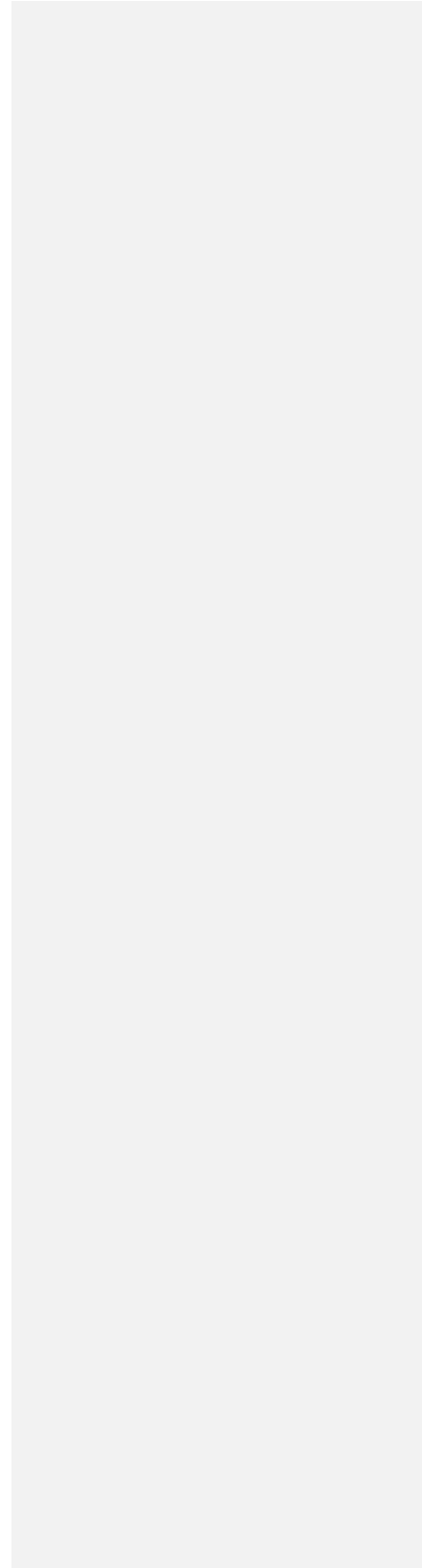


CITY OF ANGELS
FINANCIAL STATEMENTS
JUNE 30, 2016



CITY OF ANGELS

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LARRY BAIN, CPA

AN ACCOUNTING CORPORATION

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Angels, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Angels, California, as of and for the year ended June 30, 2016, 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 the 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.

Auditors' Responsibility

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

An audit includes 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 City'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 City'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 financial statement presentation.

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining funds of the City of Angels as of June 30, 2016, and the changes in financial position, of those activities and funds for the fiscal year then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

The City of Angels has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The required supplementary information other than MD&A, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Other Information

In accordance with *Government Auditing Standards*, we have also issued a report dated February 13, 2017 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. The purpose of that report is to describe the scope of our testing of internal control over financial reporting, compliance and other matters and the results of that testing and not to provide an opinion of the internal control over financial reporting, compliance or on other matters.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining and individual 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 fund financial statements have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Larry Bain, CPA,
An Accounting Corporation
February 13, 2017

CITY OF ANGELS
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	\$ 879,056	\$ 8,261,465	\$ 9,140,521
Accounts receivables	188,520	333,189	521,709
Due from other governments	416,624		416,624
Payroll advance receivable	-		-
Taxes receivable	181,669		181,669
Interest receivable	185,554		185,554
Prepaid expenses	38,589	31,357	69,946
Deposits			-
Total Current Assets	<u>1,890,012</u>	<u>8,626,011</u>	<u>10,516,023</u>
Non Current Assets			
Restricted cash and investments	427,150	262,180	689,330
Loans receivable	1,035,540		1,035,540
Capital assets:			
Land	804,747	116,515	921,262
Construction in Progress	166,986	175,208	342,194
Buildings and improvements	748,894	22,667,901	23,416,795
Site improvements		3,971,801	3,971,801
Equipment and vehicles	1,513,802	1,233,775	2,747,577
Infrastructure	3,779,634		3,779,634
Less: accumulated depreciation	(3,079,248)	(10,310,290)	(13,389,538)
Total Capital Assets	<u>3,934,815</u>	<u>17,854,910</u>	<u>21,789,725</u>
Total Non Current Assets	<u>5,397,505</u>	<u>18,117,090</u>	<u>23,514,595</u>
Total Assets	<u>7,287,517</u>	<u>26,743,101</u>	<u>34,030,618</u>
Deferred Outflows of Resources			
Deferred outflows-pensions	532,481	366,353	898,834
Liabilities			
Current liabilities:			
Accounts payable	166,734	204,373	371,107
Accrued wages	111,509	86,762	198,271
Accrued interest payable	1,082	61,178	62,260
Due within one year	112,287	173,470	285,757
Total Current Liabilities	<u>391,612</u>	<u>525,783</u>	<u>917,395</u>
Noncurrent liabilities			
Due in more than one year	155,305	4,907,379	5,062,684
OPEB liability	656,333	486,109	1,142,442
Net pension liability	2,482,394	1,463,362	3,945,756
Total Liabilities Due In More Than One Year	<u>3,294,032</u>	<u>6,856,850</u>	<u>10,150,882</u>
Total Liabilities	<u>3,685,644</u>	<u>7,382,633</u>	<u>11,068,277</u>
Deferred Inflows of Resources			
Deferred inflows-pensions	306,304	142,834	449,138
Deferred inflows-advances	184,843		184,843
Total Deferred Inflows	<u>491,147</u>	<u>142,834</u>	<u>633,981</u>
Net Position			
Net investment in capital assets	3,825,099	12,858,407	16,683,506
Restricted		262,180	262,180
Unrestricted	(181,892)	6,463,400	6,281,508
Total Net Position	<u>\$ 3,643,207</u>	<u>\$ 19,583,987</u>	<u>\$ 23,227,194</u>

The notes to the financial statements are an integral part of this statement

CITY OF ANGELS
STATEMENT OF ACTIVITIES
JUNE 30, 2016

Functions/programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 329,463	\$ 44,182	\$ -	\$ 10,411	\$ (274,870)	\$ -	\$ (274,870)
Public safety	2,327,318	13,769	4,926	394,172	(1,914,451)		(1,914,451)
Public works	933,731	10,687	61,849	113,282	(747,913)		(747,913)
Community services/recreation	886,549	52,481	7,147	190,466	(636,455)		(636,455)
Interest on long-term debt	3,848				(3,848)		(3,848)
Total Governmental Activities	4,480,909	121,119	73,922	708,331	(3,577,537)		(3,577,537)
Business-type Activities:							
Water	1,488,846	1,454,390				(34,456)	(34,456)
Sewer	2,148,078	1,930,207	327,500	997		110,626	110,626
Interest on long-term debt	203,159					(203,159)	(203,159)
Total Business-type Activities	3,840,083	3,384,597	327,500	997		(126,989)	(126,990)
Total Government	\$ 8,320,992	\$ 3,505,716	\$ 401,422	\$ 709,328	(3,577,537)	(126,989)	(3,704,526)
General Revenues:							
Taxes:							
Property taxes				663,350			663,350
Sales and use tax				680,503			680,503
Transient occupancy tax				1,117,210			1,117,210
Franchise tax				96,949			96,949
Motor vehicle in lieu tax				242,769			242,769
Other taxes				16,875			16,875
Business license and permits				132,166			132,166
Rents				19,933			19,933
Other income				44,078			44,078
Investment income				26,103		46,174	72,278
Transfers				135,197		(135,197)	-
Total general revenues				3,175,133		(89,023)	3,086,111
Change in net position				(402,404)		(216,012)	(618,416)
Net position - beginning				3,082,056		21,148,532	24,230,588
Prior period adjustments				963,555		(1,348,533)	(384,978)
Net position - ending				\$ 3,643,207		\$ 19,583,987	\$ 23,227,194

The notes to the financial statements are an integral part of this statement

CITY OF ANGELS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

	<u>General</u>	<u>Other Nonmajor Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Cash and investments	\$ 879,056	\$ -	\$ 879,056
Restricted cash and investments		427,150	427,150
Receivables			
Accounts	65,456	123,064	188,520
Due from other governments	277,104	139,521	416,624
Taxes	181,669		181,669
Payroll advance (net of \$10,204 allowance)	-		-
Interest	11,704	173,850	185,554
Prepaid expense	38,589		38,589
Loans/notes receivable		1,035,540	1,035,540
Total Assets	<u>\$ 1,453,578</u>	<u>\$ 1,899,124</u>	<u>\$ 3,352,702</u>
<u>Liabilities</u>			
Liabilities			
Accounts payable	\$ 105,169	\$ 56,586	\$ 161,755
Accrued expenses	4,979		4,979
Accrued wages	111,499	10	111,509
Total Liabilities	<u>221,647</u>	<u>56,597</u>	<u>278,243</u>
<u>Deferred Inflows of Resources</u>			
Deferred Revenue-unavailable		261,720	261,721
Unearned advance-capital grants		184,843	184,843
Total Deferred Inflows of Resources		<u>446,564</u>	<u>446,564</u>
<u>Fund Balances</u>			
Restricted for petty cash	925		925
Nonspendable	38,589		38,589
Assigned for special revenue funds		1,179,069	1,179,070
Assigned for capital projects funds		216,895	216,895
Assigned for general fund	185,052		185,052
Unassigned	1,007,364		1,007,364
Total Fund Balances	<u>1,231,930</u>	<u>1,395,964</u>	<u>2,627,895</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,453,577</u>	<u>\$ 1,899,124</u>	<u>\$ 3,352,701</u>

The notes to the financial statements are an integral part of this statement

CITY OF ANGELS
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Fund Balances of Governmental Funds	\$	2,627,896
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets, net of accumulated depreciation, are not current financial resources and are not included in the governmental funds.		3,934,815
Certain revenues received after ninety days from the end of the fiscal year are recorded as deferred revenue in the funds and as revenues in the government wide statement.		261,720
Certain amounts have been recorded as pension liability, deferred outflows and deferred inflows of resources that are not due and payable and not reported in the funds.		(2,256,217)
Some liabilities, including long-term debt, compensated absences and accrued interest are not due and payable in the current period and therefore are not reported in the funds.		<u>(925,007)</u>
Net position of governmental activities	\$	<u>3,643,207</u>

