

**CITY OF AVALON, CALIFORNIA**

Financial Statements  
With Independent Auditor's Report

Year ended June 30, 2017

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# CITY OF AVALON

## Basic Financial Statements and Supplemental Data

Year ended June 30, 2017

### TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditors' Report	1
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	12
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Proprietary Funds:	
Statement of Net Position	20
Statement of Revenues, Expenses and Changes in Net Position	22
Statement of Cash Flows	24
Private Purpose Trust Fund:	
Statement of Fiduciary Net Position	26
Statement of Changes in Fiduciary Net Position	27
Notes to Basic Financial Statements	28
Required Supplementary Information:	
Pension Plan:	
Schedule of the Plan's Proportionated Share of the Net Pension Liability	71
Schedule of Plan Contributions	73
Budget to Actual Schedules:	
General Fund	75
Local Transportation Special Revenue Fund	76
Avalon Housing Authority Special Revenue Fund	77
Notes to Required Supplementary Information	78
Other Information:	
Combining and Individual Fund Financial Statements and Schedules:	
Nonmajor Governmental Funds:	
Combining Balance Sheet	80
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	82

**CITY OF AVALON**

Basic Financial Statements and Supplemental Data

Year ended June 30, 2017

TABLE OF CONTENTS  
(CONTINUED)

	<u>Page Number</u>
Schedules of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual:	
Capital Grant Fund	84
Street Special Revenue Fund	85
Traffic Control and Safety Special Revenue Fund	86
Community Development Block Grant Special Revenue Fund	87
Child Care Special Revenue Fund	88
Mclean / Hall / Putnam Trust Fund	89
 Internal Service Funds:	
Combining Statement of Net Position	91
Combining Statement of Revenues, Expenses and Changes in Net Position	92
Combining Statement of Cash Flows	93

## **INDEPENDENT AUDITOR'S REPORT**

City Council  
City of Avalon  
Avalon, California

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

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Avalon Medical Development Corporation ("Hospital"), a discretely presented component unit, which represent 9.7%, 7.8% and 38.3% 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.

### ***Basis for Qualified Opinion***

The financial statements of the Avalon Development Medical Corporation for the year ended June 30, 2017, a discretely presented component unit of the City, were audited by other auditors whose report contained a qualified opinion on the financial statements as the financial statements did not include financial data for the Avalon Development Medical Corporation's legally separate component unit, Leo's Catalina Drug Store, Inc. Accounting principles generally accepted in the United States of America require the financial data for Leo's Catalina Drug Store, Inc. to be reported with the financial data of the Avalon Development Medical Corporation. Because of this departure from accounting principles generally accepted in the United States of America, and the materiality of Avalon Development Medical Corporation to the City's financial data, we were unable to satisfy ourselves that the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses of the Avalon Development Medical Corporation were fairly stated.

### ***Opinions***

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of a Matter***

As described further in note 13, the financial statements for the year ended June 30, 2017 reflect certain prior period adjustments to the financial statements. Our opinion is not modified with respect to these matters.

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

We have previously audited the City's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 18, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 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 to Actual 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 February 7, 2019 on our consideration of the City of Avalon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Avalon's internal control over financial reporting and compliance.



Irvine, California  
February 7, 2019

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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, 2017  
(With comparative information for the prior year)

	Primary Government				Discrete Component Unit
	Governmental Activities	Business-type Activities	Totals		Avalon Medical Development Corporation
			2017	2016	
<b>Assets:</b>					
<b>Current assets:</b>					
Cash and investments (note 2)	\$ 9,768,260	5,701,877	15,470,137	17,036,951	1,611,509
Restricted cash and investments (note 2)	-	2,111,919	2,111,919	-	-
<b>Receivables net:</b>					
Accounts	256,445	627,971	884,416	1,597,927	1,724,498
Taxes	2,039,876	107,502	2,147,378	1,162,196	-
Interest	15,687	7,069	22,756	16,738	-
Due from other governments	-	-	-	655,323	198,929
Due from ACIA Successor Agency (note 3)	763,840	-	763,840	-	-
Advances to ACIA Successor Agency (note 3)	1,099,374	-	1,099,374	1,147,538	-
Notes receivable	592,000	-	592,000	292,000	-
Internal balances	484,562	(484,562)	-	-	-
Inventories	-	-	-	-	66,691
Land held for resale	2,852,600	-	2,852,600	2,852,600	-
Prepaid items	-	-	-	-	60,727
<b>Noncurrent assets (note 4):</b>					
Capital assets, not being depreciated	116,720	3,887,798	4,004,518	2,510,979	538,661
Capital assets, net of accumulated depreciation	16,549,078	9,513,486	26,062,564	24,658,895	1,238,461
<b>Total assets</b>	<u>34,538,442</u>	<u>21,473,060</u>	<u>56,011,502</u>	<u>51,931,147</u>	<u>5,439,476</u>
<b>Deferred Outflows of Resources (note 6):</b>					
Deferred outflows - pension related	1,557,131	1,399,954	2,957,085	1,120,721	-
<b>Total deferred outflows of resources</b>	<u>1,557,131</u>	<u>1,399,954</u>	<u>2,957,085</u>	<u>1,120,721</u>	<u>-</u>
<b>Liabilities:</b>					
<b>Current liabilities:</b>					
Accounts payable	660,831	1,067,863	1,728,694	1,237,712	359,359
Interest payable	11,079	20,324	31,403	26,835	-
Accrued liabilities	246,658	129,371	376,029	500,542	417,801
Unearned revenue	-	136,642	136,642	183,774	-
Due to component unit	-	-	-	113,200	-
<b>Noncurrent liabilities:</b>					
Due within one year (note 5)	387,529	308,841	696,370	624,495	249,147
Due in more than one year (note 5)	3,234,294	1,666,814	4,901,108	4,024,568	1,567,579
Landfill closure obligation	-	3,910,849	3,910,849	-	-
Net pension liability (note 6)	4,918,863	4,301,995	9,220,858	7,704,422	-
<b>Total liabilities</b>	<u>9,459,254</u>	<u>11,542,699</u>	<u>21,001,953</u>	<u>14,415,548</u>	<u>2,593,886</u>
<b>Deferred Inflows of Resources (note 6):</b>					
Deferred inflows - pension related	792,004	695,863	1,487,867	715,111	-
<b>Total deferred inflows of resources</b>	<u>792,004</u>	<u>695,863</u>	<u>1,487,867</u>	<u>715,111</u>	<u>-</u>
<b>Net Position:</b>					
Net investment in capital assets	15,834,015	12,875,974	28,709,989	26,471,112	1,777,122
<b>Restricted for:</b>					
Low and moderate income housing	9,000,663	-	9,000,663	8,980,482	-
Community development	138	-	138	138	-
Capital Projects	57,378	-	57,378	443,211	-
Transportation	589,168	-	589,168	630,641	-
<b>Unrestricted</b>	<u>362,953</u>	<u>(2,241,522)</u>	<u>(1,878,569)</u>	<u>1,395,625</u>	<u>1,068,468</u>
<b>Total net position</b>	<u>\$ 25,844,315</u>	<u>10,634,452</u>	<u>36,478,767</u>	<u>37,921,209</u>	<u>2,845,590</u>

See accompanying notes to the financial statements

**CITY OF AVALON**  
Statement of Activities  
Year ended June 30, 2017  
(With comparative information for the prior year)

Functions/programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental activities:				
Public safety	\$ 2,056,215	186,619	172,424	-
Fire and ambulance	3,069,570	338,104	-	-
Planning, building and engineering	675,980	414,048	-	1,100,000
Community services	565,879	55,294	-	1,388,335
Public works	1,975,145	28,332	-	17,412
Transportation	1,265,438	-	1,233,578	-
General government	2,790,285	41,088	-	-
Total governmental activities	<u>12,398,512</u>	<u>1,063,485</u>	<u>1,406,002</u>	<u>2,505,747</u>
Business-type activities:				
Harbor	9,221,314	8,112,479	146,470	-
Sewer	2,511,536	2,473,133	-	-
Saltwater	754,575	654,569	-	-
Solidwaste	1,900,826	1,935,644	10,000	-
Avalon Transit	540,690	88,194	-	-
Total business-type activities	<u>14,928,941</u>	<u>13,264,019</u>	<u>156,470</u>	<u>-</u>
Total primary government	<u>\$ 27,327,453</u>	<u>14,327,504</u>	<u>1,562,472</u>	<u>2,505,747</u>
<b>Discrete Component Unit:</b>				
Avalon Medical Development Corporation	\$ 11,480,519	8,483,295	555,399	79,656

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 13)

Net position, end of year

See accompanying notes to the financial statements

Net (Expense) Revenue and Changes in Net Position

Primary Government				Discrete Component
Governmental Activities	Business-type Activities	Totals		Unit
		2017	2016	Avalon Medical Development Corporation
(1,697,172)	-	(1,697,172)	(1,065,008)	-
(2,731,466)	-	(2,731,466)	(2,236,060)	-
838,068	-	838,068	(676,292)	-
877,750	-	877,750	(222,423)	-
(1,929,401)	-	(1,929,401)	(672,804)	-
(31,860)	-	(31,860)	590,591	-
(2,749,197)	-	(2,749,197)	(4,453,786)	-
<u>(7,423,278)</u>	<u>-</u>	<u>(7,423,278)</u>	<u>(8,735,782)</u>	<u>-</u>
-	(962,365)	(962,365)	45,262	-
-	(38,403)	(38,403)	(595,448)	-
-	(100,006)	(100,006)	23,658	-
-	44,818	44,818	203,946	-
-	(452,496)	(452,496)	795,353	-
-	(1,508,452)	(1,508,452)	472,771	-
<u>(7,423,278)</u>	<u>(1,508,452)</u>	<u>(8,931,730)</u>	<u>(8,263,011)</u>	<u>-</u>
-	-	-	-	(2,362,169)
620,272	-	620,272	1,163,212	-
1,543,489	-	1,543,489	1,703,660	831,982
5,310,656	-	5,310,656	4,915,216	-
1,333,246	260,505	1,593,751	1,559,177	-
54,995	87,651	142,646	424,830	-
59,358	-	59,358	1,285,566	-
(1,350,248)	1,350,248	-	-	-
<u>7,571,768</u>	<u>1,698,404</u>	<u>9,270,172</u>	<u>11,051,661</u>	<u>831,982</u>
148,490	189,952	338,442	2,788,650	(1,530,187)
<u>25,695,825</u>	<u>10,444,500</u>	<u>36,140,325</u>	<u>35,132,559</u>	<u>4,375,777</u>
<u>25,844,315</u>	<u>10,634,452</u>	<u>36,478,767</u>	<u>37,921,209</u>	<u>2,845,590</u>

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, 2017  
(With comparative information for the prior year)

