
**CITY OF PIEDMONT
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

CITY OF PIEDMONT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017

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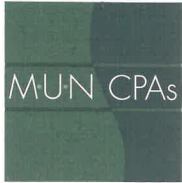
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INDEPENDENT AUDITOR'S REPORT

To the City Council of
the City of Piedmont
Piedmont, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Piedmont, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, pension related schedules, and the schedules of funding progress as listed in the table of contents 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Piedmont's basic financial statements. The combining and individual nonmajor fund financial statements and budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the budgetary comparison schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2018, on our consideration of the City of Piedmont'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 City of Piedmont's internal control over financial reporting and compliance.

Mann, Winters, Nelson CPA's

Sacramento, California
April 27, 2018

CITY OF PIEDMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

The Management's Discussion and Analysis (MD&A) provides an overview of the City of Piedmont's activities and financial performance for the fiscal year ended June 30, 2017. To obtain a complete picture of the City's financial condition, this narrative overview and analysis should be read in conjunction with the accompanying Basic Financial Statements.

FINANCIAL HIGHLIGHTS

Government-wide

- Net position is defined as the excess of assets and deferred outflows of resources over liabilities and deferred inflows of resources. As of June 30, 2017, the City's government-wide net position amounted to a positive balance of \$38,540,626. This represents an increase of \$2,552,869 from the June 30, 2016 balance of \$35,987,757.
 - Governmental activities of \$28,051,723 and accounts for 73% of total net position.
 - Business-type activities of \$10,488,903 and accounts for 27% of total net position.
- Deferred Outflows of Resources represent consumption of net position or fund balance that applies to a future period. The \$6,641,863 in Deferred Outflows of Resources includes contribution payments made to CalPERS during fiscal year 2016-17, as well as changes in the net pension liability and asset. As allowed by GASB No. 68, the CalPERS measurement date is June 30, 2016 and contributions subsequent to the measurement date are reflected as a deferred outflow. Deferred Inflows of Resources represent an acquisition of net position or fund balance that applies to a future period and amounts to \$1,856,647. The Deferred Inflows include deferrals due to assumption changes and investment earnings. Notes 1 and 7 discuss the impacts of these extraordinary changes to net position.
- Net position increased by \$2,552,869 due to the following factors:
 - Net investment in capital assets increased \$1,384,295 to \$38,158,147 due to the following:
 - Governmental activities increased by \$1,156,746 due primarily to park and building facility improvements.
 - Business-type activities increased \$227,549 due to the repayment of the State of California Water Resources Board Loans and additions to the sewer infrastructure for \$458,636 and \$189,476, respectively and offset by depreciation.
 - Unrestricted net position decreased by \$112,065 to \$(1,965,329) due to the following:
 - In 2014, the City issued \$7,305,000 Tax Allocation Bonds with voter approval to refinance the outstanding fund liability to the California Public Employees' Retirement System (CalPERS) for its Safety and Miscellaneous Plans and will save the City \$1,188,099 over a seven year period.
 - Property tax-related revenues, which represent 57% of governmental activity revenue increased \$1,110,238 to \$17,779,613.
 - Property tax revenues amounted to \$12,512,002 an increase of \$589,227 (5%) as compared to FY 2016.
 - Real property transfer tax revenues amounted to \$3,522,078, an increase of \$404,079 (13%), as compared to FY 2016.
 - As of June 30, 2017, capital assets, net of depreciation, amount to \$42,488,402 and are reported in the Statement of Net Position.

CITY OF PIEDMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

Fund level

- Governmental fund balances increased \$641,303 to \$15,264,985. Of this amount, the unassigned fund balance was \$4,695,201, a decrease of \$22,473 from the prior year.
- Enterprise fund net position increased \$836,557 to \$10,488,903. Of this amount, net investment in capital assets totaled \$9,899,600, an increase of \$227,549 from the prior year.

Fiduciary funds

- The trust funds net position increased \$2,057,129 to \$19,105,281. The trust funds represent the police and fire pension plan and OPEB for \$11,933,985 and \$7,171,296, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise 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 and other 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 the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as *net position*. Over time, increases or 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 activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. 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 and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include administration, public works, public safety, and recreation. The business-type activities of the City include sewer and aquatics. The government-wide financial statements can be found on pages 14 - 15 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. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Piedmont can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

CITY OF PIEDMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the 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 impact of the government's near-term financing 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*.

The City maintains seventeen individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered a major fund. The City also reports the Equipment Replacement and Facilities Maintenance funds as a major funds. Data for these funds are also presented separately. Data from the other fourteen governmental funds are combined and aggregated on the above mentioned statements. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 16 - 19 of the report.

Proprietary funds

The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Piedmont uses an enterprise fund to account for its sewer and aquatic activity. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Piedmont's various functions. The City uses internal service funds to account for activities such as insurance and employee benefits. The Sewer and Aquatic Funds are included within the *business-type activities* and Internal Service Funds have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information on the City's business-type activities, the Sewer and Aquatic Enterprise Funds. The City's three internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 20 - 23 of this report.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Piedmont's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 24 - 25 of this report.

CITY OF PIEDMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

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 26 - 64 of this report.

Required Supplementary Information

This report presents supplementary information concerning the City of Piedmont's progress in its obligation to provide pension and other postemployment benefits to its employees, and budgetary comparison information for the City's general fund and major special revenue funds.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* consisting of budgetary comparison schedule for the General Fund. Required supplementary information can be found on pages 65 - 72 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 76 - 99 of this report.

CITY OF PIEDMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the government's financial position. In the case of the City of Piedmont, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$38,540,626 at the close of the most recent year.

GASB No. 68 has a material impact on the City's financial statements, since it sets new standards for measuring and recognizing assets, liabilities, and impact to net position, as well as, expands the note disclosures regarding the City's pension systems. GASB No. 68 requires the City to include pension assets of the Police & Fire Pension Trust and the liabilities of the City's CalPERS pension in the financial statements. The impact is shown in the negative unrestricted net position in the table below.

The largest portion of the City's net position reflects its investment in capital assets (e.g., land, buildings, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City of Piedmont uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position
As of June 30, 2017 and 2016
(in thousands)

| | <u>Governmental Activities</u> | | | <u>Business-Type Activities</u> | | | <u>Total Government</u> | | |
|----------------------------------|--------------------------------|------------------|-------------------|---------------------------------|-----------------|-------------------|-------------------------|------------------|-------------------|
| | <u>2017</u> | <u>2016</u> | <u>Net Change</u> | <u>2017</u> | <u>2016</u> | <u>Net Change</u> | <u>2017</u> | <u>2016</u> | <u>Net Change</u> |
| ASSETS | | | | | | | | | |
| Current and other assets | \$ 22,352 | \$ 20,088 | \$ 2,264 | \$ 981 | \$ 416 | \$ 565 | \$ 23,333 | \$ 20,504 | \$ 2,829 |
| Noncurrent assets | <u>38,206</u> | <u>35,854</u> | <u>2,352</u> | <u>14,230</u> | <u>14,461</u> | <u>(231)</u> | <u>52,436</u> | <u>50,315</u> | <u>2,121</u> |
| Total Assets | <u>60,558</u> | <u>55,942</u> | <u>4,616</u> | <u>15,211</u> | <u>14,877</u> | <u>334</u> | <u>75,769</u> | <u>70,819</u> | <u>4,950</u> |
| Deferred Outflows of Resources | <u>6,642</u> | <u>3,782</u> | <u>2,860</u> | - | - | - | <u>6,642</u> | <u>3,782</u> | <u>2,860</u> |
| LIABILITIES | | | | | | | | | |
| Long-term liabilities | 31,105 | 25,830 | 5,275 | 3,862 | 4,330 | (468) | 34,967 | 30,160 | 4,807 |
| Other liabilities | <u>6,186</u> | <u>4,593</u> | <u>1,593</u> | <u>860</u> | <u>894</u> | <u>(34)</u> | <u>7,046</u> | <u>5,487</u> | <u>1,559</u> |
| Total Liabilities | <u>37,291</u> | <u>30,423</u> | <u>6,868</u> | <u>4,722</u> | <u>5,224</u> | <u>(502)</u> | <u>42,013</u> | <u>35,647</u> | <u>6,366</u> |
| Deferred Inflows of Resources | <u>1,857</u> | <u>2,967</u> | <u>(1,110)</u> | - | - | - | <u>1,857</u> | <u>2,967</u> | <u>(1,110)</u> |
| NET POSITION | | | | | | | | | |
| Net investment in capital assets | 28,259 | 27,102 | 1,157 | 9,900 | 9,672 | 228 | 38,160 | 36,774 | 1,386 |
| Restricted | 2,348 | 1,067 | 1,281 | - | - | - | 2,348 | 1,067 | 1,281 |
| Unrestricted | <u>(2,555)</u> | <u>(1,834)</u> | <u>(721)</u> | <u>589</u> | <u>(20)</u> | <u>609</u> | <u>(1,966)</u> | <u>(1,854)</u> | <u>(112)</u> |
| Total Net Position | <u>\$ 28,052</u> | <u>\$ 26,335</u> | <u>\$ 1,717</u> | <u>\$ 10,489</u> | <u>\$ 9,652</u> | <u>\$ 837</u> | <u>\$ 38,542</u> | <u>\$ 35,987</u> | <u>\$ 2,555</u> |

At the end of the fiscal year, the City is able to report a positive net position for Governmental and Business-type Activities and as a whole. The change in net position is mentioned in the financial highlight section above.

Governmental activities. On a full-accrual basis, the City's Statement of Net Position increased primarily due to an increase in investments in capital assets and restricted net position.

Business-type activities. The increase in net position in 2016 is primarily due to reduction in the outstanding long-term debt for sewer rehabilitation as the City continues to make the scheduled payments of principal and interest per the payment schedule.

