

**AGENDA
CITY OF SAND CITY
BUDGET & PERSONNEL COMMITTEE**

**Sand City Council Chambers
November 7, 2014
2:00 P.M.**

1. Roll Call
2. Public Comments

Members of the Public may address the Budget & Personnel Committee on matters not appearing on the Budget & Personnel Committee Agenda at this time for up to three minutes. In order that the Budget & Personnel Committee Secretary may later identify the speaker in the minutes of the meeting, it is helpful if the speakers state their names. Public comments regarding items on the scheduled agenda will be heard at the time the item is being considered by the Budget & Personnel Committee.
3. Fiscal Year 2013-2014 Audit Review
 - A. Review and Discussion of the Draft Audit prepared by Hayashi & Wayland for Sand City for FY 2013-2014
4. Discussion and Consideration of Participation in a Regional Crime Analyst Position
5. Adjournment

This is intended to be a draft agenda. The Budget/Personnel Committee reserves the right to add or delete to this agenda as required.

AGENDA ITEM

3A

**Independent Accountants' Report on
Agreed-Upon Procedures Applied
to Appropriations Limit Worksheet**

The Honorable Mayor and City Council
City of Sand City
Sand City, California

We have performed the procedures enumerated below to the accompanying Appropriations Limit Worksheet of the City of Sand City, California for the year ended June 30, 2014. These procedures, which were agreed to by the City of Sand City, California and the League of California Cities (as presented in the publication entitled *Agreed-upon Procedures Applied to the Appropriations Limitation Prescribed by Article XIII-B of the California Constitution*), were performed solely to assist the City of Sand City, California in meeting the requirements of Section 1.5 of Article XIII-B of the California Constitution.

The City of Sand City's management is responsible for the Appropriations Limit Worksheet. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

1. We obtained the computations of the appropriation limit and compared the limit and annual adjustment factors included in the computation to the limit and annual adjustment factors that were adopted by resolution of the City Council. We also compared the population and inflation options included in the aforementioned computation to those that were selected by a recorded vote of the City Council.

Finding: No exceptions were noted as a result of our procedures.

2. For the accompanying Appropriations Limit Worksheet, we added line A, last year's limit, to line E, total adjustments, and compared the resulting amount to line F, this year's limit.

Finding: No exceptions were noted as a result of our procedures.

3. We compared the current year information presented in the accompanying Appropriations Limit Worksheet to the adjustment factors provided by the County.

Finding: No exceptions were noted as a result of our procedures.

4. We compared the prior year appropriations limit presented in the accompanying Appropriations Limit Worksheet to the prior year appropriations limit adopted by the City Council for the prior year.

Finding: No exceptions were noted as a result of our procedures.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on the accompanying Appropriations Limit Worksheet. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by Article XIII B of the California Constitution.

This report is intended solely for the information and use of the City Council and management of the City of Sand City, California and is not intended to be and should not be used by anyone other than these specified parties.

_____ [date]

**CITY OF SAND CITY
APPROPRIATIONS LIMIT
FISCAL YEAR 2013 – 2014**

A.	LAST YEAR'S LIMIT		\$ 9,678,533
B.	ADJUSTMENT FACTORS		
	1. Population ratio	1.0060	
	2. Inflationary ratio	<u>1.0512</u>	
	Total adjustment ratio	<u>1.0575</u>	
C.	ANNUAL ADJUSTMENT	\$ 556,515	
D.	OTHER ADJUSTMENTS:		
	Lost responsibility (-)	-	
	Transfer to private (-)	-	
	Transfer to fees (-)	-	
	Assumed responsibility (+)	-	
	Subtotal other adjustments	<u>\$ -</u>	
E.	TOTAL ADJUSTMENTS		<u>556,515</u>
F.	THIS YEAR'S LIMIT		<u>\$ 10,235,048</u>

[date]

Hayashi Wayland
1188 Padre Drive, Suite 101
P. O. Box 1879
Salinas, California 93902

This representation letter is provided in connection with your audit of the financial statements of the City of Sand City (the City), which comprise the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information as of June 30, 2014, and the respective changes in financial position and for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of _____[date], the following representations made to you during your audit:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated April 28, 2014, including our responsibility for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the government required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
6. Related-party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.

7. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
8. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

Information Provided

9. We have provided you with:
 - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit;
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the City Council, or summaries of actions of recent meetings for which minutes have not yet been prepared.
10. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
11. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
12. We have no knowledge of allegations of fraud or suspected fraud that affects the City and involves:
 - a. Management,
 - b. Employees who have significant roles in the internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
13. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements communicated by employees, former employees, regulators, or others.
14. We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws and regulations, contracts or grant agreements, or abuse, whose effects were considered when preparing financial statements.
15. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
16. We have disclosed to you the identity of the City's related parties and all the related-party relationships and transactions of which we are aware.
17. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
18. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities or equity.
19. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.

20. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
21. As part of your audit, you assisted with preparation of the financial statements and related notes. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
22. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

Supplementary Information

23. With respect to the Management's Discussion and Analysis, the Schedule of Funding Progress of Other Post Employment Benefits and the Budgetary Comparison Schedule presented as required by the Government Accounting Standards Board to supplement the basic financial statements:
 - a. We acknowledge our responsibility for the presentation of such required supplementary information.
 - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by accounting principles generally accepted in the United States of America.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.

Sincerely,
CITY OF SAND CITY

Kelly Morgan, Interim City Administrator

Linda Scholink,
Director of Administrative Services

[date]

The Honorable Mayor and City Council
City of Sand City
Sand City, California

We are pleased to present this report related to our audit of the basic financial statements and compliance of the City of Sand City (the City) for the year ended June 30, 2014. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the City of Sand City's financial and compliance reporting process.

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication with Those Charged with Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are, significant and relevant to your responsibility to oversee the financial reporting process.

Our Responsibilities with regard to the Financial Statement Audit

Our responsibilities under auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States have been described to you in our arrangement letter dated April 28, 2014.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.

Accounting Policies and Practices

Preferability of Accounting Policies and Practices

Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City. The City did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period.

Recently Issued Accounting Standards

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. Note disclosures and required supplementary information requirements about pensions are also addressed.

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged. The City has no plan for early implementation of this Statement. At this time the City is not certain of the effect the adoption of Statement 68 will have on the financial statements.

Significant or Unusual Transactions

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. The significant accounting estimates reflected in the City of Sand City's June 30, 2014 financial statements include useful lives of depreciable assets and the cost of other post employment benefits.

Audit Adjustments

Audit adjustments proposed by us and recorded by the City of Sand City are shown on the attached "Adjusting Journal Entries," "Reclassification Journal Entries" and "Prepared by Client Journal Entries."

Uncorrected Misstatements

There were no uncorrected misstatements.

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed with Management

No significant issues arising from the audit were discussed with or were the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

Letter Communicating Significant Deficiencies and Material Weaknesses in Internal Control over Financial Reporting

When significant deficiencies and material weaknesses are identified during our audit of the financial statements, we are required to communicate them to you in writing. For the year ended June 30, 2014 a letter was not required.

Certain Written Communications between Management and Our Firm

We have requested certain representations from management that are included in the management representation letter dated _____ [date].

This report is intended solely for the information and use of the City Council and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to the City of Sand City.

Sincerely,

Michael B. Nolan, CPA, CFE, CGMA
Partner
Hayashi Wayland

51880/ml

City of Sand City
 Year End: June 30, 2014
 Adjusting Journal Entries
 Date: 7/1/2013 To 6/30/2014
 Account No: AJE-01 To AJE-99

AJE

Number	Date	Name	Account No	Debit	Credit	Net Income (Loss)	Amount Chg
Net Income (Loss) Before Adjustments						(1,279,755.00)	
AJE-01	6/30/2014	Cash Balance	10-1099-000 GF01	16,493.00			
AJE-01	6/30/2014	City Fines	10-4210-008 08	937.00			
AJE-01	6/30/2014	TRANSFER IN	10-4990-000 GF01		17,430.00		
AJE-01	6/30/2014	Cash Balance	31-1099-000 SRF01		14,630.00		
AJE-01	6/30/2014	Accounts Receivable	31-1101-000 SRF01		646.00		
AJE-01	6/30/2014	Gas Tax Funds	31-4305-011 SRF01		291.00		
AJE-01	6/30/2014	gas tax maint	31-5305-011 SRF01	15,567.00			
AJE-01	6/30/2014	Cash Balance	35-1099-000 SRF01		1,863.00		
AJE-01	6/30/2014	St. Lighting	35-5855-008 SRF01	1,863.00			
Adjust balances for amounts allocated from Gas Tax and Traffic Safety to cover street related expenditures.				34,860.00	34,860.00	(1,280,401.00)	(646.00)
AJE-02	6/30/2014	LEA SETTLEMENT	40-2487-000 OF		215,641.00		
AJE-02	6/30/2014	Pass Throughs	40-6368-000 OF	215,641.00			
To record the liability associated with the LEA settlement				215,641.00	215,641.00	(1,496,042.00)	(215,641.00)
				250,501.00	250,501.00	(1,496,042.00)	(216,287.00)

City of Sand City
 Year End: June 30, 2014
 Reclassification Journal Entries
 Date: 7/1/2013 To 6/30/2014

Number	Date	Name	Account No	Debit	Credit	Net Income (Loss)	Amount Chg
Net Income (Loss) Before Adjustments						(1,496,042.00)	
RJE-01	6/30/2014	Fair Market Value Adjustment	10-1009-000 GF01		1,973.00		
RJE-01	6/30/2014	Cash Balance	10-1099-000 GF01	1,973.00			
To reclass prior year FMV adjustment to the proper account.				1,973.00	1,973.00	(1,496,042.00)	0.00
RJE-02	6/30/2014	Accounts Receivable	10-1101-000 GF01		68,988.00		
RJE-02	6/30/2014	Due To/From	10-2090-000 GF01	68,988.00			
RJE-02	6/30/2014	Tax Increment Account	40-1005-000 OF	68,988.00			
RJE-02	6/30/2014	Due to/from Other Funds	40-2090-000 OF		68,988.00		
To reclass entry from cash to due to/from account for City Administration Fee and from A/R to due to/from.				137,976.00	137,976.00	(1,496,042.00)	0.00
RJE-03	6/30/2014	Vehicles	60-1292-000 G34G	22,708.00			
RJE-03	6/30/2014	FIXED ASSETS EQUIPMENT	60-1297-000 G34G		22,708.00		
To reclassify fixed asset additions from equipment to vehicles.				22,708.00	22,708.00	(1,496,042.00)	0.00
RJE-04	6/30/2014	Cash Balance	31-1099-000 SRF01	796.00			
RJE-04	6/30/2014	Accounts Receivable	31-1101-000 SRF01	1,079.00			
RJE-04	6/30/2014	Unappropriated Fund Balance	31-3400-000 SRF01		1,875.00		
RJE-04	6/30/2014	Cash Balance	32-1099-000 SRF01		456.00		
RJE-04	6/30/2014	Unappropriated Fund Balance	32-3400-000 SRF01	456.00			
RJE-04	6/30/2014	Cash Balance	33-1099-000 SRF01		164.00		
RJE-04	6/30/2014	Unappropriated Fund Balance	33-3400-000 SRF01	164.00			
RJE-04	6/30/2014	Accounts Receivable	34-1101-000 SRF01		1,000.00		
RJE-04	6/30/2014	Unappropriated Fund Balance	34-3400-000 SRF01	1,000.00			
RJE-04	6/30/2014	Gas Tax - 2103	36-1099-000 SRF01		176.00		
RJE-04	6/30/2014	Accounts Receivable	36-1101-000 SRF01		79.00		
RJE-04	6/30/2014	Unappropriated Fund Balance	36-3400-000 SRF01	255.00			
To combine Gas Tax balances into one fund.				3,750.00	3,750.00	(1,496,042.00)	0.00
RJE-05	6/30/2014	REIMBURSEMENTS	10-4732-000 GF01		1,500.00		
RJE-05	6/30/2014	Gen Fund Cap Outlay ND	10-5010-000 CO	1,500.00			
To move rebate from capital outlay to other income.				1,500.00	1,500.00	(1,496,042.00)	0.00
RJE-06	6/30/2014	DEFERRED REVENUE	10-2050-000 GF01		7,273.00		
RJE-06	6/30/2014	Health Insurance	10-2150-000 GF01	7,273.00			
To reclass PERS medical to the proper account.				7,273.00	7,273.00	(1,496,042.00)	0.00
RJE-07	6/30/2014	Unappropriated Fund Balance	60-3400-000 G34G		631,480.00		