	General Fund	Special Revenue Funds	
		Local Transportation Fund	Avalon Housing Authority
<b>Assets:</b>			
Cash and investments	\$ 3,289,174	384	4,765,784
Receivables, net:			
Accounts	53,290	200,189	-
Taxes	2,039,876	-	-
Interest	4,855	-	10,366
Notes receivable	300,000	-	292,000
Due from other governments	-	-	-
Due from ACIA Successor Agency (note 3)	757,797	-	6,043
Due from other funds (note 3)	583,439	-	-
Advances to ACIA Successor Agency (note 3)	-	-	1,099,374
Land held for resale and other assets	-	-	2,852,600
<b>Total assets</b>	<u>\$ 7,028,431</u>	<u>200,573</u>	<u>9,026,167</u>
<b>Liabilities:</b>			
Accounts payable	\$ 412,722	30,416	1,504
Interest payable	-	-	-
Accrued liabilities	175,105	-	-
Due to other funds (note 3)	-	169,965	24,000
Due to component unit - sales tax	-	-	-
<b>Total liabilities</b>	<u>587,827</u>	<u>200,381</u>	<u>25,504</u>
<b>Deferred Inflows of Resources:</b>			
Unavailable revenue	1,777,863	-	-
<b>Total deferred inflows of resources</b>	<u>1,777,863</u>	<u>-</u>	<u>-</u>
<b>Fund Balances:</b>			
<b>Non-spendable:</b>			
Due from ACIA Successor Agency	757,797	-	-
Due from Hospital	300,000	-	-
<b>Restricted:</b>			
Low and moderate income housing	-	-	9,000,663
Community development	-	-	-
Capital projects	-	-	-
Street projects	-	192	-
Unassigned	3,604,944	-	-
<b>Total fund balances</b>	<u>4,662,741</u>	<u>192</u>	<u>9,000,663</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ 7,028,431</u>	<u>200,573</u>	<u>9,026,167</u>

See accompanying notes to the financial statements



Nonmajor Governmental Funds	Totals	
	2017	2016
662,808	8,718,150	11,010,400
2,966	256,445	963,262
-	2,039,876	1,058,613
-	15,221	16,738
-	592,000	292,000
-	-	655,323
-	763,840	-
-	583,439	1,581,338
-	1,099,374	1,147,538
-	2,852,600	2,852,600
<u>665,774</u>	<u>16,920,945</u>	<u>19,577,812</u>
30,617	475,259	453,766
-	-	-
3,236	178,341	315,119
178,848	372,813	1,364,355
-	-	113,200
<u>212,701</u>	<u>1,026,413</u>	<u>2,246,440</u>
-	1,777,863	389,528
-	1,777,863	389,528
-	757,797	-
-	300,000	292,000
-	9,000,663	8,980,482
138	138	138
57,378	57,378	53,683
588,976	589,168	630,641
(193,419)	3,411,525	6,984,900
<u>453,073</u>	<u>14,116,669</u>	<u>16,941,844</u>
<u>665,774</u>	<u>16,920,945</u>	<u>19,577,812</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, 2017

Fund balances of governmental funds	\$ 14,116,669
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	28,278,333
Accumulated depreciation	(12,201,746)
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	
	1,777,863
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Compensated absences	(349,146)
Capital lease payable	(831,783)
Interest payable	(11,079)
Other post employment benefits	(1,994,137)
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 - pension	1,521,470
Deferred inflows - pension	(773,179)
Net pension liability	(4,801,107)
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.	
	816,097
Internal service fund receivables/payables representing the cumulative crossover effect of involvement with business-type activities.	
	296,060
Net position of governmental activities	\$ 25,844,315

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, 2017  
(With comparative information for the prior year)

	General Fund	Special Revenue Funds	
		Local Transportation Fund	Avalon Housing Authority
Revenues:			
Taxes	\$ 8,665,560	-	-
Licenses, permits and fees	569,623	-	-
Fines, forfeitures and penalties	8,851	-	-
Investment income	7,407	-	39,679
Intergovernmental revenue	192,516	1,233,578	-
Charges for services	421,730	-	-
Other revenue	35,098	-	18,089
Total revenues	<u>9,900,785</u>	<u>1,233,578</u>	<u>57,768</u>
Expenditures:			
Current:			
Public safety	1,714,072	-	-
Fire and ambulance	2,741,670	-	-
Planning, building and engineering	930,193	-	-
Community services	509,605	-	-
Public works	1,487,515	-	-
Transportation	-	1,265,438	-
General government:			
Services and charges	1,832,578	-	-
Contract services	862,466	-	37,587
Special departmental	28,882	-	-
Other	517,516	-	-
Capital expenditures	2,503,359	-	-
Debt service:			
Principal	134,468	-	-
Interest	9,309	-	-
Total expenditures	<u>13,271,633</u>	<u>1,265,438</u>	<u>37,587</u>
Excess of revenues over (under) expenditures	<u>(3,370,848)</u>	<u>(31,860)</u>	<u>20,181</u>
Other Financing Sources (Uses):			
Proceeds from capital leases	966,250	-	-
Transfers in (note 3)	-	-	-
Transfers out (note 3)	<u>(250,248)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>716,002</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(2,654,846)	(31,860)	20,181
Fund balance, beginning of year	<u>7,317,587</u>	<u>32,052</u>	<u>8,980,482</u>
Fund balance, end of year	<u>\$ 4,662,741</u>	<u>192</u>	<u>9,000,663</u>

See accompanying notes to the financial statements

Nonmajor Governmental Funds	Totals	
	2017	2016
75,640	8,741,200	9,048,850
-	569,623	440,450
63,281	72,132	63,340
3,683	50,769	405,286
1,100,000	2,526,094	2,829,007
-	421,730	421,749
69,954	123,141	1,284,066
<u>1,312,558</u>	<u>12,504,689</u>	<u>14,492,748</u>
-	1,714,072	1,632,760
-	2,741,670	2,508,005
-	930,193	944,372
18,385	527,990	208,905
319,986	1,807,501	1,381,382
	1,265,438	1,115,805
-	1,832,578	629,535
12,094	912,147	2,092,905
8,175	37,057	71,675
-	517,516	106,884
12,568	2,515,927	1,292,360
-	134,468	-
-	9,309	-
<u>371,208</u>	<u>14,945,866</u>	<u>11,984,588</u>
<u>941,350</u>	<u>(2,441,177)</u>	<u>2,508,160</u>
-	966,250	-
-	-	116,818
<u>(1,100,000)</u>	<u>(1,350,248)</u>	<u>(468,058)</u>
<u>(1,100,000)</u>	<u>(383,998)</u>	<u>(351,240)</u>
(158,650)	(2,825,175)	2,156,920
<u>611,723</u>	<u>16,941,844</u>	<u>14,784,924</u>
<u>453,073</u>	<u>14,116,669</u>	<u>16,941,844</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, 2017

Net changes in fund balances - total governmental funds \$ (2,825,175)

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	1,902,481
Depreciation expense	(410,631)

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:

Principal payments	(831,783)
Interest on capital lease	(11,079)
Change in compensated absences	10,668
Change in OPEB obligation	(205,601)
Change in net pension liability and related amounts	1,280,624

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.

1,388,335

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.

(261,397)

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

112,048

Change in net position of governmental activities

\$ 148,490

## 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, 2017**  
(With comparative information for the prior year)

	Business-type Activities			
	Harbor	Sewer	Saltwater	Solidwaste
<b>Assets:</b>				
<b>Current Assets:</b>				
Cash and investments	\$ 2,689,202	1,217,594	396,247	1,321,044
Restricted cash and investments	-	-	-	2,111,919
<b>Receivables, net:</b>				
Accounts	564,767	1,970	591	9,274
Taxes	34,748	31,174	5,983	35,597
Interest	3,621	1,983	452	1,013
Total current assets	<u>3,292,338</u>	<u>1,252,721</u>	<u>403,273</u>	<u>3,478,847</u>
<b>Noncurrent assets:</b>				
Capital assets, not being depreciated	3,038,844	63,161	785,793	-
Capital assets, net of accumulated depreciation	<u>3,865,048</u>	<u>3,580,809</u>	<u>475,064</u>	<u>418,464</u>
Total noncurrent assets	<u>6,903,892</u>	<u>3,643,970</u>	<u>1,260,857</u>	<u>418,464</u>
Total assets	<u>10,196,230</u>	<u>4,896,691</u>	<u>1,664,130</u>	<u>3,897,311</u>
<b>Deferred Outflows of Resources:</b>				
Deferred outflows - pension related	<u>1,269,196</u>	<u>71,323</u>	<u>59,435</u>	<u>-</u>
Total deferred outflows of resources	<u>1,269,196</u>	<u>71,323</u>	<u>59,435</u>	<u>-</u>
<b>Liabilities:</b>				
<b>Current liabilities:</b>				
Accounts payable	198,763	184,225	430,261	122,494
Interest payable	16,506	3,818	-	-
Other liabilities	-	-	-	-
Accrued liabilities	97,305	18,827	13,239	-
Unearned revenue	136,642	-	-	-
Due to other funds (note 3)	-	-	-	-
Current portion of noncurrent liabilities	<u>212,727</u>	<u>91,458</u>	<u>4,656</u>	<u>-</u>
Total current liabilities	<u>661,943</u>	<u>298,328</u>	<u>448,156</u>	<u>122,494</u>
<b>Noncurrent liabilities:</b>				
Compensated absences	134,135	5,886	5,690	-
Capital lease liability	-	63,526	-	-
Net pension liability	3,870,221	235,513	196,261	-
OPEB obligation	979,523	128,282	41,611	-
Claims payable	11,000	-	-	-
Loans payable	297,161	-	-	-
Landfill closure obligation (note 11)	-	-	-	3,910,849
Total noncurrent liabilities	<u>5,292,040</u>	<u>433,207</u>	<u>243,562</u>	<u>3,910,849</u>
Total liabilities	<u>5,953,983</u>	<u>731,535</u>	<u>691,718</u>	<u>4,033,343</u>
<b>Deferred Inflows of Resources:</b>				
Deferred inflows - pension related	<u>626,836</u>	<u>37,651</u>	<u>31,376</u>	<u>-</u>
Total deferred inflows of resources	<u>626,836</u>	<u>37,651</u>	<u>31,376</u>	<u>-</u>
<b>Net Position:</b>				
Net investment in capital assets	6,503,750	3,518,802	1,260,857	418,464
Unrestricted	<u>(1,619,143)</u>	<u>680,026</u>	<u>(260,386)</u>	<u>(554,496)</u>
Total net position	<u>\$ 4,884,607</u>	<u>4,198,828</u>	<u>1,000,471</u>	<u>(136,032)</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