CITY OF PIEDMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

Changes in Net Position
For the Years Ended June 30, 2017 and 2016
(in thousands)

| | <u>Governmental Activities</u> | | | <u>Business-Type Activities</u> | | |
|------------------------------------|--------------------------------|------------------|-------------------|---------------------------------|-----------------|-------------------|
| | <u>2017</u> | <u>2016</u> | <u>Net Change</u> | <u>2017</u> | <u>2016</u> | <u>Net Change</u> |
| REVENUES: | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 5,144 | \$ 4,950 | \$ 194 | \$ 2,951 | \$ 2,830 | \$ 121 |
| Operating grants and contributions | 1,763 | 1,796 | (33) | - | - | - |
| Capital grants and contributions | 78 | 227 | (149) | - | - | - |
| General revenues | | | | | | |
| Taxes and fees | 21,488 | 20,222 | 1,266 | - | - | - |
| Investment earnings | 92 | 49 | 43 | 11 | 6 | 5 |
| Other revenue | 2,026 | 1,725 | 301 | - | - | - |
| Transfers | <u>598</u> | <u>1,056</u> | <u>(458)</u> | <u>(598)</u> | <u>(1,056)</u> | <u>458</u> |
| Total Revenues | <u>31,189</u> | <u>30,025</u> | <u>1,164</u> | <u>2,364</u> | <u>1,780</u> | <u>584</u> |
| EXPENSES: | | | | | | |
| Administration | 3,541 | 2,566 | 975 | - | - | - |
| Public works | 5,783 | 4,740 | 1,043 | - | - | - |
| Street improvement | 317 | 272 | 45 | - | - | - |
| Safety: police | 6,108 | 5,422 | 686 | - | - | - |
| Safety: fire | 5,769 | 5,048 | 721 | - | - | - |
| Recreation | 4,168 | 4,093 | 75 | - | - | - |
| NonDepartmental | 3,661 | 2,156 | 1,505 | - | - | - |
| Interest | 126 | 160 | (34) | - | - | - |
| Sewer | - | - | - | 933 | 1,113 | (180) |
| Aquatics | <u>-</u> | <u>-</u> | <u>-</u> | <u>595</u> | <u>621</u> | <u>(26)</u> |
| Total Expenses | <u>29,473</u> | <u>24,457</u> | <u>5,016</u> | <u>1,528</u> | <u>1,734</u> | <u>5,016</u> |
| Change in net position | <u>1,716</u> | <u>5,568</u> | <u>(3,852)</u> | <u>836</u> | <u>46</u> | <u>790</u> |
| Net position - beginning | 26,335 | 15,011 | 11,324 | 9,652 | 9,606 | 46 |
| Restatement | <u>-</u> | <u>5,756</u> | <u>(5,756)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net position - beginning restated | <u>26,335</u> | <u>20,767</u> | <u>5,568</u> | <u>9,652</u> | <u>9,606</u> | <u>46</u> |
| Net position - ending | <u>\$ 28,051</u> | <u>\$ 26,335</u> | <u>\$ 1,716</u> | <u>\$ 10,488</u> | <u>\$ 9,652</u> | <u>\$ 836</u> |

Governmental Activities. On a full accrual basis, governmental activities increased the City of Piedmont's net position by \$1,716,312 primarily due to higher property related tax collections and charges for current services related to recreational activities. The change in net position also includes a \$5,758,316 prior period adjustment related to GASB 68.

Business-type Activities. Business-type activities increased the City of Piedmont's net position as General Fund support declined due to a decrease in expenditures for sewer rehabilitation.

CITY OF PIEDMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 of Piedmont's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Piedmont's governmental funds reported combined ending fund balances of \$15,264,985, an increase of \$641,303 compared with the prior year. A total of \$4,695,201, approximately 31%, constitutes unassigned General Fund balance.

General Fund

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, fund balance and unassigned fund balance of the General Fund were \$5,102,134 and \$4,695,201, respectively. As a measure of the General Fund's liquidity, it may be useful to compare both total fund balance and unassigned fund balance to total fund expenditures. Total fund balance and unassigned fund balance are 21% and 19% of total General Fund expenditures, respectively. During the current fiscal year, the fund balance of the City's general fund increased by \$101,243.

General Fund revenues of \$26,788,767 increased \$623,489 from prior year due to improved property related tax revenues and revenue from other agencies. All categories of property related taxes increased:

- Property tax revenues increased to \$12,512,002 due to rising assessed value from home sales and a strong real estate market.
- Real Property Transfer Tax revenue increased by \$404,079 due to an increase in both the number of homes sold and the average sales price per home.
- Parcel tax increased \$116,932 due to a tax increase approved on the June 2016 ballot.
- Service charge revenue increased \$187,047 from the prior year primarily due to an increase in recreational program activity.

Due to the volatile nature of the real estate market, this category is budgeted conservatively at \$2.8 million. The table below shows the number of homes sold and the average sales price for the last nine fiscal years:

| Fiscal Year | # Sold | Average Sales Price | Real Property Transfer Tax |
|-------------|--------|---------------------|----------------------------|
| 2007-08 | 95 | \$1,486,625 | \$1,973,888 |
| 2008-09 | 99 | \$1,376,505 | \$1,711,738 |
| 2009-10 | 100 | \$1,421,017 | \$1,843,651 |
| 2010-11 | 151 | \$1,312,972 | \$2,628,921 |
| 2011-12 | 148 | \$1,341,700 | \$2,700,925 |
| 2012-13 | 155 | \$1,582,243 | \$3,186,001 |
| 2013-14 | 168 | \$1,839,248 | \$4,001,012 |
| 2014-15 | 154 | \$1,971,270 | \$3,901,252 |
| 2015-16 | 120 | \$1,836,197 | \$3,117,999 |
| 2016-17 | 127 | \$2,138,872 | \$3,522,078 |

CITY OF PIEDMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

General fund expenditures totaled \$24,318,720, an increase of \$2,541,521 from the prior year. The major increase is due primarily to a \$2.0 million payment to the pension stabilization fund and increased in all of our operating departments. Other changes in General Fund department expenditures include:

- Administration:
 - \$184,000 increase due primarily to improvements in the area of information technology. The City recently completed a long term Information Technology Strategic Plan. During FY 2016-17, the City began implementing this plan. The primary cost incurred was contracting with a third party to provide on-going onsite Information Technology support.
 - \$61,000 increase due to higher personnel costs as prior year vacancies were filled.
- Public Works
 - \$128,000 increase due to higher personnel costs primarily from higher salaries due to previously negotiated pay increased and higher part time labor costs to assist in maintenance related work.
 - \$60,000 due to an increase in utility costs.
- Recreation
 - \$158,000 overall increase due primarily to the increase in the volume of recreational activities operated under contract with third party vendors.
- Police
 - \$158,000 increase due to higher personnel costs, primarily higher salaried due to previously negotiated pay increased and higher overtime incurred.
 - \$83,000 increase due to higher contract services costs.
- Fire
 - \$89,163 overall increase due primarily to higher overtime costs related to State/Federal mutual aid.
- Non-Departmental and Transfers
 - \$2,000,000 transferred into a newly created Pension Rate Stabilization Fund was offset by a \$464,000 decrease in OPEB contributions.

Equipment Replacement Fund

The Equipment Replacement Fund is used to replace the capital assets of the City. The fund balance of the Equipment Replacement Fund increased \$234,524 to \$3,937,414. The City Council authorized transfers from the General Fund to the Equipment Replacement Fund for \$400,000 to fund necessary future capital.

Equipment purchased during the fiscal year totaled approximately \$215,000 and was primarily related to computer system enhancements and vehicles for the Fire and Public works departments.

Facilities Maintenance Fund

The Facilities Maintenance Fund is used to maintain other capital assets of the City. The fund balance of the Facilities Maintenance Fund decreased \$593,741 to \$3,782,199. The City Council authorized transfers from the General Fund to Facilities Maintenance Fund for \$1,600,000 to fund necessary future capital.

The Facilities Maintenance Fund expenditures totaled approximately \$2,600,000 million and included approximately \$1,600,000 for Hampton Park renovation and the remainder for various municipal buildings and parks maintenance and improvements.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Three funds comprise the City's proprietary funds: the Sewer Enterprise Fund, Aquatics Enterprise Fund, and the Internal Service Fund.

Sewer Fund

CITY OF PIEDMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

The Sewer Fund is used to account for the sanitary sewer and storm water systems of the City. The net position of the Sewer Fund increased \$757,420 to \$9,946,822. This total increase offsets the net capital improvements of the sewer system which increased \$(209,465) to \$13,817,274. The unrestricted net position of the Sewer Fund increased \$489,797 to \$459,803 as the funds are used for sewer maintenance.

The City Council approved loans to the Sewer Fund for \$800,000 from the Equipment Replacement Fund & Facilities Maintenance Fund. The funds are to assist in the completion of rehabilitating the sewer system to cover costs related to design documents so that they can be submitted to apply for a State Water Resources Control Board loan to reimburse for design and pay for construction costs.

Aquatics Fund

The Aquatics Fund is used to account for the operations of the Piedmont Community Pool. The net position of the Aquatics Fund increased \$79,137 to \$542,081. The City Council authorized transfers from the General Fund of \$130,000 to continue to subsidize the operation of the pool.

Internal Services Fund

The Internal Services Funds' net position amounted to \$(4,185,533), a deficit increase of \$(777,360) from the prior fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund's original budget of \$22,744,445 increased \$2,276,041 to the final amended budget of \$25,020,486. The additional appropriations consisted primarily of a \$2,000,000 transfer to a newly created Pension Rate Stabilization Fund and additional operating expenses in Police and Public Works.

The General Fund's actual expenditures of \$24,318,720 was less than the final amended budget of \$25,020,486 primarily due to salary savings from vacancies in administration, public works, recreation, and police departments.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City of Piedmont's total capital assets for its governmental and business-type activities as of June 30, 2017 amount to \$42,488,402 (net of accumulated depreciation). Capital assets include land, construction-in-progress, buildings, equipment, and infrastructure. The major portion of infrastructure includes the pavement, sidewalk, curb, and gutter, parks and underground utility systems of the City, as well as the sewer system. The City's capital assets increased \$925,660 from \$41,562,742 to \$42,488,402.

