

CITY OF AVALON, CALIFORNIA

Financial Statements
With Independent Auditor's Report

Year ended June 30, 2016

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CITY OF AVALON

Basic Financial Statements and Supplemental Data

Year ended June 30, 2016

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CITY OF AVALON

Basic Financial Statements and Supplemental Data

Year ended June 30, 2016

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City Council
City of Avalon
Avalon, California

Independent Auditor's Report

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, 2016 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, whose assets represent 9.3%, 10.1% and 22% 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 control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 15, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis, budgetary comparison schedules, Schedule of Plan Contributions, and Schedule of the Plan's Proportioned Share of the Net Pension Liability* 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. Management has omitted the *management's discussion and analysis*. Our opinion on the basic financial statements is not affected by this missing information. We have applied certain limited procedures to the *budgetary comparison schedules, Schedule of Plan Contributions, and Schedule of the Plan's Proportioned Share of the Net Pension Liability* 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 May 18, 2017 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.

A handwritten signature in blue ink that reads "Davis Fan UP". The signature is written in a cursive, flowing style.

Irvine, California
May 18, 2017

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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 in it. You can think of the City's net position - the difference between assets and liabilities - 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, 2016
(With comparative information for the prior year)

	Primary Government				Discrete Component Unit
	Governmental Activities	Business-type Activities	Totals		Avalon Medical Development Corporation
			2016	2015	
Assets:					
Current assets:					
Cash and investments (note 2)	\$ 12,045,334	4,991,617	17,036,951	16,640,926	648,583
Receivables net:					
Accounts	963,262	634,665	1,597,927	2,148,640	1,351,656
Taxes	1,058,613	103,583	1,162,196	995,049	-
Interest	16,738	-	16,738	9,161	-
Due from other government	655,323	-	655,323	-	84,531
Due from primary government	-	-	-	-	107,476
Due from ACIA Successor Agency (note 3)	-	-	-	449,666	-
Advances to ACIA Successor Agency (note 3)	1,147,538	-	1,147,538	1,000,000	-
Notes receivable	292,000	-	292,000	292,000	-
Internal balances	372,514	(372,514)	-	-	-
Inventories	-	-	-	-	52,045
Land held for resale	2,852,600	-	2,852,600	2,852,600	-
Prepaid items	-	-	-	-	16,025
Noncurrent assets (note 4):					
Capital assets, not being depreciated	1,052,973	1,458,006	2,510,979	305,419	123,206
Capital assets, net of accumulated depreciation	14,128,519	10,530,376	24,658,895	24,932,578	2,968,787
Total assets	<u>34,585,414</u>	<u>17,345,733</u>	<u>51,931,147</u>	<u>49,626,039</u>	<u>5,352,309</u>
Deferred Outflows of Resources (note 6):					
Deferred outflows - pension related	<u>881,882</u>	<u>238,839</u>	<u>1,120,721</u>	<u>1,179,069</u>	<u>-</u>
Total deferred outflows of resources	<u>881,882</u>	<u>238,839</u>	<u>1,120,721</u>	<u>1,179,069</u>	<u>-</u>
Liabilities:					
Current liabilities:					
Accounts payable	646,250	591,462	1,237,712	1,039,011	331,798
Interest payable	-	26,835	26,835	33,092	-
Accrued liabilities	358,749	141,793	500,542	754,321	368,092
Unearned revenue	-	183,774	183,774	153,425	101,138
Due to component unit	113,200	-	113,200	101,700	-
Noncurrent liabilities (note 5):					
Due within one year	254,653	369,842	624,495	680,352	4,464
Due in more than one year	2,183,297	1,841,271	4,024,568	3,686,935	298,357
Net pension liability (note 6)	5,656,260	2,048,162	7,704,422	7,560,232	-
Total liabilities	<u>9,212,409</u>	<u>5,203,139</u>	<u>14,415,548</u>	<u>14,009,068</u>	<u>1,103,849</u>
Deferred Inflows of Resources (note 6):					
Deferred inflows - pension related	<u>559,062</u>	<u>156,049</u>	<u>715,111</u>	<u>1,663,481</u>	<u>-</u>
Total deferred inflows of resources	<u>559,062</u>	<u>156,049</u>	<u>715,111</u>	<u>1,663,481</u>	<u>-</u>
Net Position:					
Net investment in capital assets	15,181,492	11,289,620	26,471,112	24,372,446	3,091,993
Restricted for:					
Housing	9,034,303	-	9,034,303	8,704,453	-
Capital Projects	389,528	-	389,528	-	-
Transportation	630,641	-	630,641	597,864	-
Unrestricted	459,861	935,764	1,395,625	1,457,796	1,156,467
Total net position	<u>\$ 25,695,825</u>	<u>12,225,384</u>	<u>37,921,209</u>	<u>35,132,559</u>	<u>4,248,460</u>

See accompanying notes to the financial statements

CITY OF AVALON
Statement of Activities
Year ended June 30, 2016
(With comparative information for the prior year)

Functions/programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
Public safety	\$ 1,369,466	189,840	114,618	-
Fire and ambulance	2,578,140	342,080	-	-
Planning, building and engineering	952,172	275,880	-	-
Community services	269,569	47,146	-	-
Public works	2,070,439	11,238	-	1,386,397
General government	4,463,429	9,865	590,369	-
Total governmental activities	<u>11,703,215</u>	<u>876,049</u>	<u>704,987</u>	<u>1,386,397</u>
Business-type activities:				
Harbor	7,640,281	7,354,462	331,081	-
Sewer	2,379,334	1,783,886	-	-
Saltwater	562,328	585,986	-	-
Solidwaste	1,708,229	1,902,075	10,100	-
Avalon Transit	180,762	6,374	-	969,741
Total business-type activities	<u>12,470,934</u>	<u>11,632,783</u>	<u>341,181</u>	<u>969,741</u>
Total primary government	<u>\$ 24,174,149</u>	<u>12,508,832</u>	<u>1,046,168</u>	<u>2,356,138</u>
Discrete Component Unit:				
Avalon Medical Development Corporation	<u>\$ 8,889,681</u>	<u>6,966,159</u>	<u>532,388</u>	<u>233,719</u>

General revenues:

Taxes:

Property taxes

Sales taxes

Transient occupancy taxes

Other taxes

Investment earnings

Miscellaneous income

Transfers

 Total general revenues and transfers

Change in net position

Net position, beginning of year, as restated (note 12)

Net position, end of year

See accompanying notes to the financial statements

Net (Expense) Revenue and Changes in Net Position

Primary Government				Discrete Component Unit
Governmental Activities	Business-type Activities	Totals		Avalon Medical Development Corporation
		2016	2015	
(1,065,008)	-	(1,065,008)	(1,357,203)	-
(2,236,060)	-	(2,236,060)	(1,945,588)	-
(676,292)	-	(676,292)	(410,755)	-
(222,423)	-	(222,423)	15,005,012	-
(672,804)	-	(672,804)	(1,659,752)	-
(3,863,195)	-	(3,863,195)	(2,591,096)	-
(8,735,782)	-	(8,735,782)	7,040,618	-
-	45,262	45,262	253,658	-
-	(595,448)	(595,448)	(459,927)	-
-	23,658	23,658	(116,615)	-
-	203,946	203,946	215,922	-
-	795,353	795,353	-	-
-	472,771	472,771	(106,962)	-
(8,735,782)	472,771	(8,263,011)	6,933,656	-
-	-	-	-	(1,157,415)
1,163,212	-	1,163,212	1,093,876	-
1,703,660	-	1,703,660	1,465,691	526,650
4,915,216	-	4,915,216	4,990,716	-
1,266,762	292,415	1,559,177	1,490,383	-
407,396	17,434	424,830	29,383	-
1,285,566	-	1,285,566	77,091	-
(351,240)	351,240	-	-	-
10,390,572	661,089	11,051,661	9,147,140	526,650
1,654,790	1,133,860	2,788,650	16,080,796	(630,765)
24,041,035	11,091,524	35,132,559	19,051,763	4,879,225
25,695,825	12,225,384	37,921,209	35,132,559	4,248,460

See accompanying notes to the financial statements

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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, 2016
(With comparative information for the prior year)

	Special Revenue Funds		
	General Fund	Local Transportation Fund	Avalon Housing Authority
Assets:			
Cash and investments	\$ 5,153,438	76,540	5,116,633
Receivables, net:			
Accounts	59,649	900,000	150
Taxes	1,058,613	-	-
Interest	11,190	-	5,548
Notes receivable	-	-	292,000
Due from other governments	259,752	-	6,043
Due from other funds (note 3)	1,581,338	-	-
Advances to ACIA Successor Agency (note 3)	-	-	1,147,538
Land held for resale and other assets	-	-	2,852,600
Total assets	\$ 8,123,980	976,540	9,420,512
Liabilities:			
Accounts payable	\$ 389,715	44,488	4,893
Accrued liabilities	303,478	-	8,637
Due to other funds (note 3)	-	900,000	426,500
Due to component unit - sales tax	113,200	-	-
Unearned revenue	-	-	-
Total liabilities	806,393	944,488	440,030
Deferred Inflows of Resources:			
Unavailable revenue	-	-	-
Total deferred inflows of resources	-	-	-
Fund Balances:			
Restricted:			
Low and moderate income housing	-	-	8,980,482
Community development	-	-	-
Capital projects	-	-	-
Street projects	-	32,052	-
Unassigned	7,317,587	-	-
Total fund balances	7,317,587	32,052	8,980,482
Total liabilities, deferred inflows of resources and fund balances	\$ 8,123,980	976,540	9,420,512

See accompanying notes to the financial statements

Nonmajor Governmental Funds	Totals	
	2016	2015
663,789	11,010,400	10,336,328
3,463	963,262	1,297,910
-	1,058,613	922,493
-	16,738	4,572
-	292,000	292,000
389,528	655,323	449,666
-	1,581,338	237,391
-	1,147,538	1,000,000
-	2,852,600	2,852,600
<u>1,056,780</u>	<u>19,577,812</u>	<u>17,392,960</u>
14,670	453,766	508,801
3,004	315,119	574,397
37,855	1,364,355	237,391
-	113,200	101,700
-	-	9,106
<u>55,529</u>	<u>2,246,440</u>	<u>1,431,395</u>
<u>389,528</u>	<u>389,528</u>	<u>1,176,641</u>
<u>389,528</u>	<u>389,528</u>	<u>1,176,641</u>
-	8,980,482	8,646,403
138	138	138
53,683	53,683	57,912
598,589	630,641	597,864
(40,687)	7,276,900	5,482,607
<u>611,723</u>	<u>16,941,844</u>	<u>14,784,924</u>
<u>1,056,780</u>	<u>19,577,812</u>	<u>17,392,960</u>