The notes to the financial statements are an integral part of this statement

CITY OF ANGELS

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>General</u>	<u>Other Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 2,032,433	\$ 623,911	\$ 2,656,345
Licenses and permits	229,115		229,115
Intergovernmental	423,541	353,423	776,964
Fines, forfeitures and penalties	13,769		13,769
Charges for current services	86,652	20,698	107,350
Use of money and property	22,366	2,956	25,322
Other	44,078	41,783	85,861
Total Revenues	<u>2,851,954</u>	<u>1,042,771</u>	<u>3,894,726</u>
Expenditures			
Current:			
General government	363,437		363,437
Public ways and facilities/ transportation	215,841	542,373	758,215
Public safety	2,242,399		2,242,399
Community development	377,992	498,784	876,775
Capital Outlay	70,446	107,535	177,982
Debt service			
Principal	39,002		39,002
Interest	3,848		3,848
Total Expenditures	<u>3,312,965</u>	<u>1,148,691</u>	<u>4,461,658</u>
Excess (Deficit) of Revenues over Expenditures	<u>(461,011)</u>	<u>(105,920)</u>	<u>(566,932)</u>
Other Financing Sources (Uses)			
Proceeds of debt	64,522		64,522
Operating transfers in	388,208	209,026	597,234
Operating transfers out	(16,525)	(445,512)	(462,037)
Total Other Financing Sources (Uses)	<u>436,205</u>	<u>(236,486)</u>	<u>199,720</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	<u>(24,806)</u>	<u>(342,406)</u>	<u>(367,211)</u>
Fund Balances, July 1, 2015	<u>1,256,737</u>	<u>1,738,370</u>	<u>2,995,107</u>
Fund Balances, June 30, 2016	<u>\$ 1,231,931</u>	<u>\$ 1,395,964</u>	<u>\$ 2,627,896</u>

The notes to the financial statements are an integral part of this statement

CITY OF ANGELS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES-GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Net Change in Fund Balances - Total Governmental Funds	\$ (367,211)
Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures and Changes in Fund Balances because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:	
Cost of assets capitalized	177,982
Depreciation expense	(232,451)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	39,002
Proceeds of long-term debt is other financing sources in the governmental funds, but the proceeds increase long-term liabilities in the Statement of Net Position.	(64,522)
Certain revenues received after ninety days from the end of the fiscal year are recorded as deferred revenue in the funds and as revenues in the government wide statement.	48,581
Changes in pension expense and OPEB benefits reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in governmental funds.	131,021
Changes in compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in governmental funds.	<u>(134,805)</u>
Change in net position of governmental activities	\$ <u>(402,404)</u>

The notes to the financial statements are an integral part of this statement

CITY OF ANGELS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Water	Sewer	Totals
Current assets:			
Cash and investments	\$ 6,291,038	\$ 1,970,427	\$ 8,261,465
Receivables			
Accounts (net of \$53,598 allowance)		186,947	186,947
Accounts (net of \$27,077 allowance)	146,242		146,242
Prepaid expense	9,342	22,015	31,357
Total current assets	<u>6,446,622</u>	<u>2,179,389</u>	<u>8,626,011</u>
Noncurrent assets:			
Restricted cash and investments		262,180	262,180
Deferred charges		-	-
Advances to other funds	705,000		705,000
Capital assets:			
Nondepreciable capital assets:			
Land	68,965	47,550	116,515
Construction in progress	2,430	172,778	175,208
Depreciable capital assets			
Building	2,220,336	20,447,565	22,667,901
Site improvements	1,330,644	2,641,157	3,971,801
Equipment	685,254	548,521	1,233,775
Less accumulated depreciation	<u>(2,644,856)</u>	<u>(7,665,434)</u>	<u>(10,310,290)</u>
Total capital assets (net of accumulated depreciation)	<u>1,662,773</u>	<u>16,192,137</u>	<u>17,854,910</u>
Total noncurrent assets	<u>2,367,773</u>	<u>16,454,317</u>	<u>18,822,090</u>
Total Assets	<u>8,814,395</u>	<u>18,633,706</u>	<u>27,448,101</u>
Deferred Outflows of Resources			
Deferred Outflows-Pensions	187,644	178,709	366,353
Total Deferred Outflows of Resources	<u>\$ 187,644</u>	<u>\$ 178,709</u>	<u>\$ 366,353</u>
Liabilities			
Current liabilities:			
Accounts payable	\$ 21,064	\$ 183,309	\$ 204,373
Accrued payroll	41,204	45,558	86,762
Current portion - notes payable	74,468	93,720	168,188
Current portion - capital lease	2,641	2,641	5,282
Interest payable		61,178	61,178
Total current liabilities	<u>139,377</u>	<u>386,406</u>	<u>525,783</u>
Noncurrent liabilities:			
Advances from other funds		705,000	705,000
Compensated absences	45,936	38,411	84,347
Net pension liability	749,527	713,835	1,463,362
OPEB liability	247,910	238,199	486,109
Long-term debt	448,852	4,374,181	4,823,033
Total noncurrent liabilities	<u>1,492,225</u>	<u>6,069,626</u>	<u>7,561,851</u>
Total Liabilities	<u>1,631,601</u>	<u>6,456,032</u>	<u>8,087,633</u>
Deferred Inflows of Resources			
Deferred Inflows-Pensions	73,159	69,675	142,834
Total Deferred Inflows of Resources	<u>73,159</u>	<u>69,675</u>	<u>142,834</u>
Net position:			
Net investment in capital assets	1,136,812	11,721,595	12,858,407
Restricted for debt service		262,180	262,180
Unreserved	6,160,468	302,933	6,463,401
Total Net Position	<u>\$ 7,297,279</u>	<u>\$ 12,286,709</u>	<u>\$ 19,583,988</u>

The notes to the financial statements are an integral part of this statement

CITY OF ANGELS

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Water	Sewer	Totals
Operating Revenues			
Charges for services	\$ 1,402,412	\$ 1,883,895	\$ 3,286,306
Connection fees	51,978	46,288	98,266
Other income		24	24
	<u>1,454,390</u>	<u>1,930,207</u>	<u>3,384,596</u>
 Operating Expenses			
Salaries and benefits	1,001,547	972,892	1,974,439
Services and supplies	361,512	575,301	936,812
Depreciation expense	125,787	599,885	725,672
	<u>1,488,846</u>	<u>2,148,078</u>	<u>3,636,923</u>
 Operating Income (Loss)	<u>(34,457)</u>	<u>(217,871)</u>	<u>(252,327)</u>
 Non-Operating Revenues (Expenses)			
Interest income	38,627	7,547	46,174
Grant revenue	997		997
Debt service fee		327,500	327,500
Interest expense	-	(203,159)	(203,159)
	<u>39,624</u>	<u>131,888</u>	<u>171,512</u>
 Net Income (Loss) Before Transfers	<u>5,168</u>	<u>(85,983)</u>	<u>(80,814)</u>
 Other Financing Sources (Uses)			
Operating transfers in	-	-	-
Operating transfers out	(133,068)	(2,129)	(135,197)
	<u>(133,068)</u>	<u>(2,129)</u>	<u>(135,197)</u>
 Net Income (Loss)	<u>(127,900)</u>	<u>(88,112)</u>	<u>(216,011)</u>
 Net Position, July 1, 2015	8,115,699	13,032,833	21,148,532
 Prior Period Adjustment	(690,521)	(658,012)	(1,348,533)
 Net Position, June 30, 2016	<u>\$ 7,297,279</u>	<u>\$ 12,286,709</u>	<u>\$ 19,583,988</u>

The notes to the financial statements are an integral part of this statement

CITY OF ANGELS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
JUNE 30, 2016

	Water	Sewer	Totals
Cash Flows from Operating Activities			
Cash received from customers	\$ 1,436,127	\$ 1,932,027	\$ 3,368,154
Cash payments to suppliers	(379,720)	(562,256)	(941,976)
Cash payments to employees	(953,886)	(924,224)	(1,878,110)
Net Cash Provided By (Used For) Operating Activities	102,521	445,547	548,068
Cash Flows from Non-Capital Financing Activities			
Payments (to)/from other funds	50,000	(50,000)	-
Transfers (to)/from other funds	(133,068)	(2,129)	(135,197)
Net Cash Provided by Non-Capital Financing Activities	(83,068)	(52,129)	(135,197)
Cash Flows from Capital and Related Financing Activities			
Purchase of fixed assets	(40,714)	(262,797)	(303,511)
Debt service fee		327,500	327,500
Grant revenue	997		997
Reductions of debt	(77,019)	(371,135)	(448,154)
Interest expense	-	(207,379)	(207,379)
Net Cash Provided By (Used For) Capital and Related Financing Activities	(116,736)	(513,811)	(630,547)
Cash Flows from Investing Activities:			
Interest income	38,628	7,549	46,177
Net Cash Provided By Investing Activities	38,628	7,549	46,177
Net Increase (Decrease) in Cash and Cash Equivalents	(58,654)	(112,844)	(171,499)
Cash and Cash Equivalents, July 1, 2015	6,349,692	2,345,451	8,695,143
Cash and Cash Equivalents, June 30, 2016	\$ 6,291,038	\$ 2,232,607	\$ 8,523,644
Reconciliation of Cash and Cash Equivalents:			
Cash and investments	\$ 6,291,038	\$ 1,970,427	\$ 8,261,465
Restricted cash and investments	-	262,180	262,180
Total Cash and Cash Equivalents	\$ 6,291,038	\$ 2,232,607	\$ 8,523,645
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities			
Adjustments to operating income:			
Depreciation	125,787	599,885	725,672
(Increase) decrease in accounts receivable	(18,262)	1,820	(16,442)
(Increase) decrease in prepaid expense	(7,520)	(18,113)	(25,633)
Increase (decrease) in accounts payable	(10,687)	31,157	20,470
Increase (decrease) in accrued payroll	9,969	14,179	24,148
Increase (decrease) from GASB 68	(35,771)	(34,068)	(69,839)
Increase (decrease) from OPEB activity	65,580	63,011	128,591
Increase (decrease) in customer deposits			-
Increase (decrease) in compensated absences	7,882	5,547	13,429
Net Cash Provided By (Used For) Operating Activities	\$ 102,521	\$ 445,547	\$ 548,068

The notes to the financial statements are an integral part of this statement

CITY OF ANGEL
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2016

	Agency Funds		Totals
	Greenhorn Creek Assessment District	LAFCO Trust Fund	
<u>Assets</u>			
Cash and investments	\$ 1,285,049	\$ 135,518	\$ 1,420,567
Due from other governments	39,530	-	39,530
Total Assets	\$ 1,324,579	\$ 135,518	\$ 1,460,097
<u>Liabilities</u>			
Due to others	\$ 1,324,579	\$ 4,806	\$ 1,329,385
Total Liabilities	1,324,579	4,806	1,329,385
<u>Net Position</u>			
Held in trust for LAFCO	-	130,712	130,712
Total Net Position	\$ -	\$ 130,712	\$ 130,712

Changes in Fiduciary Net Position-LAFCO Trust Fund

Additions:	
Contributions	\$ 79,242
Total contributions	79,242
Deductions	
Administrative costs	(79,844)
Total Deductions	(79,844)
Change in net position	(602)
Net Position:	
Held in trust for LAFCO:	
Beginning of year	131,314
End of year	\$ 130,712

The notes to the financial statements are an integral part of this statement

City of Angels
Notes to Financial Statements
June 30, 2016

Note 1: Summary of Significant Accounting Policies

The basic financial statements of City of Angels, California, (the "City") have been prepared in conformity with accounting principles generally in the United States of America ("U.S. GAAP") as applied to governmental agencies. The Governmental Accounting Standards Board ("GASB") is the acceptable standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City was incorporated in 1912, as a municipal corporation operating under the general laws of the State of California. The City operates under a Council-Manager form of government and provides services including general government, public works, public safety, water, sewer, building inspections, public improvements, planning and zoning, and parks and recreation. Control or dependence is determined on the basis of budget adoption, selection of governing authority and designation of management, outstanding debt secured by revenues or general obligations of the City and ability to significantly influence operations.