CAPITAL ASSETS (NET OF DEPRECIATION) (in thousands)

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Total</u> | |
|--------------------------|--------------------------------|------------------|---------------------------------|------------------|------------------|------------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| Land | \$ 5,607 | \$ 5,515 | \$ - | \$ - | \$ 5,607 | \$ 5,515 |
| Construction in progress | 242 | 894 | 570 | 460 | 812 | 1,354 |
| Buildings & improvements | 2,135 | 1,915 | 384 | 434 | 2,519 | 2,349 |
| Vehicles | 1,978 | 2,089 | 138 | 160 | 2,116 | 2,249 |
| Property and equipment | 1,633 | 1,647 | - | - | 1,633 | 1,647 |
| Infrastructure | <u>16,664</u> | <u>15,042</u> | <u>13,138</u> | <u>13,407</u> | <u>29,802</u> | <u>28,449</u> |
| Total | <u>\$ 28,259</u> | <u>\$ 27,102</u> | <u>\$ 14,230</u> | <u>\$ 14,461</u> | <u>\$ 42,489</u> | <u>\$ 41,563</u> |

Additional information on the City of Piedmont's capital assets can be found in Note 4 on pages 43 - 44 of this report.

CITY OF PIEDMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

Governmental Activities Long-term Debt

At the end of the current fiscal year, the City had total long-term outstanding debt of \$8,110,255, a decrease of \$1,678,636 from the prior fiscal year. The City issued Taxable Pension Obligation Bonds (2014 Tax Allocation Bonds) for \$7,305,000 to refinance the City's outstanding side fund liability to the California Public Employees' Retirement System for its Safety and Miscellaneous plans and will save \$1,188,099. The City also has sewer loans outstanding for Phase I, Phase II, Phase III, and Phase IV of the sewer rehabilitation project received from the State of California Water Resources Control Board.

At June 30, 2017, the City's governmental and business-type activities had total long-term debts and obligations as scheduled below.

| <u>Type of Indebtedness</u> | <u>Outstanding June 30, 2017</u> | <u>Outstanding June 30, 2016</u> |
|---------------------------------|--------------------------------------|--------------------------------------|
| <u>Governmental Activities</u> | | |
| 2014 Tax Allocation Bonds | \$ <u>3,780,000</u> | \$ <u>5,000,000</u> |
| <u>Business-type Activities</u> | | |
| Sewer Loan - Phase I | 797,722 | 919,985 |
| Sewer Loan - Phase II | 900,214 | 1,016,579 |
| Sewer Loan - Phase III | 1,158,071 | 1,287,399 |
| Sewer Loan - Phase IV | <u>1,474,248</u> | <u>1,564,928</u> |
| Total Business-type Activities | <u>4,330,255</u> | <u>4,788,891</u> |
| Total Outstanding Debt | <u>\$ 8,110,255</u> | <u>\$ 9,788,891</u> |

Additional information about the City's long-term debt can be found in Note 5 on pages 44 - 47 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

General Fund

Over 60 percent of the City's general revenue sources are property related. One of the critical sources of General Fund revenue is the voter approved parcel tax which represents approximately 7% of the General Fund revenues and provides discretionary funding to maintain essential services. The current tax continues through June 30, 2017. In November 2016, Piedmont voters approved a four year extension and increase of the parcel tax, which will run from July 1, 2017 through June 30, 2021. The additional funds will assist with facilities maintenance and the modernization of information technology systems.

Another critical source of General Fund revenue is the real property transfer tax, which is realized when homes are sold. During this fiscal year, real property transfer tax represents approximately 12% of General Fund revenues as compared to 12% in the last fiscal year. Real property transfer tax is an area to be as tax receipts will fluctuate as they are dependent on the strength of the real estate market in Piedmont. In FY 2016-17, revenues in excess of the budgeted amount was transferred to the Pension Rate Stabilization and the Facilities Maintenance Funds.

The City's salary and benefit costs represent approximately 69% of the General Fund and the employee agreements from 2013 provided for salary increases, but required employees to continue contribution to pension and medical costs.

Sewer Fund

On August 4, 2014, the United States Environmental Protection Agency (EPA) issuing a negotiated Consent Decree (CD). The CD is intended to provide an expanded period of time (21 years) to allow the City to rehabilitate the sewer systems in order to substantially reduce the amount of infiltration and inflow (I&I) in the EBMUD system. The City restarted Phase V preliminary work and has completed the 100% design documents and has submitted State Water Resources Control Board (SWRCB) loan documents since the State provides funding with low interest rates. The SWRCB granted the loan and bidding will occur in the spring of 2017 with construction beginning in summer 2017.

CITY OF PIEDMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Piedmont 's finances for all those with an interest in the government' s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 120 Vista Avenue, City of Piedmont, California, 94611.

CITY OF PIEDMONT
STATEMENT OF NET POSITION
JUNE 30, 2017

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|----------------------|
| <u>ASSETS</u> | | | |
| Cash and investments (Note 2) | \$ 18,444,465 | \$ 1,607,206 | \$ 20,051,671 |
| Restricted cash and investments (Note 2) | 631,681 | - | 631,681 |
| Taxes receivable | - | - | - |
| Accounts receivable | 2,475,266 | 173,622 | 2,648,888 |
| Prepaid expenses | - | - | - |
| Internal balances | 800,390 | (800,000) | 390 |
| Capital assets (Note 4): | | | |
| Land and construction in progress | 5,848,639 | 569,740 | 6,418,379 |
| Depreciable, net of accumulated depreciation | <u>22,409,908</u> | <u>13,660,115</u> | <u>36,070,023</u> |
| Total capital assets | <u>28,258,547</u> | <u>14,229,855</u> | <u>42,488,402</u> |
| Net pension asset (Note 8) | <u>9,947,500</u> | - | <u>9,947,500</u> |
| Total Assets | <u>60,557,849</u> | <u>15,210,683</u> | <u>75,768,532</u> |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | | |
| 2017 pension contributions (Note 7) | 2,295,957 | - | 2,295,957 |
| Changes in the net pension liability (Note 7) | 3,956,768 | - | 3,956,768 |
| Changes in the net pension asset - police & fire (Note 8) | <u>389,138</u> | - | <u>389,138</u> |
| Total Deferred Outflows of Resources | <u>6,641,863</u> | - | <u>6,641,863</u> |
| <u>LIABILITIES</u> | | | |
| Accounts payable | 3,684,978 | 167,755 | 3,852,733 |
| Accrued wages and benefits | 249,272 | 14,188 | 263,460 |
| Accrued interest payable | - | 44,147 | 44,147 |
| Deposit payable | 171,439 | - | 171,439 |
| Unearned revenue | - | 165,435 | 165,435 |
| Compensated absences (Note 5): | | | |
| Due within one year | 462,751 | - | 462,751 |
| Due in more than one year | 441,452 | - | 441,452 |
| Claims payable (Note 12): | | | |
| Due within one year | 321,649 | - | 321,649 |
| Due in more than one year | 722,603 | - | 722,603 |
| Net OPEB Obligation (Note 9): | | | |
| Due in more than one year | 5,218,206 | - | 5,218,206 |
| Long-term liabilities (Note 5): | | | |
| Due within one year | 1,296,000 | 468,618 | 1,764,618 |
| Due in more than one year | 2,484,000 | 3,861,637 | 6,345,637 |
| Net pension liability (Note 7): | | | |
| Due in more than one year | <u>22,238,992</u> | - | <u>22,238,992</u> |
| Total Liabilities | <u>37,291,342</u> | <u>4,721,780</u> | <u>42,013,122</u> |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | |
| Changes in the net pension liability (Note 7) | <u>1,856,647</u> | - | <u>1,856,647</u> |
| <u>NET POSITION</u> | | | |
| Net investment in capital assets | 28,258,547 | 9,899,600 | 38,158,147 |
| Restricted for: | | | |
| Community development | 1,090,730 | - | 1,090,730 |
| Public safety | 459,673 | - | 459,673 |
| Recreation | 326,317 | - | 326,317 |
| Street improvement | 471,088 | - | 471,088 |
| Unrestricted | <u>(2,554,632)</u> | <u>589,303</u> | <u>(1,965,329)</u> |
| Total Net Position | <u>\$ 28,051,723</u> | <u>\$ 10,488,903</u> | <u>\$ 38,540,626</u> |

See accompanying notes to the basic financial statements.