See accompanying notes to the financial statements

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CITY OF AVALON
 Governmental Funds
 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Position
 June 30, 2016

Fund balances of governmental funds	\$ 16,941,844
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	26,375,852
Accumulated depreciation	(11,791,115)
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	
	389,528
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Compensated absences	(359,814)
Other post employment benefits	(1,788,536)
Net pension liability 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 - contributions	348,023
Deferred outflows - additional deferral	197,568
Deferred outflows - actuarial	336,291
Deferred inflows - actuarial	(559,062)
Net pension liability	(5,656,260)
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.	
	1,077,494
Internal service fund receivables/payables representing the cumulative crossover effect of involvement with business-type activities.	
	<u>184,012</u>
Net position of governmental activities	<u>\$ 25,695,825</u>

See accompanying notes to the financial statements

CITY OF AVALON
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2016
(With comparative information for the prior year)

	General Fund	Special Revenue Funds	
		Local Transportation Fund	Avalon Housing Authority
Revenues:			
Taxes	\$ 8,963,354	-	-
Licenses, permits and fees	440,450	-	-
Fines, forfeitures and penalties	8,247	-	-
Investment income	48,486	-	355,198
Intergovernmental revenue	1,122,611	1,706,396	-
Charges for services	421,749	-	-
Other revenue	1,266,316	-	15,950
Total revenues	<u>12,271,213</u>	<u>1,706,396</u>	<u>371,148</u>
Expenditures:			
Current:			
Public safety	1,632,760	-	-
Fire and ambulance	2,508,005	-	-
Planning, building and engineering	944,372	-	-
Community services	188,978	-	-
Public works	1,133,839	-	-
General government:			
Services and charges	1,745,551	-	-
Contract services	975,401	1,073,424	37,069
Special departmental	19,324	42,381	-
Other	106,884	-	-
Capital expenditures	1,271,600	-	-
Total expenditures	<u>10,526,714</u>	<u>1,115,805</u>	<u>37,069</u>
Excess of revenues over (under) expenditures	<u>1,744,499</u>	<u>590,591</u>	<u>334,079</u>
Other Financing Sources (Uses):			
Transfers in (note 3)	-	-	-
Transfers out (note 3)	(116,818)	(351,240)	-
Total other financing sources (uses)	<u>(116,818)</u>	<u>(351,240)</u>	<u>-</u>
Net change in fund balance	1,627,681	239,351	334,079
Fund balance (deficit), beginning of year	5,689,906	(207,299)	8,646,403
Fund balance, end of year	<u>\$ 7,317,587</u>	<u>32,052</u>	<u>8,980,482</u>

See accompanying notes to the financial statements

Nonmajor Governmental Funds	Totals	
	2016	2015
85,496	9,048,850	8,796,320
-	440,450	424,997
55,093	63,340	94,868
1,602	405,286	11,576
-	2,829,007	6,140,662
-	421,749	501,018
1,800	1,284,066	77,094
<u>143,991</u>	<u>14,492,748</u>	<u>16,046,535</u>
-	1,632,760	1,570,166
-	2,508,005	2,189,975
-	944,372	660,062
19,927	208,905	607,458
247,543	1,381,382	1,117,324
-	1,745,551	1,737,655
6,800	2,092,694	2,131,488
9,970	71,675	168,910
-	106,884	42,922
20,760	1,292,360	83,628
<u>305,000</u>	<u>11,984,588</u>	<u>10,309,588</u>
<u>(161,009)</u>	<u>2,508,160</u>	<u>5,736,947</u>
116,818	116,818	122,143
-	(468,058)	(122,143)
<u>116,818</u>	<u>(351,240)</u>	<u>-</u>
(44,191)	2,156,920	5,736,947
655,914	14,784,924	9,047,977
<u>611,723</u>	<u>16,941,844</u>	<u>14,784,924</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, 2016

Net changes in fund balances - total governmental funds \$ 2,156,920

Amounts reported for governmental activities in the statement of activities is different because:

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.

Capital outlay	1,129,612
Depreciation expense	(983,079)

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:

Change in compensated absences	(67,933)
Change in OPEB obligation	(205,108)
Change in net pension liability and related amounts	493,306

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.

(787,113)

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.

(25,105)

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

(56,710)

Change in net position of governmental activities

\$ 1,654,790

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, 2016
(With comparative information for the prior year)

	Business-type Activities			
	Harbor	Sewer	Saltwater	Solidwaste
Assets:				
Current Assets:				
Cash and investments	\$ 2,470,937	721,099	650,634	1,148,947
Receivables, net:				
Accounts	571,428	4,077	904	6,974
Taxes	19,897	36,779	11,273	35,634
Interest	-	-	-	-
Total current assets	<u>3,062,262</u>	<u>761,955</u>	<u>662,811</u>	<u>1,191,555</u>
Noncurrent assets:				
Capital assets, not being depreciated	1,435,006	23,000	-	-
Capital assets, net of accumulated depreciation	<u>4,075,197</u>	<u>4,028,909</u>	<u>557,136</u>	<u>492,534</u>
Total noncurrent assets	<u>5,510,203</u>	<u>4,051,909</u>	<u>557,136</u>	<u>492,534</u>
Total assets	<u>8,572,465</u>	<u>4,813,864</u>	<u>1,219,947</u>	<u>1,684,089</u>
Deferred Outflows of Resources:				
Deferred outflows - pension related	<u>216,092</u>	<u>15,165</u>	<u>7,582</u>	<u>-</u>
Total deferred outflows of resources	<u>216,092</u>	<u>15,165</u>	<u>7,582</u>	<u>-</u>
Liabilities:				
Current liabilities:				
Accounts payable	258,267	127,349	17,230	134,122
Interest payable	21,193	5,642	-	-
Accrued liabilities	134,499	5,464	1,830	-
Unearned revenue	132,735	-	-	-
Due to other funds (note 3)	-	-	-	-
Current portion of noncurrent liabilities	<u>286,439</u>	<u>79,682</u>	<u>3,721</u>	<u>-</u>
Total current liabilities	<u>833,133</u>	<u>218,137</u>	<u>22,781</u>	<u>134,122</u>
Noncurrent liabilities:				
Compensated absences	288,722	7,643	9,762	-
Capital lease liability	-	125,169	-	-
Net pension liability	1,853,099	130,042	65,021	-
OPEB obligation	848,349	114,052	31,934	-
Claims payable	5,500	10,000	-	-
Loans payable	<u>400,140</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>3,395,810</u>	<u>386,906</u>	<u>106,717</u>	<u>-</u>
Total liabilities	<u>4,228,943</u>	<u>605,043</u>	<u>129,498</u>	<u>134,122</u>
Deferred Inflows of Resources:				
Deferred inflows - pension related	<u>141,187</u>	<u>9,908</u>	<u>4,954</u>	<u>-</u>
Total deferred inflows of resources	<u>141,187</u>	<u>9,908</u>	<u>4,954</u>	<u>-</u>
Net Position:				
Net investment in capital assets	4,996,429	3,866,921	557,136	492,534
Unrestricted	<u>(578,002)</u>	<u>347,157</u>	<u>535,941</u>	<u>1,057,433</u>
Total net position	<u>\$ 4,418,427</u>	<u>4,214,078</u>	<u>1,093,077</u>	<u>1,549,967</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

See accompanying notes to the financial statements

Avalon Transit	Total Enterprise Funds		Governmental Activities - Internal Service Funds	
	2016	2015	2016	2015
	-	4,991,617	5,328,743	1,034,934
51,282	634,665	821,362	-	29,368
-	103,583	72,556	-	-
-	-	3,873	-	716
<u>51,282</u>	<u>5,729,865</u>	<u>6,226,534</u>	<u>1,034,934</u>	<u>1,005,939</u>
-	1,458,006	165,137	-	-
<u>1,376,600</u>	<u>10,530,376</u>	<u>9,992,230</u>	<u>596,755</u>	<u>642,407</u>
<u>1,376,600</u>	<u>11,988,382</u>	<u>10,157,367</u>	<u>596,755</u>	<u>642,407</u>
<u>1,427,882</u>	<u>17,718,247</u>	<u>16,383,901</u>	<u>1,631,689</u>	<u>1,648,346</u>
-	238,839	295,503	-	-
-	238,839	295,503	-	-
54,494	591,462	390,487	192,484	139,723
-	26,835	33,092	-	-
-	141,793	124,035	43,630	55,889
51,039	183,774	144,319	-	-
188,502	188,502	-	28,481	-
-	369,842	342,183	39,600	30,637
<u>294,035</u>	<u>1,502,208</u>	<u>1,034,116</u>	<u>304,195</u>	<u>226,249</u>
-	306,127	204,737	-	-
-	125,169	184,987	-	-
-	2,048,162	2,055,567	-	-
-	994,335	826,696	-	-
-	15,500	69,446	250,000	319,498
-	400,140	513,775	-	-
-	3,889,433	3,855,208	250,000	319,498
<u>294,035</u>	<u>5,391,641</u>	<u>4,889,324</u>	<u>554,195</u>	<u>545,747</u>
-	156,049	457,834	-	-
-	156,049	457,834	-	-
1,376,600	11,289,620	9,291,816	596,755	642,407
<u>(242,753)</u>	<u>1,119,776</u>	<u>2,040,430</u>	<u>480,739</u>	<u>460,192</u>
<u>1,133,847</u>	<u>12,409,396</u>	<u>11,332,246</u>	<u>1,077,494</u>	<u>1,102,599</u>
	<u>(184,012)</u>	<u>(240,722)</u>		
	<u>\$ 12,225,384</u>	<u>11,091,524</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, 2016
(With comparative information for the prior year)

	Business-type Activities			
	Harbor	Sewer	Saltwater	Solidwaste
Operating revenues:				
Charges for services	\$ 7,354,462	1,783,886	585,986	1,902,075
Other revenue	<u>101,262</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>7,455,724</u>	<u>1,783,886</u>	<u>585,986</u>	<u>1,902,075</u>
Operating expenses:				
Salaries and benefits	4,495,733	387,617	162,659	45,439
Contractual services	883,745	1,161,408	243,459	1,494,182
Office supplies	2,974	-	-	-
Utilities and rent	421,129	177,445	-	10,920
Repairs and maintenance	602,985	156,219	61,630	61,306
Operating supplies	35,469	1,110	519	-
Other services and charges	970,519	33,427	13,514	24,199
Depreciation	<u>252,598</u>	<u>461,007</u>	<u>82,433</u>	<u>74,069</u>
Total operating expenses	<u>7,665,152</u>	<u>2,378,233</u>	<u>564,214</u>	<u>1,710,115</u>
Operating income (loss)	<u>(209,428)</u>	<u>(594,347)</u>	<u>21,772</u>	<u>191,960</u>
Nonoperating revenues (expenses):				
Admissions taxes	191,153	-	-	-
Loss on disposal of capital assets	-	-	-	-
Grants and other revenues	331,081	-	-	10,100
Interest income	8,813	4,841	1,354	2,426
Interest expense	<u>(23,526)</u>	<u>(5,642)</u>	<u>-</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>507,521</u>	<u>(801)</u>	<u>1,354</u>	<u>12,526</u>
Income before capital contributions and transfers	298,093	(595,148)	23,126	204,486
Capital contributions and transfers:				
Capital contributions	-	-	-	-
Transfers in (note 3)	<u>12,746</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital contributions and transfers	<u>12,746</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net position	310,839	(595,148)	23,126	204,486
Net position, beginning of year	<u>4,107,588</u>	<u>4,809,226</u>	<u>1,069,951</u>	<u>1,345,481</u>
Net position, end of year	<u>\$ 4,418,427</u>	<u>4,214,078</u>	<u>1,093,077</u>	<u>1,549,967</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