Avalon Transit	Total Enterprise Funds		Governmental Activities - Internal Service Funds	
	2017	2016	2017	2016
77,790	5,701,877	4,991,617	1,050,110	1,034,934
-	2,111,919	-	-	-
51,369	627,971	634,665	-	-
-	107,502	103,583	-	-
-	7,069	-	466	-
<u>129,159</u>	<u>8,556,338</u>	<u>5,729,865</u>	<u>1,050,576</u>	<u>1,034,934</u>
-	3,887,798	1,458,006	-	-
<u>1,174,101</u>	<u>9,513,486</u>	<u>10,530,376</u>	<u>589,211</u>	<u>596,755</u>
<u>1,174,101</u>	<u>13,401,284</u>	<u>11,988,382</u>	<u>589,211</u>	<u>596,755</u>
<u>1,303,260</u>	<u>21,957,622</u>	<u>17,718,247</u>	<u>1,639,787</u>	<u>1,631,689</u>
-	1,399,954	238,839	35,661	-
-	1,399,954	238,839	35,661	-
132,120	1,067,863	591,462	185,572	192,484
-	20,324	26,835	-	-
-	-	-	-	-
-	129,371	141,793	68,317	43,630
-	136,642	183,774	-	-
188,502	188,502	188,502	22,124	28,481
-	308,841	369,842	39,600	39,600
<u>320,622</u>	<u>1,851,543</u>	<u>1,502,208</u>	<u>315,613</u>	<u>304,195</u>
-	145,711	306,127	-	-
-	63,526	125,169	-	-
-	4,301,995	2,048,162	117,756	-
-	1,149,416	994,335	-	-
-	11,000	15,500	407,157	250,000
-	297,161	400,140	-	-
-	3,910,849	-	-	-
-	9,879,658	3,889,433	524,913	250,000
<u>320,622</u>	<u>11,731,201</u>	<u>5,391,641</u>	<u>840,526</u>	<u>554,195</u>
-	695,863	156,049	18,825	-
-	695,863	156,049	18,825	-
1,174,101	12,875,974	11,289,620	589,211	596,755
(191,463)	(1,945,462)	1,119,776	226,886	480,739
<u>982,638</u>	<u>10,930,512</u>	<u>12,409,396</u>	<u>816,097</u>	<u>1,077,494</u>
	(296,060)	(184,012)		
	<u>\$ 10,634,452</u>	<u>12,225,384</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, 2017  
(With comparative information for the prior year)

	Business-type Activities			
	Harbor	Sewer	Saltwater	Solidwaste
Operating revenues:				
Charges for services	\$ 8,112,479	2,473,133	654,569	1,935,644
Other revenue	2,443	-	-	-
Total operating revenues	<u>8,114,922</u>	<u>2,473,133</u>	<u>654,569</u>	<u>1,935,644</u>
Operating expenses:				
Salaries and benefits	6,072,042	534,719	386,703	44,641
Contractual services	940,507	1,180,391	265,663	1,553,712
Office supplies	4,069	-	-	-
Utilities and rent	474,757	219,909	-	10,920
Repairs and maintenance	519,395	81,942	2,398	193,314
Operating supplies	55,494	1,717	803	-
Other services and charges	760,008	31,492	12,662	19,895
Depreciation	246,727	448,100	82,072	74,070
Total operating expenses	<u>9,072,999</u>	<u>2,498,270</u>	<u>750,301</u>	<u>1,896,552</u>
Operating income (loss)	<u>(958,077)</u>	<u>(25,137)</u>	<u>(95,732)</u>	<u>39,092</u>
Nonoperating revenues (expenses):				
Admissions taxes	207,023	-	-	-
Loss on disposal of capital assets	(35,832)	-	-	-
Grants and other revenues	146,470	-	-	10,000
Interest income	25,027	13,705	3,126	45,793
Interest expense	(18,431)	(3,818)	-	-
Total nonoperating revenues (expenses)	<u>324,257</u>	<u>9,887</u>	<u>3,126</u>	<u>55,793</u>
Income before capital contributions and transfers	(633,820)	(15,250)	(92,606)	94,885
Capital contributions and transfers:				
Transfers in (note 3)	1,100,000	-	-	-
Total capital contributions and transfers	<u>1,100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net position	466,180	(15,250)	(92,606)	94,885
Net position, beginning of year, as restated (note 13)	4,418,427	4,214,078	1,093,077	(230,917)
Net position, end of year	<u>\$ 4,884,607</u>	<u>4,198,828</u>	<u>1,000,471</u>	<u>(136,032)</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	Governmental Activities - Internal			
	Total Enterprise Funds		Service Funds	
	2017	2016	2017	2016
88,194	13,264,019	11,632,783	2,803,303	2,736,095
51,039	53,482	101,262	-	1,500
<u>139,233</u>	<u>13,317,501</u>	<u>11,734,045</u>	<u>2,803,303</u>	<u>2,737,595</u>
16,123	7,054,228	5,091,448	1,257,602	1,012,788
232,293	4,172,566	3,850,821	676,750	804,423
2,775	6,844	4,621	61,250	80,665
-	705,586	609,494	150,699	152,132
6,868	803,917	882,140	199,490	185,881
3,477	61,491	37,098	90,290	100,586
64,534	888,591	1,045,437	562,554	286,089
214,620	1,065,589	977,417	70,291	142,246
<u>540,690</u>	<u>14,758,812</u>	<u>12,498,476</u>	<u>3,068,926</u>	<u>2,764,810</u>
<u>(401,457)</u>	<u>(1,441,311)</u>	<u>(764,431)</u>	<u>(265,623)</u>	<u>(27,215)</u>
-	207,023	191,153	-	-
-	(35,832)	-	-	-
-	156,470	341,181	1,000	-
-	87,651	17,434	3,226	2,110
-	<u>(22,249)</u>	<u>(29,168)</u>	-	-
-	<u>393,063</u>	<u>520,600</u>	<u>4,226</u>	<u>2,110</u>
(401,457)	(1,048,248)	(243,831)	(261,397)	(25,105)
<u>250,248</u>	<u>1,350,248</u>	<u>351,240</u>	-	-
<u>250,248</u>	<u>1,350,248</u>	<u>351,240</u>	-	-
(151,209)	302,000	107,409	(261,397)	(25,105)
<u>1,133,847</u>	<u>10,628,512</u>		<u>1,077,494</u>	<u>1,102,599</u>
<u>982,638</u>	<u>10,930,512</u>		<u>816,097</u>	<u>1,077,494</u>
	<u>(112,048)</u>	<u>56,710</u>		
	<u>\$ 189,952</u>	<u>164,119</u>		

See accompanying notes to the financial statements

**CITY OF AVALON**  
Statement of Cash Flows  
Proprietary Funds  
Year ended June 30, 2017  
(With comparative information for the prior year)

	Harbor	Sewer	Saltwater	Solidwaste
<b>Cash Flows from Operating Activities:</b>				
Cash received from customers	\$ 8,106,732	2,480,845	660,172	1,933,381
Cash received from interfund services provided	-	-	-	-
Cash received for operating grants	-	-	-	10,000
Cash payments to suppliers for goods and services	(2,870,428)	(1,445,212)	(263,124)	(1,634,246)
Cash payments to employees for services	(4,679,938)	(445,238)	(274,354)	(44,641)
Net cash provided by operating activities	<u>556,366</u>	<u>590,395</u>	<u>122,694</u>	<u>264,494</u>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Cash received from admissions taxes	207,023	-	-	-
Cash received from other funds	146,470	-	-	-
Net cash provided by noncapital financing activities	<u>353,493</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Cash received for capital grants	1,100,000	-	-	-
Cash payments to acquire capital and other assets	(1,676,248)	(40,161)	(379,755)	-
Principal paid on capital-related debt	(113,634)	(59,819)	-	-
Interest paid on capital-related debt	(23,118)	(5,642)	-	-
Net cash provided by capital and related financing activities	<u>(713,000)</u>	<u>(105,622)</u>	<u>(379,755)</u>	<u>-</u>
<b>Cash Flows from Investing Activities:</b>				
Interest received on investments	21,406	11,722	2,674	44,780
Net increase (decrease) in cash and cash equivalents	218,265	496,495	(254,387)	309,274
Cash and cash equivalents - beginning	2,470,937	721,099	650,634	3,123,689
Cash and cash equivalents - ending	<u>2,689,202</u>	<u>1,217,594</u>	<u>396,247</u>	<u>3,432,963</u>
<b>Reconciliation of Operating Income (loss) to Net Cash Provided by Operating Activities</b>				
Operating income (loss)	(958,077)	(25,137)	(95,732)	39,092
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	246,727	448,100	82,072	74,070
Other Income	-	-	-	10,000
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable	6,661	2,107	313	(2,300)
(Increase) decrease in taxes receivable	(14,851)	5,605	5,290	37
(Increase) decrease in deferred outflows	(1,053,104)	(56,158)	(51,853)	-
Increase (decrease) in accounts payable	(59,504)	56,876	6,993	(11,628)
Increase (decrease) in accrued liabilities	(37,194)	13,363	11,409	-
Increase (decrease) in compensated absences	(192,644)	(1,805)	(3,137)	-
Increase (decrease) in OPEB obligation	131,174	14,230	9,677	-
Increase (decrease) in unearned revenue	3,907	-	-	-
Increase (decrease) in net pension liability	2,017,122	105,471	131,240	-
Increase (decrease) in deferred inflows	485,649	27,743	26,422	-
Increase (decrease) in due to other funds	-	-	-	-
Increase (decrease) in landfill closure obligation	-	-	-	155,223
Increase (decrease) in claims payable	(19,500)	-	-	-
Net Cash Provided by Operating Activities	<u>\$ 556,366</u>	<u>590,395</u>	<u>122,694</u>	<u>264,494</u>
<b>Noncash capital, financing, and investing activities:</b>				
Capital lease agreement	\$ -	-	-	-
Landfill closure cost amortization	\$ -	-	-	155,223

See accompanying notes to the financial statements

Avalon Transit	Total Enterprise Funds		Governmental Activities - Internal Service Funds	
	2017	2016	2017	2016
139,146	13,320,276	11,947,946	-	-
-	-	-	2,803,303	2,737,595
-	10,000	-	-	-
(33,112)	(6,246,122)	(6,252,963)	(1,582,215)	(1,600,441)
(16,123)	(5,460,294)	(5,084,585)	(1,146,925)	(1,012,788)
<u>89,911</u>	<u>1,623,860</u>	<u>610,398</u>	<u>74,163</u>	<u>124,366</u>
-	207,023	191,153	-	-
-	146,470	539,742	-	28,481
-	<u>353,493</u>	<u>730,895</u>	-	<u>28,481</u>
-	1,100,000	1,310,922	-	-
(12,121)	(2,108,285)	(2,808,433)	(62,747)	(96,594)
-	(173,453)	(166,791)	-	-
-	(28,760)	(35,425)	-	-
<u>(12,121)</u>	<u>(1,210,498)</u>	<u>(1,699,727)</u>	<u>(62,747)</u>	<u>(96,594)</u>
-	80,582	21,308	3,760	2,826
77,790	847,437	(337,126)	15,176	59,079
-	6,966,359	5,328,743	1,034,934	975,855
<u>77,790</u>	<u>7,813,796</u>	<u>4,991,617</u>	<u>1,050,110</u>	<u>1,034,934</u>
(401,457)	(1,441,311)	(764,431)	(265,623)	(27,215)
214,620	1,065,589	977,417	70,291	142,246
250,248	260,248	-	-	-
(87)	6,694	237,736	-	29,368
-	(3,919)	(31,027)	-	-
-	(1,161,115)	56,664	(35,661)	-
77,626	70,363	200,975	(6,912)	52,761
-	(12,422)	6,174	24,687	(12,259)
-	(197,586)	91,750	-	-
-	155,081	167,639	-	-
(51,039)	(47,132)	-	-	-
-	2,253,833	(7,405)	18,825	-
-	539,814	(301,785)	117,756	-
-	-	-	(6,357)	-
-	155,223	-	-	-
-	(19,500)	(23,309)	157,157	(60,535)
<u>89,911</u>	<u>1,623,860</u>	<u>610,398</u>	<u>74,163</u>	<u>124,366</u>
-	-	308,497	-	-
-	155,223	-	-	-