City of Sand City
 Year End: June 30, 2014
 Reclassification Journal Entries
 Date: 7/1/2013 To 6/30/2014

RJE-1

Number	Date	Name	Account No	Debit	Credit	Net Income (Loss)	Amount Chg
RJE-07	6/30/2014	Investment in Fixed Assets	60-3600-000 G34G	631,480.00			
RJE-07	6/30/2014	AMOUNT PROVIDED FOR LTD	70-1280-000 G34G	850,194.00			
RJE-07	6/30/2014	Unappropriated Fund Balance	70-3400-000 G34G		850,194.00		
		Close out prior year unappropriated fund balance.		1,481,674.00	1,481,674.00	(1,496,042.00)	0.00
				1,656,854.00	1,656,854.00	(1,496,042.00)	0.00

City of Sand City
Year End: June 30, 2014
Prepared by Client Journal Entries
Date: 7/1/2013 To 6/30/2014
Account No: PBC-01 To PBC-99

Number	Date	Name	Account No	Debit	Credit	Net Income (Loss)	Amount Chg
Net Income (Loss) Before Adjustments						(1,445,114.00)	
PBC-01	6/30/2014	Sales Tax Receivable	10-1115-000 GF01		51,811.00		
PBC-01	6/30/2014	TRANSACTION TAX RECEIVABLE	10-1116-000 GF01	8,620.00			
PBC-01	6/30/2014	DEFERRED REVENUE	10-2050-000 GF01	883.00			
PBC-01	6/30/2014	DEFERRED REVENUE	10-2050-000 GF01		8,620.00		
PBC-01	6/30/2014	Sales/Use Tax	10-4030-000 GF01	185.00			
PBC-01	6/30/2014	STATE COMPENSAT	10-4031-000 GF01	50,928.00			
PBC-01	6/30/2014	Transaction tax	10-4032-000 GF01		39.00		
PBC-01	6/30/2014	SALE/TRANS TAX	10-5023-003 01		185.00		
PBC-01	6/30/2014	SALE/TRANS TAX	10-5023-003 01	39.00			
To adjust sales tax and transaction tax to actual at June 30, 2014.				60,655.00	60,655.00	(1,496,042.00)	(50,928.00)
				60,655.00	60,655.00	(1,496,042.00)	(50,928.00)

CITY OF SAND CITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2014
AND INDEPENDENT AUDITORS' REPORT

CITY OF SAND CITY

Table of Contents

	Page
Members of the City Council and Staff	1
Independent Auditors' Report	2 – 3
Management's Discussion and Analysis	4 – 10
Basic Financial Statements:	
<i>Government-Wide Financial Statements:</i>	
Statement of Net Position	11
Statement of Activities	12
<i>Fund Financial Statements:</i>	
Governmental Funds:	
Balance Sheet – Governmental Funds	13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Fiduciary Funds:	
Statement of Fiduciary Net Position	17
Statement of Changes in Fiduciary Net Position	18
Notes to the Basic Financial Statements	19 – 37
Required Supplementary Information:	
Schedule of Funding Progress of Other Post Employment Benefits	38
Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual – General	39
Notes to Required Supplementary Information	40

CITY OF SAND CITY

Table of Contents

(Continued)

	Page
Report Required by <i>Government Auditing Standards</i> –	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	41 – 42

CITY OF SAND CITY

June 30, 2014

Members of the City Council

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
David K. Pendergrass	Mayor	November, 2014
Mary Ann Kline-Carbone	Vice Mayor	November, 2016
Jerry Blackwelder	Council Member	November, 2014
Craig Hubler	Council Member	November, 2014
Todd Kruper	Council Member	November, 2016

City Staff

<u>Name</u>	<u>Office</u>
Kelly Morgan	Interim City Administrator
Michael Klein	Chief of Police
Linda Scholink	Administrative Services Director
James Heisinger	City Attorney
Leon Gomez	Public Works Director

INDEPENDENT AUDITORS' REPORT

**The Honorable Mayor and City Council
City of Sand City
Sand City, California**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *City of Sand City*, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the *City of Sand City* as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10, the Schedule of Funding Progress of Other Post Employee Benefits on page 38 and the Budgetary Comparison Schedule on pages 39 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

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

_____ [date]

**CITY OF SAND CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2014**

The discussion and analysis of the City of Sand City's financial performance provides an overview and analysis of the City's financial activities for the year ended June 30, 2014. It should be read in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City of Sand City exceeded its liabilities at the close of the year ended June 30, 2014 by \$26 million. However, \$13 million is a net investment in capital assets and \$10 million is a noncurrent receivable due from the Successor Agency.
- The City of Sand City's total net position increased by \$97,000.
- At the close of the year ended June 30, 2014, the City of Sand City's governmental funds reported combined ending fund balances of \$15 million, \$10 million of which is a noncurrent receivable. The net change in fund balances was an increase of \$974,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis serves as an introduction to the City's financial statements. The City's financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements – The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Net Position combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. Other nonfinancial factors should also be taken into consideration, such as changes in the City's property tax base, and the condition of the City's infrastructure (i.e. roads, drainage improvements, storm and sewer lines, etc.) to assess the overall health or financial condition of the City.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Government-wide Financial Statements (Continued)

The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes).

The government-wide financial statements include all the governmental activities of the City. The governmental activities of the City include public safety, streets, parks, planning, community development and general administration. The City does not operate any business-type activities.

The government-wide financial statements can be found on pages 11 and 12 of this report.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All of the funds of the City can be divided into two categories, governmental funds and fiduciary funds:

Governmental Funds – The focus of governmental funds is narrower than that of government-wide financial statements. It is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside the government. It is in these funds that the City accounts for the former assets and liabilities of the Redevelopment Agency that were transferred to a Successor Agency. Fiduciary funds are not included in the government-wide statements because the resources of those funds are not available to support the City's own programs. The accounting for fiduciary funds is much like that used for proprietary funds.

The City maintains two individual governmental funds. Information is presented separately in the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, which is considered to be a major fund. Data from the other governmental fund is presented as other governmental funds.

The fund financial statements can be found on pages 13 to 18 of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Government-wide Financial Statements (Continued)

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 through 37 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. The City's net position increased by \$97,000 in fiscal year 2013–2014 from fiscal year 2012–2013. The City's net investment in assets of \$13 million is used to provide services to citizens; consequently, these assets are not available for future spending. Another \$10 million is a noncurrent receivable leaving approximately \$3 million available for operations.

**Summary of Net Position (Rounded to the nearest \$1,000)
For the Year Ended June 30**

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Current and other assets	\$ 16,325,000	\$ 15,445,000	\$ 880,000
Capital assets	<u>12,652,000</u>	<u>13,073,000</u>	<u>(421,000)</u>
Total assets	<u>28,977,000</u>	<u>28,518,000</u>	<u>459,000</u>
Current and other liabilities	169,000	246,000	(77,000)
Long-term liabilities	<u>2,914,000</u>	<u>2,475,000</u>	<u>439,000</u>
Total liabilities	<u>3,083,000</u>	<u>2,721,000</u>	<u>362,000</u>
Net Investment in capital assets	12,595,000	12,999,000	(404,000)
Restricted for –			
Streets/roads	3,000	3,000	–
Unrestricted	<u>13,296,000</u>	<u>12,795,000</u>	<u>501,000</u>
Total net position	<u>\$ 25,894,000</u>	<u>\$ 25,797,000</u>	<u>\$ 97,000</u>

Current assets increased due to an increase in cash and investments as cash receipts exceeded cash disbursements.

Capital assets and net investment in capital assets decreased due to depreciation of \$632,000 offset by capital additions of \$211,000.

Current and other liabilities decreased due to a decrease in both accounts payable and deposits from a developer.

Long-term liabilities increased due to an increase in the OPEB obligation.

Unrestricted net position increased due to the change in net position, which is described on the following page.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

**Change in Net Position (Rounded to the nearest \$1,000)
For the Year Ended June 30**

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 1,764,000	\$ 1,605,000	\$ 159,000
Operating grants and contributions	105,000	240,000	(135,000)
Capital grants and contributions	15,000	-	15,000
General revenues:			
Property taxes	358,000	656,000	(298,000)
Sales and transaction taxes	3,481,000	3,505,000	(24,000)
Other taxes	231,000	223,000	8,000
Investment earnings	<u>10,000</u>	<u>6,000</u>	<u>4,000</u>
Total revenues	<u>5,964,000</u>	<u>6,235,000</u>	<u>(271,000)</u>
Expenses:			
General government	1,696,000	1,714,000	(18,000)
Public safety	2,429,000	2,301,000	128,000
Public works	1,322,000	1,245,000	77,000
Community development	408,000	381,000	27,000
Parks	9,000	10,000	(1,000)
Interest on long-term debt	<u>3,000</u>	<u>2,000</u>	<u>1,000</u>
Total expenses	<u>5,867,000</u>	<u>5,653,000</u>	<u>214,000</u>
Change in net position before extraordinary items	97,000	582,000	(485,000)
Extraordinary items	<u>-</u>	<u>(3,988,000)</u>	<u>3,988,000</u>
Change in net position	97,000	(3,406,000)	3,503,000
Net position, beginning of year	<u>25,797,000</u>	<u>29,203,000</u>	<u>(3,406,000)</u>
Net position, end of year	<u>\$ 25,894,000</u>	<u>\$ 25,797,000</u>	<u>\$ 97,000</u>

The increase in charges for services is mainly due to an increase in business licenses of approximately \$33,000, sanitation of \$12,000, licenses and permits of \$24,000, West End of \$20,000 and developer fees of \$59,000.

The decrease in operating grants and contributions is due to the end of the COPS Hiring Grant.

The decrease in property taxes is due to the decrease in the AB 1484 distribution.