Avalon Transit	Total Enterprise Funds		Governmental Activities - Internal Service Funds	
	2016	2015	2016	2015
6,374	11,632,783	11,451,258	2,736,095	2,447,128
-	101,262	65,799	1,500	-
<u>6,374</u>	<u>11,734,045</u>	<u>11,517,057</u>	<u>2,737,595</u>	<u>2,447,128</u>
-	5,091,448	4,897,341	1,012,788	929,896
68,027	3,850,821	3,518,685	804,423	701,078
1,647	4,621	3,977	80,665	89,289
-	609,494	496,093	152,132	86,202
-	882,140	739,472	185,881	138,061
-	37,098	56,936	100,586	62,471
3,778	1,045,437	1,055,016	286,089	374,848
<u>107,310</u>	<u>977,417</u>	<u>862,600</u>	<u>142,246</u>	<u>144,755</u>
<u>180,762</u>	<u>12,498,476</u>	<u>11,630,120</u>	<u>2,764,810</u>	<u>2,526,600</u>
<u>(174,388)</u>	<u>(764,431)</u>	<u>(113,063)</u>	<u>(27,215)</u>	<u>(79,472)</u>
-	191,153	178,547	-	-
-	-	(32,413)	-	-
-	341,181	106,598	-	-
-	17,434	12,476	2,110	2,306
<u>-</u>	<u>(29,168)</u>	<u>(35,816)</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>520,600</u>	<u>229,392</u>	<u>2,110</u>	<u>2,306</u>
(174,388)	(243,831)	116,329	(25,105)	(77,166)
969,741	-	-	-	-
<u>338,494</u>	<u>351,240</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>1,308,235</u>	<u>351,240</u>	<u>-</u>	<u>-</u>	<u>-</u>
1,133,847	107,409	116,329	(25,105)	(77,166)
-	-	-	1,102,599	1,179,765
<u>1,133,847</u>	<u>-</u>	<u>-</u>	<u>1,077,494</u>	<u>1,102,599</u>
-	56,710	33,531	-	-
<u>\$ 164,119</u>	<u>149,860</u>	<u>-</u>	<u>-</u>	<u>-</u>

See accompanying notes to the financial statements

CITY OF AVALON
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2016
(With comparative information for the prior year)

	Harbor	Sewer	Saltwater	Solidwaste
Cash Flows from Operating Activities:				
Cash received from customers	\$ 7,711,675	1,759,645	585,131	1,885,364
Cash received from interfund services provided	-	-	-	-
Cash payments to suppliers for goods and services	(2,865,330)	(1,476,895)	(312,365)	(1,579,415)
Cash payments to employees for services	(4,483,350)	(394,098)	(161,698)	(45,439)
Net cash provided by operating activities	<u>362,995</u>	<u>(111,348)</u>	<u>111,068</u>	<u>260,510</u>
Cash Flows from Noncapital Financing Activities:				
Cash received from admissions taxes	191,153	-	-	-
Cash received from other funds	12,746	-	-	-
Net cash provided by noncapital financing activities	<u>203,899</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities:				
Cash received for capital grants	331,081	-	-	10,100
Cash payments to acquire capital and other assets	(1,250,608)	(73,915)	-	-
Principal paid on capital-related debt	(108,743)	(58,048)	-	-
Interest paid on capital-related debt	(28,012)	(7,413)	-	-
Net cash provided by capital and related financing activities	<u>(1,056,282)</u>	<u>(139,376)</u>	<u>-</u>	<u>10,100</u>
Cash Flows from Investing Activities:				
Interest received on investments	10,744	5,908	1,752	2,904
Net increase (decrease) in cash and cash equivalents	<u>(478,644)</u>	<u>(244,816)</u>	<u>112,820</u>	<u>273,514</u>
Cash and cash equivalents - beginning	2,949,581	965,915	537,814	875,433
Cash and cash equivalents - ending	<u>2,470,937</u>	<u>721,099</u>	<u>650,634</u>	<u>1,148,947</u>
Reconciliation of Operating Income (loss) to Net Cash Provided by Operating Activities				
Operating income (loss)	(209,428)	(594,347)	21,772	191,960
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	252,598	461,007	82,433	74,069
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable	241,811	(3,913)	(855)	936
(Increase) decrease in taxes receivable	14,140	(20,328)	(7,192)	(17,647)
(Increase) decrease in deferred outflows	51,762	3,393	1,509	-
Increase (decrease) in accounts payable	65,588	54,343	15,358	11,192
Increase (decrease) in accrued liabilities	9,212	(1,629)	(1,409)	-
Increase (decrease) in compensated absences	87,613	(322)	4,459	-
Increase (decrease) in OPEB obligation	156,959	8,344	2,336	-
Increase (decrease) in net pension liability	(10,141)	949	1,787	-
Increase (decrease) in deferred inflows	(273,810)	(18,845)	(9,130)	-
Increase (decrease) in claims payable	(23,309)	-	-	-
Net Cash Provided by Operating Activities	<u>\$ 362,995</u>	<u>(111,348)</u>	<u>111,068</u>	<u>260,510</u>
Noncash capital, financing, and investing activities:				
Capital lease agreement	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

See accompanying notes to the financial statements

Avalon Transit	Total Enterprise Funds		Governmental Activities - Internal Service Funds	
	2016	2015	2016	2015
6,131	11,947,946	11,558,620	-	-
-	-	-	2,737,595	2,447,128
(18,958)	(6,252,963)	(5,999,195)	(1,600,441)	(1,660,929)
-	(5,084,585)	(4,750,695)	(1,012,788)	(929,896)
<u>(12,827)</u>	<u>610,398</u>	<u>808,730</u>	<u>124,366</u>	<u>(143,697)</u>
-	191,153	178,547	-	-
<u>526,996</u>	<u>539,742</u>	<u>-</u>	<u>28,481</u>	<u>-</u>
<u>526,996</u>	<u>730,895</u>	<u>178,547</u>	<u>28,481</u>	<u>-</u>
969,741	1,310,922	106,598	-	-
(1,483,910)	(2,808,433)	(229,542)	(96,594)	-
-	(166,791)	(169,520)	-	-
-	(35,425)	(32,696)	-	-
<u>(514,169)</u>	<u>(1,699,727)</u>	<u>(325,160)</u>	<u>(96,594)</u>	<u>-</u>
-	21,308	10,377	2,826	1,749
-	(337,126)	672,494	59,079	(141,948)
-	5,328,743	4,656,249	975,855	1,117,803
-	4,991,617	5,328,743	1,034,934	975,855
(174,388)	(764,431)	(113,063)	(27,215)	(79,472)
107,310	977,417	862,600	142,246	144,755
(243)	237,736	71,531	29,368	78,391
-	(31,027)	(34,049)	-	-
-	56,664	(55,842)	-	-
54,494	200,975	(107,603)	52,761	(202,581)
-	6,174	33,145	(12,259)	(40,041)
-	91,750	26,353	-	-
-	167,639	157,826	-	-
-	(7,405)	(439,525)	-	-
-	(301,785)	457,834	-	-
-	(23,309)	(50,477)	(60,535)	(44,749)
<u>(12,827)</u>	<u>610,398</u>	<u>808,730</u>	<u>124,366</u>	<u>(143,697)</u>
-	-	308,497	-	-

See accompanying notes to the financial statements

CITY OF AVALON
Statement of Fiduciary Net Position
Private Purpose Trust Fund
June 30, 2016
(With comparative information for the prior year)

	2016	2015
Assets:		
Current assets:		
Cash and investments (note 2)	\$ 1,883,593	2,697,092
Interest receivable	444	815
Total assets	1,884,037	2,697,907
Liabilities:		
Current liabilities:		
Due to other governments	265,795	449,666
Interest payable	343,884	434,407
Current portion of long-term liabilities:		
Advances from City of Avalon (note 3)	68,841	-
Bonds payable (note 5)	920,000	940,000
Total current liabilities	1,598,520	1,824,073
Long-term liabilities:		
Advances from City of Avalon (note 3)	1,078,697	1,000,000
Bonds payable (note 5)	23,635,000	25,195,000
Bond premium	1,038,432	-
Total long-term liabilities	25,752,129	26,195,000
Total liabilities	27,350,649	28,019,073
Net Position:		
Held in trust for successor agency	(25,466,612)	(25,321,166)
Total net position (deficit)	\$ (25,466,612)	(25,321,166)

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, 2016
(With comparative information for the prior year)

	<u>2016</u>	<u>2015</u>
Additions:		
Taxes	\$ 3,424,782	3,189,927
Investment income	<u>4,009</u>	<u>3,751</u>
Total additions	<u>3,428,791</u>	<u>3,193,678</u>
 Deductions:		
Community development	646,112	476,419
Interest	1,364,934	1,309,602
Bond issuance costs	566,322	-
Contributions to other governments	<u>996,869</u>	<u>15,519,153</u>
Total deductions	<u>3,574,237</u>	<u>17,305,174</u>
 Change in net position	(145,446)	(14,111,496)
 Net position, beginning of year	<u>(25,321,166)</u>	<u>(11,209,670)</u>
Net position, end of year	<u>\$ (25,466,612)</u>	<u>(25,321,166)</u>

See accompanying notes to the financial statements

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(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

June 30, 2016

(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 discreetly 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 as 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.

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

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

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

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 enterprise 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.

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

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

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

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).

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.

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

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

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 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.

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

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

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:

<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, 2013 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:

<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.

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

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

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

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.

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.

(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."

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

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

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

June 30, 2016

(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 as 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) 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.

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

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

(j) 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 government has three items that qualify for reporting in this category. Deferred pension – contributions, deferred outflows – additional deferral, and deferred outflows – actuarial. All of these items relate to the recording of the pension liability.