See accompanying notes to the financial statements

**CITY OF AVALON**  
Statement of Fiduciary Net Position  
Private Purpose Trust Fund  
June 30, 2017  
(With comparative information for the prior year)

	2017	2016
<b>Assets:</b>		
Current assets:		
Cash and investments (note 2)	\$ 3,039,109	1,883,593
Interest receivable	50	444
Total current assets	3,039,159	1,884,037
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable	2,700	-
Due to other governments	763,840	265,795
Interest payable	338,484	343,884
Current portion of long-term liabilities:		
Advances from City of Avalon (note 3)	115,825	68,841
Bonds payable (note 5)	1,065,000	920,000
Total current liabilities	2,285,849	1,598,520
Long-term liabilities:		
Advances from City of Avalon (note 3)	983,549	1,078,697
Bonds payable (note 5)	22,570,000	23,635,000
Bond premium	902,644	1,038,432
Total long-term liabilities	24,456,193	25,752,129
Total liabilities	26,742,042	27,350,649
<b>Net Position:</b>		
Held in trust for successor agency	(23,702,883)	(25,466,612)
Total net position (deficit)	\$ (23,702,883)	(25,466,612)

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, 2017  
(With comparative information for the prior year)

	2017	2016
Additions:		
Taxes	\$ 3,427,899	3,424,782
Investment income	1,963	4,009
Total additions	3,429,862	3,428,791
Deductions:		
Community development	777,514	646,112
Interest	888,619	1,364,934
Bond issuance costs	-	566,322
Contributions to other governments	-	996,869
Total deductions	1,666,133	3,574,237
Change in net position	1,763,729	(145,446)
Net position, beginning of year	(25,466,612)	(25,321,166)
Net position, end of year	\$ (23,702,883)	(25,466,612)

See accompanying notes to the financial statements

# CITY OF AVALON

## Notes to the Financial Statements

June 30, 2017

### (1) Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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



# CITY OF AVALON

## Notes to the Financial Statements

(Continued)

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

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

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

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

#### Government-wide Financial Statements

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

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

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

# CITY OF AVALON

## Notes to the Financial Statements

(Continued)

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

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

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

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

#### **Fund Financial Statements**

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

Net position is classified in the following categories:

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

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

# CITY OF AVALON

## Notes to the Financial Statements

(Continued)

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

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

##### 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 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.

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

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

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.

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.

# CITY OF AVALON

## Notes to the Financial Statements

(Continued)

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

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

##### 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.

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.

# CITY OF AVALON

## Notes to the Financial Statements

(Continued)

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

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

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

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

The City reports the following major enterprise funds:

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

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

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

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

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

The City reports the following fund types:

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

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

# CITY OF AVALON

## Notes to the Financial Statements

(Continued)

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

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

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

Additionally, the City reports the following fiduciary fund type:

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

#### (d) Cash and Investments

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

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

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

#### (e) Interfund Transactions

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

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

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

(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.

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.



**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

(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) Deferred Outflows/Inflows of Resources

When applicable, the statement of net position and balance sheet will report a separate section for deferred outflows of resources. Deferred outflows of resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, are not recognized as an expense or expenditure until that time. The City has one item that qualifies for reporting in this category, deferred outflows – pension related.

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 one item that qualifies for reporting in this category, deferred inflows – pension related.

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

**(j) Pensions**

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

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

Valuation Date (VD)	June 30, 2015
Measurement Date (MD)	June 30, 2016
Measurement Period (MP)	June 30, 2015 to June 30, 2016

**(k) Fair Value Measurements**

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

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

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

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

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

(k) Fair Value Measurements (Continued)

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

(l) Use of Estimates

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

(m) Prior Year Data

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

**(2) Cash and Investments**

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

	Primary Government	Discrete Component Unit
Statement of net position	\$ 17,582,056	1,611,509
Statement of fiduciary net position	3,039,109	-
Total cash and investments	<u>\$ 20,621,165</u>	<u>1,611,509</u>

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

Cash and investments at June 30, 2017 consisted of the following:

	Primary Government	Discrete Component Unit
Petty cash	\$ 500	850
Demand deposits	3,267,911	212,015
Investments	15,240,835	1,398,644
Cash and investments with fiscal agent	2,111,919	-
Total cash and investments	<u>\$ 20,621,165</u>	<u>1,611,509</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.

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

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

N/A - Not Applicable

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

Investments Authorized by Debt Agreements

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

Disclosures Relating to Interest Rate Risk

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

<u>Investment Type:</u>	<u>Total</u>	<u>Remaining Maturity</u> <u>(in Months)</u>	
		<u>Within 12</u>	<u>Beyond 12</u>
Primary government:			
LAIF	\$ 10,700,701	10,700,701	-
Certificate of deposits	2,967,409	2,967,409	-
Held by trustee:			
Money market mutual funds	1,572,725	1,572,725	-
Mutual funds	2,111,919	2,111,919	-
Total primary government	<u>\$ 17,352,754</u>	<u>17,352,754</u>	<u>-</u>
Discrete Component Unit:			
LAIF	\$ 408,644	408,644	-
Total discrete component unit	<u>\$ 408,644</u>	<u>408,644</u>	<u>-</u>

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating 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:

Investment Type:	Total	Minimum Legal Rating	Rating	
			AAA	Unrated
Primary government:				
LAIF	\$ 10,700,701	N/A	-	10,700,701
Certificate of deposits	2,967,409	N/A	-	2,967,409
Held by bond trustee:				
Money market mutual funds	1,572,725	A	1,572,725	-
Mutual funds	<u>2,111,919</u>	A	<u>2,111,919</u>	<u>-</u>
Total primary government	<u>\$ 17,352,754</u>		<u>3,684,644</u>	<u>13,668,110</u>
Discrete Component Unit:				
Investment in Leo's Drug Store	\$ 990,000	N/A	-	990,000
LAIF	<u>408,644</u>	N/A	<u>408,644</u>	<u>-</u>
Total discrete component unit	<u>\$ 1,398,644</u>		<u>408,644</u>	<u>990,000</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, 2017:

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
Certificates of deposit	\$ -	2,967,409	-	2,967,409
Held by trustee:				
Money market mutual funds	-	1,572,725	-	1,572,725
Mutual funds	2,111,919	-	-	2,111,919
Investments not subject to fair value hierarchy	-	-	-	10,700,701
Discrete Component Unit:				
Investment in Leo's Drug Store	-	-	990,000	990,000
Investment not subject to fair market value hierarchy	<u>-</u>	<u>-</u>	<u>-</u>	<u>408,644</u>
Total investments	<u>2,111,919</u>	<u>4,540,134</u>	<u>-</u>	<u>17,352,754</u>

# CITY OF AVALON

## Notes to the Financial Statements

(Continued)

### (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, 2017, 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

(Continued)

**(3) Interfund Balances and Transfers**

The composition of interfund balances as of June 30, 2017 is as follows:

Advances to other funds	Advances from other funds	Amount
Avalon Housing Authority	ACIA Successor Agency	\$ 1,099,374 (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	\$ 169,965 (a)
Avalon Housing Authority	General Fund	24,000 (b)
Avalon Transit Fund	General Fund	188,502 (a)
Non-Major Gov't Funds	General Fund	178,848 (a)
Internal Service Funds	General Fund	22,124 (a)
		\$ 583,439

- (a) These amounts due to the General Fund are short term borrowings to cover negative cash balances.
- (b) This amount due to the General Fund is a short term borrowing to cover administrative expenses.

Transfers in	Transfers out	Amount
Avalon Transit Fund	General Fund	\$ 250,248 (a)
Harbor Fund	Non-Major Gov't Funds	1,100,000 (b)
		\$ 1,350,248

- (a) To transfer funds from the General fund to the Avalon Transit fund to cover operating expenses.
- (b) To transfer funds from the Capital Projects fund to the Harbor fund to cover capital expenses in the Harbor Fund.



**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

**(4) Capital Assets**

A summary of changes in the capital assets at June 30, 2017 is as follows:

Governmental Activities:	Balance at 7/1/2016	Additions	Deletions	Tranfers	Balance at 6/30/2017
Non-depreciable assets:					
Construction in progress	\$ 1,052,973	200,943	-	(1,137,196)	116,720
Total non-depreciable assets	<u>1,052,973</u>	<u>200,943</u>	<u>-</u>	<u>(1,137,196)</u>	<u>116,720</u>
Depreciable assets:					
Building and improvements	9,557,107	6,491	-	-	9,563,598
Improvements other than buildings	14,102,483	2,341,488	(12,529)	1,137,196	17,568,638
Machinery and equipment	4,517,807	88,069	(777,119)	-	3,828,757
Total depreciable assets	<u>28,177,397</u>	<u>2,436,048</u>	<u>(789,648)</u>	<u>1,137,196</u>	<u>30,960,993</u>
Less accumulated depreciation:					
Buildings and improvements	(3,074,655)	(252,756)	-	-	(3,327,411)
Improvements other than buildings	(7,316,133)	(691,961)	12,529	-	(7,995,565)
Machinery and equipment	(3,658,090)	(207,968)	777,119	-	(3,088,939)
Total accumulated depreciation	<u>(14,048,878)</u>	<u>(1,152,685)</u>	<u>789,648</u>	<u>-</u>	<u>(14,411,915)</u>
Total depreciable assets	<u>14,128,519</u>	<u>1,283,363</u>	<u>-</u>	<u>1,137,196</u>	<u>16,549,078</u>
Total capital assets	<u>\$ 15,181,492</u>	<u>1,484,306</u>	<u>-</u>	<u>-</u>	<u>16,665,798</u>

  