The decrease in sales and transaction taxes is due to a decrease in sales reported.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The decrease in general government is due to a decrease in compensated absences.

The increase in public safety is due to an increase in liability insurance, compensated absences and OPEB, offset by decreases in salaries and benefits.

The increase in public works is due to an increase in contract services and storm water maintenance, offset by a decrease in street maintenance and contingency.

The increase in community development is due to an increase in developer costs and contract services, offset by a decrease in compensated absences.

The decrease in extraordinary items is due to a write down of long term receivables in the prior year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – At June 30, 2014, the City's net investment in capital assets amounted to \$13 million, (net of accumulated depreciation) a net decrease of \$404,000 over the prior year due to depreciation offset by the purchase of equipment and vehicles. Capital assets included land, land improvements, infrastructure, buildings, equipment, vehicles, furniture and fixtures and construction in progress.

Debt Administration – At June 30, 2014, the City had \$3 million in long-term debt. New debt for the fiscal year was \$504,000, retirements were made in the amount of \$65,000, for a net increase of \$439,000.

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

At the end of the current fiscal year, the City's governmental funds reported a total fund balance of \$15,335,000. This fund balance includes a noncurrent receivable of \$10,416,000. The General Fund has an unassigned fund balance of \$3,840,000.

During the current fiscal year, the fund balance of the City's General Fund increased \$974,000.

FUND BUDGETARY HIGHLIGHTS

General Fund – The original budgeted revenues were increased by \$538,000 due to the addition of the AB 1484 distribution and an increase in charges for current services. The actual revenues were under budget by \$33,000 due to sales and transaction taxes being lower than budget, offset by utility users taxes and revenue from other agencies being higher than budget.

The original budget for the general government expenditures was decreased by \$134,000 due to reductions in public safety and public works. The decreases were due to reductions in salaries and benefits and removal of a street improvement project. The actual expenditures were under budget by \$349,000 mainly due to all categories being under budget.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Revenues for fiscal year 2014–2015 are conservatively projected to stay relatively flat over those of the past fiscal year. In 2014, receipts for Sand City's April through June sales were 1.8% higher than the same quarter one year ago. Taxable sales for all of Monterey County increased 5.3% over the comparable time period. There is grounded data suggesting that the increase in internet sales will inversely affect sales tax revenue for the City of Sand City. To counter some of the potential loss in revenue, the City of Sand City is hopeful that a half-cent transaction tax gets voter approval in November, 2014.

The City of Sand City experienced a net property tax value increase of 6.6% for the 2014–15 tax roll, which was slightly less than the increase experienced countywide at 7.9%. The assessed value increase between 2013–14 and 2014–15 was approximately \$14.7 million.

The growth in value within the City is the first significant increase for several years. Of the \$14.7 million in value gains, a majority of the increase was approximately \$8.7 due to increases among commercial properties, another \$5.4 million came from increases to vacant properties and \$1.3 million was the result of residential value gains.

The City of Sand City has seen some positive developments moving forward to include the "Bungalows at East Dunes" project nearing completion which will bring additional property tax and permit revenue. "The Independent" mixed use development renovation is expected to be completed soon. "Panera Bread" bakery and restaurant opened its doors for business and is very popular in the City of Sand City. Additionally, the anticipated "Catalina Lofts" project is projected to break ground soon.

The Monterey Bay Shores recently received Coastal Commission approval, subject to conditions. This City of Sand City beachfront hotel-resort, touted as the model of environmental sensitivity by a developer who has spent 20 years pursuing the project.

The proposed Monterey Bay Shores Resort — a 341-unit "eco-resort" on 39 acres once used for sand-mining — received a key favorable action from the Monterey Peninsula Water Management District. Although this project is not vertical, the City of Sand City is hopeful for it to be constructed within the next few years.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (Continued)

California American Water (CAW) Company continues to operate the Sand City desalination facility, eliminating all prior operational expenses that once accrued to the City of Sand City. Annual lease payments of \$850,000 from CAW to the City of Sand City will continue for some time into the future, providing additional revenues for the general fund.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Sand City, 1 Sylvan Park, Sand City, California 93955.

BASIC FINANCIAL STATEMENTS

**CITY OF SAND CITY
STATEMENT OF NET POSITION
JUNE 30, 2014**

ASSETS

Cash and cash equivalents	\$ 595,257
Investments	4,584,437
Receivables	45,122
Administrative fees due from Successor Agency	68,988
Receivables from other governments	615,493
Loans due from Successor Agency	10,415,876
Capital assets, net:	
Nondepreciable	1,178,738
Depreciable	<u>11,473,034</u>
Total assets	<u>28,976,945</u>

LIABILITIES

Accounts payable	153,201
Accrued liabilities	15,654
Noncurrent liabilities:	
Due within one year	115,524
Due in more than one year	<u>2,798,326</u>
Total liabilities	<u>3,082,705</u>

NET POSITION

Net investment in capital assets	12,594,794
Restricted for streets and roads	2,763
Unrestricted	<u>13,296,683</u>
Total net position	<u>\$ 25,894,240</u>

See Notes to the Basic Financial Statements.

**CITY OF SAND CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
<u>FUNCTIONS/PROGRAMS</u>					
Governmental activities:					
General government	\$ 1,696,025	\$ 1,575,598	\$ 11,900	\$ —	\$ (108,527)
Public safety	2,428,762	19,039	92,955	15,000	(2,301,768)
Public works	1,322,114	14,074	—	—	(1,308,040)
Community development	407,613	155,668	—	—	(251,945)
Parks	9,243	—	—	—	(9,243)
Interest on long-term debt	2,743	—	—	—	(2,743)
Total governmental activities	<u>\$ 5,866,500</u>	<u>\$ 1,764,379</u>	<u>\$ 104,855</u>	<u>\$ 15,000</u>	<u>(3,982,266)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					358,056
Sales tax					2,390,560
Transaction tax					1,090,020
Utility user's tax					135,735
Franchise taxes					79,160
Gas taxes					15,915
Investment earnings					<u>10,088</u>
Total general revenues					<u>4,079,534</u>
CHANGE IN NET POSITION					97,268
NET POSITION, BEGINNING OF YEAR					<u>25,796,972</u>
NET POSITION, END OF YEAR					<u>\$ 25,894,240</u>

See Notes to the Basic Financial Statements.

CITY OF SAND CITY
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 595,257	\$ –	\$ 595,257
Investments	4,584,437	–	4,584,437
Receivables	45,122	–	45,122
Administrative fees due from Successor Agency	68,988	–	68,988
Receivables from other governments	612,730	2,763	615,493
Loans due from Successor Agency	<u>10,415,876</u>	<u>–</u>	<u>10,415,876</u>
Total assets	<u>16,322,410</u>	<u>2,763</u>	<u>16,325,173</u>
<u>LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	153,201	–	153,201
Accrued liabilities	<u>15,654</u>	<u>–</u>	<u>15,654</u>
Total liabilities	<u>168,855</u>	<u>–</u>	<u>168,855</u>
Deferred inflows:			
Deferred tax revenue	46,929	–	46,929
Deferred interest on Successor Agency loans	<u>774,766</u>	<u>–</u>	<u>774,766</u>
Total deferred inflows	<u>821,695</u>	<u>–</u>	<u>821,695</u>
Fund balances:			
Nonspendable –			
Noncurrent receivable	10,415,876	–	10,415,876
Restricted –			
Street and roads	–	2,763	2,763
Committed:			
Tioga beach	120,000	–	120,000
OPEB Funding	491,031	–	491,031
Contracts	465,114	–	465,114
Unassigned	<u>3,839,839</u>	<u>–</u>	<u>3,839,839</u>
Total fund balances	<u>15,331,860</u>	<u>2,763</u>	<u>15,334,623</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 16,322,410</u>	<u>\$ 2,763</u>	<u>\$ 16,325,173</u>

See Notes to the Basic Financial Statements.

CITY OF SAND CITY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$ 15,334,623
 Amounts reported in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	12,651,772
Other assets are not available to pay for current–period expenditures and therefore are deferred in the funds	821,695
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	<u>(2,913,850)</u>
NET POSITION	<u>\$ 25,894,240</u>

See Notes to the Basic Financial Statements.

CITY OF SAND CITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	General	Other Governmental Funds	Total
REVENUES:			
Property taxes	\$ 358,056	\$ —	\$ 358,056
Sales tax	2,391,443	—	2,391,443
Transaction tax	1,081,400	—	1,081,400
Utility user's tax	135,735	—	135,735
Franchise taxes	79,160	—	79,160
Business licenses	452,963	—	452,963
Licenses and permits	37,355	—	37,355
Fines, forfeits and penalties	1,229	1,574	2,803
Charges for current services	247,589	—	247,589
Revenue from other agencies	160,964	15,915	176,879
Developer fees	60,872	—	60,872
Investment earnings	10,088	—	10,088
Rental income	864,956	—	864,956
Other revenue	81,732	—	81,732
Total revenues	<u>5,963,542</u>	<u>17,489</u>	<u>5,981,031</u>
EXPENDITURES:			
Current:			
General government	1,590,455	—	1,590,455
Public safety	2,092,390	—	2,092,390
Public works	676,696	—	676,696
Community development	409,517	—	409,517
Parks	5,791	—	5,791
Debt service:			
Principal	17,569	—	17,569
Interest and other charges	2,743	—	2,743
Capital outlay	211,397	—	211,397
Total expenditures	<u>5,006,558</u>	<u>—</u>	<u>5,006,558</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>956,984</u>	<u>17,489</u>	<u>974,473</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	17,430	—	17,430
Transfers out	—	(17,430)	(17,430)
Total other financing sources (uses)	<u>17,430</u>	<u>(17,430)</u>	<u>—</u>
NET CHANGE IN FUND BALANCES	974,414	59	974,473
FUND BALANCES, BEGINNING OF YEAR	<u>14,357,446</u>	<u>2,704</u>	<u>14,360,150</u>
FUND BALANCES, END OF YEAR	<u>\$ 15,331,860</u>	<u>\$ 2,763</u>	<u>\$ 15,334,623</u>

See Notes to the Basic Financial Statements.

CITY OF SAND CITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

NET CHANGE IN FUND BALANCES	\$ 974,473
 Amounts reported in the statement of activities are different because:	
 Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period these amounts are:	
Capital outlay	211,397
Current year depreciation	(632,936)
 Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.	
	(17,263)
 The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, neither transaction has any effect on net assets. In the current period these amounts are:	
Principal payments on long-term debt	17,569
 Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Compensated absences	47,507
OPEB costs	<u>(503,479)</u>
CHANGE IN NET POSITION	<u>\$ 97,268</u>

See Notes to the Basic Financial Statements.

CITY OF SAND CITY
STATEMENT OF FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

ASSETS:

Cash and cash equivalents	\$ 789,442
Investments	1,875,222
Capital assets, net:	
Nondepreciable	2,525,710
Depreciable	<u>21,076</u>
Total assets	<u>5,211,450</u>

LIABILITIES:

Developer fees received in advance	1,455,000
Administrative fees due to Sand City	68,988
Noncurrent liabilities:	
Due within one year	560,000
Due in more than one year	<u>17,801,517</u>
Total liabilities	<u>19,885,505</u>

DEFERRED INFLOWS –

Deferred ROPS revenue	<u>494,219</u>
Total deferred revenue	<u>494,219</u>

NET POSITION –

Enforceable obligations	<u>(15,168,274)</u>
Total net position	<u>\$ (15,168,274)</u>

See Notes to the Basic Financial Statements.