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 two items that qualify for reporting in this category. One of these items arises only under a modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue related to items received outside the City’s availability period of 60 days. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second is deferred outflows related to pensions.

(k) 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, 2014
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	June 30, 2014 to June 30, 2015

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

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

(l) 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.

(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

June 30, 2016

(2) Cash and Investments

Cash and investments at June 30, 2016 are classified in the accompanying financial statements as follows:

	<u>Primary Government</u>	<u>Discrete Component Unit</u>
Statement of net position	\$ 17,036,951	648,583
Statement of fiduciary net position	<u>1,883,593</u>	<u>-</u>
Total cash and investments	<u>\$ 18,920,544</u>	<u>648,583</u>

Cash and investments at June 30, 2016 consisted of the following:

	<u>Primary Government</u>	<u>Discrete Component Unit</u>
Petty cash	\$ 500	850
Demand deposits	870,380	26,726
Investments	<u>18,049,664</u>	<u>621,007</u>
Total cash and investments	<u>\$ 18,920,544</u>	<u>648,583</u>

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.

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(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	None	None
Time Certificates of Deposits	5 years	None	\$ 250,000
Local Agency Investment Fund (LAIF)	N/A	\$ 60,000,000	\$ 60,000,000
Los Angeles County Investment Fund (LACIF)	N/A	None	None
Money Market Mutual Funds	N/A	15%	None

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

N/A - Not Applicable

The authorized investment types pursuant to the Hospital's investment policy are time certificates of deposit and the Local Agency Investment Fund (LAIF).

Investments Authorized by Debt Agreements:

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

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(2) Cash and Investments, (Continued)

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:

<u>Investment Type:</u>	<u>Total</u>	<u>Remaining Maturity</u> (in Months)	
		<u>Within 12</u>	<u>Beyond 12</u>
Primary government:			
State investment pool	\$ 15,024,783	15,024,783	-
Certificate of deposits	<u>3,024,881</u>	<u>3,024,881</u>	<u>-</u>
Total primary government	<u>\$ 18,049,664</u>	<u>18,049,664</u>	<u>-</u>
Discrete Component Unit:			
State Investment Pool	<u>\$ 621,007</u>	<u>621,007</u>	<u>-</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>Investment Type:</u>	<u>Total</u>	<u>Minimum Legal</u> <u>Rating</u>	<u>Rating</u>	
			<u>AAA</u>	<u>Unrated</u>
Primary government:				
State investment pool	\$ 15,024,783	N/A	-	15,024,783
Certificate of deposits	<u>3,024,881</u>	N/A	<u>-</u>	<u>3,024,881</u>
Total primary government	<u>\$ 18,049,664</u>		<u>-</u>	<u>18,049,664</u>
Discrete Component Unit:				
State Investment Pool	<u>\$ 621,007</u>	N/A	<u>-</u>	<u>621,007</u>

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, 2016:

- Certificates of Deposit of \$3,024,881 are valued using quoted market prices (Level 2 inputs)

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(2) Cash and Investments, (Continued)

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 counterpart (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, 2016, the City's and Hospital's deposits (bank balances) were insured by the Federal Deposit Insurance Corporation or collateralized as required under California Law.

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.

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(3) Interfund Balances and Transfers

The composition of interfund balances as of June 30, 2016 is as follows:

Advances to other funds	Advances from other funds	Amount
Avalon Housing Authority	ACIA Successor Agency	\$ 1,147,538 (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. The advance bears 3% annual interest and will be repaid as payments are approved via the Recognized Obligation Payment Schedules (ROPS) by the California Department of Finance.

Fund Reporting Payable	Fund Reporting Receivable	Amount
Local Transportation Fund	General Fund	\$ 900,000 (a)
Avalon Housing Authority	General Fund	426,500 (b)
Avalon Transit Fund	General Fund	188,502 (a)
Non-Major Gov't Funds	General Fund	180,855 (a)
		\$ 1,695,857

(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	Local Transportation Fund	\$ 338,494 (a)
Harbor Fund	Local Transportation Fund	12,746 (a)
		\$ 351,240

(a) To transfer funds from the Local Transportation Fund to the Avalon Transit and Harbor funds to cover operating expenses.

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(4) Capital Assets

A summary of changes in the capital assets at June 30, 2016 is as follows:

Governmental Activities:	Balance at 7/1/2015	Additions	Deletions	Tranfers	Balance at 6/30/2016
Non-depreciable assets:					
Construction in progress	\$ 55,324	1,066,177	-	(68,528)	1,052,973
Total non-depreciable assets	<u>55,324</u>	<u>1,066,177</u>	<u>-</u>	<u>(68,528)</u>	<u>1,052,973</u>
Depreciable assets:					
Building and improvements	9,547,901	43,810	(34,604)	-	9,557,107
Improvements other than buildings	14,040,172	-	-	62,311	14,102,483
Machinery and equipment	4,360,786	150,804	-	6,217	4,517,807
Total depreciable assets	<u>27,948,859</u>	<u>194,614</u>	<u>(34,604)</u>	<u>68,528</u>	<u>28,177,397</u>
Less accumulated depreciation:					
Buildings and improvements	(2,839,378)	(243,036)	7,759	-	(3,074,655)
Improvements other than buildings	(6,641,604)	(674,529)	-	-	(7,316,133)
Machinery and equipment	(3,442,571)	(215,519)	-	-	(3,658,090)
Total accumulated depreciation	<u>(12,923,553)</u>	<u>(1,133,084)</u>	<u>7,759</u>	<u>-</u>	<u>(14,048,878)</u>
Total depreciable assets	<u>15,025,306</u>	<u>(938,470)</u>	<u>(26,845)</u>	<u>68,528</u>	<u>14,128,519</u>
Total capital assets	<u>\$ 15,080,630</u>	<u>127,707</u>	<u>(26,845)</u>	<u>-</u>	<u>15,181,492</u>

Business-Type Activities	Balance at 7/1/2015	Additions	Deletions	Balance at 6/30/2016
Non-depreciable assets:				
Construction in progress	\$ 250,095	1,207,911	-	1,458,006
Depreciable assets:				
Building and improvements	5,487,830	-	-	5,487,830
Improvements other than buildings	11,399,960	-	-	11,399,960
Machinery and equipment	3,376,275	1,600,518	-	4,976,793
Infrastructure	3,011,678	-	-	3,011,678
Total depreciable assets	<u>23,275,743</u>	<u>1,600,518</u>	<u>-</u>	<u>24,876,261</u>
Less accumulated depreciation:				
Buildings and improvements	(2,468,979)	(111,748)	-	(2,580,727)
Improvements other than buildings	(7,078,147)	(429,796)	-	(7,507,943)
Machinery and equipment	(2,402,973)	(321,220)	-	(2,724,193)
Infrastructure	(1,418,369)	(114,653)	-	(1,533,022)
Total accumulated depreciation	<u>(13,368,468)</u>	<u>(977,417)</u>	<u>-</u>	<u>(14,345,885)</u>
Total depreciable assets	<u>9,907,275</u>	<u>623,101</u>	<u>-</u>	<u>10,530,376</u>
Total capital assets	<u>\$ 10,157,370</u>	<u>1,831,012</u>	<u>-</u>	<u>11,988,382</u>

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(4) Capital Assets, (Continued)

<u>Discrete Component Unit – Hospital:</u>	<u>Balance at</u> <u>7/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>6/30/2016</u>
Non-depreciable assets:				
Construction in progress	\$ 64,662	117,738	(59,194)	123,206
Depreciable assets:				
Building and improvements	2,126,501	70,866	-	2,197,367
Machinery and equipment	4,477,869	321,990	-	4,799,859
Vehicles	40,708	-	-	40,708
Total depreciable assets	<u>6,645,078</u>	<u>392,856</u>	<u>-</u>	<u>7,037,934</u>
Less accumulated depreciation:				
Buildings and improvements	(1,329,849)	(133,245)	-	(1,463,094)
Machinery and equipment	(2,280,244)	(290,101)	-	(2,570,345)
Vehicles	(35,708)	-	-	(35,708)
Total accumulated depreciation	<u>(3,645,801)</u>	<u>(423,346)</u>	<u>-</u>	<u>(4,069,147)</u>
Total depreciable assets	<u>2,999,277</u>	<u>(30,490)</u>	<u>-</u>	<u>2,968,787</u>
Total capital assets	<u>\$ 3,063,939</u>	<u>87,248</u>	<u>(59,194)</u>	<u>3,091,993</u>

Depreciation expense was charged to functions / programs as follows:

Governmental Activities

Public safety	\$ 28,547
Planning, building and engineering	15,282
Community services	67,699
Public works	624,238
General government	255,072
Internal service funds depreciation charged to programs	<u>142,246</u>
Total depreciation expense - governmental activities	<u>\$1,133,084</u>

Business-Type Activities

Harbor	\$ 252,598
Sewer	461,007
Salt water	82,433
Solid waste	74,069
Avalon Transit	<u>107,310</u>
Total depreciation expense - business-type activities	<u>\$ 977,417</u>

Discrete Component Unit

Hospital	\$ 423,346
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CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(5) Long-term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2016 is as follows:

	Balance at 7/1/2015	Additions	Deletions	Balance at 6/30/2016	Due Within One Year
<u>Governmental Activities</u>					
Compensated absences	\$ 291,881	189,729	(121,796)	359,814	451
Claims payable	350,135	16,000	(76,535)	289,600	39,600
Net pension liability	5,504,665	833,240	(681,645)	5,656,260	-
OPEB	1,583,428	267,553	(62,445)	1,788,536	-
Total Governmental	<u>\$ 7,730,109</u>	<u>1,306,522</u>	<u>(942,421)</u>	<u>8,094,210</u>	<u>40,051</u>
<u>Business-type Activities</u>					
State Department of Boating & Waterways Loan	\$ 622,517	-	(108,741)	513,776	113,635
Compensated absences	370,766	123,769	(32,019)	462,516	156,388
Claims payable	78,809	-	(23,309)	55,500	40,000
Capital lease liability	243,036	-	(58,049)	184,987	59,819
Net pension liability	2,055,567	233,928	(241,333)	2,048,162	-
OPEB	826,696	218,682	(51,044)	994,334	-
Total Business-type	<u>\$ 4,197,391</u>	<u>576,379</u>	<u>(514,495)</u>	<u>4,259,275</u>	<u>369,842</u>
<u>ACIA Successor Agency</u>					
Bonds Payable:					
2003A TAB	\$ 20,180,000	-	(18,820,000)	1,360,000	-
2003B Housing TAB	5,955,000	-	(5,955,000)	-	-
2015A TAB	-	17,160,000	-	17,160,000	-
2015B TAB	-	6,035,000	-	6,035,000	-
Bond premium	-	1,038,432	-	1,038,432	-
Total ACIA Successor Agency	<u>\$ 26,135,000</u>	<u>24,233,432</u>	<u>(24,775,000)</u>	<u>25,593,432</u>	<u>-</u>
<u>Discrete Component Unit - Hospital</u>					
Notes payable	\$ 614,390	-	(311,569)	302,821	4,464
Total Hospital	<u>\$ 614,390</u>	<u>-</u>	<u>(311,569)</u>	<u>302,821</u>	<u>4,464</u>

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(5) Long-term Liabilities. (Continued)

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

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, 2016, were as follows:

Year ending June 30,	Principal	Interest	Total
2017	\$ -	67,320	67,320
2018	-	67,320	67,320
2019	-	67,320	67,320
2020	-	67,320	67,320
2021	-	67,320	67,320
2022-2026	-	336,600	336,600
2027-2031	-	336,600	336,600
2032 -2035	1,360,000	235,620	1,595,620
Total	<u>\$ 1,360,000</u>	<u>1,245,420</u>	<u>2,605,420</u>

(b) 2003 Housing Tax Allocation Bonds, Series B

On December 3, 2003, the Agency issued \$7,430,000 Tax Allocation Refunding Bonds, Series B, to refund the 1991 Tax Allocation Bonds and to finance redevelopment activities.