CITY OF PIEDMONT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue and Change in Net Position</u> | | |
|--------------------------------------|----------------------|-----------------------------|---|---|---|---------------------------------|---------------------------------|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total Primary Government</u> |
| PRIMARY GOVERNMENT | | | | | | | |
| Governmental activities: | | | | | | | |
| Administration | \$ 3,541,186 | \$ 143,301 | \$ 13,000 | \$ - | \$ (3,384,885) | \$ - | \$ (3,384,885) |
| Public works | 5,782,837 | 1,130,984 | 1,289,568 | 78,492 | (3,283,793) | - | (3,283,793) |
| Street improvement | 316,624 | - | - | - | (316,624) | - | (316,624) |
| Public safety: police services | 6,107,808 | 251,040 | 141,848 | - | (5,714,920) | - | (5,714,920) |
| Public safety: fire services | 5,769,019 | 391,425 | 193,932 | - | (5,183,662) | - | (5,183,662) |
| Recreation | 4,167,915 | 3,227,619 | 124,995 | - | (815,301) | - | (815,301) |
| Nondepartmental | 3,660,991 | - | - | - | (3,660,991) | - | (3,660,991) |
| Debt interest | 125,931 | - | - | - | (125,931) | - | (125,931) |
| Total governmental activities | <u>29,472,311</u> | <u>5,144,369</u> | <u>1,763,343</u> | <u>78,492</u> | <u>(22,486,107)</u> | <u>-</u> | <u>(22,486,107)</u> |
| Business-type activities: | | | | | | | |
| Sewer | 932,506 | 2,406,895 | - | - | - | 1,474,389 | 1,474,389 |
| Aquatic | 595,185 | 544,322 | - | - | - | (50,863) | (50,863) |
| Total business-type activities | <u>1,527,691</u> | <u>2,951,217</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,423,526</u> | <u>1,423,526</u> |
| Total primary government | <u>\$ 31,000,002</u> | <u>\$ 8,095,586</u> | <u>\$ 1,763,343</u> | <u>\$ 78,492</u> | <u>\$ (22,486,107)</u> | <u>\$ 1,423,526</u> | <u>\$ (21,062,581)</u> |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property tax | | | | | \$ 12,512,002 | \$ - | \$ 12,512,002 |
| Sales tax | | | | | 166,852 | - | 166,852 |
| Franchise tax | | | | | 444,841 | - | 444,841 |
| Utility users tax | | | | | 1,323,052 | - | 1,323,052 |
| Real property transfer tax | | | | | 3,522,078 | - | 3,522,078 |
| Business license and rental tax | | | | | 539,177 | - | 539,177 |
| Parcel tax | | | | | 1,745,533 | - | 1,745,533 |
| Paramedic tax | | | | | 69,411 | - | 69,411 |
| Motor vehicle license fee | | | | | 1,164,584 | - | 1,164,584 |
| Investment earnings | | | | | 91,374 | 11,031 | 102,405 |
| Other revenues | | | | | 2,025,515 | - | 2,025,515 |
| Transfers | | | | | 598,000 | (598,000) | - |
| Total general revenues and transfers | | | | | <u>24,202,419</u> | <u>(586,969)</u> | <u>23,615,450</u> |
| Change in net position | | | | | 1,716,312 | 836,557 | 2,552,869 |
| Net position - July 1, 2016 | | | | | <u>26,335,411</u> | <u>9,652,346</u> | <u>35,987,757</u> |
| Net position - June 30, 2017 | | | | | <u>\$ 28,051,723</u> | <u>\$ 10,488,903</u> | <u>\$ 38,540,626</u> |

**CITY OF PIEDMONT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

| | <u>General Fund</u> | <u>Equipment Replacement</u> | <u>Facilities Maintenance</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|----------------------------------|-----------------------------------|---|---|
| <u>ASSETS</u> | | | | | |
| Cash and investments | \$ 3,552,071 | \$ 3,377,821 | \$ 3,663,773 | \$ 2,402,354 | \$ 12,996,019 |
| Restricted cash and investments | 631,681 | - | - | - | 631,681 |
| Accounts receivable | 2,170,720 | 9,417 | - | 293,207 | 2,473,344 |
| Due from other funds | 99,390 | - | - | - | 99,390 |
| Advances to other funds | <u>-</u> | <u>600,000</u> | <u>200,000</u> | <u>-</u> | <u>800,000</u> |
| Total Assets | <u>\$ 6,453,862</u> | <u>\$ 3,987,238</u> | <u>\$ 3,863,773</u> | <u>\$ 2,695,561</u> | <u>\$ 17,000,434</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | | |
| LIABILITIES | | | | | |
| Accounts payable | \$ 941,882 | \$ 49,824 | \$ 81,574 | \$ 142,458 | \$ 1,215,738 |
| Accrued wages and benefits | 238,407 | - | - | 10,865 | 249,272 |
| Deposits payable | 171,439 | - | - | - | 171,439 |
| Due to other funds | <u>-</u> | <u>-</u> | <u>-</u> | <u>99,000</u> | <u>99,000</u> |
| Total Liabilities | <u>1,351,728</u> | <u>49,824</u> | <u>81,574</u> | <u>252,323</u> | <u>1,735,449</u> |
| FUND BALANCES | | | | | |
| Nonspendable | - | 600,000 | 200,000 | - | 800,000 |
| Restricted | 406,933 | - | - | 1,940,875 | 2,347,808 |
| Assigned | - | 3,337,414 | 3,582,199 | 502,363 | 7,421,976 |
| Unassigned | <u>4,695,201</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>4,695,201</u> |
| Total Fund Balances | <u>5,102,134</u> | <u>3,937,414</u> | <u>3,782,199</u> | <u>2,443,238</u> | <u>15,264,985</u> |
| Total Liabilities and Fund Balances | <u>\$ 6,453,862</u> | <u>\$ 3,987,238</u> | <u>\$ 3,863,773</u> | <u>\$ 2,695,561</u> | <u>\$ 17,000,434</u> |

See accompanying notes to the basic financial statements.

CITY OF PIEDMONT
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

| | | |
|--|--|----------------------|
| Total fund balances of governmental funds | | \$ 15,264,985 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds, net of accumulated depreciation of \$31,288,529. | | 28,258,547 |
| Net pension asset related to the police and fire pension plan is not a current financial resource and therefore not reported in the funds. | | 9,947,500 |
| Deferred outflows related to the 2017 pension contributions were made subsequent to the measurement date. | | 2,295,957 |
| Deferred outflows related to changes in the net pension liability (asset) are not reported in the governmental funds. | | 4,345,906 |
| Long-term liabilities are not due in the current period and, therefore are not reported in the governmental funds. | | |
| Long-term liabilities net of premiums and discounts | | (3,780,000) |
| Net pension liability | | (22,238,992) |
| Deferred inflows related to changes in the net pension liability | | (1,856,647) |
| Internal service funds are used by management to charge costs of certain activities such as insurance and employee benefits to individual government funds. The assets and liabilities of the internal service funds are included in the governmental activities of the Statement of Net Position. | | |
| Cash and investments | | 5,448,446 |
| Accounts receivable | | 1,922 |
| Accounts payable | | (2,469,240) |
| Compensated absences | | (904,203) |
| Net OPEB obligation | | (5,218,206) |
| Claims payable | | <u>(1,044,252)</u> |
| Net position of governmental activities | | <u>\$ 28,051,723</u> |

See accompanying notes to the basic financial statements.

CITY OF PIEDMONT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

| | <u>General Fund</u> | <u>Equipment Replacement</u> | <u>Facilities Maintenance</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|----------------------------------|-----------------------------------|---|---|
| <u>REVENUES</u> | | | | | |
| Property tax | \$ 12,512,002 | \$ - | \$ - | \$ - | \$ 12,512,002 |
| Sales tax | 166,852 | - | - | - | 166,852 |
| Franchise tax | 444,841 | - | - | - | 444,841 |
| Utility users tax | 1,323,052 | - | - | - | 1,323,052 |
| Real property transfer tax | 3,522,078 | - | - | - | 3,522,078 |
| Business license and rental tax | 539,177 | - | - | - | 539,177 |
| Gas tax | - | - | - | 219,396 | 219,396 |
| Licenses and permits | 577,032 | - | - | - | 577,032 |
| Intergovernmental | 1,813,407 | - | - | 559,966 | 2,373,373 |
| Use of money and property | 617,818 | 39,994 | 1,500 | 3,807 | 663,119 |
| Current service charges | 3,342,420 | - | - | 1,018,029 | 4,360,449 |
| Measure B tax | - | - | - | 461,264 | 461,264 |
| Parcel tax | 1,745,533 | - | - | - | 1,745,533 |
| Contribution and donations | - | - | - | 1,041,192 | 1,041,192 |
| Other revenues | <u>184,555</u> | <u>-</u> | <u>405,860</u> | <u>50,848</u> | <u>641,263</u> |
| Total Revenues | <u>26,788,767</u> | <u>39,994</u> | <u>407,360</u> | <u>3,354,502</u> | <u>30,590,623</u> |
| <u>EXPENDITURES</u> | | | | | |
| Current: | | | | | |
| Administration | 2,552,577 | - | 51,465 | 17,332 | 2,621,374 |
| Public works | 4,160,550 | - | 6,776 | 34,638 | 4,201,964 |
| Public safety: | | | | | |
| Police services | 5,757,401 | 3,609 | 23,506 | - | 5,784,516 |
| Fire services | 5,415,911 | - | 1,454 | - | 5,417,365 |
| Recreation | 2,771,370 | - | 180,488 | 878,095 | 3,829,953 |
| Nondepartmental | 3,660,911 | - | - | - | 3,660,911 |
| Street improvement | - | - | - | 316,624 | 316,624 |
| Capital outlay | - | 211,560 | 2,403,769 | 753,353 | 3,368,682 |
| Debt service - principal | - | - | - | 1,220,000 | 1,220,000 |
| Debt service - interest | <u>-</u> | <u>-</u> | <u>-</u> | <u>125,931</u> | <u>125,931</u> |
| Total Expenditures | <u>24,318,720</u> | <u>215,169</u> | <u>2,667,458</u> | <u>3,345,973</u> | <u>30,547,320</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>2,470,047</u> | <u>(175,175)</u> | <u>(2,260,098)</u> | <u>8,529</u> | <u>43,303</u> |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | | |
| Transfers in | 1,109,886 | 409,699 | 1,679,000 | 1,763,090 | 4,961,675 |
| Transfers out | <u>(3,478,690)</u> | <u>-</u> | <u>(12,643)</u> | <u>(872,342)</u> | <u>(4,363,675)</u> |
| Total Other Financing Sources (Uses) | <u>(2,368,804)</u> | <u>409,699</u> | <u>1,666,357</u> | <u>890,748</u> | <u>598,000</u> |
| Net Change in Fund Balances | 101,243 | 234,524 | (593,741) | 899,277 | 641,303 |
| Fund Balances - July 1, 2016 | <u>5,000,891</u> | <u>3,702,890</u> | <u>4,375,940</u> | <u>1,543,961</u> | <u>14,623,682</u> |
| Fund Balances - June 30, 2017 | <u>\$ 5,102,134</u> | <u>\$ 3,937,414</u> | <u>\$ 3,782,199</u> | <u>\$ 2,443,238</u> | <u>\$ 15,264,985</u> |

See accompanying notes to the basic financial statements.