CITY OF SAND CITY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

ADDITIONS:

Property taxes	\$	476,820
Interest income		<u>3,770</u>
Total additions		<u>480,590</u>

DEDUCTIONS:

Administrative expenses		143,759
Legal expenses		77,184
Contract services		16,500
Distribution to affected taxing agencies		804,245
Settlement to Local Education Agencies		451,669
Interest expense		358,193
Depreciation		<u>10,647</u>
Total deductions		<u>1,862,197</u>

NET DECREASE		(1,381,607)
NET POSITION, BEGINNING OF THE YEAR		<u>(13,786,667)</u>
NET POSITION, END OF THE YEAR		<u>\$ (15,168,274)</u>

See Notes to the Basic Financial Statements.

CITY OF SAND CITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The City of Sand City (the City), California, was incorporated as a general law city on May 31, 1960. On November 2, 1992, the citizens passed a measure to establish Sand City as a Charter City. The City operates under a city council – manager form of government and provides a wide range of municipal services. The City is not financially accountable for any other organization.

Basis of Presentation and Accounting – The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund based financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The City has no proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

Measurement Focus and Basis of Accounting – The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if they are collected within 60 days of the end of the current fiscal period with the following exception, revenue received as part of the *Accounting for Local Revenue Realignments Adopted in the 2004–2005 State of California Budget*. These revenues are considered available if collected within seven months of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Ad valorem, franchise and sales tax revenues are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash as the resulting receivable is immaterial. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to the purpose of expenditure and are usually revocable only for failure to comply with the prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

The City reports the following major governmental fund –

General Fund, accounts for the City's primary services (Public Safety, Public Works, Parks, etc.) and is the primary operating unit of the City.

Additionally, the City reports the following fund type –

Fiduciary Funds include the Successor Agency. This fund was established as a result of the dissolution of the Redevelopment Agency and is used to account for assets held by the City in a trustee capacity.

Cash, Cash Equivalents and Investments – The City follows the practice of pooling cash and investments of all funds. Investments of the pooled cash consist of deposits with the Local Agency Investment Fund and are accounted for at fair market value. Interest earned as a result of pooling is distributed to the appropriate funds utilizing a formula based on the average daily balance of cash of each fund. The City considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Deferred Inflows of Resources – Receivables are amounts due representing revenues earned or accrued in the current period. Receivables which have not been remitted within 60 days subsequent to year end are offset by deferred inflows of resources, and accordingly have not been recorded as revenue in the governmental fund. When the revenue becomes available, the revenue is recognized in the governmental fund. Deferred inflows are detailed on the Balance Sheet.

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. The allowance is based on an assessment of the current status of individual accounts. At June 30, 2014, the allowance was estimated to be zero.

Capital Assets – Property, facilities, equipment and infrastructure purchased or acquired is carried at historical cost or estimated historical cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 for equipment; \$25,000 for facilities and improvements, \$150,000 for infrastructure and all land, and an estimated useful life in excess of one year.

Property, facilities, equipment and infrastructure is depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 Years
Improvements	5–20 Years
Equipment	5–10 Years
Vehicles	8 Years
Furniture and Fixtures	10 Years
Infrastructure	20–50 Years

Compensated Absences – Unused paid time off (PTO) which includes vacation, sick, and comp time may be accumulated up to 800 hours and is paid at the time of termination from City employment. Hours accumulated over the 800 hours are paid out as compensation at the end of each calendar year. PTO is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Interfund Activity – During the course of operations, transactions occur between individual funds that result in amounts owed between funds, which are classified as “due to/from other funds.” Eliminations have been made on the government-wide statements for amounts due to/from within the governmental funds.

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized in the current period.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Net Position – The Statement of Net Position presents the City’s assets and liabilities, with the difference reported as net position. Net position is reported in three categories.

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* results when constraints placed on net positions use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* consist of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

Fund Balances – Fund balance classifications are based primarily on the extent to which the City is bound to honor constraints on the use of the resources reported in each governmental fund.

The City reports the following classifications:

- *Nonspendable* – Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form, such as long term receivables or (b) legally or contractually required to be maintained intact, such as a trust that must be retained in perpetuity.
- *Restricted* – Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed* – Committed fund balances are amounts that can only be used for specific purposes as a result of constraints imposed by the City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints by taking some type of action (passage of a resolution). Amounts in the committed fund balance classification may be used for other purposes with appropriate due process by the City Council. Committed fund balances differ from restricted balances because the constraints on their use do not come from outside parties, constitutional provisions or enabling legislation.
- *Assigned* – Assigned fund balances are amounts that are constrained by the City’s intent to be used for specific purpose, but are neither restricted nor committee. Intent is express by (a) the City Manager or (b) the City Council. The City Council has the authority to remove or change the assignment of the funds with a simple majority vote.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unassigned – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When restricted and other fund balance resources are available for use, it is the City’s policy to use restricted resources first, followed by committed, assigned and unassigned amounts, respectively.

Property Tax Levy, Collection and Maximum Rates – State of California (State) Constitution Article 13 provides for a maximum general property tax rate statewide of \$1 per \$100 of assessed value. Assessed value is calculated at 100% of market value as defined by the above referenced Article 13. The State Legislature has determined the method of distribution of receipts from \$1 tax levy among counties, cities, schools and other districts. Counties, cities and school districts may levy such additional tax rates as necessary to provide for voter approved debt service.

The County of Monterey assesses properties, bills for and collects property taxes, as follows:

	<u>Secured</u>	<u>Unsecured</u>
Valuation dates	January 1	January 1
Lien/levy dates	July 1	July 1
Due dates	50% on November 1 50% on February 1	July 1
Delinquent as of	December 10 (for November) April 10 (for February)	August 31

The term “Unsecured” refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed.

Property tax revenues are recorded in governmental funds as receivables and deferred revenues at the time the tax levy is billed. Current year revenues are those collected within the current period or soon enough thereafter to pay current liabilities, generally within sixty days of year-end. No allowance is provided for delinquent taxes as the lien is considered an enforceable legal obligation.

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

Subsequent Events – Subsequent events have been evaluated through _____[date], which is the date the financial statements were available to be issued.

NOTE 2. DEPOSITS AND INVESTMENTS

Custodial Credit Risk-Deposits – Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City has a deposit policy that complies with California Government Code Section commencing at 53630 (Public Deposits). As of June 30, 2014, \$632,328 of the City’s bank balances of \$882,328 were exposed to custodial credit risk as uninsured but are collateralized by the pledging bank’s trust department not in the City’s name.

Investments – The City’s investments consist of the State Treasurer’s Local Agency Investment Fund and certificates of deposit held with a local financial institution. All investments are recorded at fair market value. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal 110% of the total amount deposited by the public agencies. The investment of state pooled funds is governed by State law, by policies by the Pooled Money Investment Board (PMIB) and by accepted norms for prudent fiduciary management of investments. PMIB funds may be invested in a wide range of interest bearing securities, such as Treasury notes, prime commercial paper, certain California municipal and agency obligations, highly rated corporate bonds, obligations of such agencies as Fannie Mae, and negotiable certificates of deposit. Also allowed are time deposits in California banks, savings and loans, and credit unions that have not less than a “satisfactory” CRA rating. The value of each participating dollar equals the fair value divided by the amortized cost. The City’s fair value of the position in the pool is the same as the value of the pool shares. Investments at June 30, 2014 consisted of the following:

Local Agency Investment Fund	\$ 4,419,999
Certificates of Deposit	<u>164,438</u>
Total	<u>\$ 4,584,437</u>

NOTE 3. RECEIVABLES

Receivables at June 30, 2014 for the City's individual major funds and nonmajor fund in the aggregate, are as follows:

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Receivables:			
Accounts	\$ 42,916	\$ -	\$ 42,916
Interest	<u>2,206</u>	<u>-</u>	<u>2,206</u>
Total	<u>\$ 45,122</u>	<u>\$ -</u>	<u>\$ 45,122</u>
Other Governments:			
Property taxes	\$ 3,469	\$ -	\$ 3,469
Sales tax	406,868	-	406,868
Transaction tax	189,060	-	189,060
Gas tax	-	2,763	2,763
Grants	<u>13,333</u>	<u>-</u>	<u>13,333</u>
Total	<u>\$ 612,730</u>	<u>\$ 2,763</u>	<u>\$ 615,493</u>

NOTE 4. LOANS DUE FROM SUCCESSOR AGENCY

The Redevelopment Agency (the Agency) received loans from the City to pay its share of administrative expenses, to make payments on non-tax increment borrowings and to reimburse the City for payments made on Certificates of Participation. Upon dissolution of the Agency, these loans became the obligation of the Successor Agency. In addition, the City elected to be the Housing Successor Agency of the former Agency and in doing so, they will receive the funds borrowed by the Agency's Debt Service Fund from the Housing Fund to make the SERAF payments. Balances as of June 30, 2014 are as follows:

Operating Expenses	\$ 3,626,058
Costco/Seaside Agreements	4,650,000
COP Reimbursement	1,454,766
SERAF Receivable	<u>685,052</u>
Total	<u>\$ 10,415,876</u>

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance 6/30/13	Additions and Transfers	Deletions and Transfers	Balance 6/30/14
Capital assets not being depreciated:				
Land	\$ 1,005,872	\$ -	\$ -	\$ 1,005,872
Construction in progress	172,866	-	-	172,866
Total capital assets not being depreciated	<u>1,178,738</u>	-	-	<u>1,178,738</u>
Capital assets being depreciated:				
Infrastructure	4,518,557	-	-	4,518,557
Land improvements	441,563	-	-	441,563
Equipment	2,320,894	26,992	-	2,347,886
Vehicles	269,777	184,405	-	454,182
Buildings	8,477,897	-	-	8,477,897
Furniture and fixtures	114,514	-	-	114,514
Total capital assets being depreciated	<u>16,143,202</u>	<u>211,397</u>	-	<u>16,354,599</u>
Less accumulated depreciation for:				
Infrastructure	1,763,329	150,758	-	1,914,087
Land improvements	241,392	25,433	-	266,825
Equipment	994,196	227,094	-	1,221,290
Vehicles	265,704	18,589	-	284,293
Buildings	875,942	209,127	-	1,085,069
Furniture and fixtures	108,066	1,935	-	110,001
Total accumulated depreciation	<u>4,248,629</u>	<u>632,936</u>	-	<u>4,881,565</u>
Total capital assets being depreciated – net	<u>11,894,573</u>	<u>(421,539)</u>	-	<u>11,473,034</u>
Capital assets – net	<u>\$ 13,073,311</u>	<u>\$ (421,539)</u>	<u>\$ -</u>	<u>\$ 12,651,772</u>

Depreciation expense for the year ending June 30, 2014 was charged to functions/programs of the primary government as follows:

General government	\$ 36,959
Public safety	39,125
Public works	553,400
Parks	<u>3,452</u>
Total depreciation expense	<u>\$ 632,936</u>

NOTE 6. LONG-TERM DEBT

Capital Lease – The city has a non-cancelable capital lease agreement with Rabobank to finance the acquisition of radio equipment. The lease meets the criteria of a capital lease since it transfers benefits and risk of ownership to the lessee at the end of the lease term and therefore has been recorded at the present value of future minimum lease payments at the date of the inception of the lease. Assets under the lease total \$93,236 with accumulated depreciation of \$27,971 at June 30, 2014. Principal and interest payments of \$10,156 with interest at 1.936% are to be made bi-annually beginning September 1, 2012 and continuing until March 1, 2017.

