedial actions cannot be estimated at this time. Once the costs are known, the parties will attempt to negotiate a cost sharing agreement for that portion of work, to avoid litigation. The City has tendered the defense and indemnity of this matter to insurance carriers that issued insurance to the City in the past. One of the carriers has accepted tender, with reservation of rights, and, as such, a significant portion of the costs have been covered by insurance.

#### EPA/State/Regional Water Board Investigations

The United States Environmental Protection Agency, the State Water Resources Control Board and the Los Angeles Regional Water Quality Control Board have conducted a review of the City's sanitary sewer system operations.

The City owns a sewage treatment plant and related conveyance system, and the City has a contract with Environ Strategies to operate and maintain the system. The probability of such litigation or amount or monetary exposure is unknown at this time. A Cease and Desist Order was issued March 5, 2012 by the Los Angeles Regional Water Quality Board that requires the City to initiate many programs and updates to its sewer system. No fines were proposed and the City does not anticipate any fines being levied. In October 2014 and 2015, the City filed reports verifying its compliance with permit requirements. As of June 30, 2019, the City has estimated potential costs of remediation to be \$25,000, in addition to the routine maintenance or improvement costs typically incurred by the City each fiscal year. This amount is included as a liability in the Sewer Enterprise Fund.

There are various other claims and legal actions pending against the City. In the opinion of the City Attorney and City management, other than the claims noted above, liabilities arising from these claims and legal actions, if any, will not have an adverse material effect on the financial position of the City.

#### (b) Federal and State Grants

The City has received State and Federal funds for specific purposes that are subject to review by the grantor agencies. Although, such audits could generate expenditure disallowances under the terms of the grants, it is believed that required reimbursements, if any, will not be material.

# CITY OF AVALON

## Notes to the Financial Statements

(Continued)

### (11) Landfill Closure Liability

State and federal laws and regulations require the City to pay for costs related of the Pebbly Beach Landfill (PBL) to protect against contaminants leaking from the PBL into the local groundwater and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$4.3 million reported as landfill closure and postclosure care liability as of June 30, 2019, represents the cumulative amount reported based on the use of 89 percent of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure care of \$538 thousand as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2016. The City expects to close the landfill in the year 2025. Actual cost may be higher due to inflation, changes in technology, or changes in regulations

The City is required by state and Federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The City is in compliance with these requirements, and, at June 30, 2019 investments of \$2.4 million (\$2.4 million fair value) are held for these purposes. These are reported as cash and investments on the Statement of Net Position. The City expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

### (12) Operating Leases

On September 16, 2003, the City entered into a lease and operating agreement with the Avalon Medical Development Corporation (AMDC) whereby AMDC will lease the Avalon Municipal Hospital facility and perform all maintenance and operation of the facility. The agreement term calls for automatic extensions through September 15, 2033 with annual rental payments of \$1 due from AMDC.

### (12) Going Concern

On March 4, 2019, the Governor of the State of California declared a State of Emergency which formalized emergency actions already underway across multiple State agencies and departments to prepare for the broader spread of the ongoing pandemic of coronavirus disease 2019 (COVID-19). Subsequently, on March 12, 2020, the Governor issued Executive Order N-25-20, which directed residents to follow public health directives including cancelling large gatherings of more than 250 people. On March 13, 2020, the President of the United States declared the pandemic a national emergency and subsequently requested the suspension of certain outbound cruises for 30 days. The State Department had previously advised U.S. citizens not to travel by cruise ship due to increased risk of infection in a cruise ship environment. To protect and preserve public health and safety, the City Council of the

**CITY OF AVALON**

**Notes to the Financial Statements**

**(Continued)**

**(12) Going Concern (Continued)**

City of Avalon declared a Local State of Emergency to address COVID-19 on March 17, 2020. Later, on March 19, 2020, the State of California issued a stay at home order to further combat the spread of Covid-19, further restricting travel to the City and business operations.

COVID-19 and the measures taken by the County, State and the Federal Government to reduce the spread and transmission of the disease have resulted in a sudden and drastic decrease in the number of visitors to the City of Avalon. The City's economy is centered on tourism and visitor-driven revenues, including transient occupancy tax, admission tax, and wharfage fees, account for the majority of revenue in both the General Fund and the Harbor Fund. Operations critical to public health and safety, including emergency services, harbor patrol, and public works, are funded by these revenues.