Term bonds in the amount of \$1,320,000, \$2,290,000 and \$3,820,000 mature September 1, 2014, September 1, 2024 and September 1, 2034, respectively. The term bonds are subject to mandatory sinking fund requirements that commence September 1, 2004, September 1, 2014 and September 1, 2025, respectively. The term bonds bear interest at rates of 4.66%, 5.95% and 6.05%, respectively. Interest is payable semiannually on March 1 and September 1. These bonds were fully refunded on July 1, 2015 through issuance of the 2015 Tax Allocation Bonds.

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(5) Long-term Liabilities. (Continued)

(c) 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.

A term bonds 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 rates 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, 2016, were as follows:

Year ending June 30,	Principal	Interest	Total
2017	\$ 700,000	715,888	1,415,888
2018	810,000	696,738	1,506,738
2019	835,000	667,888	1,502,888
2020	865,000	633,888	1,498,888
2021	900,000	594,088	1,494,088
2022-2026	4,645,000	2,273,563	6,918,563
2027-2031	4,955,000	1,168,969	6,123,969
2032 -2035	3,450,000	210,600	3,660,600
Total	\$ 17,160,000	6,961,622	24,121,622

(d) 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

June 30, 2016

(5) Long-term Liabilities. (Continued)

The term bonds bear interest at rates of 4.75% and 5.00%, respectively. 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 1.00% and 5.00%.

The annual debt service requirements on these bonds at June 30, 2016, were as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 220,000	240,344	460,344
2018	255,000	237,331	492,331
2019	265,000	232,769	497,769
2020	270,000	226,744	496,744
2021	270,000	219,319	489,319
2022-2026	1,200,000	938,941	2,138,941
2027-2031	2,200,000	568,700	2,768,700
2032 -2035	<u>1,355,000</u>	<u>103,875</u>	<u>1,458,875</u>
Total	<u>\$ 6,035,000</u>	<u>2,768,023</u>	<u>8,803,023</u>

(a) Pledged Revenues

The ACIA Successor Agency debt issues are collateralized by the pledging of tax interment 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 current year annual pledged revenues exceeded debt service requirements by a total of \$3,424,782.

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(5) Long-term Liabilities. (Continued)

(b) Advances from the County of Los Angeles

The former Avalon Community Improvement Agency (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 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 \$639,412 was received from the County for the fiscal year ending June 30, 2016. The accompanying financial statements do not reflect a liability to the City for this matter.

Business-type Activities

(c) 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, 2016 is as follows:

	<u>Amount Outstanding</u>
Original Issue \$500,000, due in annual installments of \$24,710 through August 1, 2016, including interest of 4.5% per annum	\$ 23,645
Original Issue \$900,000, due in annual installments of \$55,890 through August 1, 2019, including interest of 4.5% per annum	200,488
Original Issue \$859,101, due in annual installments of \$56,155 through August 1, 2021, including interest of 4.5% per annum	<u>289,643</u>
Total	<u>\$ 513,776</u>

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(5) Long-term Liabilities, (Continued)

The annual debt service requirements on these loans payable at June 30, 2016, were as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 113,635	23,120	136,755
2018	94,039	18,006	112,045
2019	98,271	13,775	112,045
2020	102,670	9,352	112,022
2021	51,423	4,732	56,155
2022	<u>53,738</u>	<u>4,731</u>	<u>58,469</u>
Total	<u>\$ 513,776</u>	<u>73,716</u>	<u>587,492</u>

(d) Capital Lease

During the year ending June 30, 2015 the City of Avalon entered into a lease agreement for financing the acquisition of equipment valued at \$308,497. The equipment 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 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, 2016 were as follows:

<u>Year ending June 30,</u>	
2017	\$ 65,461
2018	65,461
2019	<u>65,461</u>
Total minimum lease payments	196,383
Less: amount representing interest	<u>(11,396)</u>
Value of minimum lease payments	<u>\$184,987</u>

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(5) Long-term Liabilities, (Continued)

Discrete Component Unit - The Hospital

(e) U.S. Bank, N.A.

A Line of Credit in the amount of \$500,000 is secured by the Hospital's various tangible and intangible assets, including patient receivable accounts, investment accounts, inventories and equipment. The unpaid principal balance will bear interest at an annual rate equal to 2.00% plus the prime rate announced by the Bank. The interest rate will be adjusted each time the prime rate changes. Principal is payable on demand by the Bank. As of June 30, 2016, the prime rate was 5.5%. The outstanding balance on the Line as of June 30, 2016 was \$0.

(f) Notes Payable

The Hospital has a note payable to the California Department of Health Care Services (DHCS) in the amount of \$614,390 as of June 30, 2016. 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 Medical Center and DHCS concerning certain amounts the Medical Center was paid under various DHCS programs that the Medical Center did not meet eligibility requirements in prior years. The note payable was discounted with an interest imputed at a 5% rate.

(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.

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(6) Pension Plan. (Continued)

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, 2016, 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
Benefit vesting schedule	5 years service	5 years of 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	8.00%	6.24%
	Safety	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2% @ 50	2% @ 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%	11.50%
Required employer contribution rates	13.81%	11.15%

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.

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(6) Pension Plan, (Continued)

Actuarial Methods and Assumptions used to determine Total Pension Liability

For the measurement period ending June 30, 2015 (the measurement date), the total pension liability was determined using the following actuarial methods and assumptions:

Actuarial Cost Method	Entry-Age Normal Cost Method
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses: includes Inflation
Mortality Rate Table	Derived using CalPERS' Membership Data for all funds

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Change of 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 expenses. The discount rate was changed from 7.50% (net of administrative expenses in 2014) to 7.65% as of June 30, 2015 to correct the adjustment which previously reduced the discount rate for administrative expenses.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF C), CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund, including PERF C. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

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

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(6) Pension Plan, (Continued)

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. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2014.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10¹</u>	<u>Real Return Years 11+²</u>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

¹An expected inflation of 2.5% used for this period

²An expected inflation of 3.0% used for this period

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(6) Pension Plan, (Continued)

Allocation of Net Pension Liability and Pension Expense to Individual Employers

A key aspect of GASB 68 pertaining to cost-sharing employers is the establishment of an approach to allocate the net pension liability and pension expense to the individual employers within the risk pool. Paragraph 49 of GASB 68 indicates that for pools where contribution rates within the pool are based on separate relationships, the proportional allocation should reflect those relationships. The allocation method utilized by CalPERS determines the employer's share by reflecting these relationships through the plans they sponsor within the risk pool. Plan liability and asset-related information are used where available, and proportional allocations of individual plan amounts as of the valuation date are used where not available.

(1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the Plan Risk Pool (risk pool) as a whole on the valuation date (June 30, 2014). The risk pool's fiduciary net position (FNP) subtracted from its total pension liability (TPL) determines the net pension liability (NPL) at the valuation date.

(2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2015). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date.

Note: for purposes of FNP in this step (2) and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2014 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2014-15).

(3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date.

(4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.

(5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(6) Pension Plan, (Continued)

(6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5). The plan's proportion of aggregate employer contributions is equal to the plan's proportion of FNP calculated in (4). The plan's proportionate share of risk pool pension expense is developed as the sum of the related proportionate shares of the components of the aggregate pension expense.

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
	<u> </u>	<u> </u>	<u> </u>
Miscellaneous Plan:			
Balance at: 6/30/2014 (VD)	\$ 13,389,060	10,144,118	3,244,942
Balance at: 6/30/2015 (MD)	<u>14,034,094</u>	<u>10,783,044</u>	<u>3,251,050</u>
Net Changes during 2014-15	<u>645,034</u>	<u>638,926</u>	<u>6,108</u>
Safety Plan:			
Balance at: 6/30/2014 (VD)	16,428,645	12,113,355	4,315,290
Balance at: 6/30/2015 (MD)	<u>16,877,725</u>	<u>12,424,353</u>	<u>4,453,372</u>
Net Changes during 2014-15	<u>449,080</u>	<u>310,998</u>	<u>138,082</u>
Total:			
Balance at: 6/30/2014 (VD)	29,817,705	22,257,473	7,560,232
Balance at: 6/30/2015 (MD)	<u>30,911,819</u>	<u>23,207,397</u>	<u>7,704,422</u>
Net Changes during 2014-15	<u>\$ 1,094,114</u>	<u>949,924</u>	<u>144,190</u>

The Entity's proportionate share of the net pension liability for each plan as of June 30, 2014 and 2015 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion - June 30, 2014	0.131%	0.115%
Proportion - June 30, 2015	<u>0.119%</u>	<u>0.108%</u>
Change - Increase (Decrease)	<u>-0.012%</u>	<u>-0.007%</u>

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(6) Pension Plan, (Continued)

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 7.65 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 (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
Miscellaneous Plan's Net Pension Liability	\$ 5,452,238	3,251,050	1,433,714
Safety Plan's Net Pension Liability	7,140,284	4,453,372	2,250,153
Total	\$ 12,592,522	7,704,422	3,683,867

Subsequent Events

In December 2016, the CalPERS Board of Administration voted to lower the discount rate 7.5 percent to 7.0 percent over the next three years. For public agencies, the discount rate changes approved by the Board for the next three fiscal years ending June 30, 2019, 2020 and 2021 are 7.375%, 7.25%, and 7.00%, respectively.

Recognition of Gains and Losses

Under GASB 68, deferred inflows and deferred outflows of resources related to pensions 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 inflows and deferred outflows 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 lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired).