General long-term debt balances and transactions for the fiscal year ended June 30, 2014 are as follows:

	<u>Balance 6/30/13</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/14</u>	<u>Due Within One Year</u>
Capital Lease	\$ 74,547	\$ -	\$ 17,569	\$ 56,978	\$ 18,263
Other liabilities:					
Compensated absences	497,012	-	47,507	449,505	97,261
Other Post Employee Benefits	<u>1,903,888</u>	<u>503,479</u>	<u>-</u>	<u>2,407,367</u>	<u>-</u>
Total	<u>\$ 2,475,447</u>	<u>\$ 503,479</u>	<u>\$ 65,076</u>	<u>\$ 2,913,850</u>	<u>\$ 115,524</u>

In prior years, the General Fund has been used to liquidate compensated absences.

Annual debt service requirements to maturity are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Capital Lease</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2015	\$ 18,263	\$ 2,049	\$ 20,312
2016	18,983	1,329	20,312
2017	<u>19,732</u>	<u>580</u>	<u>20,312</u>
Total	<u>\$ 56,978</u>	<u>\$ 3,958</u>	<u>\$ 60,936</u>

NOTE 7. INTERFUND ACTIVITY

Transfers between funds during the year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 17,430	\$ -
Special revenue fund	<u>-</u>	<u>17,430</u>
Total	<u>\$ 17,430</u>	<u>\$ 17,430</u>

Transfers were made for expenditures covered by Gas Tax monies.

NOTE 8. PENSION PLAN

Plan Description – The City contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute. CalPERS' issues a publicly available annual financial report that includes financial statements and required supplementary information for the City. That report may be obtained from their Executive office, 400 P Street, Sacramento, California 95814.

Funding Policy – Participants are required to contribute a percentage of their annual covered salary at a rate of 9% for public safety personnel and 8% for other covered employees. Of this percentage, the City has agreed to pay 100%. The City is required to contribute at an actuarial determined rate recommended by CalPERS actuaries and actuarial consultants and adopted by the CalPERS Board of Administration. For the fiscal year ended June 30, 2014 the employer contribution rate was 23.700% and 20.742% for public safety personnel and 24.396% for other covered employees. The City's contributions to CalPERS for the years ending June 30, 2014, 2013 and 2012 were \$594,146, \$609,125 and \$655,944, respectively, equal to the required contributions for each year.

On September 12, 2012, the California Public Employees' Pension Reform Act of 2013 (PEPRA) was signed into law. PEPRA took effect January 1, 2013 and affects new CalPERS members on or after January 1, 2013 through provisions affecting benefit formulas, the definition of what comprises pensionable earnings, limits on pensionable earnings, and other matters. The new law also calls for new members to pay 50 percent of the normal cost of benefits. The City did not have any employee subject to the new PEPRA formulas as of June 30, 2014.

NOTE 9. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457, through the California Public Employee's Retirement System (CalPERS) 457 Deferred Compensation Program. All employees of the City are eligible for the plan. Participation in the plan is optional. The funds of the plan are invested by the City, through CalPERS, as directed by and on behalf of the employees in various investment options.

NOTE 10. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – The City of Sand City has contracted with the Public Employees Retirement System (PERS) under the PERS Care Health Plan to provide benefits of the Meyers-Geddes State Employees' Medical and Hospital Care Act per Government Code Section 22850. The Plan provides for continuation of medical insurance benefits for certain retirees or annuitants and their dependents. The Plan can be amended by action of the City Council on passing a resolution. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

NOTE 10. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Funding Policy – The obligations of the Plan members and the City are established by action of the City Council pursuant to the passing of a resolution. The City’s contribution for each employee or annuitant shall be the amount necessary to pay the cost of his/her enrollment at 100% and the partial cost of his/her benefit family members (50% of one dependent), in a health benefit plan, plus administrative fees and Contingency Reserve Fund Assessments. The City currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. As of June 30, 2014, 2013 and 2012, the cost of funding the Plan for the year was \$25,521, \$25,202 and \$27,119, respectively.

Annual OPEB Cost and Net OPEB Obligation – The City’s annual other postemployment 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 the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. 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.

Annual required contribution (ARC)	\$ 534,000
Interest on net OPEB obligation	82,000
Adjustment to ARC	<u>(87,000)</u>
Annual OPEB cost (expense)	529,000
Contributions made	<u>(25,521)</u>
Increase in net OPEB obligation	503,479
Net OPEB obligation, beginning of year	<u>1,903,888</u>
Net OPEB obligation, end of year	<u>\$ 2,407,367</u>

Trend Information – The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation were as follows:

Fiscal Year Ending	Annual OPEB Cost	Actual Contribution Made	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 502,000	\$ 27,119	5%	\$ 1,434,090
2013	\$ 495,000	\$ 25,202	5%	\$ 1,903,888
2014	\$ 529,000	\$ 25,521	4%	\$ 2,407,367

Funding Status and Funding Progress – As of June 30, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$2,869,000, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2014 was \$1,830,123 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 156.8%.

NOTE 10. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

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. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the 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, 2012 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions include a 4.25% investment rate of return (discount rate) and an annual health care cost trend rate of actual premiums initially, reduced by decrements to an ultimate rate of 5% beginning in 2021 and a general inflation rate of 3%. The unfunded actuarial liability is being amortized over a closed thirty year period using a level percentage of payroll on an open basis. The remaining amortization period at June 30, 2014, was twenty-five years.

NOTE 11. JOINTLY GOVERNED ORGANIZATIONS

The City participates on the Boards of Community Human Services, a joint powers agency, Monterey Regional Waste Management District, the Monterey Peninsula Water Management District, Monterey Regional Water Pollution Control Agency, Association of Monterey Bay Area Governments, Transportation Agency for Monterey County, Fort Ord Reuse Authority, the Northern Salinas Valley Mosquito Abatement District, Seaside/Sand City Chamber of Commerce, League of California Cities, Monterey County Convention and Visitor's Bureau, Monterey County Business Council, Monterey County Mayor's Association, and Seaside County Sanitation District. The Boards of these entities are comprised of representatives from local municipalities, districts, and unincorporated areas. The City made various disbursements to the organizations in the amount of \$34,335 for the fiscal year ended June 30, 2014.

NOTE 12. RISK FINANCING

The City is exposed to various risks of loss related to torts, thefts, damage to, or destruction of assets; errors and omissions; injuries to workers; and natural disasters. These risks are covered by a combination of commercial insurance purchased from independent third parties and participation in the Monterey Bay Area Self Insurance Authority (MBASIA), which is a public entity risk pool. There have not been any significant reductions in insurance coverage as compared to the previous year. Settled claims from these risks have not exceeded commercial coverage for the past three fiscal years.

NOTE 12. RISK FINANCING (Continued)

MBASIA was formed under a joint powers agreement (JPA) pursuant to California Government Code Section 6500 et seq. effective July 1, 1982. MBASIA is administered by a Board of Directors consisting of thirteen members appointed by the cities participating. The Board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by member cities beyond their representation on the Board. Each member city pays a premium commensurate with the amount of predicted losses and shares surpluses and deficits proportionate to their participation in the JPA.

NOTE 13. OPERATING LEASES

On October 30, 2009, the City and California-American Water Company (CAW) entered into an Amended and Restated Lease Agreement whereby CAW is to lease and operate the desalination facility plant. CAW is to hold the leased property for a term of thirty (30) years. At June 30, 2014, leased property carried at cost is as follows:

Building	\$ 8,065,207
Equipment	<u>1,835,430</u>
	9,900,637
Less: Accumulated depreciation	<u>(1,729,775)</u>
Net property under operating lease	<u>\$ 8,170,862</u>

The depreciation expense relating to the facility was \$385,173 for the year ended June 30, 2014.

On May 15, 2007, the City and T-Mobile entered into a Site Lease Agreement for certain premises of the property located at 1 Sylvan Way, Sand City, California. The term of the lease started on the first day of December 2007 and continued for 60 months, expiring on November 30, 2012 with the right to renew the lease for up to 5 additional 60 monthly periods. The current renewal period is until November 30, 2017. On January 25, 2013, the City was notified that T-Mobile entered into an agreement with an affiliate of Crown Castle International Corp. to control and operate the site.

The minimum future rentals under these leases as of June 30, 2014 are as follows:

<u>June 30</u>	<u>CAW</u>	<u>Crown Castle</u>	<u>Total</u>
2015	\$ 850,000	\$ 14,952	\$ 864,952
2016	850,000	14,952	864,952
2017	850,000	14,952	864,952
2018	850,000	14,952	864,952
2019	850,000	4,981	854,981
Thereafter	<u>2,655,000</u>	<u>—</u>	<u>2,655,000</u>
Total	<u>\$ 6,905,000</u>	<u>\$ 64,789</u>	<u>\$ 6,969,789</u>

Rental revenue recognized for the year ended June 30, 2014 was \$864,956.

NOTE 14. COMMITMENTS AND CONTINGENCIES

In the fiscal year ending June 30, 2014, the City has various service and project contracts totaling \$512,216, of which \$465,114 still remained on the contracts as of June 30, 2014.

In May of 2012, the City of Seaside submitted a claim to the City of Sand City demanding payment of amounts alleged to be due under an "Agreement Regarding Future Impacts on Provision of Public Services" (the "Agreement") dated May 18, 1989. The City denied that any amounts were due to the City of Seaside under the Agreement. In December 2012, the City of Seaside filed a complaint for Breach of Contract and Declaratory Relief in Superior Court of Monterey County against the City of Sand City and the Successor Agency to the Sand City Redevelopment Agency, alleging breach of the Agreement and claiming consequential damages of \$6,817,278. The City filed a cross complaint in February 2013, alleging that payments already made to the City of Seaside under the Agreement were unauthorized under the law and should be refunded to the City of Sand City. Management and its legal council are unable to determine what the ultimate outcome of the complaint or cross complaint will be at this time.

NOTE 15. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Sand City that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the City or another unit of local government will agree to serve as the "Successor Agency" to hold the assets until they are distributed to other units of state and local government. On October 18, 2011, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution number SC-11-104. Accordingly the City established the Successor Agency Trust fund, a private-purpose trust fund, which is a fiduciary type fund.

Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution. In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the Successor Agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

NOTE 15. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (Continued)

Following are disclosures specific to the Successor Agency Trust Funds:

NOTE A. DEPOSITS AND INVESTMENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a deposit policy that complies with California Government Code Section commencing with 53630 (Public Deposits). As of June 30, 2014, \$539,442 of the Fiduciary Fund's bank balance of \$789,442 was exposed to custodial credit risk as uninsured but was collateralized by the pledging bank's trust department not in the City's name. All cash held by the Fiduciary Fund must be used to repay enforceable obligations.