The financial reporting entity, as defined by the GASB, consists of the primary government, the City, organizations for which the primary government is financially accountable, and any other organization 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.

B. Basis of Accounting

The government-wide, proprietary and agency fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned or, for property tax revenues, in the period for which levied. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenue from sales tax is recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. Resources not available to finance expenditures and commitments of the current period are recognized as deferred revenue or as a reservation of fund balance. The City considers property taxes available if they are collected within ninety days after year-end.

Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt, as well as compensated absences and claims and judgments are recorded only when payment is due. General capital acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financial sources.

When applicable, the City reports deferred revenue on its combined balance sheet. Deferred revenue arises when a potential revenue source does not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has legal claim to them, as when grant monies are received prior to the occurrences of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has legal claim to the resources, deferred revenue is removed from the combined balance sheet and revenue is recognized.

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

City of Angels
Notes to Financial Statements
June 30, 2016

Note 1: Summary of Significant Accounting Policies

C. Basis of Presentation

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the primary government (the City) and its blended component units. These statements include the financial activities of the overall government, except for fiduciary activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities demonstrates the degree to which the program expenses of a given function are offset by program revenues. Program expenses include direct expenses, which are clearly identifiable with a specific function. Program revenues include 1) charges paid by the recipient of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

When both restricted and unrestricted net position are available, unrestricted resources are used only after the restricted resources are depleted.

Fund Financial Statements

The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in separate columns. All remaining governmental and enterprise funds are separately aggregated and reported as nonmajor funds.

The City reports the following major governmental fund:

General Fund - This fund accounts for all the financial resources not required to be accounted for in another fund. This fund consists primarily of general government type activities.

The City reports the following major enterprise funds.

Water and Sewer Funds - account for the operation of the City's water and sewer utilities. Activities of these funds include administration, operation and maintenance of the water and sewer systems and billing and collection activities. The Funds also accumulate resources for, and payment of long-term debt principal and interest. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure the integrity of the Funds.

The City reports the following additional fund types:

Fiduciary Funds – The Fiduciary Funds accounts for assets held by the City as an agent for Greenhorn Creek Assessment District and in trust for the Local Agency Formation Commission (LAFCO)

City of Angels
Notes to Financial Statements
June 30, 2016

Note 1: Summary of Significant Accounting Policies

D. Use of Estimates

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

E. Cash Equivalents

For the purpose of the statement of cash flows, the City considers cash and cash equivalents as short term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Restricted cash and unrestricted pooled cash and investments held by the City are considered cash equivalents for purposes of the combined statement of cash flow's because the City's cash management pool and funds invested by the City possess the characteristics of demand deposit accounts.

F. Accounts Receivable

Accounts receivable are recorded for services, provided to individuals or non-governmental entities that are billed but unpaid. Proprietary Fund receivables are shown net of allowance for uncollectible accounts.

G. Fixed Assets

Capital assets, recorded at historical cost or estimated historical cost if actual historical cost is not available, are reported in governmental activities column of the government-wide financial statements. Contributed fixed assets are valued at their estimated fair market value. Capital assets include land, buildings and building improvements and equipment. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Depreciation is recorded in the government-wide financial statements on the straight-line basis over the useful life of the assets as follows:

<u>Assets</u>	<u>Useful Life</u>
Building and improvements	20-40 years
Plant System	20-60 years
Equipment and machinery	5-10 years
Infrastructure	40 years

City of Angels
Notes to Financial Statements
June 30, 2016

Note 1: Summary of Significant Accounting Policies (Continued)

H. Property Tax

Calaveras County is responsible for assessing, collecting and distributing property taxes in accordance with enabling legislation. Revenue received is based on an allocation factor calculated by the County under the provisions of Proposition 13 plus a percentage of the increase in market value in specific areas. The City's property tax is levied each July 1 on the assessed values as of the prior January 1 for all real and personal property located in the City. Property sold after the assessment date (January 1) is reassessed and the amount of property tax levied is prorated.

Secured property taxes are due in two equal installments; the first is due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Unsecured property tax is levied on July 1 and due on July 31 and becomes delinquent on August 31.

Based on a policy by the County called the Teeter Plan, 100% of the allocated taxes are transmitted by the County to the City, eliminating the need for an allowance for uncollectable. The County, in return, receives all penalties and interest on the related delinquent taxes.

I. Balance Sheet Classifications

Certain resources are classified as restricted assets as their use is restricted for specific purposes by bond agreements, lease agreements, trust agreements, grant agreements, City Charter provisions, or other requirements. Governmental fund types' restricted assets are for future payments of other post-retirement employment benefits. Proprietary fund types' restricted assets are for grant/bond reserve requirements and future payments of other post-employment benefits.

J. Pensions

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

K. Compensated Absences

City employees are granted vacation in varying amounts based on classification and length of service. Upon termination or retirement, the City is to pay 100% of the vacation time accrued.

Governmental Funds – Governmental Funds record expenditures for compensated absences as they are taken by employees. A year-end accrual for compensated absences has not been made in the Governmental Funds as of June 30, 2016, because the City does not believe any of the available year-end resources will be required to fund the year-end compensated absences liability.

Proprietary Funds – Proprietary funds accrue a liability for unused compensated absences earned through year-end. An expense is recognized for the increase in liability from the prior year.

City of Angels
Notes to Financial Statements
June 30, 2016

Note 1: Summary of Significant Accounting Policies (Continued)

L. Intergovernmental Revenues

Federal and state governments reimburse the City for costs incurred on certain fixed asset construction projects under capital grant agreements. Amounts claimed under such grants are credited to intergovernmental revenues if the project is being administered by a Capital Projects Fund. Additionally, the City receives reimbursement from federal and state governments for other programs, such as housing and rehabilitation. These reimbursements are recorded in the fund administering the program as intergovernmental revenues with the related program costs included in expenditures.

The respective grant agreements generally require the City to maintain accounting records and substantiating evidence to determine if all costs incurred and claimed are proper and that the City is in compliance with other terms of the grant agreements. These records are subject to audit by the appropriate government agency. Any amounts disallowed will reduce future claims or be directly recovered from the City.

M. Net Position

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position are categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted net position – Consists of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. These principally include restrictions for capital projects, debt service requirements and other special revenue fund purposes.
- Unrestricted net position – All other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

N. Fund Balances

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2016, fund balances for governmental funds are made up of the following:

- Nonspendable fund balance - includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.
- Restricted fund balance - includes amounts that can be spent for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- Committed fund balance - includes amounts that can only be used for the specific purposes determined by a formal action of the City’s highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally (for example: resolution and ordinance).

City of Angels
Notes to Financial Statements
June 30, 2016

Note 1: Summary of Significant Accounting Policies (Continued)

- Assigned fund balance - comprises amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by (1) the City Council or (b) a body (for example: a budget or finance committee) or official to which the City Council has delegated the authority to assign amounts to be used for specific purposes.
- Unassigned fund balance - is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, that fund would report a negative unassigned fund balance.

Note 2: Cash and Investments

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as cash and investments. Unless otherwise dictated by legal or contractual requirements, income earned or losses arising from the investment of pooled cash are allocated on a quarterly basis to the participating funds and component units based on their proportionate shares of the average quarterly cash balance.

The City maintains "restricted cash and investments".

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

Cash and investments	\$ 9,140,521
Restricted cash and investments	<u>689,330</u>
Cash and investments, statement of net position	9,829,851
Cash and investments, agency funds	<u>1,420,567</u>
Total cash and investments	<u>\$ 11,250,419</u>
Deposits with financial institutions	\$ 675,072
Imprest cash	925
Investments with fiscal agent	1,952,872
Local agency investment fund	<u>8,602,850</u>
Total cash and investments	<u>\$ 11,231,719</u>

A. Investments Authorized by the California Government Code and the Entity's Investment Policy

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

City of Angels
Notes to Financial Statements
June 30, 2016

Note 2: Cash and Investments (Continued)

A. Investments Authorized by the California Government Code and the Entity's Investment Policy (Continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Percentage of Portfolio</u>	<u>Investment in One Issuer</u>
Investment pools authorized under CA			
Statutes governed by Government Code	N/A	None	\$40 million
U.S. Treasury Obligations	5 years	None	None
Bank Savings Accounts	N/A	25%	None
Federal Agencies	5 years	75%	None
Commercial Paper	180 days	20%	None
Negotiable Certificates of Deposit	180 days	20%	None
Re-Purchase Agreements	180 days	20%	None
Corporate Debt	5 years	25%	None

B. 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 all investments. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investment maturity:

<u>Investment Type</u>	<u>Totals</u>	<u>Remaining Maturity (in Months)</u>	
		<u>12 Months or Less</u>	<u>13-48 Months</u>
Held By Trustee:			
Mutual Funds*	\$ 1,952,872	\$ 1,952,872	\$ -
State Investment Pool*	8,602,850	8,602,850	-
Totals	<u>\$ 10,555,722</u>	<u>\$ 10,555,722</u>	<u>\$ -</u>

*Not subject to categorization

C. Concentrations of Credit Risk

The investment policy of the City contains limitations on the amount that can be invested in any one issuer. There are no investments to one issuer exceeding those limits.

D. 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 deposit or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment of collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits; The California Government Code requires that a financial institution secured deposits made by state or local governmental units by pledging

City of Angels
Notes to Financial Statements
June 30, 2016

Note 2: Cash and Investments (Continued)

securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the City's deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2016, the City's deposits balance was \$785,173 and the carrying amount was \$675,072. The difference between the bank balance and the carrying amount was due to normal outstanding checks and deposits in transit. Of the bank balance \$250,000 was covered by the Federal Depository Insurance or by collateral held in the pledging bank's trust department in the City's name and \$489,762 was collateralized with pledged securities.