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(6) Pension Plan, (Continued)

The EARSL for the 2014-2015 measurement date is 3.8 years, which was obtained by dividing the total service years 467,023 (the sum of remaining service lifetimes of the active employees) by 122,410 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0.

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

For the measurement period ending June 30, 2015 (the measurement date), the City of Avalon recognized a pension expense of \$255,667 for the Miscellaneous Plan and the City recognized a pension expense of \$690,297 for the Safety Plan.

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(6) Pension Plan, (Continued)

As of June 30, 2016 the City of Avalon reports 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	\$ 171,940	-
Diffence between expected and actual experience	24,418	-
Change in proportion and differences between employer contributions and propotionate share of contribution	55,150	-
Changes of assumptions	-	(231,010)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	127,600	-
Adjustment due to Differences in Proportions	-	(16,686)
Total Miscellaneous Plan	<u>379,108</u>	<u>(247,696)</u>
Safety Plan:		
Pension Contributions	284,406	-
Diffence between expected and actual experience	-	(71,302)
Change in proportion and differences between employer contributions and propotionate share of contribution	197,568	-
Changes of assumptions	-	(327,943)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	259,639	-
Adjustment due to Differences in Proportions	-	(68,170)
Total Safety Plan	<u>741,613</u>	<u>(467,415)</u>
Total:		
Pension Contributions	456,346	-
Diffence between expected and actual experience	24,418	(71,302)
Change in proportion and differences between employer contributions and propotionate share of contribution	252,718	-
Changes of assumptions	-	(558,953)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	387,239	-
Adjustment due to Differences in Proportions	-	(84,856)
Total City	<u>\$ 1,120,721</u>	<u>(715,111)</u>

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(6) Pension Plan, (Continued)

Employer contributions subsequent to the measurement date reported as deferred outflows of resources in the amount of \$456,346 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Included in the table above is an employer-specific type of deferred outflow of \$252,719. This is derived from the difference between actual contributions made by the employer and the employer's proportionate share of the risk pool's total contributions. This deferral and the corresponding amortization amount are calculated separately by each employer. The employer's pension expense is adjusted for the amortization of this additional deferral. This item is required to be amortized over the plan's Expected Average Remaining Service Lives (EARSL).

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:

Measurement period <u>Ended June 30,</u>	Deferred Outflows/(Inflows) <u>of Resources</u>
Miscellaneous Plan:	
2016	\$ 34,127
2017	(141,432)
2018	90,686
2019	148,032
2020	-
Safety Plan:	
2016	122,058
2017	(166,959)
2018	115,073
2019	204,026
2020	-
Total:	
2016	156,185
2017	(308,391)
2018	205,759
2019	352,058
2020	-

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(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 June 30, 2016, 21 retired employees were eligible to receive medical and dental benefits. The Plan does not issue a publicly available financial report.

Funding Policy. 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's 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.

Annual OPEB Cost and Net OPEB Obligation. The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the value of employer promised benefits expected to be earned or allocated for each fiscal year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The end of the year net OPEB obligation is determined as follows:

Annual required contribution	\$ 551,947
Interest on net OPEB obligation	84,353
Adjustment to annual required contribution	<u>(150,086)</u>
Annual OPEB cost (expense)	486,214
Actual contributions made	<u>(113,487)</u>
Increase in net OPEB obligation	372,727
Net OPEB Obligation - beginning of year	<u>2,410,143</u>
Net OPEB Obligation - end of year	<u>\$ 2,782,870</u>

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

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

The City's annual OPEB cost, annual contribution, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2016 and the two preceding years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/14	\$ 414,865	41,927	10.11%	2,034,181
6/30/15	417,514	41,533	9.95%	2,410,143
6/30/16	486,215	113,487	23.34%	2,782,871

Funded Status and Funding Progress. As of June 30, 2015, the most recent actuarial valuation date, the funded status of the plan was as follows:

<u>Actuarial Date</u>	<u>Actuarial Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Ratio</u>	<u>Covered Payroll</u>	<u>UALL as a % of Covered Payroll</u>
6/30/09	\$ -	2,889,519	2,889,519	0%	NA	NA
6/30/12	-	3,828,622	3,828,622	0%	NA	NA
6/30/15	-	4,531,425	4,531,425	0%	NA	NA

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presented immediately following the financial statements as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Actuarial methods and assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial calculations of the OPEB plan reflect a long-term perspective. Consistent with this perspective, actuarial valuations, after this initial year, will use actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(7) Other Post Employment Benefits (OPEB), (Continued)

The ARC was determined as part of the June 30, 2015 actuarial valuation using the following methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level-Dollar
Average Remaining Period (Misc.)	24 Years as of the Valuation Date
Discount Rate	3.5%
Healthcare Cost Trend Rate	5.0% to 12.0% for Medical and 3.0% for Dental

(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:

	<u>Claims Liability</u>	
	<u>Gov't Funds</u>	<u>Enterprise Funds</u>
Liability as of June 30, 2014	\$ 394,884	129,286
Claims incurred and changes in estimates	14,897	4,480
Claim payments	<u>(59,646)</u>	<u>(54,957)</u>
Liability as of June 30, 2015	<u>350,135</u>	<u>78,809</u>
Claims incurred and changes in estimates	16,000	-
Claim payments	<u>(76,535)</u>	<u>(23,309)</u>
Liability as of June 30, 2016	<u>\$ 289,600</u>	<u>55,500</u>

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.

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(8) Risk Management and Self-Insurance. (Continued)

Settlement claims have not exceed 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, 2016.

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.

The City does not participate in the California State Unemployment Insurance Program. The City funds all claims for unemployment benefits from current resources on an as-incurred basis. Unemployment benefits paid for the year ended June 30, 2016 totaled \$762.

(9) Individual Fund Disclosures

The following fund reported a deficit fund balance:

Nonmajor Capital Projects Funds:		
Capital Grants Fund	\$ 20,500	(a)
Nonmajor Special Revenue Funds:		
Community Development Block Grant Fund	20,187	(b)
Internal Service Funds		
General Administration	83,479	(c)

- (a) The City expects to eliminate the Capital Grants Fund deficit when future reimbursements are received from granting agencies.
- (b) The Community Development Grant Fund deficit will be cured through interfund transfers.
- (c) The General Administration Fund deficit is expected to be eliminated through future interdepartmental charges.

The following funds reported an excess of expenditures over appropriations:

	Budget	Actual	Excess
Major Funds:			
General Fund	\$ 10,370,913	10,526,714	(155,801)
Avalon Housing Authority	-	37,069	(37,069)
Non-major Special Revenue Funds:			
Capital Grants Fund	15,000	20,500	(5,500)
Mclean / Hall / Putnam Trust	2,500	6,160	(3,660)

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(10) Commitments and Contingencies

(a) Lawsuits

Long Beach Unified School District v. County of Los Angeles

In July 2012, the Long Beach Unified School District filed a Writ of Mandate in the California Superior Court, Los Angeles County, naming multiple public agencies including the Successor Agency to the Avalon Community Improvement Agency and the City of Avalon. This petition is an attempt by the plaintiff to recover past due statutory pass-through payment amounts under Community Redevelopment Law. The City of Avalon expects a judicial finding that it is obligated to return overpayments it has received. The proper calculation to decide how much Avalon has received however is still being determined. Thus, the parties have agreed to continue the time for the defendants to file responsive pleadings. Avalon's liability is expected to be approximately \$250,000. This amount is included in the claims liability as of June 30, 2016 in the Insurance Internal Service Fund.

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

In March of 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.

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 of 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.

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(10) Commitments and Contingencies. (Continued)

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, 2016, 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.

(11) Operating Leases. (Continued)

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) Prior Period Adjustment

	<u>Discrete Component Unit</u>
	Avalon Medical
	<u>Development Corporation</u>
As previously reported	\$ 4,567,656
Imputed interest recorded in error	311,569
As restated	<u>\$ 4,879,225</u>

During the fiscal year ended June 30, 2016, it was determined that the outstanding note payable held by the Hospital did not account for the imputation of interest costs relating to

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

(12) Prior Period Adjustment. (Continued)

the difference between the face amount and the present value of the note payable. Accordingly, an adjustment to the beginning June 30, 2015 net position was recorded along with the related impact to the note payable.

(13) Successor Agency Trust for the Assets of the Former Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill IX 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Avalon that previously had reported a redevelopment agency, the Avalon Community Improvement Agency (ACIA), within the reporting entity of the City as a blended component unit.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012. The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On January 9, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill.

The Bill also allows the sponsoring community that formed the Successor Agency to assume the housing functions and take over the certain housing assets of the dissolved redevelopment agency. On May 3, 2012 the Oversight Board of the Successor Agency to the ACIA elected to assume these responsibilities and created the Avalon Housing Authority in accordance with the Bill.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

CITY OF AVALON

Notes to the Financial Statements

June 30, 2016

**(13) Successor Agency Trust for the Assets of the Former Redevelopment Agency,
(Continued)**

After February 1, 2012, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City, pending the liquidation and distribution of the assets and liabilities of the former redevelopment agency to other taxing entities in accordance with state law.

On August 30, 2012 the State Controller's Office (SCO) issued its report regarding the review of Housing Asset Transfer (HAT) form which included asset transfers made by the ACIA Successor Agency after January 1, 2011 to other public agencies, including the City.

The report indicated that there were no unallowable transfers that occurred during the review period between the ACIA, the City, and/or any other public agency. On September 17, 2014 the Successor Agency Board approved resolution number 14-07 approving a revised HAT form to be submitted to the Department of Finance (DOF) to add an additional property which was inadvertently excluded from the original HAT. On December 15, 2014 the DOF approved the property as eligible to be transferred to the Avalon Housing Authority.

On April 1, 2014 the Successor Agency Board approved resolution number 14-04 approving submission of the Long Range Property Management Plan (LRPMP) for the ACIA Successor Agency to the DOF. On December 23, 2014 the DOF approved the Successor Agency's LRPMP that reported zero properties.

(14) Subsequent Events

In September 2016 the City entered into a Lease Purchase Agreement (Agreement) for the artificial turf at a city park. The Agreement bears an interest rate of 2.89% and requires annual payments varying between \$143,775 and \$96,520 through September 2023.