Investments – The Fiduciary Fund investments consist of money market funds and certificates of deposit held with various financial institutions. All investments are recorded at fair market value. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal 110% of the total amount deposited by the public agencies. Investments at June 30, 2014 consisted of the following:

Money Market Funds	\$ 9,675
Certificates of Deposit	<u>1,865,547</u>
	<u>\$ 1,875,222</u>

NOTE B. CAPITAL ASSETS

	<u>Balance 6/30/13</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/14</u>
Capital assets not being Depreciated –				
Land	\$ 2,525,710	\$ –	\$ –	\$ 2,525,710
Total capital asset not being depreciated	<u>2,525,710</u>	<u>–</u>	<u>–</u>	<u>2,525,710</u>
Capital assets being Depreciated:				
Land improvements	182,631	–	–	182,631
Sculpture	<u>40,218</u>	<u>–</u>	<u>–</u>	<u>40,218</u>
Total capital assets being depreciated	<u>222,849</u>	<u>–</u>	<u>–</u>	<u>222,849</u>
Less accumulated depreciation for:				
Land improvements	166,994	6,627	–	173,621
Sculpture	<u>24,132</u>	<u>4,020</u>	<u>–</u>	<u>28,152</u>
Total accumulated depreciation	<u>191,126</u>	<u>10,647</u>	<u>–</u>	<u>201,773</u>
Total capital assets being Depreciated - net	<u>31,723</u>	<u>(10,647)</u>	<u>–</u>	<u>21,076</u>
Capital assets-net	<u>\$ 2,557,433</u>	<u>\$ (10,647)</u>	<u>\$ –</u>	<u>\$ 2,546,786</u>

NOTE 15. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (Continued)**NOTE C. DEVELOPER FEES RECEIVED IN ADVANCE**

The former Redevelopment Agency entered into a Disposition and Development Agreement (DDA) with a developer that required the developer to pay certain negotiation fees. In the event that the DDA is terminated by either party, the DDA requires a portion of the fees in the amount of \$1,455,000 be refunded to the developer. The fees subject to refund will not be earned until the property connected with the DDA is conveyed to the developer, at which time the fees will be recognized as revenue.

NOTE D. LONG-TERM DEBT

Tax Allocation Bonds, 2008 Series A – Tax Allocation Bonds, 2008 Series A in the amount of \$7,015,000 were issued January 30, 2008, at a premium of \$22,667, to refinance the Tax Allocation bonds, Series 1996 and to help finance redevelopment activities within and for the benefit of the Sand City Redevelopment Project. The Bonds consist of Serial Bonds in the amount of \$3,315,000 with interest rates ranging from 4.0% to 4.5%, payable semi-annually on each May 1 and November 1, commencing May 1, 2008. Principal on the Serial Bonds is due annually on November 1st beginning in 2010 and ending 2021. The Serial Bonds maturing on or before November 1, 2018 are not subject to optional redemption prior to maturity. The Bonds maturing on or after November 1, 2019 are subject to Redemption at the option of the former Redevelopment Agency on any date on or after November 1, 2018, as a whole or in part, from any available source of funds, at a redemption, prior equal to the principal amount thereof, together with accrued interest to the date fixed for redemption with out premium. The remaining \$3,700,000 is Term Bonds due November 1, 2027 with an interest rate of 4.2%, also with interest payable semi-annually on each May 1 and November 1, commencing May 1, 2008. The Term Bonds are subject to mandatory redemption, in part by lot, from sinking account payments scheduled to begin November 1, 2022 until November 1, 2027, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption. The Bonds are payable solely from tax increment revenue, which has been pledged for repayment of the Bonds.

Taxable Tax Allocation Bonds, 2008 Series B – Taxable Tax Allocation Bonds, 2008 Series B in the amount of \$2,135,000 were issued January 30, 2008 at a discount of \$50,916, to help finance redevelopment activities within and for the benefit of the Sand City Redevelopment Project. The Bonds consist of Term Bonds as follows: \$465,000 at a 4.75% interest rate, due November 1, 2013, \$720,000 at a 5.50% interest rate, due November 1, 2018 and \$950,000 at a 5.75% interest rate, due November 1, 2023. Interest on the Bonds is payable semi-annually on each May 1 and November 1, commencing May 1, 2008. All Bonds are subject to mandatory redemption, in part by lot, from sinking account payments scheduled to begin November 1, 2010 and ending November 1, 2023 at a redemption price equal to the principal amount thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption. The Bonds are payable solely from tax increment revenue, which has been pledged for repayment of the Bonds.

Loans from the City – The former Redevelopment Agency received loans from the City to pay its share of administrative expenses and make payments on non-tax increment borrowings. The City accrued interest at a rate of 7% on these advances. There is no formal repayment schedule in place at this time. In the year ending June 30, 2013, interest on these loans was

NOTE 15. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (Continued)

NOTE D. LONG TERM DEBT (Continued)

recalculated based on the average Local Agency Investment Fund rate of return for the period in which the loans existed as required by Assembly Bill 1484, in the amount of \$3,626,058 for Operating Expenditures and \$4,650,000 for Costco/Seaside.

Reimbursements Payable – The City issued Certificates of Participation (Certificates) to refinance certain real property legally owned by the former Redevelopment Agency. Under a Reimbursement Agreement with the City, the former Redevelopment Agency agreed to reimburse the City for all the Base Rental Payments made by the City to the Trustee of Certificates. The Reimbursements were to be made from available monies of the former Redevelopment Agency; therefore no formal repayment schedule is in place at this time.

SERAF – The California State Legislature enacted ABx4 26 requiring redevelopment agencies to make certain payments to its County Supplemental Education Revenue Augmentation Fund (SERAF). The Agencies were allowed to borrow the amount required from the Housing Set-aside Fund, but it must be paid back by June 30, 2015. The Debt Service Fund borrowed the amount from the Housing Set-aside Fund to make the required payments. The City elected to assume the housing function of the former Redevelopment Agency; as such they will receive the payback of the funds.

LEAs Settlement – The Monterey County Office of Education, the Monterey Peninsula Unified School District and the Monterey Peninsula College District, collectively known as the local educational agencies (LEAs), filed claims related to past-due payments from the former Sand City Redevelopment Agency (RDA) arising from pass-through agreements with the former RDA. On September 30, 2013, the LEAs and the Successor Agency entered into a Settlement Agreement and Mutual Release whereby the Successor Agency shall pay from funds it receives from the Real Property Tax Transfer Fund (RPTTF) a total of \$451,669 to the LEAs.

Long-term debt balances and transactions for the fiscal year ended June 30, 2014 are as follows:

	Balance 6/30/13	Additions	Retirements	Balance 6/30/14	Due Within One Year
Bonds, loans and reimbursements:					
Tax Allocation Bonds, 2008 Series A	\$ 6,275,000	\$ –	\$ 215,000	\$ 6,060,000	\$ 255,000
Tax Allocation Bonds, 2008 Series B	<u>1,795,000</u>	–	<u>125,000</u>	<u>1,670,000</u>	<u>130,000</u>
Subtotal	<u>8,070,000</u>	–	<u>340,000</u>	<u>7,730,000</u>	<u>385,000</u>
Loans from the City:					
Operating Expenditures	3,626,058	–	–	3,626,058	–
Costco/Seaside	4,650,000	–	–	4,650,000	–
SERAF	<u>685,052</u>	–	–	<u>685,052</u>	–
Subtotal	<u>8,961,110</u>	–	–	<u>8,961,110</u>	–
Reimbursement due to City LEAs Settlement	1,454,766	–	–	1,454,766	–
	–	<u>451,669</u>	<u>236,028</u>	<u>215,641</u>	<u>175,000</u>
Total bonds, loans and reimbursement	<u>\$ 18,485,876</u>	<u>\$ 451,669</u>	<u>\$ 576,028</u>	<u>\$ 18,361,517</u>	<u>\$ 560,000</u>

NOTE 15. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (Continued)

NOTE D. LONG TERM DEBT (Continued)

Annual debt service requirements to maturity are as follows:

Fiscal Year Ended <u>June 30</u>	<u>Series A Bonds</u>		<u>Series B Bonds</u>		<u>LEAs Settlement</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2015	\$ 255,000	\$ 250,963	\$ 130,000	\$ 90,651	\$ 175,000
2016	265,000	239,263	135,000	83,363	40,641
2017	275,000	227,112	145,000	75,662	—
2018	285,000	214,512	150,000	67,550	—
2019	300,000	201,350	160,000	59,025	—
2020-2024	1,745,000	805,825	950,000	142,311	—
2025-2028	<u>2,935,000</u>	<u>251,685</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$ 6,060,000</u>	<u>\$ 2,190,710</u>	<u>\$ 1,670,000</u>	<u>\$ 518,562</u>	<u>\$ 215,641</u>

NOTE E. DEFERRED ROPS REVENUE

The deferred ROPS revenue represents Real Property Tax Transfer Funds (RPTTF) received in advance for future obligation payments. The revenue will be recognized in the period in which the obligation payments are made. At June 30, 2014 this amount was \$494,219.

NOTE 16. AUTHORITATIVE PRONOUNCEMENT ISSUED BUT NOT YET ADOPTED

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions— an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. Note disclosures and required supplementary information requirements about pensions are also addressed.

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged. The City has no plan for early implementation of this Statement. At this time the City is not certain of the effect the adoption of Statement No. 68 will have on the accompanying financial statements.

**REQUIRED
SUPPLEMENTARY INFORMATION**

CITY OF SAND CITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS OF OTHER POST EMPLOYMENT BENEFITS
FOR THE YEAR ENDED JUNE 30, 2014

<u>Fiscal Year</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
2012	6/30/2009	\$ -	\$ 2,617,000	\$ 2,617,000	0%	\$ 2,062,737	126.9%
2013	6/30/2012	\$ -	\$ 2,869,000	\$ 2,869,000	0%	\$ 1,902,483	150.8%
2014	6/30/2012	\$ -	\$ 2,869,000	\$ 2,869,000	0%	\$ 1,830,123	156.8%

CITY OF SAND CITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE,
BUDGET AND ACTUAL – GENERAL
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 153,700	\$ 366,600	\$ 358,056	\$ (8,544)
Sales tax	2,465,000	2,450,000	2,391,443	(58,557)
Transaction tax	1,100,000	1,100,000	1,081,400	(18,600)
Utility user's tax	120,000	120,000	135,735	15,735
Franchise taxes	72,800	77,600	79,160	1,560
Business licenses	442,000	452,300	452,963	663
Licenses and permits	25,550	25,850	37,355	11,505
Fines, forfeits and penalties	3,500	1,600	1,229	(371)
Charges for current services	13,200	263,000	247,589	(15,411)
Revenue from other agencies	85,500	137,300	160,964	23,664
Developer fees	60,000	60,100	60,872	772
Investment earnings	3,725	9,520	10,088	568
Rental income	865,000	865,000	864,956	(44)
Other revenue	48,600	68,100	81,732	13,632
Total revenues	<u>5,458,575</u>	<u>5,996,970</u>	<u>5,963,542</u>	<u>(33,428)</u>
EXPENDITURES:				
Current:				
General government	1,677,815	1,711,790	1,590,455	121,335
Public safety	2,301,500	2,192,900	2,092,390	100,510
Public works	816,100	684,840	676,696	8,144
Community development	443,615	449,950	409,517	40,433
Parks	9,500	8,500	5,791	2,709
Debt Service:				
Principal	18,000	18,000	17,569	431
Interest and other charges	2,800	2,800	2,743	57
Capital outlay	220,000	287,000	211,397	75,603
Total expenditures	<u>5,489,330</u>	<u>5,355,780</u>	<u>5,006,558</u>	<u>349,222</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(30,755)</u>	<u>641,190</u>	<u>956,984</u>	<u>315,794</u>
OTHER FINANCING SOURCES (USES) –				
Transfer in	–	–	17,430	17,430
Total other financing sources (uses)	<u>–</u>	<u>–</u>	<u>17,430</u>	<u>17,430</u>
NET CHANGE IN FUND BALANCE	<u>\$ (30,755)</u>	<u>\$ 641,190</u>	<u>\$ 974,414</u>	<u>\$ 333,224</u>

See Accompanying Notes to Required Supplementary Information.