Business-Type Activities	Balance at 7/1/2016	Additions	Deletions	Balance at 6/30/2017
Non-depreciable assets:				
Construction in progress	\$ 1,458,006	2,429,792	-	3,887,798
Depreciable assets:				
Building and improvements	5,487,830	-	-	5,487,830
Improvements other than buildings	11,399,960	-	-	11,399,960
Machinery and equipment	4,976,793	84,531	(152,246)	4,909,078
Infrastructure	3,011,678	-	-	3,011,678
Total depreciable assets	<u>24,876,261</u>	<u>84,531</u>	<u>(152,246)</u>	<u>24,808,546</u>
Less accumulated depreciation:				
Buildings and improvements	(2,580,727)	(112,060)	-	(2,692,787)
Improvements other than buildings	(7,507,943)	(419,552)	-	(7,927,495)
Machinery and equipment	(2,724,193)	(422,842)	116,415	(3,030,620)
Infrastructure	(1,533,022)	(111,136)	-	(1,644,158)
Total accumulated depreciation	<u>(14,345,885)</u>	<u>(1,065,590)</u>	<u>116,415</u>	<u>(15,295,060)</u>
Total depreciable assets	<u>10,530,376</u>	<u>(981,059)</u>	<u>(35,831)</u>	<u>9,513,486</u>
Total capital assets	<u>\$ 11,988,382</u>	<u>1,448,733</u>	<u>(35,831)</u>	<u>13,401,284</u>

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

Discrete Component Unit – Hospital:	Balance at 7/1/2016	Additions	Deletions	Balance at 6/30/2017
Non-depreciable assets:				
Construction in progress	\$ 123,206	637,658	(222,203)	538,661
Depreciable assets:				
Building and improvements	2,197,367	500	(10,948)	2,186,919
Machinery and equipment	4,799,859	5,794	(2,106,122)	2,699,531
Vehicles	40,708	6,000	-	46,708
Total depreciable assets	7,037,934	12,294	(2,117,070)	4,933,158
Less accumulated depreciation:				
Buildings and improvements	(1,463,094)	(129,947)	-	(1,593,041)
Machinery and equipment	(2,570,345)	(379,794)	884,191	(2,065,948)
Vehicles	(35,708)	-	-	(35,708)
Total accumulated depreciation	(4,069,147)	(509,741)	884,191	(3,694,697)
Total depreciable assets	2,968,787	(497,447)	(1,232,879)	1,238,461
Total capital assets	\$3,091,993	140,211	(1,455,082)	1,777,122

**Governmental Activities**

Public safety	\$ 26,201
Planning, building and engineering	14,655
Community services	125,911
Public works	642,135
General government	273,492
Internal service funds depreciation charged to programs	70,291
Total depreciation expense - governmental activities	\$ 1,152,685

**Business-Type Activities**

Harbor	\$ 246,727
Sewer	448,100
Salt water	82,072
Solid waste	74,070
Avalon Transit	214,620
Total depreciation expense - business-type activities	\$ 1,065,589

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

**(5) Long-term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2017 is as follows:

	Balance at 7/1/2016	Additions	Deletions	Balance at 6/30/2017	Due Within One Year
<u>Governmental Activities</u>					
Compensated absences	\$ 359,814	308,323	(318,991)	349,146	226,945
Claims payable	289,600	161,533	(4,376)	446,757	39,600
Capital lease liability	-	966,250	(134,467)	831,783	120,984
OPEB	<u>1,788,536</u>	<u>271,365</u>	<u>(65,764)</u>	<u>1,994,137</u>	<u>-</u>
Total Governmental	<u>\$ 2,437,950</u>	<u>1,707,471</u>	<u>(523,598)</u>	<u>3,621,823</u>	<u>387,529</u>
<u>Business-type Activities</u>					
State Department of					
Boating & Waterways Loan	\$ 513,776	-	(113,633)	400,143	102,979
Compensated absences	462,516	173,133	(370,719)	264,930	119,219
Claims payable	55,500	-	(19,500)	36,000	25,000
Capital lease liability	184,987	-	(59,819)	125,168	61,643
OPEB	<u>994,334</u>	<u>204,685</u>	<u>(49,605)</u>	<u>1,149,414</u>	<u>-</u>
Total Business-type	<u>\$ 2,211,113</u>	<u>377,818</u>	<u>(613,276)</u>	<u>1,975,655</u>	<u>308,841</u>
<u>ACIA Successor Agency</u>					
Bonds Payable:					
2003A TAB	\$ 1,360,000	-	-	1,360,000	-
2015A TAB	17,160,000	-	(700,000)	16,460,000	810,000
2015B TAB	6,035,000	-	(220,000)	5,815,000	255,000
Bond premium	<u>1,038,432</u>	<u>-</u>	<u>(135,788)</u>	<u>902,644</u>	<u>-</u>
Total ACIA Successor Agency	<u>\$ 25,593,432</u>	<u>-</u>	<u>(1,055,788)</u>	<u>24,537,644</u>	<u>1,065,000</u>
<u>Discrete Component Unit -</u>					
<u>Hospital</u>					
Capital lease liability	\$ -	235,075	(16,706)	218,369	44,412
Line of credit	-	200,000	-	200,000	200,000
Notes payable	<u>302,821</u>	<u>1,100,000</u>	<u>(4,464)</u>	<u>1,398,357</u>	<u>4,735</u>
Total Hospital	<u>\$ 302,821</u>	<u>1,535,075</u>	<u>(21,170)</u>	<u>1,816,726</u>	<u>249,147</u>

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

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

**(5) Long-term Liabilities**

ACIA Successor Agency Activities

(a) 2003 Tax Allocation Bonds, Series A

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

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

The annual debt service requirements on these bonds at June 30, 2017, were as follows:

Year ending June 30,	Principal	Interest	Total
2018	\$ -	67,320	67,320
2019	-	67,320	67,320
2020	-	67,320	67,320
2021	-	67,320	67,320
2022	-	67,320	67,320
2023-2027	-	336,600	336,600
2028-2032	-	336,600	336,600
2033 -2035	1,360,000	168,300	1,528,300
Total	<u>\$ 1,360,000</u>	<u>1,178,100</u>	<u>2,538,100</u>

(b) 2015 Tax Allocation Refunding Bonds, Series A

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

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

ACIA Successor Agency Activities (Continued)

(b) 2015 Tax Allocation Refunding Bonds, Series A

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

The annual debt service requirements on these bonds at June 30, 2017, were as follows:

Year ending June 30,	Principal	Interest	Total
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	945,000	547,963	1,492,963
2023-2027	4,605,000	2,042,313	6,647,313
2028-2032	5,155,000	968,156	6,123,156
2033 -2035	2,345,000	94,700	2,439,700
Total	<u>\$ 16,460,000</u>	<u>6,245,734</u>	<u>22,705,734</u>

(c) 2015 Tax Allocation Refunding Bonds, Series B

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

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

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

ACIA Successor Agency Activities (Continued)

(c) 2015 Tax Allocation Refunding Bonds, Series B

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

The annual debt service requirements on these bonds at June 30, 2017, were as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	285,000	210,638	495,638
2023-2027	1,585,000	876,378	2,461,378
2028-2032	1,960,000	477,625	2,437,625
2033 -2035	925,000	46,875	971,875
Total	<u>\$ 5,815,000</u>	<u>2,527,679</u>	<u>8,342,679</u>

(d) Pledged Revenues

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

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

For the year ended June 30, 2017, annual pledged revenues exceeded debt service requirements by \$3,427,899.

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

ACIA Successor Agency Activities (Continued)

(e) Advances from the County of Los Angeles

The former ACIA and the County of Los Angeles entered into an agreement dated December 13, 1983 whereby the County agreed to defer its share of tax increment (County Deferrals) generated within the project area and remit it to the Agency to meet the Agency's debt service obligations. Per the agreement the County Deferrals accrued simple interest of 5% for the year following the origination of the deferral amount. After that, no further interest accrues. The County Deferrals were payable from property tax increment revenues received by the Agency in excess of its debt service requirements. In light of the state mandated dissolution of all redevelopment agencies and the associated restructuring of tax increment revenue, the enforceability of this obligation is uncertain. The City believes that under the new revenue structure it will never receive 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 \$524,700 was received from the County for the fiscal year ending June 30, 2017. The accompanying financial statements do not reflect a liability to the City for this matter.

Business-type Activities

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

A summary of loans payable from the State Department of Boating and Waterways at June 30, 2017 is as follows:

	<u>Amount Outstanding</u>
Original Issue \$900,000, due in annual installments of \$55,890 through August 1, 2019, including interest of 4.5% per annum	153,620
Original Issue \$859,101, due in annual installments of \$56,155 through August 1, 2021, including interest of 4.5% per annum	<u>246,523</u>
Total	<u>\$ 400,143</u>

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

Business-type Activities (Continued)

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

The annual debt service requirements on these loans payable at June 30, 2017, were as follows:

Year Ending June 30,	Principal	Interest	Total
2018	94,040	18,006	112,046
2019	98,271	13,775	112,046
2020	102,670	9,352	112,022
2021	51,423	4,732	56,155
2022	53,739	4,731	58,470
Total	\$ 400,143	50,596	450,739

(b) Capital Leases

During the year ended June 30, 2015, the City 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, 2017 were as follows:

Year Ending June 30,	
2018	\$ 65,461
2019	65,461
Total minimum lease payments	130,922
Less: amount representing interest	(5,754)
Value of minimum lease payments	\$ 125,168

During the year ending June 30, 2017 the City of Avalon entered into a lease agreement for financing the acquisition of equipment and artificial turf valued at \$966,250. The equipment and turf has a ten-year estimated useful life. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the value of the future minimum lease payments as of the inception date.



**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

Business-type Activities (Continued)

(b) Capital Leases (Continued)

The future minimum lease obligations and the value of these minimum lease payments as of June 30, 2017 were as follows:

<u>Year Ending June 30,</u>	
2018	\$ 137,010
2019	137,010
2020	137,010
2021	137,010
2022	137,010
2023-2024	<u>233,533</u>
Total minimum lease payments	918,583
Less: amount representing interest	<u>(86,800)</u>
Value of minimum lease payments	<u>\$ 831,783</u>

Discrete Component Unit – The Hospital

(a) Line of Credit

A line of credit with U.S. Bank, N.A. 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 bears 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, 2017, the prime rate was 7.75%. The outstanding balance on the Line as of June 30, 2017 was \$200,000.

(b) Notes Payable

The Hospital has a note payable to the California Department of Health Care Services (DHCS) in the amount of \$298,357 as of June 30, 2017. The note is payable in 29 yearly payments of \$20,000 and a final payment of \$14,390, with the first payment due July 1, 2016. There is no provision for interest included in the note. The note payable is part of a settlement between the Hospital and DHCS concerning certain amounts the Hospital was paid under various DHCS programs for which the Hospital did not meet eligibility requirements in prior years. The note was discounted with interest imputed at a 5% rate.

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

Business-type Activities (Continued)

(b) Notes Payable (Continued)

The Hospital has a note payable to individuals in the amount of \$800,000 as of June 30, 2017. The note bears interest at a rate of 6.75% with monthly interest payments and a balloon payment of \$80,000 due on May 31, 2022. The note is secured by the Hospital's ownership in Leo's Catalina Drug Store, Inc. and all Hospital receivables and equipment.