CITY OF PIEDMONT
RECONCILIATION OF THE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

Reconciliation of the change in fund balances - total governmental funds to the change in net position of governmental activities:

| | | |
|--|----|-------------------------|
| Net change in fund balances - total governmental funds | \$ | 641,303 |
| <p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are capitalized and allocated over their estimated useful lives and reported as depreciation expense.</p> | | |
| Capital asset purchases | | 2,760,764 |
| Depreciation expense | | (1,604,018) |
| <p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.</p> | | |
| Debt principal payments | | 1,220,000 |
| <p>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.</p> | | |
| Pension expense related to deferred outflows and inflows of resources | | (524,377) |
| <p>Internal service funds are used by management to charge the costs of certain activities, such as equipment replacement, to individual funds. The net revenue (expense) of the internal service funds is reported with the governmental funds.</p> | | |
| | | <u>(777,360)</u> |
| Change in net position of governmental activities | \$ | <u><u>1,716,312</u></u> |

See accompanying notes to the basic financial statements.

CITY OF PIEDMONT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

| | <u>Business-Type Activities</u> | | | <u>Governmental Activities</u> |
|---|---------------------------------|---------------------|----------------------|--------------------------------|
| | <u>Sewer Fund</u> | <u>Aquatic Fund</u> | <u>Total</u> | <u>Internal Service Funds</u> |
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and investments | \$ 1,335,101 | \$ 272,105 | \$ 1,607,206 | \$ 5,448,446 |
| Accounts receivable, net | <u>126,746</u> | <u>46,876</u> | <u>173,622</u> | <u>1,922</u> |
| Total Current Assets | <u>1,461,847</u> | <u>318,981</u> | <u>1,780,828</u> | <u>5,450,368</u> |
| Non Current Assets | | | | |
| Capital assets, nondepreciable | 569,740 | - | 569,740 | - |
| Capital assets, net of accumulated depreciation | <u>13,247,534</u> | <u>412,581</u> | <u>13,660,115</u> | <u>-</u> |
| Total Non-Current Assets | <u>13,817,274</u> | <u>412,581</u> | <u>14,229,855</u> | <u>-</u> |
| Total Assets | <u>\$ 15,279,121</u> | <u>\$ 731,562</u> | <u>\$ 16,010,683</u> | <u>\$ 5,450,368</u> |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Accounts payable | \$ 157,897 | \$ 9,858 | \$ 167,755 | \$ 2,469,240 |
| Interest payable | 44,147 | - | 44,147 | - |
| Accrued wages and benefits | - | 14,188 | 14,188 | - |
| Advances from other funds | 800,000 | - | 800,000 | - |
| Unearned revenue | - | 165,435 | 165,435 | - |
| Long-term liabilities - current | 468,618 | - | 468,618 | - |
| Compensated absences - current | - | - | - | 462,751 |
| Claims payable - current | <u>-</u> | <u>-</u> | <u>-</u> | <u>321,649</u> |
| Total Current Liabilities | <u>1,470,662</u> | <u>189,481</u> | <u>1,660,143</u> | <u>3,253,640</u> |
| Non-Current Liabilities | | | | |
| Long-term liabilities - net of current | 3,861,637 | - | 3,861,637 | - |
| Compensated absences - net of current | - | - | - | 441,452 |
| Claims payable - net of current | - | - | - | 722,603 |
| Net OPEB obligation | <u>-</u> | <u>-</u> | <u>-</u> | <u>5,218,206</u> |
| Total Non-Current Liabilities | <u>3,861,637</u> | <u>-</u> | <u>3,861,637</u> | <u>6,382,261</u> |
| Total Liabilities | <u>5,332,299</u> | <u>189,481</u> | <u>5,521,780</u> | <u>9,635,901</u> |
| NET POSITION: | | | | |
| Net investment in capital assets | 9,487,019 | 412,581 | 9,899,600 | - |
| Unrestricted | <u>459,803</u> | <u>129,500</u> | <u>589,303</u> | <u>(4,185,533)</u> |
| Total Net Position | <u>9,946,822</u> | <u>542,081</u> | <u>10,488,903</u> | <u>(4,185,533)</u> |
| Total Liabilities and Net Position | <u>\$ 15,279,121</u> | <u>\$ 731,562</u> | <u>\$ 16,010,683</u> | <u>\$ 5,450,368</u> |

See accompanying notes to the basic financial statements.

CITY OF PIEDMONT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

| | <u>Business-Type Activities</u> | | | <u>Governmental Activities</u> |
|---|---------------------------------|---------------------|----------------------|------------------------------------|
| | <u>Sewer Fund</u> | <u>Aquatic Fund</u> | <u>Total</u> | <u>Internal Service Funds</u> |
| <u>OPERATING REVENUES</u> | | | | |
| Charges for services | \$ 2,406,895 | \$ 544,322 | \$ 2,951,217 | \$ - |
| Total Operating Revenue | <u>2,406,895</u> | <u>544,322</u> | <u>2,951,217</u> | <u>-</u> |
| <u>OPERATING EXPENSES</u> | | | | |
| Contract and professional services | 469,810 | 465,185 | 934,995 | - |
| Services and supplies | - | 108,380 | 108,380 | - |
| Pension expense | - | - | - | 2,000,000 |
| OPEB expense | - | - | - | 777,360 |
| Insurance and claims expense | - | - | - | 990,117 |
| Depreciation | <u>398,942</u> | <u>21,620</u> | <u>420,562</u> | <u>-</u> |
| Total Operating Expenses | <u>868,752</u> | <u>595,185</u> | <u>1,463,937</u> | <u>3,767,477</u> |
| Operating Income (Loss) | <u>1,538,143</u> | <u>(50,863)</u> | <u>1,487,280</u> | <u>(3,767,477)</u> |
| <u>NON-OPERATING REVENUES (EXPENSES)</u> | | | | |
| Interest income | 11,031 | - | 11,031 | - |
| Interest expense | (63,754) | - | (63,754) | - |
| Other income | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,990,117</u> |
| Total Non-Operating Revenues (Expenses) | <u>(52,723)</u> | <u>-</u> | <u>(52,723)</u> | <u>2,990,117</u> |
| Income (Loss) Before Transfers | <u>1,485,420</u> | <u>(50,863)</u> | <u>1,434,557</u> | <u>(777,360)</u> |
| <u>TRANSFERS</u> | | | | |
| Transfers in | - | 130,000 | 130,000 | - |
| Transfers out | <u>(728,000)</u> | <u>-</u> | <u>(728,000)</u> | <u>-</u> |
| Total Transfers | <u>(728,000)</u> | <u>130,000</u> | <u>(598,000)</u> | <u>-</u> |
| Change in net position | 757,420 | 79,137 | 836,557 | (777,360) |
| Net Position - July 1, 2016 | <u>9,189,402</u> | <u>462,944</u> | <u>9,652,346</u> | <u>(3,408,173)</u> |
| Net Position - June 30, 2017 | <u>\$ 9,946,822</u> | <u>\$ 542,081</u> | <u>\$ 10,488,903</u> | <u>\$ (4,185,533)</u> |

See accompanying notes to the basic financial statements.

CITY OF PIEDMONT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

| | <u>Business-Type Activities</u> | | | <u>Governmental Activities</u> |
|--|---------------------------------|---------------------|---------------------|--------------------------------|
| | <u>Sewer Fund</u> | <u>Aquatic Fund</u> | <u>Total</u> | <u>Internal Service Funds</u> |
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | | | |
| Cash received from customers | \$ 2,316,798 | \$ 546,889 | \$ 2,863,687 | \$ - |
| Claims and premium paid | - | - | - | (1,027,315) |
| Cash paid to suppliers | (478,395) | (108,815) | (587,210) | - |
| Cash paid to employees | - | (513,451) | (513,451) | - |
| Internal activity - payments from other funds | - | - | - | 105,113 |
| Net Cash Provided by (Used for) Operating Activities | <u>1,838,403</u> | <u>(75,377)</u> | <u>1,763,026</u> | <u>(922,202)</u> |
| <u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u> | | | | |
| Other income | - | - | - | 2,990,117 |
| Transfers (to) from other funds | (728,000) | 130,000 | (598,000) | - |
| Net Cash Provided by (Used For) Non-Capital Financing Activities | <u>(728,000)</u> | <u>130,000</u> | <u>(598,000)</u> | <u>2,990,117</u> |
| <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u> | | | | |
| Acquisition of capital assets | (189,476) | - | (189,476) | - |
| Principal paid on long-term debt | (458,636) | - | (458,636) | - |
| Interest paid on long-term debt | (69,090) | - | (69,090) | - |
| Net Cash Used for Capital and Related Financing Activities | <u>(717,202)</u> | <u>-</u> | <u>(717,202)</u> | <u>-</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | | | |
| Interest and dividends | 11,031 | - | 11,031 | - |
| Net Cash Provided by Investing Activities | <u>11,031</u> | <u>-</u> | <u>11,031</u> | <u>-</u> |
| Net Increase in Cash and Cash Equivalents | 404,232 | 54,623 | 458,855 | 2,067,915 |
| Cash and Cash Equivalents - July 1, 2016 | <u>930,869</u> | <u>217,482</u> | <u>1,148,351</u> | <u>3,380,531</u> |
| Cash and Cash Equivalents - June 30, 2017 | <u>\$ 1,335,101</u> | <u>\$ 272,105</u> | <u>\$ 1,607,206</u> | <u>\$ 5,448,446</u> |

See accompanying notes to the basic financial statements.