The characteristics of the virus and associated preventative measures undertaken to limit its spread make it difficult to determine when normal tourism activity will resume. Depending on the duration of the pandemic and the speed of economic recovery, the City may not be able to meet its obligations and continue to operate. The City is currently identifying and pursuing additional revenue sources and financing mechanisms to replace lost revenues from COVID-19, including business/tax interruption insurance coverage, interfund loans, and County, State, and Federal assistance. The City has also implemented changes to its operations designed to immediately reduce expenditures, including temporary furloughs to City staff, deferring maintenance, and re-negotiating of contracts to reflect changes in service requirements while maintaining essential services and public safety.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF AVALON**  
**Schedule of the Plan's Proportionate Share of the Net Pension Liability**  
**Year ended June 30, 2019**  
**(With comparative information for the last 10 years) \***

Measurement Date	Miscellaneous Plan				
	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018
Plan's Proportion of the Net Pension Liability (Asset)	0.052%	0.119%	0.113%	0.112%	0.115%
Plan's Proportionate Share of the Net Pension Liability (Asset)	\$3,244,942	3,251,550	3,925,210	4,427,923	4,200,936
Plan's Covered-Employee Payroll	\$2,244,540	2,163,234	2,493,789	2,773,397	3,007,600
Plan's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	144.57%	150.31%	157.40%	159.66%	139.68%
Plan's Proportion of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	75.76%	76.83%	72.82%	72.86%	76.19%

**Notes to Schedule:**

Benefit changes: There were no changes to benefit terms that applied to all members of the Public Agency Pool. However, individual employers in the Plan may have provided a benefit improvement to their employees by granting Two Years Additional Service Credit to members retiring during a specified time period (a.k.a. Golden Handshake). Employers that have done so may need to report this information as a separate liability in their financial statement as CalPERS considers such amounts to be separately financed employer-specific liabilities. These employers should consult with their auditors.

Changes in assumptions: in 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. In 2017 the discount rate was changed from 7.65 percent to 7.15 percent

*\*The fiscal year ended June 30, 2015 was the first year of implementation. Information for the last 10 years is not available.*

**CITY OF AVALON**  
**Schedule of Plan Contributions**  
**Year ended June 30, 2019**  
**(With comparative information for the last 10 years)\***

Fiscal Year	Miscellaneous				
	6/30/2015	6/30/2016	6/30/2017	6/30/2018	6/30/2019
Actuarially Determined Contribution	\$ 380,971	171,940	467,748	308,960	372,356
Contributions in relation to the Actuarially Determined Contribution	<u>(380,971)</u>	<u>(171,940)</u>	<u>(467,748)</u>	<u>(308,960)</u>	<u>(372,356)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered-Employee Payroll	\$ 2,163,234	2,493,789	2,773,397	3,007,600	3,248,877
Contributions as a Percentage of Covered-Employee Payroll	17.61%	6.89%	16.87%	10.27%	11.46%

**Notes to Schedule:**

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2019 were from the June 30, 2016 funding valuation report.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2016, Funding Valuation Report
Asset Valuation Method	Actuarial Value of Assets. For details, see June 30, 2014, Funding Valuation Report
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.375% Net of Pension Plan Investment and Administrative Expenses; includes inflation
Retirement Age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	Derived using CalPERS' Membership Data for all funds.

*\*The fiscal year ended June 30, 2015 was the first year of implementation. Information for the last 10 years is not available.*

**CITY OF AVALON**  
**Schedule of the Plan's Proportionate Share of the Net Pension Liability**  
**Year ended June 30, 2019**  
**(With comparative information for the last 10 years)\***

Measurement Date	Safety Plan				
	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018
Plan's Proportion of the Net Pension Liability (Asset)	0.069%	0.131%	0.102%	0.099%	0.098%
Plan's Proportionate Share of the Net Pension Liability (Asset)	\$ 4,315,290	4,453,372	5,295,648	5,914,603	5,774,582
Plan's Covered-Employee Payroll	\$ 2,013,283	2,060,685	2,049,532	2,188,257	2,113,600
Plan's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	214.34%	216.11%	258.38%	270.29%	273.21%
Plan's Proportion of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	73.73%	73.61%	69.60%	70.76%	73.780%

**Notes to Schedule:**

Benefit changes: There were no changes to benefit terms that applied to all members of the Public Agency Pool. However, individual employers in the Plan may have provided a benefit improvement to their employees by granting Two Years Additional Service Credit to members retiring during a specified time period (a.k.a. Golden Handshake). Employers that have done so may need to report this information as a separate liability in their financial statement as CalPERS considers such amounts to be separately financed employer-specific liabilities. These employers should consult with their auditors.