In September 2016 the City entered into a number of operating lease renewals with Santa Catalina Island Company (SCIC), the terms of which are outlined below:

Lease Description	Lease Term		Base Rent					Totals
	Inception	End	2017	2018	2019	2020	2021	
Machine Gun Park	07/01/16	06/30/17	\$ 1	-	-	-	-	1
Casino Fuel Dock	07/01/16	06/30/21	50,000	70,000	135,000	135,000	135,000	525,000
Casino Point Pump	07/01/16	06/30/19	1,872	1,900	1,929	-	-	5,701
Casino Point Bathrooms	07/01/16	06/30/19	9,360	9,500	9,643	-	-	28,503
Vons Express Alley	07/01/16	06/30/19	10,920	11,084	11,250	-	-	33,254
Tremont Hall	07/01/16	06/30/19	1	1	1	-	-	3
Falls Canyon City Yard	07/01/16	06/30/19	5,000	5,075	5,151	-	-	15,226
Fall Canyon Garage	07/01/16	06/30/19	59,508	60,401	61,307	-	-	181,215
Totals			<u>\$ 136,662</u>	<u>157,961</u>	<u>224,280</u>	<u>135,000</u>	<u>135,000</u>	<u>788,903</u>

Required Supplementary Information

CITY OF AVALON

Schedule of the Plan's Proportionated Share of the Net Pension Liability

Year ended June 30, 2016

(With comparative information for the last 10 years)*

Measurement Date	<u>Miscellaneous Plan</u>	
	6/30/2014	6/30/2015
Plan's Proportion of the Net Pension Liability (Asset)	0.052%	0.119%
Plan's Proportionate Share of the Net Pension Liability (Asset)	\$3,244,942	3,251,550
Plan's Covered-Employee Payroll	\$2,244,540	2,163,234
Plan's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	144.57%	150.31%
Plan's Proportion of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	75.76%	76.83%
Plan's Proportionate Share of Aggregate Employer Contributions	\$274,313	488,150

**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 Proportionated Share of the Net Pension Liability

Year ended June 30, 2016

(With comparative information for the last 10 years)*

Measurement Date	Safety Plan	
	6/30/2014	6/30/2015
Plan's Proportion of the Net Pension Liability (Asset)	0.069%	0.131%
Plan's Proportionate Share of the Net Pension Liability (Asset)	\$ 4,315,290	4,453,372
Plan's Covered-Employee Payroll	\$ 2,013,283	2,060,685
Plan's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	214.34%	216.11%
Plan's Proportion of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	73.73%	73.61%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 342,943	650,060

**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, 2016
(With comparative information for the last 10 years)*

Fiscal Year	Miscellaneous	
	6/30/2015	6/30/2016
Actuarially Determined Contribution	\$ 380,971	171,940
Contributions in relation to the Actuarially Determined Contribution	(380,971)	(171,940)
Contribution Deficiency (Excess)	\$ -	-
 Covered-Employee Payroll	 \$ 2,163,234	 2,493,789
 Contributions as a Percentage of Covered-Employee Payroll	 17.61%	 6.89%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2016 were from the June 30, 2013 funding valuation report.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2013, Funding Valuation Report
Asset Valuation Method	Actuarial Value of Assets. For details, see June 30, 2013, Funding Valuation Report
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.65% Net of Pension Plan Investment and Administrative Expenses; includes inflation
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
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 Plan Contributions
Year ended June 30, 2016
(With comparative information for the last 10 years)*

Fiscal Year	<u>Miscellaneous</u> 6/30/2015	<u>Safety</u> 6/30/2016
Actuarially Determined Contribution	\$ 542,007	284,406
Contributions in relation to the Actuarially Determined Contribution	<u>(542,007)</u>	<u>(284,406)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>-</u>
 Covered-Employee Payroll	 \$ 2,060,685	 2,049,532
 Contributions as a Percentage of Covered-Employee Payroll	 26.30%	 13.88%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2016 were from the June 30, 2013 funding valuation report.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2013, Funding Valuation Report
Asset Valuation Method	Actuarial Value of Assets. For details, see June 30, 2013, Funding Valuation Report
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.65% Net of Pension Plan Investment and Administrative Expenses; includes inflation
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
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

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual

Year ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 8,643,522	9,243,522	8,963,354	(280,168)
Licenses, permits and fees	354,285	354,285	440,450	86,165
Fines, forfeitures and penalties	7,100	7,100	8,247	1,147
Investment income	14,800	14,800	48,486	33,686
Intergovernmental revenue	111,000	111,000	1,122,611	1,011,611
Charges for services	364,494	364,494	421,749	57,255
Other revenue	512,200	512,200	1,266,316	754,116
Total revenues	<u>10,007,401</u>	<u>10,607,401</u>	<u>12,271,213</u>	<u>1,663,812</u>
Expenditures:				
Current:				
Public safety	1,646,129	1,646,129	1,632,760	13,369
Fire and ambulance	2,153,116	2,153,116	2,508,005	(354,889)
Planning, building and engineering	680,693	740,693	944,372	(203,679)
Community services	397,617	397,617	188,978	208,639
Public works	1,170,631	1,170,631	1,133,839	36,792
General government:				
Services and charges	1,851,295	1,851,295	1,745,551	105,744
Contract services	1,250,301	1,450,301	975,401	474,900
Special departmental	54,500	54,500	19,324	35,176
Other	72,831	152,831	106,884	45,947
Capital expenditures	685,800	753,800	1,271,600	(517,800)
Total expenditures	<u>9,962,913</u>	<u>10,370,913</u>	<u>10,526,714</u>	<u>(155,801)</u>
Excess of revenues over (under) expenditures	44,488	236,488	1,744,499	1,508,011
Other Financing Sources (Uses):				
Transfers in	328,666	328,666	-	(328,666)
Transfers out (note 3)	<u>(465,635)</u>	<u>(465,635)</u>	<u>(116,818)</u>	<u>348,817</u>
Total other financing sources (uses)	<u>(136,969)</u>	<u>(136,969)</u>	<u>(116,818)</u>	<u>20,151</u>
Net change in fund balance	(92,481)	99,519	1,627,681	1,528,162
Fund balance, beginning of year	<u>5,689,906</u>	<u>5,689,906</u>	<u>5,689,906</u>	<u>-</u>
Fund balance, end of year	<u>\$ 5,597,425</u>	<u>5,789,425</u>	<u>7,317,587</u>	<u>1,528,162</u>

See accompanying notes to Required Supplementary Information

CITY OF AVALON
Local Transportation Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Investment income	\$ 100	100	-	(100)
Intergovernmental revenue	1,216,192	1,216,192	1,706,396	490,204
Total revenues	<u>1,216,292</u>	<u>1,216,292</u>	<u>1,706,396</u>	<u>490,104</u>
Expenditures:				
Current:				
General government:				
Contract services	1,099,131	1,109,131	1,073,424	35,707
Special departmental	10,000	10,000	42,381	(32,381)
Capital expenditures	5,000	105,000	-	105,000
Total expenditures	<u>1,114,131</u>	<u>1,224,131</u>	<u>1,115,805</u>	<u>108,326</u>
Excess of revenues over (under) expenditures	102,161	(7,839)	590,591	598,430
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	(351,240)	351,240
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(351,240)</u>	<u>351,240</u>
Net change in fund balance	102,161	(7,839)	239,351	949,670
Fund balance (deficit), beginning of year	<u>(207,299)</u>	<u>(207,299)</u>	<u>(207,299)</u>	<u>-</u>
Fund balance, end of year	<u>\$ (105,138)</u>	<u>(215,138)</u>	<u>32,052</u>	<u>949,670</u>

See accompanying notes to Required Supplementary Information

CITY OF AVALON
Avalon Housing Authority
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental revenue	-	-	355,198	355,198
Other revenue	-	-	15,950	15,950
Total revenues	-	-	371,148	371,148
Expenditures:				
General government:				
Contract services	-	-	37,069	(37,069)
Total expenditures	-	-	37,069	(37,069)
Net change in fund balance	-	-	334,079	334,079
Fund balance, beginning of year	8,646,403	8,646,403	8,646,403	-
Fund balance, end of year	<u>\$ 8,646,403</u>	<u>8,646,403</u>	<u>8,980,482</u>	<u>334,079</u>

See accompanying notes to Required Supplementary Information

CITY OF AVALON

Notes to Required Supplementary Information

Year Ended June 30, 2016

(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 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 7.65 percent used for the June 30, 2015 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 current 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:

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

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.

CITY OF AVALON
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016

	<u>Capital Projects</u>	<u>Special Revenue Funds</u>	
	Capital Grants Fund	Street	Traffic Control and Safety
	<u>Fund</u>	<u>Street</u>	<u>and Safety</u>
Assets:			
Cash and investments	\$ -	607,669	2,299
Receivables, net:			
Accounts	-	1,579	1,884
Due from other governments	<u>389,528</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 389,528</u>	<u>609,248</u>	<u>4,183</u>
Liabilities:			
Accounts payable	\$ -	10,659	1,179
Accrued liabilities	-	-	3,004
Due to other funds	<u>20,500</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>20,500</u>	<u>10,659</u>	<u>4,183</u>
Deferred Inflows of Resources:			
Unavailable revenue	<u>389,528</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Restricted:			
Community development	-	-	-
Capital projects	-	-	-
Street projects	-	598,589	-
Unassigned	<u>(20,500)</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>(20,500)</u>	<u>598,589</u>	<u>-</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$ 389,528</u>	 <u>609,248</u>	 <u>4,183</u>

Special Revenue Funds

Community Development Block Grant	Child Care	Mclean / Hall / Putnam Trust	Total
-	138	53,683	663,789
-	-	-	3,463
-	-	-	389,528
-	138	53,683	1,056,780
2,832	-	-	14,670
-	-	-	3,004
17,355	-	-	37,855
20,187	-	-	55,529
-	-	-	389,528
-	138	-	138
-	-	53,683	53,683
-	-	-	598,589
(20,187)	-	-	(40,687)
(20,187)	138	53,683	611,723
-	138	53,683	1,056,780

CITY OF AVALON

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Governmental Funds
 Year ended June 30, 2016

	<u>Capital Projects</u>	<u>Special Revenue Funds</u>	
	Capital Grants		Traffic Control
	Fund	Street	and Safety
Revenues:			
Taxes	\$ -	85,496	-
Fines, forfeitures and penalties	-	-	55,093
Investment income	-	1,471	-
Other revenue	-	-	-
Total revenues	<u>-</u>	<u>86,967</u>	<u>55,093</u>
Expenditures:			
Current:			
Community services	-	-	-
Public works	-	86,242	161,301
General government:			
Contract services	-	-	6,800
Special departmental	-	-	3,810
Capital outlay	<u>20,500</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>20,500</u>	<u>86,242</u>	<u>171,911</u>
Excess of revenues over (under) expenditures	<u>(20,500)</u>	<u>725</u>	<u>(116,818)</u>
Other Financing Sources (Uses):			
Transfers in	<u>-</u>	<u>-</u>	<u>116,818</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>116,818</u>
Net change in fund balance	(20,500)	725	-
Fund balance, beginning of year	<u>-</u>	<u>597,864</u>	<u>-</u>
Fund balance (deficit), end of year	<u>\$ (20,500)</u>	<u>598,589</u>	<u>-</u>