CITY OF PIEDMONT
STATEMENT OF CASH FLOWS (continued)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

| | <u>Business-Type Activities</u> | | | <u>Governmental Activities</u> |
|--|---------------------------------|---------------------|---------------------|------------------------------------|
| | <u>Sewer Fund</u> | <u>Aquatic Fund</u> | <u>Total</u> | <u>Internal Service Funds</u> |
| <u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</u> | | | | |
| Operating Income (Loss) | 1,538,143 | (50,863) | 1,487,280 | (3,767,477) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | | |
| Depreciation expense | 398,942 | 21,620 | 420,562 | - |
| Changes in assets and liabilities: | | | | |
| Increase in accounts receivable | (90,097) | (16,022) | (106,119) | - |
| Decrease (increase) in accounts payable | (8,585) | (436) | (9,021) | 1,982,143 |
| Increase in unearned revenue | - | 18,590 | 18,590 | - |
| Decrease in claims payable | - | - | - | (19,341) |
| Decrease in accrued wages | - | (48,266) | (48,266) | - |
| Increase in net OPEB obligation | - | - | - | 777,360 |
| Increase in compensated absences | - | - | - | 105,113 |
| Net Cash Provided by (Used for) Operating Activities | <u>\$ 1,838,403</u> | <u>\$ (75,377)</u> | <u>\$ 1,763,026</u> | <u>\$ (922,202)</u> |

See accompanying notes to the basic financial statements.

CITY OF PIEDMONT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

| | <u>Agency Funds</u> | <u>Police and Fire Pension Plan Trust Fund</u> | <u>OPEB Trust Fund</u> |
|--|-----------------------------|--|-----------------------------|
| <u>ASSETS</u> | | | |
| Restricted cash (Note 2) | \$ 469,164 | \$ - | \$ - |
| Restricted investments (Note 2) | - | 11,934,732 | 7,171,296 |
| Accounts receivable | 5,021 | - | - |
| Interest receivable | - | 6,436 | - |
| | <u> </u> | <u> </u> | <u> </u> |
| Total Assets | <u>\$ 474,185</u> | <u>\$ 11,941,168</u> | <u>\$ 7,171,296</u> |
| <u>LIABILITIES</u> | | | |
| Accounts payable and other liabilities | \$ - | \$ 7,183 | \$ - |
| Deposits held in trust | 474,185 | - | - |
| | <u> </u> | <u> </u> | <u> </u> |
| Total Liabilities | <u>\$ 474,185</u> | <u>\$ 7,183</u> | <u>\$ -</u> |
| <u>NET POSITION</u> | | | |
| Restricted for police and fire pension | - | 11,933,985 | - |
| Restricted for OPEB trust | - | - | 7,171,296 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total Net Position | <u>\$ -</u> | <u>\$ 11,933,985</u> | <u>\$ 7,171,296</u> |

See accompanying notes to the basic financial statements.

CITY OF PIEDMONT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

| | Police and Fire Pension Plan Trust Fund | OPEB Trust Fund |
|--|--|----------------------------|
| <u>ADDITIONS</u> | | |
| Investment income | | |
| Net increase/decrease in fair value of investments | \$ 1,040,327 | \$ 664,308 |
| Interest and dividends | 341,737 | - |
| Other revenues | - | 312,000 |
| | <u>1,382,064</u> | <u>976,308</u> |
| <u>DEDUCTIONS</u> | | |
| Pension benefits paid | 233,036 | - |
| Administrative expenses | 68,207 | - |
| | <u>301,243</u> | <u>-</u> |
| Change in Fiduciary Net Position | 1,080,821 | 976,308 |
| Fiduciary Net Position - July 1, 2016 | <u>10,853,164</u> | <u>6,194,988</u> |
| Fiduciary Net Position - June 30, 2017 | <u>\$ 11,933,985</u> | <u>\$ 7,171,296</u> |

See accompanying notes to the basic financial statements.

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Piedmont is a residential community located in the East Bay Hills, approximately ten miles east of San Francisco, California. The City was incorporated as a municipal corporation in 1907; population at June 30, 2017 was approximately 11,230.

The City operates under the Council-Administrator form of government, with five elected Council members served by a full-time City Administrator and staff. At June 30, 2017, the City's staff was comprised of 93 full-time employees who were responsible for the following City-provided services:

Public Safety - The City employs 19 sworn and 9 unsworn police personnel to provide round-the-clock police services from a central station, and 25 fire personnel to provide round-the-clock fire services from a central station.

Streets and Roads - The City contracts the construction and maintenance of its streets, curbs, gutters, and related public property.

Recreation, Public Works, Administration and other services are provided by a total of 40 full-time and 5 part-time employees.

In addition, the City employs approximately 316 seasonal recreational personnel.

The accounting policies of the City of Piedmont conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles. The following is a summary of the more significant policies:

A. The Reporting Entity

The accompanying basic financial statements present the financial activities of the City, which has no component units.

B. Basis of Presentation

The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America. These standards require that the financial statements described below be presented.

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include the activities of the overall City government except for fiduciary activities. Eliminations have been made to minimize the double counting of internal service activities. The City's net position is reported in three parts - net investment in capital assets; restricted net position; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements:

The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories with each major fund displayed in a separate column. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

All remaining governmental funds are aggregated and reported as nonmajor funds in a single column, regardless of their fund type.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Debt Service Funds - Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest.

Capital Project Funds - Capital Project Funds are used to account for financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Proprietary Funds

Enterprise Funds - Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Internal Service Funds - Internal service funds are used to account for, and finance, services and commodities furnished by a designated department of a governmental unit to other departments of the same governmental unit. The City uses internal service funds to account for insurance and employee benefits activities.

Fiduciary Funds (not included in government-wide statements)

Agency Funds - Agency Funds are clearing type funds for the collection of taxes or deposits held in trust, on behalf of individuals, private organizations and other governments. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-Purpose Trust Funds - Private-Purpose Trust Funds are used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Major Funds

The City reported the following major governmental funds in the accompanying financial statements:

General Fund - This is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in a separate fund.

Equipment Replacement - This fund is used to account for the accumulation of resources used to replace capital assets used by governmental funds.

Facilities Maintenance Fund - This fund is used to account for the accumulation of resources used to maintain capital assets used by governmental funds.

The City reports the following major proprietary funds in the accompanying financial statements:

Sewer Fund - This fund is used to account for the operations of the sewer and storm drain systems.

Aquatic Fund - This fund is used to account for the operations of the Piedmont Community Pool activities.

The City also reports the following fund types:

Agency Funds - These funds are custodial in nature and do not involve measurement of the results of operations. These funds account for amounts held for eight separate underground utility assessment districts.

Police and Fire Pension Trust Fund - This fund accounts for the pension investment activity including retirement payments to 13 retired City employees and/or surviving spouses.

OPEB Trust Fund - This fund accounts for OPEB trust investment activity for the post-employment retiree healthcare benefits.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and proprietary activities are presented using the economic resources measurement focus as defined in item "b" below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds are accounted for using a "current financial resources" measurement focus. With this measurement focus, only current assets and deferred outflows of resources, and current liabilities and deferred inflows of resources, generally are included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. All proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and deferred outflows of resources, and all liabilities and deferred inflows of resources (whether current or noncurrent) associated with the operation of these funds are reported. Proprietary fund equity is classified as net position.

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- c. As agency funds report only assets and liabilities, they do not have a measurement focus. However, they use the accrual basis of accounting to recognize receivables and payables. The "economic resources" measurement focus and the accrual basis of accounting is used for trust funds.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and proprietary activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City defines available to be within 60 days of year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due. Governmental capital asset acquisitions are reported as expenditures in governmental funds. Proceeds for governmental long-term liabilities and acquisitions under capital leases are reported as other financing sources.

Those revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services. Certain indirect costs are included in program expenses reported for individual functions and activities.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position are available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds's principal operations. The principal operating revenues of the enterprise and internal service funds are charges for services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Property Taxes

The County of Alameda levies, bills, and collects property taxes and special assessments for the City as follows:

| | Secured | Unsecured |
|------------------|----------------------------------|-----------|
| Valuation Dates | March 1 | March 1 |
| Lien/levy Dates | January 1 | January 1 |
| Due Dates | 50% of November 1 and February 1 | August 31 |
| Delinquent as of | December 10 and April 10 | August 31 |

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The term "unsecured" refers to taxes on personal property other than real estate, land, and buildings. These taxes are secured by liens on the property being taxed. Property tax revenue is recognized in accordance with applicable GASB pronouncements; that is, in the fiscal year for which the taxes have been levied providing they become available. Available means due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities in the current period. The County remits the entire amount of the tax levy to the City (net of County administrative fees), and handles all delinquencies, retaining any interest and penalties. The County remits a property tax clean-up payment for the current period each September following the close of the fiscal year. The City makes an exception to the 60-day recognition period to recognize this revenue in the current period.

E. Cash and Investments

The City pools the cash of all funds, except for monies deposited with fiscal agents in accordance with related bond indentures and monies held in the police and fire pension trust and OPEB trust. The cash and investments balance in each fund represents that fund's equity share of the City's cash and investment pool. As the City places no restrictions on the deposit or withdrawal of a particular fund's equity in the pool, the pool operates like a demand deposit account for the participating funds.

For purposes of the statement of cash flows, the City considers cash and cash equivalents as short-term highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Because the only investment held by the proprietary funds is the Local Agency Investment Fund (LAIF), which meets the definition of a cash equivalent, the entire pooled balance is reported as cash and investments.

F. Accounts and Interest Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Receivables are recorded in the financial statements net of any allowance for doubtful accounts if applicable, and estimated refunds due. Major receivable balances for the governmental activities include sales and use taxes, franchise taxes, grants, fines, interest, and other fees. Federal and state grants are considered receivable and accrue as revenue when reimbursable costs are incurred.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are recorded as deferred inflows of resources in the fund financial statements in accordance with modified accrual, but are not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Long-term loans in governmental funds are treated as expenditures in the year advanced and as revenues in the year repayment is measurable and available. Loans receivable are recorded in the fund statements, but are recorded as deferred inflows of resources to indicate they do not represent current financial resources. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Service charges and interest earnings compose the majority of proprietary fund receivables.