E. Investment in State Investment Pool

LAIF is included in the State's Pooled Money Investment Account. The total amount invested by all public agencies in the State's Pooled Money Investment Account approximates \$75.37 billion. Of the \$75.37 billion managed by the State Treasurer, 100% is invested in non-derivative financial products and 2.81% is invested in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute.

Investments are accounted for in accordance with the provisions of GASB Statement No. 31, which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in fair value of investments in the year in which the change occurred. The City reports its investments at fair value based on quoted market information obtained from fiscal agents or other sources if the change is material to the financial statements.

City of Angels
Notes to Financial Statements
June 30, 2016

Note 3: Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Additions	Retirements/ Adjustments	Balance June 30, 2016
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 804,747	\$ -	\$ -	\$ 804,747
Construction in progress	123,262	43,724		166,986
Capital assets, being depreciated:				
Buildings and improvements	748,894	-		748,894
Equipment and vehicles	1,502,537	84,568	(73,303)	1,513,802
Infrastructure	3,729,945	49,689		3,779,634
Total capital assets, being depreciated	<u>5,981,376</u>	<u>134,257</u>		<u>6,042,330</u>
Less accumulated depreciation for:				
Buildings and improvements	(414,564)	(19,704)		(434,268)
Equipment and vehicles	(1,343,187)	(48,070)	73,303	(1,317,954)
Infrastructure	(1,162,349)	(164,677)		(1,327,026)
Total accumulated depreciation	<u>(2,920,100)</u>	<u>(232,451)</u>	<u>73,303</u>	<u>(3,079,248)</u>
Total capital assets, being depreciated, net	<u>3,061,276</u>	<u>(98,194)</u>		<u>2,963,082</u>
Governmental activities capital assets, net	<u>\$ 3,989,285</u>	<u>\$ (54,470)</u>	<u>\$ -</u>	<u>\$ 3,934,815</u>
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 116,515	\$ -	\$ -	\$ 116,515
Construction in progress	22,637	158,966	(6,395)	175,208
Capital assets, being depreciated:				
Buildings and improvements	22,667,901			22,667,901
Equipment	1,089,229	144,546		1,233,775
Site improvements	3,965,406	6,395		3,971,801
Total capital assets, being depreciated	<u>27,722,536</u>	<u>150,941</u>	<u>-</u>	<u>27,873,477</u>
Less accumulated depreciation	<u>(9,584,618)</u>	<u>(725,672)</u>		<u>(10,310,290)</u>
Total capital assets, being depreciated, net	<u>18,137,918</u>	<u>(574,731)</u>	<u>-</u>	<u>17,563,187</u>
Business-type activities capital assets, net	<u>\$ 18,277,070</u>	<u>\$ (415,765)</u>	<u>\$ (6,395)</u>	<u>\$ 17,854,910</u>

Depreciation expense was charged to functions/programs of the City as follows:

Governmental Activities	
General government	\$ 6,796
Public safety	40,366
Streets and roads	175,516
Community Development/Parks	9,773
Total Governmental Type Activities	<u>\$ 232,451</u>
Business-Type Functions	
Water	\$ 125,787
Sewer	599,885
Total Business Type Activities	<u>\$ 725,672</u>

City of Angels
Notes to Financial Statements
June 30, 2016

Note 4: Note Receivable

Note receivable in the amount of \$1,035,540 consisted of mortgage loans for housing and property rehabilitation and construction.

Note 5: Long-term Liabilities

A summary of the changes in the City's long-term liabilities reported in the governmental activities column of the government-wide financial statements for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Due Within One Year
Compensated absences	\$ 176,691	\$ 85,471	\$ (124,286)	\$ 137,876	\$ 62,143
CalPERS pension liability	3,095,214	-	\$ (612,820)	2,482,394	
OPEB liability	840,231	173,620	(357,518)	656,333	
Angels Camp Veterans Memorial	30,000		(10,000)	20,000	10,000
Vehicle capital leases	74,196	64,522	(29,002)	109,716	40,144
Total	<u>\$ 4,216,332</u>	<u>\$ 323,613</u>	<u>\$ (1,133,626)</u>	<u>\$ 3,406,319</u>	<u>\$ 112,287</u>

Governmental Activities:

Capital Leases Payable

A. Lease with John Deere Credit

Long-term debt payable at June 30, 2016 was comprised of the following individual issues:

Lease Payable

Vehicle Capital Lease- In April 2013, the City entered into an agreement with De Lage Landen Public Finance LLC to lease four vehicles in the amount of \$155,047. The City will make 60 monthly payments of \$2,824 each with interest at 3.551% In March 2016, the City entered into an agreement with Municipal Asset Management, Inc. to finance to purchase of a Fire Truck in the amount of \$64,522. The City will make 60 monthly payments of \$1,219.10 each with interest at 5.059%. The following table represents all vehicle leases:

Fiscal Year Ended June 30,	
2017	\$ 42,988
2018	35,898
2019	14,629
2020	14,629
2021	<u>10,972</u>
Total minimum lease payments	<u>119,117</u>
Less: Amount representing interest	<u>(9,401)</u>
Present value of minimum lease payments	<u>\$ 109,716</u>

**City of Angels
Notes to Financial Statements
June 30, 2016**

Note 5: Long-term Liabilities (Continued)

Loan Payable

Angels Camp Veterans Memorial District- In December 2013, the City purchased land for \$53,805 from the Angels Camp Veterans Memorial District. As part of the sale the City entered into a promissory note for \$40,000. The City will make 4 annual payments of \$10,678 each with accrued interest at 3.25% per annum with the remaining debt service payments at June 30, 2016 as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2017	\$ 10,000	\$ 650	\$ 10,650
2018	10,000	163	10,163
Totals	<u>\$ 20,000</u>	<u>\$ 813</u>	<u>\$ 20,813</u>

Business-Type Activities:

A summary of the changes in the City's long-term business-type liabilities reported in the proprietary funds statement of net position and the business-type activities column of the government-wide financial statements for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Due Within One Year
Compensated absences	\$ 70,918	\$ 69,196	\$ (55,767)	\$ 84,347	\$ -
CalPERS pension liability	337,009	1,126,353		1,463,362	-
OPEB liability	-	486,109		486,109	-
2001A Sewer revenue bonds	275,000		(275,000)	-	-
Dept. of Water Resources note payable	595,745		(74,468)	521,277	74,468
Dept. of Water Resources revolving loan	234,442		(13,585)	220,857	13,720
USDA Sewer bond	4,325,000		(80,000)	4,245,000	80,000
Vehicle capital lease	14,469		(5,099)	9,370	5,283
Total	<u>\$ 5,852,583</u>	<u>\$ 1,681,658</u>	<u>\$ (503,919)</u>	<u>\$ 7,030,322</u>	<u>\$ 173,471</u>

Bond Payable

2001A Wastewater Revenue Bonds-The City issued Wastewater Plant Improvement Revenue bonds which consisted of \$3,185,000 in bonds bearing interest at 2.6% to 4.4%. The interest is payable each October 1 and April 1. The Bonds mature annually at various amounts through October 1, 2015 with the final principal payment of \$275,000.

City of Angels
Notes to Financial Statements
June 30, 2016

Note 5: Long-term Liabilities (Continued)

State of California Department of Water Resources

State of California Department of Water Resources-The State of California Department of Water Resources granted a loan to the Water Fund of the City for construction of water facilities in the amount of \$1,685,595. Of this amount, \$1,489,361 was drawn down from the State. The note calls for semiannual payments of \$37,234 including interest at 0% until July 2023 as follows:

Fiscal Year Ended			
June 30,	Principal	Interest	Total
2017	\$ 74,468		\$ 74,468
2018	74,468		74,468
2019	74,468		74,468
2020	74,468		74,468
2021	74,468		74,468
2022-2024	148,937		148,937
Totals	<u>\$ 521,277</u>	<u>\$ -</u>	<u>\$ 521,277</u>

The United States Department of Agriculture Rural Development

The United States Department of Agriculture Rural Development- The United States Department of Agriculture Rural Development granted a loan of \$5,000,000 bearing interest at 4.25% to the Sewer Fund for construction of wastewater facilities. The notes mature annually at various amounts through April 1, 2044 as follows:

Fiscal Year Ended			
June 30,	Principal	Interest	Total
2017	\$ 80,000	\$ 180,413	\$ 260,413
2018	85,000	177,012	262,012
2019	90,000	173,400	263,400
2020	90,000	169,574	259,574
2021	95,000	169,574	264,574
2022-2026	550,000	165,750	715,750
2027-2031	675,000	779,874	1,454,874
2032-2036	835,000	439,839	1,274,839
2037-2041	1,025,000	287,087	1,312,087
2042-2044	720,000	62,050	782,050
Totals	<u>\$4,245,000</u>	<u>\$ 2,604,573</u>	<u>\$ 6,849,573</u>

City of Angels
Notes to Financial Statements
June 30, 2016

Note 5: Long-term Liabilities (Continued)

State of California Department of Water Resource-The City entered into a revolving loan agreement with the State of California Department of Water Resources in March 2011. The agreement provides for a loan of up to \$3,372,800 for sewer system upgrades. Upon project completion \$3,086,400 of this loan was forgiven through the receipt of a federal grant in the same amount. The final loan of \$286,400 bears interest at 1% per annum with repayment beginning September 1, 2011 over a twenty year period. The note calls for annual payments of \$15,959 including interest at 1% until September 2030 as follows:

Fiscal Year Ended	Principal	Interest	Total
June 30,			
2017	\$ 13,720	\$ 2,209	\$ 15,929
2018	13,858	2,071	15,929
2019	13,996	1,933	15,929
2020	14,136	1,793	15,929
2021	14,278	1,651	15,929
2022-2026	73,558	6,087	79,645
2027-2031	77,311	2,334	79,645
Totals	\$ 220,857	\$ 18,078	\$ 238,935

Note 6: Special Assessment Districts (AD) Bonds

The City acts as an agent on behalf of the Greenhorn Creek Assessment District. The City is not liable for the debt repayment but is merely acting as the property owner's agent in handling the debt service transactions by collecting assessments and forwarding them to the bondholders. The debt was refinanced in 2006 through the issuance of \$9,200,000 in new debt. Interest is payable semi-annually at rates ranging from 4.19% to 5% with principal payments through 2021. The bond transactions are accounted for in an Agency Fund. The outstanding principal at June 30, 2016 was \$3,728,880.