Changes in assumptions: in 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. In 2017 the discount rate was changed from 7.65 percent to 7.15 percent

*\*The fiscal year ended June 30, 2015 was the first year of implementation. Information for the last 10 years is not available.*



**CITY OF AVALON**  
**Schedule of Plan Contributions**  
**Year ended June 30, 2019**  
**(With comparative information for the last 10 years)\***

Fiscal Year	Safety				
	6/30/2015	6/30/2016	6/30/2017	6/30/2018	6/30/2019
Actuarially Determined Contribution	\$ 542,007	284,406	710,437	565,204	585,335
Contributions in relation to the Actuarially Determined Contribution	<u>(542,007)</u>	<u>(284,406)</u>	<u>(710,437)</u>	<u>(565,204)</u>	<u>(585,335)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered-Employee Payroll	\$ 2,060,685	2,049,532	2,188,257	2,113,600	2,351,828
Contributions as a Percentage of Covered-Employee Payroll	26.30%	13.88%	32.47%	26.74%	24.89%

**Notes to Schedule:**

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2019 were from the June 30, 2016 funding valuation report.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2016, Funding Valuation Report
Asset Valuation Method	Actuarial Value of Assets. For details, see June 30, 2014, Funding Valuation Report
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.375% Net of Pension Plan Investment and Administrative Expenses; includes inflation
Retirement Age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	Derived using CalPERS' Membership Data for all funds.

*\*The fiscal year ended June 30, 2015 was the first year of implementation. Information for the last 10 years is not available.*

**CITY OF AVALON**  
**Schedule of Changes in Total OPEB Liability and Related Ratios**  
**Year ended June 30, 2019**  
**(With comparative information for the last 10 years) \***

Measurement date	June 30, 2017	June 30, 2018
<b>Total OPEB liability</b>		
Service cost	\$ 362,098	321,604
Interest on the total OPEB liability	234,548	270,662
Actual and expected experience difference	-	-
Changes in assumptions	(811,400)	(73,428)
Changes in benefit terms	-	-
Benefit payments	(158,558)	(190,119)
Net change in total OPEB liability	(373,312)	328,719
Total OPEB liability - beginning	7,749,640	7,376,328
Total OPEB liability - ending	\$ 7,376,328	\$ 7,705,047
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%
Covered employee payroll	\$ 5,154,285	\$ 5,600,705
OPEB liability as a percentage of covered-employee payroll	143.11%	137.57%

**Notes to Schedule:**

Changes in assumptions. The discount rate as of the June 30, 2016 measurement date was 2.92%. The discount rate as of the June 30, 2017 measurement date was 3.56%, based on 20-year municipal bond rates as of each measurement date. The discount rate for the measurement period ended June 30, 2018 was 3.62%

Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

\* - Fiscal year 2018 was the first year of implementation, therefore only one year is shown.