G. Capital Assets

The accounting treatment of property, plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, capital outlay with a cost of \$5,000 or more are capitalized. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

| | |
|------------------------------------|---------------|
| Buildings | 60 years |
| Vehicles | 4 - 20 years |
| Furniture, fixtures, and equipment | 7 - 25 years |
| Pavement system | 28 years |
| Sidewalk, curb, and gutters | 40 years |
| Traffic signals | 25 years |
| Street lights | 25 years |
| Bridges | 75 years |
| Park facilities system | 25 - 40 years |
| Sewer and storm drains | 50 years |

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of debt financed capital assets of business-type activities is included as part of the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

H. Compensated Absences

A liability is calculated for all the costs of compensated absences based upon benefits earned by employees in the current period for which there is a probability of payment at termination. The salary and related payroll costs are those in effect at June 30, 2017. Compensated absences include vacation pay and compensated time off. The City recognizes the liability for its compensated absences at year-end in the internal service fund.

I. Long-Term Liabilities

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term liabilities, and other long term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Initial issue bond premiums and discounts, are deferred and amortized over the life of the bonds using the straight-line method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the lives of the refunding debt or remaining life of the refunded debt. Bond issuance costs, except for insurance, are expensed in the period incurred. Amortization of bond premiums or discounts, insurance costs, and deferred amounts on refunding is included in interest expense.

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

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources recorded for the City relate to the City's defined benefit pension plan and the police and fire pension plan. See Notes 7 and 8.

In addition to liabilities, the statement of net position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources recorded for the City relate to the City's defined benefit pension plan. See Note 7.

K. Pensions

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

L. Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursements, or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

M. Equity Classifications

Government-wide Statements

Net position is the excess of all the City's assets and deferred outflows of resources over all its liabilities and deferred inflows of resources, regardless of fund. Net position is divided into three categories. These categories apply only to net position, which is determined at the Government-wide level, and are described below:

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position - Consists of net position with constraints place on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - All other net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Statements

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- a. Nonspendable - Amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.
- b. Restricted - Amounts that are restricted for specific purposes when constraints placed on the use of resources are either (1) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.
- c. Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.
- d. Assigned - Amounts that are constrained by the City Council's intent to be used for specific purposes through a resolution, but are neither restricted or committed. The City Council assigns fund balances for specific purposes by resolution adopting the annual budget for the upcoming fiscal year, or by an amending budget resolution during the fiscal year.
- e. Unassigned - Amounts representing the residual classification for the general fund or any other fund with a negative fund balance.

Further detail about the City's fund balance classification is described in Note 11.

N. General Budget Policies

The City operates under the general laws of the State of California and annually adopts a budget for its governmental and proprietary funds to be effective July 1 for the ensuing fiscal year. From the effective date of the budget, which is adopted and controlled at the department level, the amounts stated therein as proposed expenditures become appropriations to the various City departments. Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Encumbrances are considered to be expenditures in the year the commitment is entered into. Budget appropriations lapse at the end of the fiscal year unless encumbered by specific Council approval.

O. Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

P. Reclassifications

Certain accounts in prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Implementation of Government Accounting Standards Board Statements

Effective July 1, 2016, the City implemented the following accounting and financial reporting standards:

Government Accounting Standards Board Statement No. 74

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local government OPEB plans for making decisions and assessing accountability. As the City's OPEB Plan does not issue stand-alone financial statements, GASB 74 requires the disclosures in the audit report of the City. See Note 10.

Government Accounting Standards Board Statement No. 77

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The City did not have any such agreements as of June 30, 2017.

Government Accounting Standards Board Statement No. 80

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The City does not have such a component unit; therefore is not affected by the implementation of this standard.

R. Future Government Accounting Standards Board Statements

These statements are not effective until July 1, 2017 or later. The City has not determined the effects on the financial statements.

Government Accounting Standards Board Statement No. 75

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB, and replaces Statements No. 45 and 57. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to OPEB. The City has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this statement is effective for the City's fiscal year ending June 30, 2018.

Government Accounting Standards Board Statement No. 83

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The City has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this statement is effective for the City's fiscal year ending June 30, 2019.

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government Accounting Standards Board Statement No. 84

In February 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. Additionally, this Statement describes four fiduciary funds that should be reported, as well as provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The City has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this Statement is effective for the City's fiscal year ending June 30, 2020.

Government Accounting Standards Board Statement No. 85

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This Statement seeks to improve consistency in accounting and financial reporting by addressing practice issues that have been identified during implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (i.e., pensions and other post-employment benefits (OPEB)). The City has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this Statement is effective for the City's fiscal year ending June 30, 2018.

Government Accounting Standards Board Statement No. 86

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This Statement establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources (i.e., resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the purpose of extinguishing debt. Additionally, this Statement amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an in-substance defeasance, regardless of how the cash and other monetary assets were acquired. Finally, this Statement establishes an additional disclosure requirement related to debt that is defeased in substance, regardless of how the cash and other monetary assets were acquired. The City has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this Statement is effective for the City's fiscal year ending June 30, 2018.

Government Accounting Standards Board Statement No. 87

In June 2017, GASB issued Statement No. 87, *Leases*. This Statement (1) increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract; and (2) establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Additionally, under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The City has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this statement is effective for the City's fiscal year ending June 30, 2021.

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2: CASH AND INVESTMENTS

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

| | <u>Cash and Investments</u> | <u>Restricted Cash and Investments</u> | <u>Total</u> |
|---|---------------------------------|--|----------------------|
| Governmental activities | \$ 18,444,465 | \$ 631,681 | \$ 19,076,146 |
| Business-type activities | <u>1,607,206</u> | <u>-</u> | <u>1,607,206</u> |
| Total government-wide cash and investments | <u>20,051,671</u> | <u>631,681</u> | <u>20,683,352</u> |
| Fiduciary activities | <u>-</u> | <u>19,575,192</u> | <u>19,575,192</u> |
| Total cash and investments | <u>\$ 20,051,671</u> | <u>\$ 20,206,873</u> | <u>\$ 40,258,544</u> |

Cash and investments were carried at fair value as of June 30, 2017 and consisted of the following:

| | |
|-------------------------------------|----------------------|
| Cash on hand | \$ 900 |
| Cash in banks | <u>3,905,998</u> |
| Total cash | <u>3,906,898</u> |
| Equity mutual funds | 7,171,296 |
| Fixed income mutual funds | 5,982,232 |
| Money market funds | 218,257 |
| Local Agency Investment Fund (LAIF) | 17,245,618 |
| Equity securities | <u>5,734,243</u> |
| Total investments | <u>36,351,646</u> |
| Total cash and investments | <u>\$ 40,258,544</u> |

Authorized Investments of the City

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

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment in one Issuer</u> |
|-------------------------------------|-----------------------------|--|---|
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Banker's Acceptances | 180 days | 40% | 30% |
| Negotiable Certificates of deposits | 5 years | 30% | None |
| Repurchase Agreements | 1 year | None | None |
| Local Agency Investment Fund (LAIF) | N/A | None | None |

The City complies with the provisions of California Government Code (or the City's investment policy, where more restrictive) pertaining to the types of investments held, institutions in which deposits were made and security requirements. The City will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

CITY OF PIEDMONT
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2017

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements of the City, rather than the general provisions of the California Government Code or the Agency's investment policy. The only investments held by the bond trustee are U.S. Treasury money market funds.

Investments Authorized by the Police and Fire Pension Board

Investment of funds in the Police and Fire pension are managed by an investment advisor. The Piedmont Police and Fire Pension Fund investment policy allows the investment advisor to manage the Pension Fund in a manner consistent with the investment objectives as outlined in the April 2006 investment policy, the Prudent Expert Rule, and the provisions of the Employee Retirement Income Security Act of 1974.

The investment policy grants the advisor full power and authority to make purchases, sales, exchanges, conversion and trades in connection therewith as the advisor deems appropriate to the provisions of Sections 2.144 and 2.145 of the Piedmont City Code. The assets in the plan are invested in a manner that is consistent with generally accepted standards of fiduciary responsibility, to insure the security of principal, and maximum yield on all pension fund investments through a mix of well diversified, high quality, fixed income and equity securities.

Authorized investments include the following:

| Authorized Investment Type | Maximum Percentage of Portfolio | Minimum Credit Rating |
|---|---------------------------------|-----------------------|
| Domestic Equities | 5% per issuer | N/A |
| Foreign Equity Investments Traded on U.S. Based Exchanges | 20% | N/A |
| Cash | 10% | N/A |
| S&P Stock Index Futures | None | N/A |
| Fixed Income Securities | None | B/B overall portfolio |
| Commercial Paper | None | A-2/P-2 |
| Certificates of Deposit | None | None |
| Bankers Acceptances | None | None |
| U.S. Treasury Bonds, Notes, and Bills | None | None |
| Debt Instruments of U.S. Government Agencies | None | None |
| Repurchase Agreements with U.S. Treasury Securities as Collateral | None | None |
| Repurchase Agreements with U.S. Treasury Agencies as Collateral | None | None |
| Corporate Notes | None | B/B |
| Asset-Backed Securities | None | None |
| Municipal Debt | None | Baa/BBB |
| Mortgage-Backed Pass-Through Securities by GSE's and CMBS | None | None |
| Collateralized Mortgage Obligations | None | None |

Other investments are also permissible upon Board approval.

Investments Authorized by the OPEB Trust Fund

Investment of funds in the OPEB (Other Post-employment Benefits) Pension Trust are managed by the same investment advisor for the Police and Fire Pension Trust. The OPEB investment policy allows the investment advisor to manage the OPEB Trust Fund in a manner consistent with the investment objectives as outlined in the May 2013 investment policy.

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

The investment policy grants the advisor full power and authority to make purchases, sales, exchanges, conversions and trades in connection therewith as the advisor deems appropriate. The advisor is expected to operate within the Prudent Expert Rule, the provision of the Employee Security Act of 1974 (ERISA) and other pertinent state and federal laws, regulations, and rulings that relate to the investment process. The assets of the Trust shall be invested in a manner that is consistent with generally accepted standards of fiduciary responsibility to insure the security of principal and maximum yield on all investments through a mix of well-diversified fixed income and equity securities. The following are the OPEB Trust Fund investment policies and guidelines:

The investment policy specified the long-term asset allocation targets:

| Asset Class | Minimum | Target | Maximum |
|--------------|---------|--------|---------|
| Equity | 25% | 60% | 75% |
| Fixed Income | 25% | 40% | 75% |

The cash holdings should not exceed 10% of the market value in the portfolio. The asset allocation targets are to be pursued on a long-term strategic basis and may be revised when significant changes occur within the economic and/or capital market environment or in the stream of future benefits expected to be paid. Capital market assumption and projections shall be reviewed annually. Benefit payments shall be reviewed quarterly. Benefits liabilities and assumptions shall be reviewed no less frequently than every three years.