Note 7: Defined Benefit Pension Cost-Sharing Employer Plan

A. General Information about the Pension Plans

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

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire between ages 45 and 57, dependent upon the individual plan criteria, with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

**City of Angels
Notes to Financial Statements
June 30, 2016**

Note 7: Defined Benefit Pension Cost-Sharing Employer Plan (Continued)

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous Plan Tier 1	Safety Police Plan Tier 1	Safety Fire Plan Tier 1
	Prior to	Prior to	On or after
Hire date	January 1, 2013	January 1, 2013	January 1, 2013
Benefit formula	2.7% @ 55	3% @ 50	2% @ 55
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50-55	45-50	50-55
Monthly benefits , as a % of eligible compensation	2.2% to 2.7%	2.5% to 3%	1.5% to 2%
Required employee contribution rates	8%	9.00%	8.00%
Required employer contribution rates	22.890%	41.83%	13.83%
	PEPRA Miscellaneous Plan	PEPRA Safety Police Plan	PEPRA Safety Fire Plan
	On or after	On or after	On or after
Hire date	January 1, 2013	January 1, 2013	January 1, 2013
Benefit formula	2% @ 62	2.7% @ 57	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	57-62	52-57	52-57
Monthly benefits , as a % of eligible compensation	1% to 2%	2.2% to 2.7%	2.2% to 2.7%
Required employee contribution rates	6.25%	6.25%	6.25%
Required employer contribution rates	6.25%	6.25%	6.25%

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

For the year ended June 30, 2016, the contributions recognized as part of pension expense for each Plan were as follows:

Contributions-employer	\$	562,744
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City of Angels
Notes to Financial Statements
June 30, 2016

Note 7: Defined Benefit Pension Cost-Sharing Employer Plan (Continued)

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

As of June 30, 2016, the City reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate share of Net pension liability
Miscellaneous Plan	\$ 2,317,646
Safety Police Plan	\$ 1,628,110

The City's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

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

	<u>Miscellaneous Plans</u>	<u>Safety Plans</u>
Proportion - June 30, 2014	0.07682%	0.04088%
Proportion - June 30, 2015	0.08448%	0.03951%
Change - Increase (Decrease)	0.00766%	-0.00137%

For the year ended June 30, 2016, the City recognized pension expense of (\$361,883). At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 15,927	\$ (20,660)
Changes of assumptions		(245,701)
Net difference between projected and actual earnings on pension plan investments	-	(123,695)
Changes in proportion and differences between City contributions and proportionate share of contributions	320,164	(59,082)
City contributions subsequent to the measurement date	562,744	-
Total	<u>\$ 898,835</u>	<u>\$ (449,138)</u>

\$562,744 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

**City of Angels
Notes to Financial Statements
June 30, 2016**

Note 7: Defined Benefit Pension Cost-Sharing Employer Plan (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period	
Ended June 30:	
2017	\$ (77,898)
2018	(73,419)
2019	(117,404)
2020	155,674
2021	-
Thereafter	-

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

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.50%

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2010 actuarial experience study for the period 1997 to 2007. Further details of the Experience Study can found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a 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. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

**City of Angels
Notes to Financial Statements
June 30, 2016**

Note 7: Defined Benefit Pension Cost-Sharing Employer Plan (Continued)

will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

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

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

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

Asset Class	Allocation	Years 1-10 (1)	Years 11+ (2)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43
Inflation Sensitive	6%	0.45%	3.36
Private Equity	10%	6.83%	6.95
Real Estate	10%	4.50%	5.13
Infrastructure and Forestland	2%	4.50%	5.09
Liquidity	2%	-0.55%	(1.05)

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

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

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Discount Rate -1%	Current Discount Rate	Discount Rate +1%
	PERS 6.65%, PARS 4%	PERS 7.65%, PARS 5%	PERS 8.65%, PARS 6%
Miscellaneous Plans	\$ 3,886,853	\$ 2,317,646	\$ 1,022,082
Safety Plans	\$ 2,610,421	\$ 1,628,110	\$ 822,635

City of Angels
Notes to Financial Statements
June 30, 2016

Note 8: Post-Retirement Health Benefits

Plan Description. City of Angel's Camp (City) Post-Retirement Healthcare Plan is a single-employer defined benefit healthcare plan administered by CalPERS. CalPERS provides medical insurance benefits only to eligible retirees and their eligible dependents. The City approved post-retirement health insurance benefits for all of its employees based on employees under the Public Employees' Medical and Hospital Care Act (PEMHCA).

The City Council passed a resolution to establish health benefit vesting requirements for future retirees under public employees' medical and hospital care act. For full time employees, if additional conditions are satisfied, the City contributes greater amounts, instead of the minimum employer contributions (MEC) whereas a) if an employee retired prior to July 1, 2009 and met eligibility requirements in effect at that time, the City contributes 50% of PERS select premium for the retiree and spouse for their lifetime, or b) an employee who is hired full time by the City of Angels Camp for 5 years or longer prior to July 1, 2009 or 10 years or longer after July 1, 2009 and who has met other vesting requirements, shall receive up to a maximum 50% of the health benefit for the retiree lifetime only. The total City expense on the pay as you go basis for postretirement health benefits in the 2015-16 fiscal year was \$54,655. As of June 30, 2016, the most recent actuarial, 13 retired employees were receiving postretirement health benefits.

Funding Policy. The contribution requirement of plan members is established by the City Council. As of June 30, 2016 the City Council did not establish a funding policy. The 2015-16 fiscal year actuarial determined contribution was calculated on amortized funding over a 30 year period using entry age normal cost. For the fiscal year ending June 30, 2016 the City contributed \$0 towards the unfunded actuarial accrued liability (UAAL). The City did not choose a trustee for the plan as of June 30, 2016. The City made the net contribution for fiscal year end June 30, 2016 directly to health insurance providers totalling \$54,655. All retiree plan members receiving this benefit contributed 50% of their total premiums.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

City of Angels
Notes to Financial Statements
June 30, 2016

Note 8: Post-Retirement Health Benefits (Continued)

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

Annual Required Contribution (ARC).	\$ 426,092
Interest on OPEB obligation	33,609
Adjustment to the ARC	<u>(55,108)</u>
Annual OPEB expense	404,593
Unreimbursed retiree premiums paid to plan providers	(54,655)
Estimated current year implicit subsidy	<u>(47,727)</u>
Increase in the net OPEB obligation	302,211
Net OPEB obligation - beginning of year	<u>840,231</u>
Net OPEB obligation - end of year	<u>\$ 1,142,442</u>

The following is the three year disclosure of the City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation at the end of the fiscal years:

Fiscal Year End	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB (Obligation) Asset
June 30, 2014	\$ 212,890	23.60%	\$ (671,242)
June 30, 2015	\$ 223,007	24.22%	\$ (840,231)
June 30, 2016	\$ 404,593	13.51%	\$ (1,142,442)

Funded Status and Funding Progress. As of June 30, 2016, the most recent actuarial valuation date, the actuarial accrued liability (AAL) and the unfunded actuarial accrued liability (UAAL) for benefits was \$3,192,287. As of June 30, 2016, the City's annual required contribution was not funded and is shown as a liability in the City balance sheet. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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 types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the June 30, 2016, actuarial valuation, the entry age normal cost asset valuation method is used. The actuarial assumptions include an investment/discount rate of 4% based on long-term historical returns for surplus funds invested pursuant to California Government Code Sections 53601 et seq. The valuation assumes that 100% of all eligible retirees will actually participate in the retiree medical benefit. The actuarial assumptions include an estimated inflation rate of 2.75%, estimated payroll growth of 3% and the annual healthcare premiums will increase between 4.5% and 5.5% per year between 2017 and 2020.

**City of Angels
Notes to Financial Statements
June 30, 2016**

Note 9: Deferred Inflows of Resources

Deferred inflows of resources in governmental funds arise when potential revenue does not meet the “available” criteria for recognition in the current period. Deferred inflows of resources (deferred revenue in accrual based statements) also arises when resources are received by the City before it has a legal claim to them (i.e., when grant monies are received prior to the incurrence of qualifying expenditures).

Note 10: Interfund Transactions

Transfers are used to (1) move revenues from the fund required by statute or budget to collect them to the fund required by statute or budget to expend them, and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Receivables and Payables

Balances representing lending/borrowing transactions between funds outstanding at the fiscal year end are reported as either “due from/due to other funds” (amounts due within one year), “advances to/from other funds” (non-current portions of interfund lending/borrowing transactions), or “loans to/from other funds” (long-term lending/borrowing transactions evidenced by loan agreements). Advances and loans to other funds are offset by a fund balance reserve in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

Interfund transactions for the fiscal year ended June 30, 2016 are summarized as follows:

Fund Type	Advances To Other Funds	Advances From Other Funds	Operating Transfers In	Operating Transfers Out
General	\$ -	\$ -	\$ 388,208	\$ 16,525
Special Revenue			129,000	438,365
Capital Project			80,026	7,147
Water	705,000	-		133,068
Sewer	-	705,000		2,129
Total	\$ 705,000	\$ 705,000	\$ 597,234	\$ 597,234

Note 11: Joint Venture-Utica Power Authority

The City of Angels entered into a joint exercise of powers agreement with Union Public District (UPUD) for the purpose of purchasing and operating the Utica/Angels Hydro Electric Projects. Each of the member entities shall be responsible for paying one-half (1/2) of all UPA Project costs and liabilities, including annual operation, maintenance and replacement costs of the Project, and all costs of maintaining the Projects in compliance with requirements of the FERC or other regulatory authority. The agreement establishes a separate and distinct entity, the Utica Power Authority (UPA). The UPA is not a component unit of the City.

Comment [lb1]: Was is Jolly's report

City of Angels
Notes to Financial Statements
June 30, 2016

Note 12: Risk Management

The City participates with other public entities in a joint venture under a joint powers agreement which establishes the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The relationship between the City and CSJVRMA is such that CSJVRMA is not a component unit of the City for financial reporting purposes.

The City is covered for the first \$1,000,000 of each general liability claim and \$500,000 of each worker's compensation claim through the CSJVRMA. The City has the right to receive dividends and the obligation to pay assessments based on a formula which among other expenses, charges the City's account for liability losses under \$50,000 and workers' compensation losses under \$50,000. The CSJVRMA purchases excess reinsurance from \$1,000,000 to \$15,000,000. The CSJVRMA participates in an excess pool which provides workers' compensation coverage from \$500,000 to \$1,500,000 and purchases excess reinsurance above \$1,500,000 to the statutory limit.