**CITY OF AVALON**  
**General Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual**  
**Year ended June 30, 2019**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>Revenues:</b>				
Taxes	\$ 9,554,493	10,222,130	11,272,790	1,050,660
Licenses, permits and fees	515,800	515,800	488,735	(27,065)
Fines, forfeitures and penalties	10,000	10,000	7,641	(2,359)
Investment income	36,052	36,052	103,612	67,560
Intergovernmental revenue	1,355,389	1,534,274	580,446	(953,828)
Charges for services	516,100	516,100	523,990	7,890
Other revenue	82,550	82,550	195,923	113,373
Total revenues	<u>12,070,384</u>	<u>12,916,906</u>	<u>13,173,137</u>	<u>256,231</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Public safety	1,833,138	1,833,138	1,845,800	(12,662)
Fire and ambulance	2,931,314	2,983,133	3,031,281	(48,148)
Planning, building and engineering	693,534	753,534	816,978	(63,444)
Community services	728,982	733,165	749,965	(16,800)
Public works	1,649,194	1,686,156	1,824,949	(138,793)
<b>General government:</b>				
Services and charges	1,759,159	1,759,159	1,724,116	35,043
Contract services	1,065,300	1,065,300	1,105,984	(40,684)
Special departmental	20,786	20,786	44,688	(23,902)
Other	500	500	15,030	(14,530)
Capital expenditures	1,296,004	1,296,004	501,140	794,864
<b>Debt service:</b>				
Principal	116,468	116,468	116,468	-
Interest	30,542	30,542	4,221	26,321
Total expenditures	<u>12,124,921</u>	<u>12,277,885</u>	<u>11,780,620</u>	<u>497,265</u>
Excess of revenues over (under) expenditures	(54,537)	639,021	1,392,517	753,496
<b>Other financing sources (Uses):</b>				
Transfers out	(59,687)	(375,776)	(271,000)	104,776
Total other financing sources (uses)	<u>(59,687)</u>	<u>(375,776)</u>	<u>(271,000)</u>	<u>104,776</u>
Net change in fund balance	(114,224)	263,245	1,121,517	858,272
Fund balance, beginning of year	4,212,531	4,212,531	4,212,531	-
Fund balance, end of year	<u>\$ 4,098,307</u>	<u>4,475,776</u>	<u>5,334,048</u>	<u>858,272</u>

**CITY OF AVALON**  
**Local Transportation Fund - Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual**  
**Year ended June 30, 2019**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental revenue	<u>\$ 1,482,057</u>	<u>1,333,380</u>	<u>1,333,938</u>	<u>558</u>
Total revenues	<u>1,482,057</u>	<u>1,333,380</u>	<u>1,333,938</u>	<u>558</u>
Expenditures:				
Current:				
General government:				
Contract services	<u>1,308,922</u>	<u>1,308,922</u>	<u>1,334,728</u>	<u>(25,806)</u>
Total expenditures	<u>1,308,922</u>	<u>1,308,922</u>	<u>1,334,728</u>	<u>(25,806)</u>
Net change in fund balance	173,135	24,458	(790)	(25,248)
Fund balance, beginning of year	<u>790</u>	<u>790</u>	<u>790</u>	<u>-</u>
Fund balance, end of year	<u>\$ 173,925</u>	<u>25,248</u>	<u>-</u>	<u>(25,248)</u>

**CITY OF AVALON**  
**Avalon Housing Authority Fund - Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual**  
**Year ended June 30, 2019**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Intergovernmental revenue	\$ 40,000	40,000	111,588	71,588
Other revenue	<u>317,000</u>	<u>317,000</u>	<u>15,300</u>	<u>(301,700)</u>
Total revenues	<u>357,000</u>	<u>357,000</u>	<u>126,888</u>	<u>(230,112)</u>
<b>Expenditures:</b>				
Current:				
Planning, building and engineering	2,361	2,361	3,284	(923)
Community Services	21,447	21,447	12,016	9,431
General government:				
Contract services	87,200	87,200	18,612	68,588
Capital Expenditures	<u>300,000</u>	<u>300,000</u>	<u>34,948</u>	<u>265,052</u>
Total expenditures	<u>411,008</u>	<u>411,008</u>	<u>68,860</u>	<u>342,148</u>
Excess of revenues over (under) expenditures	<u>(54,008)</u>	<u>(54,008)</u>	<u>58,028</u>	<u>112,036</u>
Net change in fund balance	(54,008)	(54,008)	58,028	112,036
Fund balance, beginning of year	<u>5,796,238</u>	<u>5,796,238</u>	<u>5,796,238</u>	<u>-</u>
Fund balance, end of year	<u>\$ 5,742,230</u>	<u>5,742,230</u>	<u>5,854,266</u>	<u>112,036</u>

# CITY OF AVALON

## Notes to Required Supplementary Information

Year Ended June 30, 2019

### (1) **Pension Information**

Change in Benefit Terms: The figures in the preceding schedules do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes). Employers that have done so may need to report this information as a separate liability in their financial statement as CalPERS considers such amounts to be separately financed employer-specific liabilities. These employers should consult with their auditors.

Changes in Assumptions: GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.15 percent used for the June 30, 2018 measurement date is without reduction of pension plan administrative expense.