CITY OF SAND CITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014

NOTE 1. BUDGETARY DATA

The City legally adopts an annual budget for the General Fund. The City adopts the budget before June 30 for each ensuing fiscal year.

Budgets submitted to the Council include both proposed appropriations and the means of financing them. A mid-year budget review is performed and the budget is amended by passage of a resolution. Additional appropriations or interfund transfers not included in the amended budget resolution must be approved by the City Council.

All budgets have been prepared on a basis consistent with generally accepted accounting principles, which is the same basis of accounting as used to reflect actual revenues and expenditures.

Appropriations lapse at each fiscal year end and then are rebudgeted for the coming fiscal year. Encumbrance accounting is not used.

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

**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**

INDEPENDENT AUDITORS' REPORT

**The Honorable Mayor and City Council
City of Sand City
Sand City, 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, each major fund, and the aggregate remaining fund information of the **City of Sand City**, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the **City of Sand City's** basic financial statements, and have issued our report thereon dated _____ [date].

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

_____ [date]

AGENDA ITEM

4

PENINSULA CITIES

Oct. 14, 2014

Seaside mulls adding crime analyst

By Julia Reynolds
jreynolds@montereyherald.com
@jreynoldsmh on Twitter

SEASIDE — The City Council in Seaside will consider this week whether to add a crime analyst position to its police department in the wake of increased violence in the city.

Seaside police Cmdr. Bruno Dias said a crime analyst would help the Monterey Peninsula's drug and violence task force "conduct intelligence-led policing" and make the force "proactive" rather than reactive. In cities such as Salinas, crimes analysts have helped police better pinpoint the most violent individuals or groups when targeting crime.

The annual salary would range from \$69,107 to \$84,000.

The council will also vote on whether to oppose Proposition 47, a state ballot measure that some herald as a way to help reduce the state's prison population by changing a number of lower-level felonies into misdemeanors. The savings incurred would be redirected to fund mental health and drug treatment programs, truancy and drop-out prevention and victims' services.

But Seaside Police Chief Vicki Myers expressed concern, saying the measure would increase crime and "may further burden our local criminal justice systems by shifting responsibility for additional categories of offenders to already overcrowded county jails."

In 2011, the state began shifting lower-level felony offenders to local jails.

Myers said the measure "appears to be quite broad and treats nearly all instances of specified offenses with the same general rule."

The city is also considering approval of a memorandum of understand-

ing with its police officers union that includes a 2 percent base salary increase, with additional increases in 2015 to offset higher employee contributions to public pensions required by the state. In addition, officers with more than 10 years on the force would receive a 2.5 percent longevity pay bonus.

The union agreed to several concessions, such as eliminating two paid holidays and the ability to convert accrued sick leave and vacation time into cash payouts.

The agreement, if approved, would extend to the end of 2015 and is retroactive to March 21. It covers 41 employees, including officers and non-sworn technicians.

The council is also considering awarding a \$325,231 contract to Monterey Peninsula Engineering of Marina to revamp street pavement and curbs for the city's lower Broadway Avenue development project.

The Seaside council meets Thursday at 7 p.m.

In other Monterey Peninsula city business, Pacific Grove is in the final public review stage of an environmental impact report on its plan to use recycled waste water to irrigate the city's golf course and cemetery. The first phase of the plan replaces around 250,000 gallons per day for the Municipal Golf Links and the El Carmelo Cemetery. The sites currently use potable water from California American Water.

The public has until Nov. 5 to review the draft environmental impact report, which is available at the Pacific Grove Public Library and on the city's website. City officials said no letters commenting on the draft report have been received to date.

Pacific Grove's City Council meets Wednesday at 5:30 p.m.

Julia Reynolds can be reached at 796-1265

This Crime Analyst Position will need to be scheduled for review by Todd Bodine and find a [redacted] and then for consideration by the Seaside City Council... Kelly

64

KMorgan@SandCityCA.org

From: Chief Klein <CopKlein@Redshift.com>
Sent: Tuesday, October 07, 2014 6:48 PM
To: TBodem@SandCityCA.org; Kelly@SandCityCA.org
Subject: FW: Cost for Crime Analyst
Attachments: SS Staff Report for Crime Analyst - 10-16-14.doc; SS Resolution for Crime Analyst - 10-16-14.doc; SS Crime Analyst Job Description 10-16-14.doc; 04-15-14 Crime Analyst Justification Memo - Commander Dias.pdf

Importance: High

FYI.....

Michael Klein
Chief of Police
Public Works Manager
#1 Sylvan Park
Sand City, CA.
93955
office: 831-394-1451
fax: 831-394-1038
copklein@redshift.com
copklein@sandcitypd.org

-----Original Message-----

From: Vicki Myers [<mailto:VMyers@ci.seaside.ca.us>]
Sent: Tuesday, October 07, 2014 6:06 PM
To: William Perlstein; mcalhoun@ci.carmel.ca.us; Eddie Rodriguez; Earl Lawson; Phil Penko; copklein@redshift.com
Cc: Bruno Dias; Judy Stradan; Bill Clark; bruno@monterey.org
Subject: Cost for Crime Analyst
Importance: High

**** High Priority ****

Hi All!

To assist you with budgeting purposes, here are the projected costs for each agency (except CHP and CSUMB), for the remainder of this fiscal year, to hire a crime analyst: \$1,612. That is because we don't expect to be able to recruit, interview, select and have the crime analyst start until January 1, 2015.

I am attaching the updated staff report for your review. Please note the last paragraph under the fiscal impact section, which reads:

"The Monterey Peninsula municipal agencies are committed to equally sharing the funding in future years for the Regional Crime Analyst, to include dedicating future realignment funding. The Seaside Police Department's share of the Regional Crime Analyst will be incorporated into future annual budgets. "

Please let me know if you have any questions. This is going to Seaside City Council on October 16, 2014 as we discussed.



MEMORANDUM

SEASIDE POLICE DEPARTMENT

Vicki L.H. Myers, Chief of Police
Louis Lumpkin, Deputy Chief

Date: 04/15/14
To: Deputy Chief Louis Lumpkin
From: Commander B. Dias
Subject: Needs Assessment for Crime Analyst

Justifying the reason for a Regional Crime Analyst:

P.R.V.N.T's investigative work over the last 1.5 years should be considered a case study in validating the need for a crime analyst. The use of intelligence led policing has been the key to P.R.V.N.T's success in solving violent crimes.

P.R.V.N.T Investigators employed several analytical tools to seek and track crime related intelligence. Some of the analytical tools used by P.R.V.N.T included:

- Crime mapping
- Time lines with dates and location of incidents
- Time lines with what type of weapons were used
- Victimology
- Social media searches
- Phone records searches

The collection of data from the aforementioned sources helped P.R.V.N.T investigators obtain intelligence regarding gang activity, probable cause for search warrants, phone records and at times to arrest suspected law violators.

This was very difficult to achieve because we had to function as full-time investigators and as part-time crime analysts. This process caused us to become overwhelmed with work and it took us multiple weeks and at times months to complete detailed cases for unsolved homicides. During the course of our investigations, we identified a lack of collective crime analysis amongst Monterey Peninsula Agencies.

In fact over and over again, specific gang members could be tracked living in one Peninsula jurisdiction, going to school in another, finally working in another and then committing crimes in any or all of the local jurisdictions. School fights and weapons violations in one city were related to gang members living or working in another jurisdiction, with minimal intelligence sharing or even knowledge of the potential impact. A shooting in one city could have the

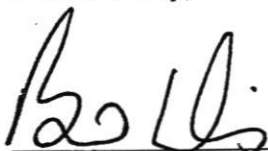
primary suspect as a resident of that city, but going to high school in another jurisdiction, again with one law enforcement agency having no knowledge of the potential threat to others. The lack of intelligence analysis caused Monterey Peninsula law enforcement agencies to become reactive rather than proactive. The overall result was the increase in violent crimes and other gang related crimes.

Because policy solutions to crime are necessarily about where crime takes place, the ability to visualize and analyze geographic and criminal patterns becomes paramount. Advancements in crime mapping, geographic information system software, and other analysis software have greatly enhanced the field of crime analysis. The analytical work conducted by PRVNT investigators was effective, but very elementary when considering the true potential a full-time trained crime analyst could have. The capability of a crime analyst affords a more accurate understanding of the interactions among offenders, victims, and environments.

A technique such as geographic profiling, which provides estimates of where serial offenders are likely to live or work based on the distribution of their offenses, is continually refined. Data sharing, across and within agencies, would help reduce breakdowns in how agencies communicate and resulting in more accurate depictions of crime patterns across boundaries.

I believe a crime analyst would increase P.R.V.N.T's ability to continue to conduct intelligence led policing and would increase our ability to function as a regional fusion center for criminal intelligence. In return every peninsula city would be able to draw data from this regional center to help the law enforcement community operate substantially more efficiently and effectively than it can on its own.

Submitted by,



Commander Bruno Dias-34528

**CITY OF SEASIDE
STAFF REPORT**

TO: Honorable Mayor and City Council

FROM: John Dunn, City Manager

BY: Vicki Myers, Police Chief
Roberta Greathouse, Human Resources Manager

DATE: October 16, 2014

SUBJECT: RESOLUTION ESTABLISHING THE CLASSIFICATION OF CRIME ANALYST AND ADDING THE CLASSIFICATION TO THE POSITION ALLOCATION LIST

PURPOSE

The purpose of this item is to obtain City Council approval to add the classification of Crime Analyst to the City's classification plan, to establish the salary for the position, and to modify the Position Allocation List to add one Crime Analyst in the Police Department.

RECOMMENDATION

It is recommended that the City Council approve the attached resolution establishing the classification of Crime Analyst and modifying the Position Allocation List accordingly.