The CSJVRMA is a consortium of 55 cities in San Joaquin Valley, California. It was established under the provisions of California Government Code Section 6500, et. seq. The CSJVRMA is governed by a Board of Directors, which meets three to four times each year, consisting of one member appointed by each member city. The day-to-day business is handled by a management group employed by the CSJVRMA. The financial statements of CSJVRMA can be obtained at 1831 K Street, Sacramento, CA 95814.

The latest audited financial information and the most current information available for CSJVRMA for fiscal year ended June 30, 2016 is available at "csjvrma.org".

Note 13: Stewardship, Compliance and Accountability

A. Restatement of Net Position and Fund Balance

Adjustments resulting from errors or a change to comply with provisions of previously issued or retroactively applied accounting standards are treated as prior period adjustments. Accordingly the City reported an increase to net position in the statement of activities, governmental activities for \$357,518, a decrease to the water fund net position of \$182,330 and a decrease in sewer fund net position of \$175,188 to reclassify the beginning portion of water and sewer other than pension expense benefit (OPEB) from governmental activities. The City also recorded prior period adjustments increasing the statement of activities, governmental activities net position \$606,037, decreasing water fund net position \$508,191 and decreasing sewer fund net position \$472,466 to reallocate the beginning pension expense liability for GASB 68 to water and sewer and to correct the Cities proportionate share of the risk pool as calculated by CalPERS actuaries. Furthermore beginning net position in the sewer fund was reduced \$10,358 to account for a commercial account reimbursement related to an error in calculating sewer charges in prior years.

Note 14: Revenue Limitations Imposed by California Proposition 218

Proposition 218, which was approved by the voters in November 1996, regulates the City's ability to impose, increase, and extend taxes and assessments. Any new increase or extended taxes and assessments subject to the provisions of Proposition 218, requires voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes and assessments are subject to voter initiative and may be rescinded in the future years by the voters.

Note 15: Gann Limit

City of Angels
Notes to Financial Statements
June 30, 2016

Total Subject Revenue 2015-16	\$ 2,778,439
Amount of limit for 2015-16	<u>2,967,457</u>
Amount (under)/over limit (all sources)	<u>\$ (189,018)</u>

Note 16: Commitments and Contingencies

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

On September 6, 2011 the City received a Notice of Violation (“NOV”) from the Central Regional Water Quality Control Board (the Board) regarding violations associated with spills of wastewater at the spray field. The NOV indicated that the violations were subject to a penalty of \$125,000, but the Board staff could recommend removing the penalty if the violations are cured and the City successfully contests the complaint. The City has implemented new procedures to avoid future similar violations. A liability has been recognized in the wastewater fund for \$125,000 at June 30, 2016.

In the normal course of business, the City is subject to various lawsuits. Defense of lawsuits is typically handled by the City’s insurance carrier and losses, if any, are expected to be covered by insurance.

Commitments

The City had professional service commitments as of June 30, 2016.

Note 17: Subsequent Events

On January 6, 2017 the City Administrator voluntarily ended his employment with the City. The City determined that no severance pay was owed to the City Administrator because of the Administrator’s voluntary termination of the contract. In February 2017 the now former City Administrator filed a claim asserting he is entitled to \$121,847 for the value of severance he feels is owed along with penalties and attorney fees. As of the date of this report no determination had been made as to the outcome of the claim.

CITY OF ANGELS

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
June 30, 2016**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes				
Property - secured/unsecured	\$ 694,628	\$ 694,628	\$ 663,350	\$ (31,278)
Sales	583,421	583,421	680,503	97,082
Transient occupancy	642,718	642,718	671,704	28,986
Real property transfer	11,500	11,500	16,875	5,375
Total Taxes	<u>1,932,267</u>	<u>1,932,267</u>	<u>2,032,433</u>	<u>100,165</u>
Licenses and Permits				
Business licenses	22,000	22,000	23,213	1,213
Building permits	97,183	97,183	108,954	11,771
Franchise fees	92,000	92,000	96,949	4,949
Total Licenses and Permits	<u>211,183</u>	<u>211,183</u>	<u>229,115</u>	<u>17,932</u>
Intergovernmental				
Motor vehicle in lieu	244,837	244,837	242,769	(2,068)
Reimbursement - highway sweeping	2,712	2,712	2,712	
Reimbursement - public safety	6,800	6,800	168,524	161,724
Peace officers training	3,800	3,800	1,837	(1,963)
Mandated cost reimbursements			7,699	7,699
Total Intergovernmental	<u>258,149</u>	<u>258,149</u>	<u>423,541</u>	<u>165,392</u>
Fines, Forfeitures and Penalties				
Parking citations public safety reimbursements	17,000	17,000	13,769	(3,231)
Total Fines, Forfeitures and Penalties	<u>17,000</u>	<u>17,000</u>	<u>13,769</u>	<u>(3,231)</u>
Charges for Current Services				
Plan checking	14,000	14,000	10,687	(3,313)
Administrative fees	22,850	22,850	23,484	634
Museum	58,000	58,000	52,481	(5,519)
Total Charges for Current Services	<u>94,850</u>	<u>94,850</u>	<u>86,652</u>	<u>(8,198)</u>
Use of Money and Property				
Interest and investment income	6,000	6,000	2,433	(3,567)
Rent	19,133	19,133	19,933	800
Total Use of Money and Property	<u>25,133</u>	<u>25,133</u>	<u>22,366</u>	<u>(2,767)</u>
Other				
Insurance refunds and dividends			5,186	5,186
Miscellaneous - all others	6,900	6,900	38,892	31,992
Total Other	<u>6,900</u>	<u>6,900</u>	<u>44,078</u>	<u>37,178</u>
Total Revenues	<u>\$ 2,545,482</u>	<u>\$ 2,545,482</u>	<u>\$ 2,851,954</u>	<u>\$ 306,472</u>

CITY OF ANGELS

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND (CONTINUED)
 June 30, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Total Revenues (Continued)	\$ 2,545,482	\$ 2,545,482	\$ 2,851,954	\$ 306,472
Expenditures				
General Government				
City council	14,098	14,098	13,096	1,002
City attorney	29,444	29,444	15,755	13,689
Finance and administration	320,553	337,503	334,586	2,917
Total General Government	364,095	381,045	363,437	17,608
Public Ways and Facilities/Transportation				
Engineering	3,809	3,809	9,661	(5,852)
Building and planning	120,948	120,948	149,352	(28,404)
Street sweeping/maintenance	12,542	12,542	8,958	3,584
Public works	41,364	41,364	47,870	(6,506)
Total Public Ways and Facilities/Transportation	178,663	178,663	215,841	(37,178)
Public Safety				
Fire	531,787	531,787	614,645	(82,858)
Police	1,574,404	1,574,404	1,627,754	(53,350)
Total Public Safety	2,106,191	2,106,191	2,242,399	(136,208)
Community Development				
Museum	230,757	230,757	217,584	13,173
Visitors bureau	15,328	15,328	19,118	(3,790)
Community support	84,500	84,500	82,320	2,180
Parks	67,806	67,806	58,970	8,836
Total Community Development	398,391	398,391	377,992	20,400
Debt Service				
Principal	36,147	36,147	39,002	(2,855)
Interest	3,019	3,019	3,848	(829)
Total Debt Service	39,166	39,166	42,850	(3,684)
Capital Outlay				
Structures and improvements	4,400	4,400		4,400
Equipment	19,118	19,118	70,446	(51,328)
Total Capital Outlay	23,518	23,518	70,446	(46,928)
Total Expenditures	3,110,024	3,126,974	3,312,966	(185,990)
Excess (Deficit) of Revenues Over Expenditures				
Before Other Financing Sources (Uses)	(564,542)	(581,492)	(461,012)	120,480
Other Financing Sources (Uses)				
Proceeds of debt			64,522	64,522
Operating transfers in	428,399	428,399	388,208	(40,191)
Operating transfers out	(26,546)	(26,546)	(16,525)	10,021
Total Other Financing Sources (Uses)	401,853	401,853	436,205	34,352
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	\$ (162,689)	\$ (179,639)	(24,806)	\$ 154,833
Fund Balance, July 1, 2015			1,256,737	
Fund Balance, June 30, 2016			\$ 1,231,931	

CITY OF ANGELS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PLAN'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY
June 30, 2016

<u>Actuarial Valuation Date</u>	City's proportion of the net pension liability (asset)	City's proportionate share of the net pension liability (asset)	City's covered employee payroll	City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
<u>CalPERS-Miscellaneous Plans</u>					
6/30/2014	0.07682%	\$1,898,683	\$1,384,358	137.15%	79.41%
6/30/2015	0.08448%	\$2,317,646	\$1,706,505	135.81%	76.07%
<u>CalPERS-Safety Plans</u>					
6/30/2014	0.04088%	\$1,533,540	\$654,449	234.33%	71.70%
6/30/2015	0.03951%	\$1,620,110	\$705,201	229.74%	75.06%

* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which information is available is presented.

CITY OF ANGELS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY PENSION CONTRIBUTIONS
June 30, 2016

Actuarial Valuation Date	Contractually required contribution	Contributions in relation to the contractually required contribution	Contribution deficiency (excess)	City's covered employee payroll	Contribution as a percentage of covered employee payroll
CalPERS-Miscellaneous Plans					
6/30/2014	\$301,836	(\$301,836)	\$0	\$1,384,358	21.80%
6/30/2015	\$339,319	(\$339,319)	\$0	\$1,706,505	19.88%
CalPERS-Safety Plans					
6/30/2014	\$227,418	(\$227,418)	\$0	\$654,449	34.75%
6/30/2015	\$223,426	(\$223,426)	\$0	\$705,201	31.68%

* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which information is available is presented.

CITY OF ANGELS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016**

Budgets and Budgetary Accounting

As required by the laws of the State of California, the City prepares and legally adopts a final balanced operating budget. Public hearings were conducted on the proposed final budget to review all appropriations and the sources of financing. Because the final budget must be balanced, any shortfall in revenue requires an equal reduction in financing requirements.

Budgets for the general, special revenue, debt service and capital project funds are adopted on the modified accrual basis of accounting. The budgets for the general and special revenue funds are the only legally adopted budgets. Budgets for the debt service, capital project funds and proprietary funds are used for management and control purposes only.

At the fund level, actual expenditures cannot exceed budgeted appropriations. In order to accommodate operational changes that may result during the course of a budget year, management can modify in line items of a budget, not to exceed 20% of said line item, with the limitation that the overall departmental budget shall not be exceeded without Council approval.

The budgetary data presented in the accompanying financial statements includes all revisions approved by the City Council.