Special Revenue Funds

Community Development Block Grant	Child Care	Mclean / Hall / Putnam Trust	Total
-	-	-	85,496
-	-	-	55,093
-	-	131	1,602
-	-	1,800	1,800
-	-	1,931	143,991
19,927	-	-	19,927
-	-	-	247,543
-	-	-	6,800
-	-	6,160	9,970
260	-	-	20,760
20,187	-	6,160	305,000
(20,187)	-	(4,229)	(161,009)
-	-	-	116,818
-	-	-	116,818
(20,187)	-	(4,229)	(44,191)
-	138	57,912	655,914
(20,187)	138	53,683	611,723

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, 2016

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Intergovernmental revenue	\$ 1,000,000	-	(1,000,000)
Total revenues	<u>1,000,000</u>	<u>-</u>	<u>(1,000,000)</u>
Expenditures:			
Current:			
Capital expenditures	\$ 15,000	20,500	(5,500)
Total expenditures	<u>15,000</u>	<u>20,500</u>	<u>(5,500)</u>
Net change in fund balance	985,000	(20,500)	(1,005,500)
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance (deficit), end of year	<u>\$ 985,000</u>	<u>(20,500)</u>	<u>(1,005,500)</u>

CITY OF AVALON

Street Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year ended June 30, 2016

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Taxes	\$ 86,018	85,496	(522)
Investment income	50	1,471	1,421
Total revenues	<u>86,068</u>	<u>86,967</u>	<u>899</u>
Expenditures:			
Current:			
Public works	<u>607,006</u>	<u>86,242</u>	<u>520,764</u>
Total expenditures	<u>607,006</u>	<u>86,242</u>	<u>520,764</u>
Net change in fund balance	(520,938)	725	521,663
Fund balance, beginning of year	<u>597,864</u>	<u>597,864</u>	<u>-</u>
Fund balance, end of year	<u>\$ 76,926</u>	<u>598,589</u>	<u>521,663</u>

CITY OF AVALON

Traffic Control and Safety Special Revenue Funds

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year ended June 30, 2016

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Fines, forfeitures and penalties	\$ 86,100	55,093	(31,007)
Total revenues	<u>86,100</u>	<u>55,093</u>	<u>(31,007)</u>
Expenditures:			
Current:			
Public works	197,319	161,301	36,018
Contract services	8,750	6,800	1,950
Special departmental	<u>2,000</u>	<u>3,810</u>	<u>(1,810)</u>
Total expenditures	<u>208,069</u>	<u>171,911</u>	<u>36,158</u>
Excess of revenues over (under) expenditures	<u>(121,969)</u>	<u>(116,818)</u>	<u>5,151</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	<u>121,969</u>	<u>116,818</u>	<u>(5,151)</u>
Total other financing sources (uses)	<u>121,969</u>	<u>116,818</u>	<u>(5,151)</u>
Net change in fund balance	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance (deficit), end of year	<u>\$ -</u>	<u>-</u>	<u>-</u>

CITY OF AVALON

Community Development Block Grant Special Revenue Funds
 Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
 Year ended June 30, 2016

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Intergovernmental revenue	\$ 100,000	-	(100,000)
Charges for services	3,500	-	(3,500)
Other revenue	<u>2,500</u>	<u>-</u>	<u>(2,500)</u>
Total revenues	<u>106,000</u>	<u>-</u>	<u>(106,000)</u>
Expenditures:			
Current:			
Community services	21,000	19,927	1,073
Capital outlay	<u>100,000</u>	<u>260</u>	<u>99,740</u>
Total expenditures	<u>121,000</u>	<u>20,187</u>	<u>100,813</u>
Excess of revenues over (under) expenditures	(15,000)	(20,187)	(5,187)
OTHER FINANCING SOURCES (USES):			
Transfers in	<u>15,000</u>	<u>-</u>	<u>(15,000)</u>
Total other financing sources (uses)	<u>15,000</u>	<u>-</u>	<u>(15,000)</u>
Net change in fund balance	-	(20,187)	(20,187)
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance (deficit), end of year	<u>\$ -</u>	<u>(20,187)</u>	<u>(20,187)</u>

CITY OF AVALON

Child Care Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year ended June 30, 2016

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Investment income	\$ -	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>
 Net change in fund balance	 -	 -	 -
 Fund balance, beginning of year	 <u>138</u>	 <u>138</u>	 <u>-</u>
Fund balance, end of year	<u>\$ 138</u>	<u>138</u>	<u>-</u>

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, 2016

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Investment income	\$ 100	131	31
Other revenue	<u>4,600</u>	<u>1,800</u>	<u>(2,800)</u>
Total revenues	<u>4,700</u>	<u>1,931</u>	<u>(2,769)</u>
 EXPENDITURES:			
Current:			
Special departmental	<u>2,500</u>	<u>6,160</u>	<u>(3,660)</u>
Total expenditures	<u>2,500</u>	<u>6,160</u>	<u>(3,660)</u>
 Net change in fund balance	2,200	(4,229)	(6,429)
 Fund balance, beginning of year	<u>57,912</u>	<u>57,912</u>	<u>-</u>
Fund balance, end of year	<u>\$ 60,112</u>	<u>53,683</u>	<u>(6,429)</u>

CITY OF AVALON

Nonmajor Governmental Funds

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, 2016

	General Administration	Insurance	Vehicle Maintenance	Total
Assets:				
Current Assets:				
Cash and investments	\$ -	582,544	452,390	1,034,934
Total current assets	<u>-</u>	<u>582,544</u>	<u>452,390</u>	<u>1,034,934</u>
Noncurrent assets:				
Capital assets, net	40,466	-	556,289	596,755
Total noncurrent assets	<u>40,466</u>	<u>-</u>	<u>556,289</u>	<u>596,755</u>
Total assets	<u>40,466</u>	<u>582,544</u>	<u>1,008,679</u>	<u>1,631,689</u>
Liabilities:				
Current liabilities:				
Accounts payable	81,568	8,598	102,318	192,484
Accrued liabilities	13,896	29,492	242	43,630
Due to other funds	28,481	-	-	28,481
Current portion of noncurrent liabilities	-	39,600	-	39,600
Total current liabilities	<u>123,945</u>	<u>77,690</u>	<u>102,560</u>	<u>304,195</u>
Noncurrent liabilities:				
Claims payable	-	250,000	-	250,000
Total noncurrent liabilities	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>250,000</u>
Total liabilities	<u>123,945</u>	<u>327,690</u>	<u>102,560</u>	<u>554,195</u>
Net Position:				
Investment in capital assets	40,466	-	556,289	596,755
Unrestricted	<u>(123,945)</u>	<u>254,854</u>	<u>349,830</u>	<u>480,739</u>
Total net position	<u>\$ (83,479)</u>	<u>254,854</u>	<u>906,119</u>	<u>1,077,494</u>

CITY OF AVALON
Internal Service Funds
Combining Statement of Revenues, Expenses, and Changes in Net Position
Year ended June 30, 2016

	General Administration	Insurance	Vehicle Maintenance	Total
Operating revenues:				
Charges for services	\$ 1,734,722	538,073	463,300	2,736,095
Other revenue	-	-	1,500	1,500
Total operating revenues	<u>1,734,722</u>	<u>538,073</u>	<u>464,800</u>	<u>2,737,595</u>
Operating expenses:				
Salaries and benefits	908,340	-	104,448	1,012,788
Contractual services	586,749	217,674	-	804,423
Office supplies	80,665	-	-	80,665
Utilities and rent	85,770	-	66,362	152,132
Repairs and maintenance	-	-	185,881	185,881
Operating supplies	93,239	-	7,347	100,586
Other services and charges	51,516	233,028	1,545	286,089
Depreciation	12,006	-	130,240	142,246
Total operating expenses	<u>1,818,285</u>	<u>450,702</u>	<u>495,823</u>	<u>2,764,810</u>
Operating income (loss)	<u>(83,563)</u>	<u>87,371</u>	<u>(31,023)</u>	<u>(27,215)</u>
Nonoperating revenues (expenses):				
Interest income	84	961	1,065	2,110
Total nonoperating revenues (expenses)	<u>84</u>	<u>961</u>	<u>1,065</u>	<u>2,110</u>
Changes in net position	(83,479)	88,332	(29,958)	(25,105)
Net position, beginning of year	-	166,522	936,077	1,102,599
Net position (deficit), end of year	<u>\$ (83,479)</u>	<u>254,854</u>	<u>906,119</u>	<u>1,077,494</u>

CITY OF AVALON
Combining Statement of Cash Flows
Internal Service Funds
Year ended June 30, 2016

	General Administration	Insurance	Vehicle Maintenance	Totals
Cash Flows from Operating Activities:				
Cash received from interfund services provided	\$ 1,734,722	538,073	464,800	2,737,595
Cash payments to suppliers for goods and services	(924,489)	(505,961)	(169,991)	(1,600,441)
Cash payments to employees for services	(908,340)	-	(104,448)	(1,012,788)
Net cash provided by operating activities	<u>(98,107)</u>	<u>32,112</u>	<u>190,361</u>	<u>124,366</u>
Cash Flows from Noncapital Financing Activities:				
Cash received from other funds	28,481	-	-	28,481
Net cash provided by noncapital financing activities	<u>28,481</u>	<u>-</u>	<u>-</u>	<u>28,481</u>
Cash Flows from Capital and Related Financing Activities:				
Cash payments to acquire capital and other assets	(11,821)	-	(84,773)	(96,594)
Net cash provided by capital and related financing activities	<u>(11,821)</u>	<u>-</u>	<u>(84,773)</u>	<u>(96,594)</u>
Cash Flows from Investing Activities:				
Interest in investments	165	1,365	1,296	2,826
Net increase (decrease) in cash and cash equivalents	(81,282)	33,477	106,884	59,079
Cash and cash equivalents, beginning of year	81,282	549,067	345,506	975,855
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>582,544</u>	<u>452,390</u>	<u>1,034,934</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating income (loss)	\$ (83,563)	87,371	(31,023)	(27,215)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	12,006	-	130,240	142,246
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable	27,973	-	1,395	29,368
Increase (decrease) in accounts payable	(41,806)	5,030	89,537	52,761
Increase (decrease) in accrued liabilities	(12,717)	246	212	(12,259)
Increase (decrease) in claims payable	-	(60,535)	-	(60,535)
Net Cash Provided by Operating Activities:	<u>\$ (98,107)</u>	<u>32,112</u>	<u>190,361</u>	<u>124,366</u>

There were no significant noncash capital, investing or financing activities for the year ended June 30, 2016.