### (2) **Budgetary Information**

The City follows the procedures outlined below in establishing the budgetary data reflected in the basic financial statements:

- On or before June 30 of the fiscal year, the City is required to adopt an annual operating budget for the ensuing fiscal year for the General and Special Revenue Funds. A public hearing is held to afford taxpayers an opportunity to be heard on the proposed budget.
- The operating budgets are reported on the modified accrual basis of accounting and are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The operating budget includes proposed expenditures and appropriations. Expenditures may not legally exceed appropriations at the fund level. Any unexpended budgeted appropriations lapse at year-end.
- Once the budget is approved, the City Council must authorize any transfer amounts between individual funds and any revisions that alter the total appropriations of a fund. Management may amend the budget for intrafund line-item transfers.

## **CITY OF AVALON**

### **Nonmajor Governmental Fund**

#### **Special Revenue Funds**

The following Special Revenue Funds have been classified as other governmental funds in the accompanying schedules:

Street – This fund receives and disburses the City's share of the State Gasoline Taxes in accordance with the provisions of the State of California Streets and Highway Code.

Traffic Control and Safety – This fund is used to record traffic fines resulting from violations of the California Vehicle Code. The fines are deposited in this fund and are restricted by law for expenditures on traffic signs, signals, and other traffic control devices and the maintenance or construction of streets, bridges, and culverts.

Community Development Block Grant – This fund receives and disburses Community Development Block Grant monies from the United States Department of Housing and Urban Development. These funds are used for the redevelopment or initial construction of City streets and designated housing projects.

Child Care – This fund is used to account for monies received from tuition and donations which are used to provide child care services to City residents.

Mclean / Hall / Putnam Trust – This fund is used to account for contributions received which have been restricted in use to fund the purchase of fire equipment.

#### **Capital Projects Funds**

The following Capital Projects Fund has been classified as an other governmental fund in the accompanying schedules:

Capital Grants Fund – This fund is used to account for grant revenues and expenditures for large capital projects.

**CITY OF AVALON**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2019**

	<u>Capital Projects</u>	<u>Special Revenue Funds</u>	
	<u>Capital Grants Fund</u>	<u>Street</u>	<u>Traffic Control and Safety</u>
<b>Assets:</b>			
Cash and investments	\$ -	40,805	825
Receivables, net:			
Accounts	-	475	786
Due from other governments	-	8,050	-
Total assets	<u>-</u>	<u>49,330</u>	<u>1,611</u>
<b>Liabilities:</b>			
Accounts payable	-	16,560	3,511
Accrued liabilities	-	-	4,723
Due to other funds	-	-	-
Total liabilities	<u>-</u>	<u>16,560</u>	<u>8,234</u>
<b>Fund balances:</b>			
Restricted:			
Capital projects	-	-	-
Street projects	-	32,770	-
Unassigned	-	-	(6,623)
Total fund balances	<u>-</u>	<u>32,770</u>	<u>(6,623)</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$ -</u>	 <u>49,330</u>	 <u>1,611</u>



Special Revenue Funds

Community Development Block Grant	Mclean / Hall / Putnam Trust	Total
569	36,765	78,964
-	69	1,330
<u>165,604</u>	<u>-</u>	<u>173,654</u>
<u>166,173</u>	<u>36,834</u>	<u>253,948</u>
1,872	-	21,943
-	-	4,723
<u>165,604</u>	<u>-</u>	<u>165,604</u>
<u>167,476</u>	<u>-</u>	<u>192,270</u>
-	36,834	36,834
-	-	32,770
<u>(1,303)</u>	<u>-</u>	<u>(7,926)</u>
<u>(1,303)</u>	<u>36,834</u>	<u>61,678</u>
<u>166,173</u>	<u>36,834</u>	<u>253,948</u>

**CITY OF AVALON**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year ended June 30, 2019**

	<u>Capital Projects</u>	<u>Special Revenue Funds</u>	
	Capital Grants		Traffic Control
	Fund	Street	and Safety
Revenues:			
Taxes	\$ -	148,559	-
Fines, forfeitures and penalties	-	-	66,938
Investment income	-	2,915	-
Intergovernmental revenue	-	4,361	-
Other revenue	-	-	-
Total revenues	<u>-</u>	<u>155,835</u>	<u>66,938</u>
Expenditures:			
Current:			
Community services	-	-	-
Public works	-	145,612	184,156
General government:			
Services and charges	-	2,493	-
Contract services	-	-	8,195
Special departmental	-	-	8,210
Capital outlay	-	-	-
Total expenditures	<u>-</u>	<u>148,105</u>	<u>200,561</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>7,730</u>	<u>(133,623)</u>
Other financing sources (uses):			
Transfers in	<u>20,500</u>	<u>-</u>	<u>127,000</u>
Total other financing sources (uses)	<u>20,500</u>	<u>-</u>	<u>127,000</u>
Net change in fund balance	20,500	7,730	(6,623)
Fund balance (deficit), beginning of year	<u>(20,500)</u>	<u>25,040</u>	<u>-</u>
Fund balance (deficit), end of year	<u>\$ -</u>	<u>32,770</u>	<u>(6,623)</u>