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

	Special Revenue Funds	Capital Project Funds	Total
<u>Assets</u>			
Restricted cash and investments	\$ 47,030	\$ 380,119	\$ 427,150
Receivables	123,064		123,064
Interest receivable	173,850		173,850
Due from other governments	115,649	23,871	139,521
Loans receivable	1,035,540		1,035,540
Total Assets	<u>\$ 1,495,133</u>	<u>\$ 403,990</u>	<u>\$ 1,899,123</u>
 <u>Liabilities and Fund Balances</u>			
<u>Liabilities</u>			
Accounts payable	\$ 55,303	\$ 1,283	\$ 56,586
Accrued wages	10		10
Total Liabilities	<u>55,313</u>	<u>1,283</u>	<u>56,596</u>
 <u>Deferred Inflows of Resources</u>			
Unavailable	260,751	969	261,720
Unearned advance-capital project fund		184,843	184,843
Total Deferred Inflows of Resources	<u>260,751</u>	<u>185,812</u>	<u>446,563</u>
 <u>Fund Balances</u>			
Assigned	1,179,069	216,895	1,395,964
Total Fund Balance	<u>1,179,069</u>	<u>216,895</u>	<u>1,395,964</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,495,133</u>	<u>\$ 403,990</u>	<u>\$ 1,899,123</u>

CITY OF ANGELS

**Combining Statement of Revenues, Expenditure and
Changes in Fund Balances
Nonmajor Governmental Funds
June 30, 2016**

	Special Revenue Funds	Capital Project Funds	Total
Revenues			
Taxes and assessments	\$ 623,911	\$ -	\$ 623,911
Intergovernmental	322,252	31,171	353,423
Use of money and property	1,481	1,475	2,956
Developer contributions		41,783	41,783
Charges for services	<u>20,698</u>		<u>20,698</u>
 Total Revenues	 <u>968,343</u>	 <u>74,429</u>	 <u>1,042,771</u>
Expenditures			
Current:			
Public ways and facilities/ transportation	514,663	27,710	542,373
Public safety		-	-
Community development	498,784	-	498,784
Capital outlay	<u>28,818</u>	<u>78,717</u>	<u>107,535</u>
 Total Expenditures	 <u>1,042,265</u>	 <u>106,427</u>	 <u>1,148,691</u>
 Excess (Deficit) of Revenues Over Expenditures	 <u>(73,922)</u>	 <u>(31,998)</u>	 <u>(105,920)</u>
 Other Financing Sources (Uses)			
Operating transfers in	129,000	80,026	209,026
Operating transfers out	<u>(438,365)</u>	<u>(7,147)</u>	<u>(445,512)</u>
 Total Other Financing Sources (Uses)	 <u>(309,365)</u>	 <u>72,879</u>	 <u>(236,486)</u>
 Net Change in Fund Balances	 <u>(383,287)</u>	 <u>40,881</u>	 <u>(342,406)</u>
 Fund Balances, July 1, 2015	 <u>1,562,356</u>	 <u>176,014</u>	 <u>1,738,370</u>
 Fund Balances, June 30, 2016	 <u>\$ 1,179,069</u>	 <u>\$ 216,895</u>	 <u>\$ 1,395,964</u>

CITY OF ANGELS
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2016

	Gas Tax	Local Transportation	Utica Power Authority	L&L District	Public Safety	TOT Emergency Service	TOT Roads	TOT Tourism	CDBG Housing	Totals
<u>Assets</u>										
Restricted cash and investments	\$86,776	\$ (14,822)	\$ 19,466	\$ 57,137	\$ (168)	\$ (39,706)	\$(24,716)	\$ (99)	\$ (36,837)	\$ 47,030
Receivables			2,020			40,348	40,348	40,348		123,064
Interest receivable									173,850	173,850
Due from other governments		14,841		8,914	19,834				72,060	115,649
Loans receivable									1,035,540	1,035,540
Total Assets	\$86,776	\$ 19	\$ 21,486	\$ 66,051	\$ 19,666	\$ 642	\$ 15,632	\$ 40,249	\$ 1,244,613	\$ 1,495,134
<u>Liabilities and Fund Balances</u>										
<u>Liabilities</u>										
Accounts payable	\$ 523	\$ -	\$ -	\$ 9,742	\$ -	\$ -	\$ 662	\$ 39,606	\$ 4,770	\$ 55,303
Accrued wages							10			10
Total Liabilities	523			9,742			672	39,606	4,770	55,313
<u>Deferred Inflows of Resources</u>										
Unavailable		14,841							245,911	260,751
<u>Fund Balances</u>										
Assigned	86,253	(14,822)	21,486	56,309	19,666	642	14,960	643	993,932	1,179,069
Total Fund Balance	86,253	(14,822)	21,486	56,309	19,666	642	14,960	643	993,932	1,179,069
Total Liabilities and Deferred Inflows and Fund Balances	\$86,776	\$ 19	\$ 21,486	\$ 66,051	\$ 19,666	\$ 642	\$ 15,632	\$ 40,249	\$ 1,244,613	\$ 1,495,133

CITY OF ANGELS

**Combining Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Special Revenue Funds
June 30, 2016**

	Gas Tax	Local Transportation	Utica Power Authority	L&L District	Public Safety	TOT Emergency Service	TOT Roads	TOT Tourism	CDBG Housing	Totals
Revenues										
Taxes and assessments	\$ -	\$ -	\$ -	\$ 178,406	\$ -	\$ 148,501	\$ 148,502	\$ 148,502	\$ -	\$ 623,911
Intergovernmental	98,441				223,811					322,252
Use of money and property	286	19	158	231	105		265		417	1,481
Charges for services			20,698							20,698
Total Revenues	98,727	19	20,856	178,637	223,916	148,501	148,767	148,502	417	968,343
Expenditures										
Current:										
Public ways and facilities/ transportation	67,140		198,000				249,523			514,663
Public safety				175,885				150,553	172,346	498,784
Community development				10,977					9,596	28,818
Capital outlay	8,245									
Total Expenditures	75,385		198,000	186,862			249,523	150,553	181,942	1,042,265
Excess (Deficit) of Revenues										
Over Expenditures	23,342	19	(177,144)	(8,225)	223,916	148,501	(100,756)	(2,051)	(181,524)	(73,922)
Other Financing Sources (Uses)										
Operating transfers in			129,000							129,000
Operating transfers out		(22,119)			(224,262)	(150,553)	(41,431)			(438,365)
Total Other Financing Sources (Uses)		(22,119)	129,000		(224,262)	(150,553)	(41,431)			(309,365)
Net Change in Fund Balances	23,342	(22,100)	(48,144)	(8,225)	(345)	(2,052)	(142,188)	(2,051)	(181,524)	(383,287)
Fund Balances, July 1, 2015	62,911	7,278	69,630	64,534	20,011	2,694	157,148	2,694	1,175,456	1,562,356
Fund Balances, June 30, 2016	\$ 86,253	\$ (14,822)	\$ 21,486	\$ 56,309	\$ 19,666	\$ 642	\$ 14,960	\$ 643	\$ 993,932	\$ 1,179,069

CITY OF ANGELS
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2016

	<u>Park Impact Fees</u>	<u>Police Impact Fees</u>	<u>Transportation Impact Fees</u>	<u>Fire Impact Fees</u>	<u>Capital Projects</u>	<u>Totals</u>
<u>Assets</u>						
Restricted cash and investments	\$ -	\$ 4,707	\$ 202,650	\$ 12,543	\$ 160,219	\$ 380,119
Due from other governments					23,871	23,871
Total Assets	<u>\$ -</u>	<u>\$ 4,707</u>	<u>\$ 202,650</u>	<u>\$ 12,543</u>	<u>\$ 184,090</u>	<u>\$ 403,990</u>
<u>Liabilities</u>						
Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,283</u>	<u>\$ 1,283</u>
Total Liabilities					<u>1,283</u>	<u>1,283</u>
<u>Deferred inflows of resources</u>						
Deferred inflows of resources						
Unavailable					969	969
Unearned revenue-advances					184,843	184,843
Total deferred inflows of resources					<u>185,812</u>	<u>185,812</u>
Fund Balances						
Assigned		<u>4,707</u>	<u>202,650</u>	<u>12,543</u>	<u>(3,005)</u>	<u>216,895</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ -</u>	<u>\$ 4,707</u>	<u>\$ 202,650</u>	<u>\$ 12,543</u>	<u>\$ 184,090</u>	<u>\$ 403,990</u>

CITY OF ANGELS
Combining Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Capital Project Funds
June 30, 2016

	Park Impact Fees	Police Impact Fees	Transportation Impact Fees	Fire Impact Fees	Capital Projects	Totals
Revenues						
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ 31,171	\$ 31,171
Developer contributions	7,147	2,052	29,709	2,875	-	41,783
Use of money and property		13	712	25	725	1,475
Total Revenues	<u>7,147</u>	<u>2,065</u>	<u>30,421</u>	<u>2,900</u>	<u>31,896</u>	<u>74,429</u>
Expenditures						
Current:						
Public ways and facilities/ Transportation			-		27,710	27,710
Public safety						-
Community support						-
Capital outlay					78,717	78,717
Total Expenditures					<u>106,427</u>	<u>106,427</u>
Excess (Deficit) of Revenues Over Expenditures	<u>7,147</u>	<u>2,065</u>	<u>30,421</u>	<u>2,900</u>	<u>(74,531)</u>	<u>(31,998)</u>
Other Financing Sources (Uses)						
Operating transfers in				8,500	71,526	80,026
Operating transfers out	(7,147)					(7,147)
Total Other Financing Sources (Uses)	<u>(7,147)</u>			<u>8,500</u>	<u>71,526</u>	<u>72,879</u>
Net Change in Fund Balances		<u>2,065</u>	<u>30,421</u>	<u>11,400</u>	<u>(3,005)</u>	<u>40,881</u>
Fund Balances, July 1, 2015		<u>2,642</u>	<u>172,229</u>	<u>1,143</u>		<u>176,014</u>
Fund Balances, June 30, 2016	<u>\$ -</u>	<u>\$ 4,707</u>	<u>\$ 202,650</u>	<u>\$ 12,543</u>	<u>(3,005)</u>	<u>216,895</u>

LARRY BAIN, CPA

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

To the City Council
City of Angels, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Angels as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Angels basic financial statements and have issued our report thereon dated February 13, 2017.

Internal Control Over Financial Reporting

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

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

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

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 16-1, 16-2, 16-3, 16-4, 16-5 and 16-6 in the schedule of findings following this report to be significant deficiencies in the City's internal control.

**CITY OF ANGELS
FINDINGS and RECOMMENDATIONS
JUNE 30, 2015**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Angel's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters, noted in the schedule of findings as 16-7 that is required to be reported under Government Auditing Standards.

Purpose of this Report

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

The City of Angel's written response to the significant deficiencies identified in our audit and any follow up for subsequent year corrections has not been subjected to the audit procedures applied in the audit of the financial statements and accordingly, we do not express an opinion on the responses.