The Hospital has a note payable to the City in the amount of \$300,000 as of June 30, 2017. The note bears interest at a rate of 2.0% due annually and a balloon payment of \$300,000 due on May 24, 2022. The note is secured by all assets of the Hospital.

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

Interest and principal payments subsequent to June 30, 2017 and thereafter under the above obligations are as follows:

Year ending June 30,	Principal	Interest	Total
2018	\$ 49,147	125,041	174,188
2019	62,284	111,662	173,946
2020	60,163	94,948	155,111
2021	42,673	86,160	128,833
2022	1,130,329	71,313	1,201,642
Thereafter	272,130	26,175	298,305
Total	<u>\$ 1,616,726</u>	<u>515,299</u>	<u>2,132,025</u>

**(6) Pension Plan**

Plan Description

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

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

**(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	1, 2013	January 1, 2013
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	1, 2013	January 1, 2013
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.

Actuarial Methods and Assumptions used to determine Total Pension Liability

For the measurement period ending June 30, 2016 (the measurement date), the total pension liability was determined using the following actuarial methods and assumptions:

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

Actuarial Methods and Assumptions used to determine Total Pension Liability (Continued)

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table*	Derived using CalPERS' Membership Data for all funds
Post Retirement Benefit Increase	Contract COLA up to 275% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 275% thereafter

\* The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report may be accessed on the CalPERS website at [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications.

Change of Assumptions

There were no changes in assumptions

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 each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. 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 (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. 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 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

(Continued)

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

Discount Rate (Continued)

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the PERF cash flows. Taking into account historical returns of all the PERF asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), 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 PERF 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 equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects 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 Board effective on July 1, 2014.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10<sup>1</sup></u>	<u>Real Return Years 11+<sup>2</sup></u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

<sup>1</sup>An expected inflation of 2.5% used for this period

<sup>2</sup>An expected inflation of 3.0% used for this period

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

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

Discount Rate (Continued)

	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (c) = (a) - (b)</u>
Miscellaneous Plan:			
Balance at: 6/30/15 (VD)	\$ 14,034,094	10,783,044	3,251,050
Balance at: 6/30/16 (MD)	<u>14,443,425</u>	<u>10,518,215</u>	<u>3,925,210</u>
Net Changes during 15-16	<u>409,331</u>	<u>(264,829)</u>	<u>674,160</u>
Safety Plan:			
Balance at: 6/30/15 (VD)	16,877,725	12,424,353	4,453,372
Balance at: 6/30/16 (MD)	<u>17,419,723</u>	<u>12,124,075</u>	<u>5,295,648</u>
Net Changes during 15-16	<u>541,998</u>	<u>(300,278)</u>	<u>842,276</u>
Total:			
Balance at: 6/30/15 (VD)	30,911,819	23,207,397	7,704,422
Balance at: 6/30/16 (MD)	<u>31,863,148</u>	<u>22,642,290</u>	<u>9,220,858</u>
Net Changes during 15-16	<u>\$ 951,329</u>	<u>(565,107)</u>	<u>1,516,436</u>

The Entity's proportionate share of the net pension liability for each plan as of June 30, 2015 and 2016 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion - June 30, 2015	0.11850%	0.115%
Proportion - June 30, 2016	<u>0.11299%</u>	<u>0.108%</u>
Change - Increase (Decrease)	<u>-0.00551%</u>	<u>-0.007%</u>

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:

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

Discount Rate (Continued)

	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
Miscellaneous Plan's Net Pension Liability	\$ 5,869,745	3,925,210	2,318,148
Safety Plan's Net Pension Liability	7,660,265	5,295,648	3,354,540
Total	\$ 13,530,010	9,220,858	5,672,688

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Recognition of Gains and Losses

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

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

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

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

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

(Continued)

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

Recognition of Gains and Losses (Continued)

The EARSL for the 2015-2016 measurement period is 3.7 years, which was obtained by dividing the total service years 475,689 (the sum of remaining service lifetimes of the active employees) by 127,009 (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, 2016 (the measurement date), the City recognized a pension expense of \$465,915 for the Miscellaneous Plan and \$519,541 for the Safety Plan. As of June 30, 2017 the City reported other amounts for the Plan as deferred outflow and deferred inflow of resources related to pensions as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Miscellaneous Plan:		
Pension Contributions	\$ 221,544	-
Difference between expected and actual experience	15,318	(3,510)
Change in proportion and differences between employer contributions and proportionate share of contribution	197,580	(160,358)
Changes of assumptions	-	(144,922)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	754,273	-
Adjustment due to Differences in Proportions	-	(318,725)
Total Miscellaneous Plan	<u>1,188,715</u>	<u>(627,515)</u>



**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

**Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions (Continued)**

Safety Plan:		
Pension Contributions	311,085	-
Diffence between expected and actual experience	-	(49,955)
Change in proportion and differences between employer contributions and proprotionate share of contribution	387,202	(98,160)
Changes of assumptions	-	(217,809)
Net Difference between Projected and Actual Earnings on Pension Plan		
Investments	1,070,083	-
Adjustment due to Differences in Proportions	-	(494,428)
Total Safety Plan	<u>1,768,370</u>	<u>(860,352)</u>
Total:		
Pension Contributions	532,629	-
Diffence between expected and actual experience	15,318	(53,465)
Change in proportion and differences between employer contributions and proprotionate share of contribution	584,782	(258,518)
Changes of assumptions	-	(362,731)
Net Difference between Projected and Actual Earnings on Pension Plan		
Investments	1,824,356	-
Adjustment due to Differences in Proportions	-	(813,153)
Total City	<u>\$ 2,957,085</u>	<u>(1,487,867)</u>

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

Employer contributions subsequent to the measurement date reported as deferred outflows of resources in the amount of \$532,629 will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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 Ending June 30,	Deferred Outflows/(Inflows) of Resources
Miscellaneous Plan:	
2018	\$ (140,960)
2019	677
2020	284,574
2021	195,365
2022	-
Safety Plan:	
2018	(151,307)
2019	25,863
2020	443,803
2021	278,574
2022	-
Total:	
2018	(292,267)
2019	26,540
2020	728,377
2021	473,939
2022	-

**(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, 2017, 21 retired employees were eligible to receive medical and dental benefits. The Plan does not issue a publicly available financial report.

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

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 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	97,400
Adjustment to annual required contribution	<u>(173,297)</u>
Annual OPEB cost (expense)	476,050
Actual contributions made	<u>(115,369)</u>
Increase in net OPEB obligation	360,681
Net OPEB Obligation - beginning of year	<u>2,782,870</u>
Net OPEB Obligation - end of year	<u><u>\$ 3,143,551</u></u>

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, 2017 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>
6/30/15	\$417,514	41,533	9.95%	\$2,410,143
6/30/16	486,215	113,487	23.34%	2,782,871
6/30/17	476,050	115,369	24.23%	3,143,551

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

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:

Actuarial Date	Actuarial Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Ratio	Covered Payroll	UALL as a % of Covered Payroll
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

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.

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

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

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

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

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

	<u>Claims Liability</u>	
	<u>Governmental Funds</u>	<u>Enterprise Funds</u>
Liability as of June 30, 2015	\$ 350,135	78,809
Claims incurred and changes in estimates	16,000	-
Claims payments	<u>(76,535)</u>	<u>(23,309)</u>
Liability as of June 30, 2016	<u>289,600</u>	<u>55,500</u>
Claims incurred and changes in estimates	161,533	(19,500)
Claims payments	<u>(4,376)</u>	<u>-</u>
Liability as of June 30, 2017	<u>\$ 446,757</u>	<u>36,000</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.

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, 2017.

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, 2017 totaled \$762.

**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

**(9) Individual Fund Disclosures**

The following funds reported a deficit fund balance:

Major Funds:		
Local Transportation Fund	\$	200,573 (a)
Nonmajor Capital Projects Funds:		
Capital Grants Fund		20,500 (a)
Nonmajor Special Revenue Funds:		
Traffic Safety and Control Fund		121,779 (b)
Community Development Block Grant Fund		51,140 (b)
Internal Service Funds		
General Administration		123,947 (c)

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

The following fund reported an excess of expenditures over appropriations:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
Major Funds:			
Avalon Housing Authority	\$ 35,000	37,587	(2,587)

**(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. 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. The City's liability is expected to be approximately \$250,000. This amount is included in the claims liability as of June 30, 2017 in the Insurance Internal Service Fund.

## CITY OF AVALON

### Notes to the Financial Statements

(Continued)

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

##### (a) Lawsuits (Continued)

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

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

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

The City has tendered the defense and indemnity of this matter to insurance carriers that issued insurance to the City in the past. One of the carriers has accepted tender, with reservation of rights, and, as such, a significant portion of the costs have been covered by insurance.

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

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

The City owns a sewage treatment plant and related conveyance system, and the City has a contract with Environ Strategies to operate and maintain the system. The probability of such litigation or amount or monetary exposure is unknown at this time. A Cease and Desist Order was issued March 5, 2012 by the Los Angeles Regional Water Quality Board that

## CITY OF AVALON

### Notes to the Financial Statements

(Continued)

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

##### **(a) Lawsuits (Continued)**

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, 2017, 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) Landfill Closure Liability**

State and federal laws and regulations require the City to pay for costs related of the Pebbly Beach Landfill (PBL) to protect against contaminants leaking from the PBL into the local groundwater and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$3.9 million reported as landfill closure and postclosure care liability as of June 30, 2017, represents the cumulative amount reported based on the use of 84 percent of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure care of \$750 thousand as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2016. The City expects to close the landfill in the year 2025. Actual cost may be higher due to inflation, changes in technology, or changes in regulations

The City is required by state and Federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The City is in compliance with these requirements, and, at June 30, 2017 investments of \$2.07 million (\$2.1 million market value) are held for these purposes. These are reported as cash and investments on the balance sheet. The City expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.



**CITY OF AVALON**

Notes to the Financial Statements

(Continued)

**(12) Operating Leases**

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

**(13) Restatement of Prior Year Financial Statements**

A prior period adjustment was made to the beginning net position/fund balance of the Business-Type Activities and the Solid Waste Fund financial statements. The period adjustment of \$1,780,884 was made to decrease the beginning fund balance of the Solid Waste Fund, to record the obligation related to future landfill closure costs and to record the related cash and investments held in trust at June 30, 2016.