<u>Special Revenue Funds</u>		
<u>Community</u>	<u>Mclean / Hall</u>	<u>Total</u>
<u>Development</u>	<u>Putnam Trust</u>	
<u>Block Grant</u>	<u>/</u>	
-	-	148,559
-	-	66,938
-	422	3,337
165,604	-	169,965
<u>-</u>	<u>3,621</u>	<u>3,621</u>
<u>165,604</u>	<u>4,043</u>	<u>392,420</u>
27,114	-	27,114
-	-	329,768
-	-	2,493
-	-	8,195
-	18,487	26,697
<u>174,359</u>	<u>-</u>	<u>174,359</u>
<u>201,473</u>	<u>18,487</u>	<u>568,626</u>
<u>(35,869)</u>	<u>(14,444)</u>	<u>(176,206)</u>
<u>34,000</u>	<u>-</u>	<u>181,500</u>
<u>34,000</u>	<u>-</u>	<u>181,500</u>
(1,869)	(14,444)	5,294
<u>566</u>	<u>51,278</u>	<u>56,384</u>
<u>(1,303)</u>	<u>36,834</u>	<u>61,678</u>

**CITY OF AVALON**  
**Capital Grants Fund - Capital Projects Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual**  
**Year ended June 30, 2019**

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Intergovernmental revenue	\$ -	-	-
Total revenues	-	-	-
Net change in fund balance	-	-	-
OTHER FINANCING SOURCES (USES):			
Transfers in	-	20,500	20,500
Total other financing sources (uses)	-	20,500	20,500
Fund balance (deficit), beginning of year	(20,500)	(20,500)	-
Fund balance (deficit), end of year	\$ (20,500)	-	-

**CITY OF AVALON**  
**Street Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual**  
**Year ended June 30, 2019**

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Taxes	\$ 107,000	148,559	41,559
Investment income	3,035	2,915	(120)
Intergovernmental revenue	-	<u>4,361</u>	<u>4,361</u>
Total revenues	<u>110,035</u>	<u>155,835</u>	<u>45,800</u>
Expenditures:			
Current:			
Public works	100,000	145,612	(45,612)
General government:			
Services and charges	11,500	2,493	9,007
Other	<u>2,500</u>	<u>-</u>	<u>2,500</u>
Total expenditures	<u>114,000</u>	<u>148,105</u>	<u>(34,105)</u>
Net change in fund balance	(3,965)	7,730	11,695
Fund balance, beginning of year	<u>25,040</u>	<u>25,040</u>	<u>-</u>
Fund balance, end of year	<u>\$ 21,075</u>	<u>32,770</u>	<u>11,695</u>

**CITY OF AVALON**  
**Traffic Control and Safety Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual**  
**Year ended June 30, 2019**

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Fines, forfeitures, and penalties	\$ 60,000	66,938	6,938
Total revenues	60,000	66,938	6,938
Expenditures:			
Current:			
Public works	177,460	184,156	(6,696)
General government:			
Contract services	10,000	8,195	1,805
Special departmental	4,244	8,210	(3,966)
Total expenditures	191,704	200,561	(8,857)
Excess of revenues over (under) expenditures	(131,704)	(133,623)	(1,919)
OTHER FINANCING SOURCES (USES):			
Transfers in	131,704	127,000	(4,704)
Total other financing sources (uses)	131,704	127,000	(4,704)
Net change in fund balance	-	(6,623)	(6,623)
Fund balance (deficit), beginning of year	-	-	-
Fund balance (deficit), end of year	\$ -	(6,623)	(6,623)

**CITY OF AVALON**  
**Community Development Block Grant Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual**  
**Year ended June 30, 2019**