BACKGROUND

In October 2011 the Governor proposed the realignment of public safety responsibilities from state prisons to local government as a way to address court order in response to litigation related to state prison overcrowding and to reduce state expenditures. As a result, the legislature enacted realignment measures, AB 109 and AB 117, which the Governor signed into law without full constitutionally protected funding and liability protection for stakeholders.

Since the implementation of realignment there have been numerous issues identified that have not been properly addressed, but which significantly impact municipal police departments' efforts to successfully implement realignment.

In FY 2012-13 state budget augmentations provided approximately \$24.5 million to cities throughout California to support increased police services to help mitigate the impact of the increased numbers of offenders in the community. An allocation formula (negotiated and agreed upon by the California Police Chiefs Association and Governor Browns' Administration) was established. The allocation of these funds must be collectively agreed upon by the **municipal**

police departments in each county, of which there are twelve. Marina Police Department (the fiduciary for Monterey County) then distributes the money to the police department, a task force geared to monitoring offenders, or another agreed-upon agency.

Monterey County has received the following realignment funds:

- FY 2012-13 \$222,862
- FY 2013-14 \$255,364
- FY 2014-15 \$371,436

The municipal chiefs met and collectively agreed to commit and allocate the funds to establish a Monterey County Compliance Team (MCCT) for a minimum of three years. It was determined the MCCT would be staffed through the Monterey County Adult Probation Department.

The MCCTs' case load is the very serious, most violent and habitually non-compliant adult offenders who pose the greatest risk to re-offend in our local communities. The MCCT focuses primarily on high risk and very high risk adult offenders who reside within the incorporated city limits served by the municipal police departments of Monterey County.

Because FY 2012-13 funds did not pay for all the costs associated with the MCCT, the Monterey County Adult Probation Department contributed additional money to cover the costs.

Governor Brown increased funding to municipal agencies for FY 2014-15, resulting in approximately \$148,000 in unallocated funds for Monterey County. The municipal police chiefs met again and collectively agreed to divide the funds equally between the three regions:

- Salinas
- South County (Greenfield, Soledad, King City and Gonzales)
- Monterey Peninsula (Carmel, Del Rey Oaks, Marina, Monterey, Pacific Grove, Sand City and Seaside)

Each of the above regions will receive approximately \$49,000. The City Police Departments of Carmel, Marina, Monterey, Pacific Grove, Sand City, and Seaside agreed to allocate their portion of the funds to hire a full time, regional crime analyst, to be assigned to the Monterey Peninsula Regional Violence and Narcotics Team (PRVNT). Del Rey Oaks does not participate in PRVNT, therefore they will receive \$7,000, representing their portion of the realignment funds, thereby reducing the available realignment funds for the crime analyst to \$42,000.

The participating municipal PRVNT agencies have committed to providing the necessary funds needed to staff a full time crime analyst, to be shared equally among the six agencies.

Crime Analyst

As a profession, crime analysis has existed since at least the 1960s (though some of its most essential functions are believed to have been performed even in ancient times).

Crime analysis is a law enforcement function that involves systematic analysis for identifying and analyzing patterns and trends in crime and disorder. Information on patterns can help law enforcement agencies deploy resources in a more effective manner, and assist in identifying and apprehending suspects. Crime analysis also plays a role in devising solutions to crime problems, and formulating crime prevention strategies.

Crime analysis can occur at various levels, including tactical, operational and strategic. Crime analysts study crime reports, arrests reports, and police calls for service to identify emerging patterns, series, and trends as quickly as possible. They analyze these phenomena for all relevant factors, sometimes predict or forecast future occurrences, and issue bulletins, reports, and alerts to their agencies. They then work with their police agencies to develop effective strategies and tactics to address crime and disorder. Other duties of crime analysts may include preparing statistics, data queries, or maps on demand; analyzing beat and shift configurations; preparing information for community or court presentations; answering questions from the public and the press; and providing data and information support for a police department's CompStat process.

The Crime Analyst classification will be a management classification, exempt from overtime under the Fair Labor and Standards Act, and will be represented by the Seaside Managers and Supervisory Employees' Association (SMSEA). The annual salary range is proposed to be \$69,107.01 - \$84,000 which is in line with the local comparable positions.

FISCAL IMPACT

The fully burdened cost for a crime analyst is approximately \$103,348. Because it is anticipated this position will be filled mid-year FY 2014-15, there will be an increase to the Investigations Fund for salary and benefits of approximately \$51,674 which will be offset by an increase in revenue of: \$42,000 Realignment Funds revenue, and approximately \$8,062 Reimbursements (from five other PRVNT agencies).

The City of Seaside's share is approximately \$1,612 which is already budgeted in account 100-0-6130-2073 for FY 2014-15.

The Monterey Peninsula municipal agencies are committed to equally sharing the funding in future years for the Regional Crime Analyst, to include dedicating future realignment funding. The Seaside Police Department's share of the Regional Crime Analyst will be incorporated into future annual budgets.

ATTACHMENTS

1. Crime Analyst Job Description
2. Resolution
3. Updated Position Control List
4. April 15, 2014 Needs Assessment Memo

Reviewed for Submission to the
City Council by:

John Dunn, City Manager

CRIME ANALYST

Class specifications are intended to present a descriptive list of the range of duties performed by employees in the class. Specifications are not intended to reflect all duties performed within the job.

DEFINITION

Performs complex technical, analytical and administrative duties related to crime and criminal intelligence in support of Police Department including research, data collection, analysis and presentation of results. This is an exempt position.

DISTINGUISHING CHARACTERISTICS

The position of Crime Analyst is distinguished by responsibilities for analytical processes of data related to crimes and criminal intelligence. It requires specialized expertise in statistical analysis, systems analysis and organizational analysis related to crime patterns and trends and the expertise to forecast occurrences of crime with a focus on individuals, organizations and their interrelationships.

ESSENTIAL FUNCTION STATEMENTS:

The following tasks are typical for positions in this classification. Any single position may not perform all of these tasks and/or may perform similar related tasks not listed here:

- Collect, organize and analyze qualitative and quantitative data and information from crime, intelligence and arrest reports, other documents and law enforcement databases.
- Study offender and victim characteristics and their method of operation.
- Convert raw data into valid criminal intelligence information using it to identify patterns and trends that may affect the jurisdiction.
- Present analysis and statistics in various internal and external forums.
- Respond to requests for crime analysis information relating to specific investigations.
- Establish criminal profiles that include prior crimes and criminal relationships to aid in making connections between members and criminal organizations.
- Produce reports and bulletins for police department to help develop strategies and tactics that increase the effectiveness of crime prevention and control, officer presence and suspect arrests.
- Develop crime-mapping analysis of geographic data from police reports, service calls and other documents.
- Maintain a consistent and current understanding of laws and technology in the assigned area of responsibility.
- Perform related duties as required.

QUALIFICATIONS

Knowledge of:

- Methods of identifying essential information.
- Data processing programs to produce bulletins and reports including graphics such as charts, maps, pictures and diagrams.
- Electronic matrix and/or spreadsheets.
- Methodologies and principles related to data collection, correlation, analysis and reporting to determine validity, reliability and credibility of verbal, written, numeric and graphic information.
- The use of statistical formulae including frequency, percent, percent change, sum, average, standard deviation, regression analysis, forecasting and correlations.
- Socio-economic, cultural, psychological, biological, environmental and historical theories/influences on criminal behavior and victimology.
- Relevant equipment, policies, procedures, and strategies to promote effective local, state or national security operations for protection of people, data, property and institutions.
- Relationship among law enforcement, courts and corrections at the local, state and federal level.

Ability to:

- Identify complex problems and review related information to develop and evaluate options and implement solutions.
- Perform cross tabulations, create charts and graphs and to export the objects to other applications.
- Work with restricted law enforcement documents and highly confidential information.
- Use logic and reasoning to identify the strengths and weaknesses of alternative solutions, conclusions or approaches to problems.
- Combine separate pieces of information or specific answers to problems to form general rules or conclusions.
- Establish and maintain effective work relations with those contacted in the performance of required duties.
- Work safely and abide by established safety rules and regulations.
- Effectively convey information to others in presentation form and handle audience participation, answering questions concisely and accurately.
- Identify or detect known patterns (a figure, object, word or sound) that are hidden in other distracting material.
- Listen and understand information and ideas presented through spoken words and sentences.
- Communicate information and ideas in writing explaining information, drawing conclusions and/or making recommendations in a narrative format that is objective, succinct, pertinent, articulate and relevant.
- Be self-motivated, see when information is needed by the department and perform the analysis on own initiative.

- Work a flexible schedule that may include evening, weekend, and holiday responses to crime scenes.

Experience and Education/Training Guidelines

Any combination of training and experience that would provide the required knowledge and abilities is qualifying. A typical way to obtain the knowledge and abilities would be:

Education:

A bachelor's degree with major courses in Administration of Justice, Criminal Justice, Criminology, Statistical Analysis, Psychology or Sociology. Knowledge of law enforcement, the criminal justice system and research and statistical methods. Completion of an approved crime analyst certification program by the Department of Justice is highly desirable.

Experience:

Two years of increasingly responsible analytical experience within a criminal justice agency, or experience in dealing with data collection, performing statistical research and analysis, presenting and disseminating data and statistics and working with automated systems in data collection, collation and analysis.

License:

Possession of a valid California Class C driver's license and a safe driving record.

WORKING CONDITIONS:

Environmental Conditions:

Office and field environment; travel from site to site; may be exposed to vehicle exhaust emissions.

Physical Conditions:

Essential functions may require maintaining physical condition necessary for operating motorized equipment and vehicles; sitting for prolonged periods of time; the ability to climb or balance; stoop, kneel, crouch or crawl; and smell; speaking and hearing to exchange information, the ability to handle, feel or operate objects, tools, or controls, and reach with hands and arms.

Tools and Equipment:

Telecommunication devices, computers and supporting electronics

SPECIAL INFORMATION:

As necessary, this position will be required to respond after hours to the Police Department to handle analyses of cases.

RESOLUTION NO. 14-

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SEASIDE
ESTABLISHING THE POSITION OF CRIME ANALYST
AND ADDING CRIME ANALYST TO THE
POSITION ALLOCATION LIST**

WHEREAS, the City's Classification Plan of positions may be amended on recommendation of the City Manager and approval by the City Council; and

WHEREAS, in order to provide greater efficiency in the operation of the City and enhance service levels, certain job classifications have been prepared; and

WHEREAS, there is a need to add the position of Crime Analyst to the Classification Plan and create an appropriate position description; and

WHEREAS, there is a need to add the classification of Crime Analyst and allocate one (1) position to the Police Department.

NOW, THEREFORE BE IT RESOLVED, that the City Council of the City of Seaside hereby approves adding the following position:

<u>Position</u>	<u>Salary Range</u>
Crime Analyst	\$69,107.01 - \$84,000.00 annually

PASSED AND ADOPTED at a regular meeting of the City Council of the City of Seaside duly held on the 16th day of October by the following vote:

AYES: COUNCIL MEMBERS:
NOES: COUNCIL MEMBERS:
ABSENT: COUNCIL MEMBERS:
ABSTAIN: COUNCIL MEMBERS:

Ralph Rubio, Mayor
City of Seaside

ATTEST:

Lesley E. Milton, City Clerk