The affect of the prior period adjustment resulted in the following restatement to net position at July 1, 2016:

	<u>Business-Type Activities</u>	<u>Solid Waste Fund</u>
Net Position at July 1, 2017 as previously reported	12,225,384	1,549,967
Prior period adjustment to record estimated landfill closure costs	<u>(1,780,884)</u>	<u>(1,780,884)</u>
Net position at July 1, 2017, as restated	<u>10,444,500</u>	<u>(230,917)</u>

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF AVALON**

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

Year ended June 30, 2017

(With comparative information for the last 10 years)\*

Measurement Date	Miscellaneous Plan		
	6/30/2014	6/30/2015	6/30/2016
Plan's Proportion of the Net Pension Liability (Asset)	0.052%	0.119%	0.113%
Plan's Proportionate Share of the Net Pension Liability (Asset)	\$3,244,942	3,251,550	3,925,210
Plan's Covered-Employee Payroll	\$2,244,540	2,163,234	2,493,789
Plan's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	144.57%	150.31%	157.40%
Plan's Proportion of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	75.76%	76.83%	72.82%

Notes to Schedule: In 2017 the discount rate was changed from 7.65 percent to 7.15 percent

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

**CITY OF AVALON**

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

Year ended June 30, 2017

(With comparative information for the last 10 years)\*

Measurement Date	Safety Plan		
	6/30/2014	6/30/2015	6/30/2016
Plan's Proportion of the Net Pension Liability (Asset)	0.069%	0.131%	0.102%
Plan's Proportionate Share of the Net Pension Liability (Asset)	\$ 4,315,290	4,453,372	5,295,648
Plan's Covered-Employee Payroll	\$ 2,013,283	2,060,685	2,049,532
Plan's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	214.34%	216.11%	258.38%
Plan's Proportion of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	73.73%	73.61%	69.60%

Notes to Schedule: In 2017 the discount rate was changed from 7.65 percent to 7.15 percent

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

**CITY OF AVALON**  
Schedule of Plan Contributions  
Year ended June 30, 2017  
(With comparative information for the last 10 years)\*

Fiscal Year	Miscellaneous		
	6/30/2015	6/30/2016	6/30/2017
Actuarially Determined Contribution	\$ 380,971	171,940	467,748
Contributions in relation to the Actuarially Determined Contribution	(380,971)	(171,940)	(467,748)
Contribution Deficiency (Excess)	\$ -	-	-
Covered-Employee Payroll	\$ 2,163,234	2,493,789	2,773,397
Contributions as a Percentage of Covered-Employee Payroll	17.61%	6.89%	16.87%

**Notes to Schedule:**

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2017 were from the June 30, 2015 funding valuation report.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2015, Funding Valuation Report
Asset Valuation Method	Actuarial Value of Assets. For details, see June 30, 2014, Funding Valuation Report
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.65% Net of Pension Plan Investment and Administrative Expenses; includes inflation
Retirement Age	The probabilities of Retirement are based on the 2011 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	Derived using CalPERS' Membership Data for all funds.

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

**CITY OF AVALON**  
Schedule of Plan Contributions  
Year ended June 30, 2016  
(With comparative information for the last 10 years)\*

Fiscal Year	Safety		
	6/30/2015	6/30/2016	6/30/2017
Actuarially Determined Contribution	\$ 542,007	284,406	710,437
Contributions in relation to the Actuarially Determined Contribution	(542,007)	(284,406)	(710,437)
Contribution Deficiency (Excess)	\$ -	-	-
Covered-Employee Payroll	\$ 2,060,685	2,049,532	2,188,257
Contributions as a Percentage of Covered-Employee Payroll	26.30%	13.88%	32.47%

**Notes to Schedule:**

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2017 were from the June 30, 2015 funding valuation report.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2015, Funding Valuation Report
Asset Valuation Method	Actuarial Value of Assets. For details, see June 30, 2014, Funding Valuation Report
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.65% Net of Pension Plan Investment and Administrative Expenses; includes inflation
Retirement Age	The probabilities of Retirement are based on the 2011 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	Derived using CalPERS' Membership Data for all funds.

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

**CITY OF AVALON**  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual  
Year ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 8,793,332	8,793,332	8,665,560	(127,772)
Licenses, permits and fees	428,160	428,160	569,623	141,463
Fines, forfeitures and penalties	7,000	7,000	8,851	1,851
Investment income	70,800	70,800	7,407	(63,393)
Intergovernmental revenue	111,000	111,000	192,516	81,516
Charges for services	348,400	348,400	421,730	73,330
Other revenue	32,200	32,200	35,098	2,898
Total revenues	<u>9,790,892</u>	<u>9,790,892</u>	<u>9,900,785</u>	<u>109,893</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Public safety	1,714,924	1,714,924	1,714,072	852
Fire and ambulance	1,522,068	1,522,068	2,741,670	(1,219,602)
Planning, building and engineering	2,217,445	2,217,445	930,193	1,287,252
Community services	1,927,011	1,927,011	509,605	1,417,406
Public works	1,355,678	1,355,678	1,487,515	(131,837)
<b>General government:</b>				
Services and charges	2,045,560	2,045,560	1,832,578	212,982
Contract services	235,156	235,156	862,466	(627,310)
Special departmental	1,363,889	1,363,889	28,882	1,335,007
Other	276,758	276,758	517,516	(240,758)
Capital expenditures	1,268,215	1,268,215	2,503,359	(1,235,144)
<b>Debt service:</b>				
Principal	-	-	134,468	(134,468)
Interest	-	-	9,309	(9,309)
Total expenditures	<u>13,926,704</u>	<u>13,926,704</u>	<u>13,271,633</u>	<u>655,071</u>
Excess of revenues over (under) expenditures	(4,135,812)	(4,135,812)	(3,370,848)	764,964
<b>Other Financing Sources (Uses):</b>				
Proceeds from capital leases	-	-	966,250	966,250
Transfers in	1,594,017	1,594,017	-	(1,594,017)
Transfers out	(1,893,929)	(1,893,929)	(250,248)	1,643,681
Total other financing sources (uses)	<u>(299,912)</u>	<u>(299,912)</u>	<u>716,002</u>	<u>1,015,914</u>
Net change in fund balance	(4,435,724)	(4,435,724)	(2,654,846)	1,780,878
Fund balance, beginning of year	<u>7,317,587</u>	<u>7,317,587</u>	<u>7,317,587</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,881,863</u>	<u>2,881,863</u>	<u>4,662,741</u>	<u>1,780,878</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, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental revenue	\$ 655,000	655,000	1,233,578	578,578
Total revenues	<u>655,000</u>	<u>655,000</u>	<u>1,233,578</u>	<u>578,578</u>
Expenditures:				
Current:				
General government:				
Contract services	1,720,190	1,720,190	1,265,438	454,752
Total expenditures	<u>1,720,190</u>	<u>1,720,190</u>	<u>1,265,438</u>	<u>454,752</u>
Excess of revenues over (under) expenditures	(1,065,190)	(1,065,190)	(31,860)	1,033,330
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(1,065,190)	(1,065,190)	(31,860)	1,033,330
Fund balance (deficit), beginning of year	32,052	32,052	32,052	-
Fund balance (deficit), end of year	<u>\$ (1,033,138)</u>	<u>(1,033,138)</u>	<u>192</u>	<u>1,033,330</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, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental revenue	\$ -	-	39,679	39,679
Other revenue	15,000	15,000	18,089	3,089
Total revenues	<u>15,000</u>	<u>15,000</u>	<u>57,768</u>	<u>42,768</u>
Expenditures:				
General government:				
Contract services	35,000	35,000	37,587	(2,587)
Total expenditures	<u>35,000</u>	<u>35,000</u>	<u>37,587</u>	<u>(2,587)</u>
Net change in fund balance	(20,000)	(20,000)	20,181	40,181
Fund balance, beginning of year	8,980,482	8,980,482	8,980,482	-
Fund balance, end of year	<u>\$ 8,960,482</u>	<u>8,960,482</u>	<u>9,000,663</u>	<u>40,181</u>

See accompanying notes to Required Supplementary Information

# CITY OF AVALON

## Notes to Required Supplementary Information

Year Ended June 30, 2017

### **(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, 2016 measurement date is without reduction of pension plan administrative expense.

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

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

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

## CITY OF AVALON

### Nonmajor Governmental Fund

#### Special Revenue Funds

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

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

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

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

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

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

#### Capital Projects Funds

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

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

**CITY OF AVALON**  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2017

	<u>Capital Projects</u>	<u>Special Revenue Funds</u>	
	<u>Capital Grants</u>		<u>Traffic Control</u>
	<u>Fund</u>	<u>Street</u>	<u>and Safety</u>
<b>Assets:</b>			
Cash and investments	\$ -	605,337	-
Receivables, net:			
Accounts	-	2,235	-
Due from other governments	-	-	-
Total assets	<u>\$ -</u>	<u>607,572</u>	<u>-</u>
<b>Liabilities:</b>			
Accounts payable	\$ -	18,596	8,127
Accrued liabilities	-	-	3,236
Due to other funds	20,500	-	110,416
Total liabilities	<u>20,500</u>	<u>18,596</u>	<u>121,779</u>
<b>Fund Balances:</b>			
<b>Restricted:</b>			
Community development	-	-	-
Capital projects	-	-	-
Street projects	-	588,976	-
Unassigned	(20,500)	-	(121,779)
Total fund balances	<u>(20,500)</u>	<u>588,976</u>	<u>(121,779)</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$ -</u>	 <u>607,572</u>	 <u>-</u>

Special Revenue Funds

Community Development Block Grant	Child Care	Mclean / Hall / Putnam Trust	Total
-	138	57,333	662,808
686	-	45	2,966
-	-	-	-
<u>686</u>	<u>138</u>	<u>57,378</u>	<u>665,774</u>
3,894	-	-	30,617
-	-	-	3,236
<u>47,932</u>	-	-	<u>178,848</u>
<u>51,826</u>	-	-	<u>212,701</u>
-	138	-	138
-	-	57,378	57,378
-	-	-	588,976
<u>(51,140)</u>	-	-	<u>(193,419)</u>
<u>(51,140)</u>	<u>138</u>	<u>57,378</u>	<u>453,073</u>
<u>686</u>	<u>138</u>	<u>57,378</u>	<u>665,774</u>

**CITY OF AVALON**  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
Year ended June 30, 2017

	Capital Projects	Special Revenue Funds	
	Capital Grants		Traffic Control
	Fund	Street	and Safety
Revenues:			
Taxes	\$ -	75,640	-
Fines, forfeitures and penalties	-	-	63,281
Investment income	-	3,374	-
Intergovernmental revenue	1,100,000	-	-
Other revenue	-	66,463	-
Total revenues	1,100,000	145,477	63,281
Expenditures:			
Current:			
Community services	-	-	-
Public works	-	155,090	164,896
General government:			
Contract services	-	-	12,094
Special departmental	-	-	8,070
Capital outlay	-	-	-
Total expenditures	-	155,090	185,060
Excess of revenues over (under) expenditures	1,100,000	(9,613)	(121,779)
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	(1,100,000)	-	-
Total other financing sources (uses)	(1,100,000)	-	-
Net change in fund balance	-	(9,613)	(121,779)
Fund balance (deficit), beginning of year	(20,500)	598,589	-
Fund balance (deficit), end of year	\$ (20,500)	588,976	(121,779)