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Intergovernmental revenue	\$ 165,000	165,604	604
Total revenues	165,000	165,604	604
Expenditures:			
Current:			
Community services	24,300	27,114	(2,814)
Capital outlay	165,000	174,359	(9,359)
Total expenditures	189,300	201,473	(12,173)
Excess of revenues over (under) expenditures	(24,300)	(35,869)	(11,569)
Other financing sources (uses):			
Transfers in	34,601	34,000	(601)
Total other financing sources (uses)	34,601	34,000	(601)
Net change in fund balance	10,301	(1,869)	(12,170)
Fund balance, beginning of year	566	566	-
Fund balance (deficit), end of year	\$ 10,867	(1,303)	(12,170)

**CITY OF AVALON**  
**Mclean / Hall / Putnam Trust Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual**  
**Year ended June 30, 2019**

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Investment income	\$ 281	422	141
Other revenue	<u>-</u>	<u>3,621</u>	<u>3,621</u>
Total revenues	<u>281</u>	<u>4,043</u>	<u>3,762</u>
 Expenditures:			
Current:			
Special departmental	<u>503</u>	<u>18,487</u>	<u>(17,984)</u>
Total expenditures	<u>503</u>	<u>18,487</u>	<u>(17,984)</u>
 Net change in fund balance	(222)	(14,444)	(14,222)
 Fund balance, beginning of year	<u>51,278</u>	<u>51,278</u>	<u>-</u>
Fund balance, end of year	<u>\$ 51,056</u>	<u>36,834</u>	<u>(14,222)</u>



## **CITY OF AVALON**

### Internal Service Funds

General Administration – This fund functions as the overhead fund for the City and all administrative costs are to be allocated to user departments.

Insurance – This fund is used to account for the City's general liability insurance, including claims, legal and other expenses, and the City's workers' compensation insurance, including claims, legal and other expenses.

Vehicle Maintenance – This fund is used to account for the maintenance of the vehicular fleet and equipment utilized by the other departments within the City.

**CITY OF AVALON**  
**Internal Service Funds**  
**Combining Statement of Net Position**  
**June 30, 2019**

	General Administration	Insurance	Vehicle Maintenance	Total
<b>Assets:</b>				
Current assets:				
Cash and investments	\$ 32,644	626,086	399,860	1,058,590
Receivables, net:				
Accounts	5,755	36	1,467	7,258
Interest receivable	-	966	661	1,627
Total current assets	<u>38,399</u>	<u>627,088</u>	<u>401,988</u>	<u>1,067,475</u>
Noncurrent assets:				
Capital assets, net	<u>33,774</u>	<u>-</u>	<u>288,198</u>	<u>321,972</u>
Total noncurrent assets	<u>33,774</u>	<u>-</u>	<u>288,198</u>	<u>321,972</u>
Total assets	<u>72,173</u>	<u>627,088</u>	<u>690,186</u>	<u>1,389,447</u>
Deferred outflows of resources:				
Deferred outflows - pension related	<u>-</u>	<u>-</u>	<u>39,539</u>	<u>39,539</u>
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>39,539</u>	<u>39,539</u>
<b>Liabilities:</b>				
Current liabilities:				
Accounts payable	121,173	31,578	3,424	156,175
Accrued liabilities	33,031	36,370	4,479	73,880
Current portion of noncurrent liabilities	<u>-</u>	<u>122,481</u>	<u>-</u>	<u>122,481</u>
Total current liabilities	<u>154,204</u>	<u>190,429</u>	<u>7,903</u>	<u>352,536</u>
Noncurrent liabilities:				
Claims payable	-	66,628	-	66,628
Net pension liability	<u>-</u>	<u>-</u>	<u>177,922</u>	<u>177,922</u>
Total noncurrent liabilities	<u>-</u>	<u>66,628</u>	<u>177,922</u>	<u>244,550</u>
Total liabilities	<u>154,204</u>	<u>257,057</u>	<u>185,825</u>	<u>597,086</u>
Deferred inflows of resources:				
Deferred inflows - pension related	<u>-</u>	<u>-</u>	<u>29,598</u>	<u>29,598</u>
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>29,598</u>	<u>29,598</u>
<b>Net position:</b>				
Investment in capital assets	33,774	-	288,198	321,972
Unrestricted	<u>(115,805)</u>	<u>370,031</u>	<u>226,104</u>	<u>480,330</u>
Total net position	<u>\$ (82,031)</u>	<u>370,031</u>	<u>514,302</u>	<u>802,302</u>