This report is intended solely for the information and use of management, the audit committee, City Council, the Calaveras County Auditor Controller's Office, the California State Controller's Office, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Larry Bain, CPA,
An Accounting Corporation
February 13, 2017*

**CITY OF ANGELS
FINDINGS and RECOMMENDATIONS
JUNE 30, 2016**

Finding 16-1 (Prior Year Finding 15-1): During our testing of payroll we noted the stipends for council and committee members were paid through accounts payable.

Current Year Follow Up: During the current year audit the City took action to correct this issue and the condition no longer exists.

Recommendation: None.

Finding 16-2 (Prior Year Finding 15-2): During our testing we noted the compensated absences liability had been included on both the government-wide financial statements as well as the fund financial statements. Because compensated absences is considered a long-term liability it is normally recorded only in the proprietary funds and the government-wide statement of net position. We proposed adjusting journal entries to remove the liability from the governmental fund financial statements.

Current Year Follow Up: Condition no longer exists

Recommendation: None.

Finding 16-3 (Prior Year Finding 15-3): During our test of sewer billing we noted the City should be determining the sewer service charge for commercial customers by averaging out the consumption over a specified period. Upon review, the City has not performed the average consumption calculation since the 2010/11 fiscal year.

Current Year Follow Up: The City did perform an average consumption calculation for sewer service charges for commercial customers beginning in November 2015.

Finding 16-4 (Prior Year Finding 15-4): During our testing of the CDBG grants we noted the City did not record the 2% interest receivable as specified in the note agreement for the "First Time Home Buyer Program".

Current Year Follow Up: The City has recorded the interest receivable.

Recommendation: None.

Finding 16-5 (Prior Year Finding 15-5): During our testing we noted a reimbursement from Caltrans for work perform during the 2013-14 fiscal year on the Stanislaus Ave project. This was recognized as revenue in the 2013/14 fiscal year, but should have been recorded to deferred revenue at June 30, 2014 because the funds were received more than 90 days past the year end.

Current Year Follow Up: The City Fire Department participated in 3 strike team fires in June 2016. The City should have recorded \$37,128 as deferred revenue as the reimbursements were not received after the 90 day measurement period for recognizing revenue. We proposed a journal entry to record as deferred revenue.

Recommendation: We recommend recording revenue to the proper period based on the measurable and available criteria required by governmental GAAP.

Management Response: The City agrees with the Auditor's recommendation and has made the necessary adjustments to the 2016 financial statements. Future revenue will only be recorded if funds were received within 90 days of fiscal year end.

Finding 16-6 (Prior Year Finding 15-6): During our review of debt reserves, we noted the USDA Sewer bond reserve requirements may not have been met.

Current Year Follow Up: During the current year we noted a USDA reserve account was established and the proper amount of reserve funds were deposited into that account.

Recommendation: None

**CITY OF ANGELS
FINDINGS and RECOMMENDATIONS
JUNE 30, 2016**

OTHER MATTERS

Finding 16-7 (Prior Year Finding 15-7): During our preliminary analysis of audit areas that were at a high risk for fraud or abuse, and in accordance with AU-C Section 240, we noted that in prior years a management employee was overpaid for administrative leave that did not exist at the time of payment. As a result we expanded our testing in this area to ensure that this type of abuse had been corrected. As a result of this testing we noted during the current year under audit the management employee was paid out 55 hours of management leave in April 2015 that was not recorded to their balance in the pay records and at the time of the pay-out the employee had a balance of 1.40 hours available. After the pay-out the balance was negative 53.6 hours. The employee also used 9 hours of management leave in June 2015 resulting in a year-end deficit administrative leave balance of negative 62.6 hours.

We also noted the same management employee's contract allows for accruing 480 hours of management leave per year and requires the employee to take 30 days (240 hours) of admin leave each year leaving 240 hours available for pay out per fiscal year. The above mentioned employee applied 332.60 hours of the 2014/15 administrative leave allocation to the prior year over payments that were accrued in the City general ledger as a loan because the employee received 533 hours of administrative leave in the form of pay-outs over the amount available and the City internal controls did not detect these over payments. The remaining administrative leave balance for the 2014/15 fiscal year, after applying the 332.60 administrative leave hours to the 533 hours owed to the City, was 147.40 hours, which was out of compliance with the 240 hours of leave required to be taken annually. Additionally, during the 2014/15 fiscal year, the employee took 95 hours of management leave time off and was paid out 115 hours of management leave plus paid out an additional 80 hours management leave awarded by City Council, above the normal 480 hour annual allotment, during the 2014/15 fiscal year.

Furthermore we noted several instances during the 2014/15 fiscal year where the management employee was requesting and receiving their pay check in advance of the pay date. This required additional staff time to process the individual pay runs.

Current Year Follow Up: During the 2015/16 fiscal year audit we noted there were several accounting irregularities involving the management employee as follows:

- A. The management employee received check 70060 dated September 10, 2015 for \$3,560.22 as a payroll advance for the pay period September 6 to September 19, 2015 with a normal pay date of September 25, 2015. This check was signed by the director of administration services and by a City Council member. On September 14, 2015 (four days later) the same management employee received another payroll advance for the next pay period September 20 to October 3, 2015 with a normal pay date of October 9 that was paid with check 70061 (the next sequential manual check) for \$3,560.22. That check was signed by the director of administration services and by the management employee receiving the check, who was paid both of these advance payments and signed their own check. The request for the second check indicated it was an advance for the October 5, 2015 pay date, even though the next pay date would have been October 9, 2015 and the request was dated on September 15, 2015, the day after the check was signed. Furthermore, the check detail indicated it was also for the September 25, 2015 payroll check date. The advances for these checks was detected by the finance director several weeks after the pay dates and the pay advances were not brought to the finance director's attention by the management employee or by the director of administration services. In November 2015, after the payments were discovered by the finance director, the second advance was reimbursed to the City in the form of the management employee skipping a payroll. We also noted other instances where the management employee, who is a signor on the bank account, signed their own payroll advance checks. Per additional review we also noted signor's on the City bank account who were no longer with the City.

**CITY OF ANGELS
FINDINGS and RECOMMENDATIONS
JUNE 30, 2016**

OTHER MATTERS (Continued)

- B. During our testing of the management employee credit card statements we noted 12 instances where the purchases were not supported by a detailed receipt.

We noted 5 instances where the management employee purchased personal items with the City Credit Card. In some of these instances the employee provided hand written detail about what was purchased that turned out to be false when the detail receipts were later obtained. In one of the purchases made on April 3, 2016 the employee hand written explanation indicated the \$148.91 charge was for deli trays and drinks purchased for a League of California Cities meeting. In reviewing the detail receipt that was obtained on July 8, 2016 from the store we noted what appeared to be many personal items including a bottle of J Walker Red 80 PRF for \$36.99, IRNSTN SYMP OBSSSN for \$8.99, ME LRGE Eggs 18 PK etc.

We noted a \$99.61 charge at a BBQ & Grill restaurant on April 20, 2016 where the credit card slip was presented but no detail receipt was submitted. The employee explanation was the meal was for a League of Cities meeting with legislative analyst. When the City obtained the detail receipt we noted 4-16 ounce beers purchased along with what appears to be 4 meals and 4 sides. We also noted the tip was \$20 on a \$75 food/beverage charge or 27% of the food/beverage amount.

We also noted the employee was not using a Credit Card Statement Authorization Detail form for credit card charges.

The City finance department delegated the review of credit card purchases to the Director of Administration Services and this employee appeared to be doing a good job in catching the irregularities described above with internal audit checks and obtained repayment of the personal charges when discovered.

- C. During the current year audit we noted the finance department reviewed the prior excess administrative leave paid out and calculated that over \$29,000 had been paid out in excess of the maximum 240 hour annual limit. We noted the City Council retained an outside accountant to review this potential over payments and the results were discussed at a December 2016 City Council meeting in closed session in conjunction with a performance evaluation. The work of the outside accountant was not reviewed by the finance department.

We also noted the City adopted an employee advance policy in December 2015, which includes authorization of advances for all employees under certain established criteria. All employees were notified of the new policy and it will be equally applied.

Recommendation: We recommend that employees who are check signor's do not sign checks made out to themselves. We recommend the City review all check signor's and make changes based on current internal control policies for check signor's and current authorized personnel.

We recommend that City Council be more involved in reviewing financial activity including reviewing and approving invoices and the check register on a monthly basis and requiring one City Council member signature on all manual checks.

We recommend the City require City Cal-Card holders to sign a Cal-Card acknowledgement and responsibility form that includes a provision that no personal purchases are allowed. The City could also require employees to attend Cal-Card training.

If it is determined that the management employee was overpaid for the excess of the 240 hour maximum annual administrative leave payments in prior years, then the City should seek reimbursement for these overpayments. The City should record the amount due in the financial statements so as not to misstate the financial statements as a result of a misappropriation of assets. We also recommend that the City designate an individual who possesses suitable skill, knowledge, and/or experience, preferably at a senior level within the finance department, to oversee the services of the work of a specialist and evaluate the adequacy and results of the services performed. To avoid a

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conflict of interest, the designated employee should not be the individual whose financial activities are under investigation.

OTHER MATTERS (Continued)

Management Response: Management's response is as follows:

1. All checks for individuals who are also check signers shall be signed by persons other than the recipient of the check and in accordance with other City check signing policies. A new policy will be developed to include this condition as well as require a Council-Member/Signer for all manual checks issued.
2. New check signing authorizations have been executed for all bank accounts to remove ineligible signers and address recent employee and City Council changes. These changes shall be made timely for all future changes in personnel that affect the authorized signer lists.
3. Cardholders shall be required to sign a "Cardholder Acknowledgement and Responsibility Form" if one is not already on file. Training will be held with the cardholders concerning purchasing policies of the City and the reconciliation process for turning in charges on the Cal Card for payment. This training will emphasize a strict "No Personal Use" policy and a requirement for detailed receipts as part of the reconciliation process.
4. The Cal Card billing reconciliation approval process shall be moved to the Finance Department from the Director of Administrative Services department, where review of management authorizations and proper documentation for purchases shall occur.
5. A meals and entertainment policy shall be developed and presented to City Council for approval to enhance the current controls over these expenditures and provide for appropriate management review of these charges, including a review of all City Administrator charges by the Mayor on a monthly basis.
6. The City shall record any amounts that are determined to have been overpaid for administrative leave to a management employee, and proceed with reimbursement efforts. Amounts calculated by outside contractors pursuant to this overpayment shall be reviewed by independent Finance department staff, preferably the Finance Officer, as oversight for the process.