Special Revenue Funds

Community Development Block Grant	Child Care	Mclean / Hall / Putnam Trust	Total
-	-	-	75,640
-	-	-	63,281
-	-	309	3,683
-	-	-	1,100,000
-	-	3,491	69,954
-	-	3,800	1,312,558
18,385	-	-	18,385
-	-	-	319,986
-	-	-	12,094
-	-	105	8,175
12,568	-	-	12,568
30,953	-	105	371,208
(30,953)	-	3,695	941,350
-	-	-	-
-	-	-	(1,100,000)
-	-	-	(1,100,000)
(30,953)	-	3,695	(158,650)
(20,187)	138	53,683	611,723
(51,140)	138	57,378	453,073

**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, 2017

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Intergovernmental revenue	\$ 681,000	1,100,000	419,000
Total revenues	<u>681,000</u>	<u>1,100,000</u>	<u>419,000</u>
Net change in fund balance	590,800	1,100,000	509,200
OTHER FINANCING SOURCES (USES):			
Transfers out	<u>-</u>	<u>(1,100,000)</u>	<u>1,100,000</u>
Total other financing sources (uses)	<u>-</u>	<u>(1,100,000)</u>	<u>1,100,000</u>
Fund balance (deficit), beginning of year	<u>(20,500)</u>	<u>(20,500)</u>	<u>-</u>
Fund balance (deficit), end of year	<u>\$ 570,300</u>	<u>(20,500)</u>	<u>509,200</u>



**CITY OF AVALON**  
**Street Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual**  
**Year ended June 30, 2017**

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Taxes	\$ 86,018	75,640	(10,378)
Investment income	-	3,374	3,374
Total revenues	<u>86,018</u>	<u>79,014</u>	<u>(7,004)</u>
Expenditures:			
Current:			
Public works	<u>682,100</u>	<u>155,090</u>	<u>527,010</u>
Total expenditures	<u>626,437</u>	<u>88,627</u>	<u>537,810</u>
Net change in fund balance	(540,419)	(9,613)	530,806
Fund balance, beginning of year	<u>598,589</u>	<u>598,589</u>	-
Fund balance, end of year	<u>\$ 58,170</u>	<u>588,976</u>	<u>530,806</u>

**CITY OF AVALON**  
 Traffic Control and Safety Special Revenue Fund  
 Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual  
 Year ended June 30, 2017

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>			
Fines, forfeitures and penalties	\$ 86,100	63,281	(22,819)
Total revenues	86,100	63,281	(22,819)
<b>Expenditures:</b>			
Current:			
Public works	703,578	164,897	538,681
Contract services	-	12,093	(12,093)
Special departmental	-	8,070	(8,070)
Total expenditures	713,578	185,060	528,518
Excess of revenues over (under) expenditures	(627,478)	(121,779)	505,699
Net change in fund balance	(627,478)	(121,779)	505,699
Fund balance, beginning of year	-	-	-
Fund balance (deficit), end of year	\$ (627,478)	(121,779)	505,699

**CITY OF AVALON**

Community Development Block Grant Special Revenue Fund  
 Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual  
 Year ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Intergovernmental revenue	\$ -	-	-
Charges for services	3,500	-	(3,500)
Other revenue	-	-	-
Total revenues	<u>3,500</u>	<u>-</u>	<u>(3,500)</u>
Expenditures:			
Current:			
Community services	10,900	18,385	(7,485)
Capital outlay	<u>30,700</u>	<u>12,568</u>	<u>18,132</u>
Total expenditures	<u>41,600</u>	<u>30,953</u>	<u>10,647</u>
Excess of revenues over (under) expenditures	<u>(38,100)</u>	<u>(30,953)</u>	<u>7,147</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	<u>15,000</u>	-	<u>(15,000)</u>
Total other financing sources (uses)	<u>15,000</u>	-	<u>(15,000)</u>
Net change in fund balance	(23,100)	(30,953)	(7,853)
Fund balance (deficit), beginning of year	<u>(20,187)</u>	<u>(20,187)</u>	-
Fund balance (deficit), end of year	<u><u>\$ (43,287)</u></u>	<u><u>(51,140)</u></u>	<u><u>(7,853)</u></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, 2017

	<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, 2017

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Investment income	\$ 100	309	209
Other revenue	<u>2,400</u>	<u>3,491</u>	<u>1,091</u>
Total revenues	<u>2,500</u>	<u>3,800</u>	<u>1,300</u>
 EXPENDITURES:			
Current:			
Special departmental	-	105	(105)
General government:	-	-	-
Contract services	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>105</u>	<u>(105)</u>
 Net change in fund balance	2,500	3,695	1,195
 Fund balance, beginning of year	<u>53,683</u>	<u>53,683</u>	<u>-</u>
Fund balance, end of year	<u>\$ 56,183</u>	<u>57,378</u>	<u>1,195</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, 2017

	General Administration	Insurance	Vehicle Maintenance	Total
<b>Assets:</b>				
<b>Current Assets:</b>				
Cash and investments	\$ 31,548	619,452	399,110	1,050,110
Interest receivable	-	315	151	466
Due from other funds	-	-	-	-
<b>Total current assets</b>	<u>31,548</u>	<u>619,767</u>	<u>399,261</u>	<u>1,050,576</u>
<b>Noncurrent assets:</b>				
Capital assets, net	26,852	-	562,359	589,211
<b>Total noncurrent assets</b>	<u>26,852</u>	<u>-</u>	<u>562,359</u>	<u>589,211</u>
<b>Total assets</b>	<u>58,400</u>	<u>619,767</u>	<u>961,620</u>	<u>1,639,787</u>
<b>Deferred Outflows of Resources:</b>				
Deferred outflows - pension related	-	-	35,661	35,661
<b>Total deferred outflows of resources</b>	<u>-</u>	<u>-</u>	<u>35,661</u>	<u>35,661</u>
<b>Liabilities:</b>				
<b>Current liabilities:</b>				
Accounts payable	109,718	31,948	43,906	185,572
Accrued liabilities	23,653	41,185	3,479	68,317
Due to other funds	22,124	-	-	22,124
Current portion of noncurrent liabilities	-	39,600	-	39,600
<b>Total current liabilities</b>	<u>155,495</u>	<u>112,733</u>	<u>47,385</u>	<u>315,613</u>
<b>Noncurrent liabilities:</b>				
Claims payable	-	407,157	-	407,157
Net pension liability	-	-	117,756	117,756
<b>Total noncurrent liabilities</b>	<u>-</u>	<u>407,157</u>	<u>117,756</u>	<u>524,913</u>
<b>Total liabilities</b>	<u>155,495</u>	<u>519,890</u>	<u>165,141</u>	<u>840,526</u>
<b>Deferred Inflows of Resources:</b>				
Deferred inflows - pension related	-	-	18,825	18,825
<b>Total deferred inflows of resources</b>	<u>-</u>	<u>-</u>	<u>18,825</u>	<u>18,825</u>
<b>Net Position:</b>				
Investment in capital assets	26,852	-	562,359	589,211
Unrestricted	(123,947)	99,877	250,956	226,886
<b>Total net position</b>	<u>\$ (97,095)</u>	<u>99,877</u>	<u>813,315</u>	<u>816,097</u>

**CITY OF AVALON**  
Internal Service Funds  
Combining Statement of Revenues, Expenses, and Changes in Net Position  
Year ended June 30, 2017

	General Administration	Insurance	Vehicle Maintenance	Total
Operating revenues:				
Charges for services	\$ 1,909,461	418,320	475,522	2,803,303
Other revenue	-	-	-	-
Total operating revenues	<u>1,909,461</u>	<u>418,320</u>	<u>475,522</u>	<u>2,803,303</u>
Operating expenses:				
Salaries and benefits	1,030,820	-	226,782	1,257,602
Contractual services	592,815	83,935	-	676,750
Office supplies	58,232	-	3,018	61,250
Utilities and rent	86,187	-	64,512	150,699
Repairs and maintenance	-	-	199,490	199,490
Operating supplies	81,484	-	8,806	90,290
Other services and charges	59,925	491,542	11,087	562,554
Depreciation	13,614	-	56,677	70,291
Total operating expenses	<u>1,923,077</u>	<u>575,477</u>	<u>570,372</u>	<u>3,068,926</u>
Operating income (loss)	<u>(13,616)</u>	<u>(157,157)</u>	<u>(94,850)</u>	<u>(265,623)</u>
Nonoperating revenues (expenses):				
Grants and other revenues	-	-	1,000	1,000
Interest income	-	2,180	1,046	3,226
Total nonoperating revenues (expenses)	<u>-</u>	<u>2,180</u>	<u>2,046</u>	<u>4,226</u>
Changes in net position	(13,616)	(154,977)	(92,804)	(261,397)
Net position (deficit), beginning of year	(83,479)	254,854	906,119	1,077,494
Net position (deficit), end of year	<u>\$ (97,095)</u>	<u>99,877</u>	<u>813,315</u>	<u>816,097</u>



**CITY OF AVALON**  
Combining Statement of Cash Flows  
Internal Service Funds  
Year ended June 30, 2017

	General Administration	Insurance	Vehicle Maintenance	Totals
<b>Cash Flows from Operating Activities:</b>				
Cash received from interfund services provided	\$ 1,909,461	418,320	475,522	2,803,303
Cash payments to suppliers for goods and services	(856,850)	(383,277)	(342,088)	(1,582,215)
Cash payments to employees for services	(1,021,063)	-	(125,862)	(1,146,925)
Net cash provided by operating activities	<u>31,548</u>	<u>35,043</u>	<u>7,572</u>	<u>74,163</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Cash payments to acquire capital and other assets	-	-	(62,747)	(62,747)
Net cash provided by capital and related financing activities	<u>-</u>	<u>-</u>	<u>(62,747)</u>	<u>(62,747)</u>
<b>Cash Flows from Investing Activities:</b>				
Interest in investments	-	1,865	1,895	3,760
Net increase (decrease) in cash and cash equivalents	31,548	36,908	(53,280)	15,176
Cash and cash equivalents, beginning of year	-	582,544	452,390	1,034,934
Cash and cash equivalents, end of year	<u>\$ 31,548</u>	<u>619,452</u>	<u>399,110</u>	<u>1,050,110</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>				
Operating income (loss)	\$ (13,616)	(157,157)	(94,850)	(265,623)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	13,614	-	56,677	70,291
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable	-	-	-	-
(Increase) decrease in deferred outflows	-	-	(35,661)	(35,661)
Increase (decrease) in accounts payable	28,150	23,350	(58,412)	(6,912)
Increase (decrease) in accrued liabilities	9,757	11,693	3,237	24,687
Increase (decrease) in due to other funds	(6,357)	-	-	(6,357)
Increase (decrease) in claims payable	-	157,157	-	157,157
Increase (decrease) in net pension liability	-	-	18,825	18,825
Increase (decrease) in deferred inflows	-	-	117,756	117,756
Net Cash Provided by Operating Activities:	<u>\$ 31,548</u>	<u>35,043</u>	<u>7,572</u>	<u>74,163</u>