**CITY OF AVALON**  
**Internal Service Funds**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position**  
**Year ended June 30, 2019**

	General Administration	Insurance	Vehicle Maintenance	Total
Operating revenues:				
Charges for services	\$ 2,227,023	662,000	506,330	3,395,353
Total operating revenues	<u>2,227,023</u>	<u>662,000</u>	<u>506,330</u>	<u>3,395,353</u>
Operating expenses:				
Salaries and benefits	1,250,185	-	322,400	1,572,585
Contractual services	636,520	151,142	115	787,777
Office supplies	78,526	-	-	78,526
Utilities and rent	100,248	-	64,668	164,916
Repairs and maintenance	-	-	152,220	152,220
Operating supplies	62,177	-	21,818	83,995
Other services and charges	67,973	577,463	2,035	647,471
Depreciation	10,044	-	109,711	119,755
Total operating expenses	<u>2,205,673</u>	<u>728,605</u>	<u>672,967</u>	<u>3,607,245</u>
Operating income (loss)	<u>21,350</u>	<u>(66,605)</u>	<u>(166,637)</u>	<u>(211,892)</u>
Nonoperating revenues (expenses):				
Capital contributions	-	-	13,950	13,950
Interest income	-	5,943	4,058	10,001
Total nonoperating revenues (expenses)	<u>-</u>	<u>5,943</u>	<u>18,008</u>	<u>23,951</u>
Changes in net position	21,350	(60,662)	(148,629)	(187,941)
Net position (deficit), beginning of year	<u>(103,381)</u>	<u>430,693</u>	<u>662,931</u>	<u>990,243</u>
Net position (deficit), end of year	<u>\$ (82,031)</u>	<u>370,031</u>	<u>514,302</u>	<u>802,302</u>

**CITY OF AVALON**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**Year ended June 30, 2019**

	General Administration	Insurance	Vehicle Maintenance	Totals
<b>Cash Flows from Operating Activities:</b>				
Cash received from interfund services provided	\$ 2,227,023	662,000	504,863	3,393,886
Cash payments to suppliers for goods and services	(926,243)	(651,616)	(300,983)	(1,878,842)
Cash payments to employees for services	<u>(1,244,886)</u>	<u>-</u>	<u>(255,276)</u>	<u>(1,500,162)</u>
Net cash provided by operating activities	<u>55,894</u>	<u>10,384</u>	<u>(51,396)</u>	<u>14,882</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Cash received for capital grants	-	-	13,950	13,950
Cash payments to acquire capital and other assets	<u>(23,250)</u>	<u>-</u>	<u>(7,684)</u>	<u>(30,934)</u>
Net cash provided by capital and related financing activities	<u>(23,250)</u>	<u>-</u>	<u>6,266</u>	<u>(16,984)</u>
<b>Cash Flows from Investing Activities:</b>				
Interest in investments	<u>-</u>	<u>5,527</u>	<u>3,775</u>	<u>9,302</u>
Net increase (decrease) in cash and cash equivalents	32,644	15,911	(41,355)	7,200
Cash and cash equivalents, beginning of year	<u>-</u>	<u>610,175</u>	<u>441,215</u>	<u>1,051,390</u>
Cash and cash equivalents, end of year	<u>\$ 32,644</u>	<u>626,086</u>	<u>399,860</u>	<u>1,058,590</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>				
Operating income (loss)	\$ 21,350	(66,605)	(166,637)	(211,892)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	10,044	-	109,711	119,755
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable	(5,755)	38	(1,467)	(7,184)
(Increase) decrease in deferred outflows	-	-	(1,450)	(1,450)
Increase (decrease) in accounts payable	47,255	12,551	(57,063)	2,743
Increase (decrease) in accrued liabilities	5,299	(2,228)	(3,064)	7
Increase (decrease) in due to other funds	(22,299)	-	-	(22,299)
Increase (decrease) in claims payable	-	66,628	-	66,628
Increase (decrease) in net pension liability	-	-	20,089	20,089
Increase (decrease) in deferred inflows	<u>-</u>	<u>-</u>	<u>48,485</u>	<u>48,485</u>
Net Cash Provided by Operating Activities:	<u>\$ 55,894</u>	<u>10,384</u>	<u>(51,396)</u>	<u>14,882</u>