The equity portion of the Trust shall be invested in marketable equity securities with certain restrictions placed:

| Equity Types | Restrictions |
|--|--|
| Equity mutual funds | None |
| Individual U.S. Stocks | a. 5% maximum exposure at cost b. 10% maximum exposure at market value c. 5% maximum of company's outstanding shares |
| Individual non-U.S. Stocks (including American Depository receipts, foreign-listed securities) | 25% maximum at cost |

The fixed income portion of the Trust shall be invested in marketable, fixed-income securities with certain restrictions specified below. All fixed income securities held directly must be rated B/B or better by Moody's Investors Services and Standard & Poor's Corporation.

| Fixed-Income Types | Restrictions |
|--|---|
| U.S. Treasury bonds, notes, and bills | None |
| Debt instruments issued U.S. Government or Agencies | None |
| Repurchase agreements with U.S. Treasury Securities and Agencies of U.S. Government as collateral | None |
| Certificates of deposit and banker's acceptances | None |
| Diversified fixed-income mutual funds | None |
| Asset-backed securities | None |
| Mortgage-backed pass through securities issued by Government Sponsored Enterprises (GSEs) and Commercials (CMBS) | None |
| Collateralized Mortgage Obligations (CMOs) | Has certain restrictions |
| Commercial paper or variable rate notes | a. A-2/P-2 or higher by S&P or Moody's b. 10% maximum exposure at market value |
| Private placements | 5% maximum exposure at cost |
| Eurodollar securities and non-dollar denominated instruments | 15% maximum exposure at cost |
| Preferred stock | 10% maximum exposure at cost |
| Debt for equity exchanges | 5% maximum exposure at cost |
| Mortgage-backed derivative instruments | 10% maximum exposure at cost |

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

The following investments are explicitly prohibited by the OPEB Trust Investment Policy:

| Asset Class | Prohibited Investment |
|--------------|---|
| Equity | a. Future b. Derivatives c. Short sale d. Private placements e. Commodities |
| Fixed-Income | a. Interest-only strips b. Inverse floating rate notes |

Investment Valuation

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements are as follows at June 30, 2017:

| Investments | Fair Value Measurements Using | | | Total Fair Value |
|---------------------------|-------------------------------|---------------------|----------------|----------------------|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | |
| Equity mutual funds | \$ 7,171,296 | \$ - | \$ - | \$ 7,171,296 |
| Fixed income mutual funds | - | 5,982,232 | - | 5,982,232 |
| Money market funds | 218,257 | - | - | 218,257 |
| Equity securities | <u>5,734,243</u> | - | - | <u>5,734,243</u> |
| Total | <u>\$ 13,123,796</u> | <u>\$ 5,982,232</u> | <u>\$ -</u> | <u>\$ 19,106,028</u> |

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by the LAIF for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on an amortized cost basis. The investment balance of \$17,245,618 is not subject to valuation on a recurring basis.

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City's interest rate risk is mitigated is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Information about the sensitivity of the fair values of the City's investments (including investments held in trust) to market rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity as of June 30, 2017:

| | Remaining Maturity | | | Fair Value |
|--|----------------------|-------------|-------------------|----------------------|
| | 12 months or less | 1-5 years | More than 5 years | |
| Police and Fire Pension Trust Fund: | | | | |
| Fixed income mutual funds | \$ 5,982,232 | \$ - | \$ - | \$ 5,982,232 |
| Domestic equities | 4,710,125 | - | - | 4,710,125 |
| Foreign equities | 1,024,118 | - | - | 1,024,118 |
| Money market funds | <u>218,257</u> | - | - | <u>218,257</u> |
| Total Police and Fire Pension Trust Fund | <u>11,934,732</u> | - | - | <u>11,934,732</u> |
| OPEB Trust Fund: | | | | |
| Equity mutual funds | <u>7,171,296</u> | - | - | <u>7,171,296</u> |
| Total OPEB Trust Fund | <u>7,171,296</u> | - | - | <u>7,171,296</u> |
| City and Agency Funds: | | | | |
| Local Agency Investment Fund | <u>17,245,618</u> | - | - | <u>17,245,618</u> |
| Total Investments | <u>\$ 36,351,646</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 36,351,646</u> |

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The City had no investments (including investments held in trust) that were highly sensitive to interest rate fluctuations as of June 30, 2017.

Disclosures Relating to Credit Risk

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

| Investment Type | Total | Rating as of Fiscal Year End | | |
|-------------------------------------|----------------------|------------------------------|---------|-----------|
| | | S&P | Moody's | N/A |
| Police and Fire Pension Trust Fund: | | | | |
| Fixed income mutual funds | \$ 5,982,232 | | | Not rated |
| Domestic equities | 4,710,125 | | | Not rated |
| Foreign equities | 1,024,118 | | | Not rated |
| Money market funds | 218,257 | | | Not rated |
| OPEB Trust Fund | | | | |
| Equity mutual funds | 7,171,296 | | | Not rated |
| City and Agency Funds | | | | |
| Local Agency Investment Fund | <u>17,245,618</u> | | | Not rated |
| | <u>\$ 36,351,646</u> | | | |

CITY OF PIEDMONT
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2017

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Allocation of Interest Income Among Funds

Interest income from pooled investments is allocated to those funds which are required by law or administrative action to receive interest. Interest is allocated monthly based on the ending cash balances of the previous month in each fund receiving interest.

NOTE 3: INTERFUND AND INTRA-FUND TRANSACTIONS

Interfund Receivables/Payables

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

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Description</u> | <u>Amount</u> |
|---|-----------------------|------------------------------------|--------------------------|
| <u>Governmental Funds</u> | | | |
| General Fund | Police & Fire Pension | Actuarial fee paid by General Fund | \$ 390 |
| General Fund | Misc. Grants | Overdrawn cash loan | 99,000 |
| Equipment Replacement | Sewer | Sewer replacement project | 600,000 |
| Facilities Maintenance | Sewer | Sewer replacement project | <u>200,000</u> |
| Total Interfund Receivables/Payables | | | \$ <u>899,390</u> |

Sewer Replacement Project - In October 2014, the City approved an interfund loan between the Sewer Fund to the Equipment Replacement and Facilities Funds in the amounts of \$600,000 and \$200,000, respectively to meet capital requirements of the Sewer Fund. The loan bears interest based on the Local Agency Investment Fund rate, not to exceed 1.0%. Interest only payments are due during the replacement of the sewer system. Principal and interest payments begin approximately in FY 2028, when phase VII loan payments begin. Under this schedule, the loan is set to retire in FY 2035.

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3: INTERFUND AND INTRA-FUND TRANSACTIONS (CONTINUED)

Interfund Transfers to/from Other Funds

Transfers between funds during the fiscal year ended June 30, 2017 were as follows:

| <u>Transfer From</u> | <u>Transfer To</u> | <u>Description of Transfer</u> | <u>Amount</u> |
|---|------------------------|---|----------------------------|
| <u>Major Governmental Funds</u> | | | |
| General Fund | Equipment Replacement | Funding for capital outlay | \$ 400,000 |
| | Aquatics | General Fund subsidy | 130,000 |
| | Facilities Maintenance | Funding for capital outlay | 1,600,000 |
| | Equipment Replacement | Funding for capital outlay | 1,699 |
| | 2014 Taxable Pension | Pension side-fund bond liability | |
| | Obligation Bonds | payment | 1,346,991 |
| Facilities Maintenance | CIP Fund | Funding for capital outlay | <u>12,643</u> |
| Total Major Governmental Interfund Transfers | | | <u>3,491,333</u> |
| <u>Non-Major Governmental Funds</u> | | | |
| Projects and Services | General Fund | Contribution for concert, movie, harvest festival | 1,431 |
| Projects and Services | General Fund | Capital projects | 6,550 |
| Projects and Services | CIP Fund | Capital projects | 38,015 |
| Projects and Services | Facilities Maintenance | Capital projects | 79,000 |
| Projects and Services | General Fund | General fund traffic safety cost recovery | 50,000 |
| Projects and Services | Equipment Replacement | Capital projects | 8,000 |
| Schoolmates Fund | General Fund | General Fund subsidy | 48,895 |
| Streets Project | General Fund | Highway user tax revenue | 250,000 |
| Streets Project | CIP Fund | Capital projects | 315,441 |
| Capital Improvements | CIP Fund | Capital projects | 50,000 |
| Measure D Fund | General Fund | General fund administrative cost recovery | <u>25,010</u> |
| Total Non- Major Governmental Interfund Transfer | | | <u>872,342</u> |
| <u>Proprietary Funds</u> | | | |
| Sewer Fund | General Fund | Annual public works labor and material cost recovery | <u>728,000</u> |
| Total Proprietary Fund Transfers | | | <u>728,000</u> |
| Total Interfund Transfers | | | <u>\$ 5,091,675</u> |

Intra-fund Transfers between Funds

Intra-fund transfers are not presented on the Statement of Revenues, Expenses, and Changes in Net Position for the governmental funds as they are presented on a net basis. Intrafund transfers during the year ended June 30, 2017 consisted of a transfer between the General Fund and the COPS fund for \$6,117.

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4: CAPITAL ASSETS

Governmental Activities:

| | <u>Balance at July 1, 2016</u> | <u>Additions</u> | <u>Retirements</u> | <u>Transfers</u> | <u>Balance at June 30, 2017</u> |
|--|------------------------------------|---------------------|--------------------|--------------------|-------------------------------------|
| Capital assets not being depreciated | | | | | |
| Land | \$ 5,515,004 | \$ - | \$ - | \$ 91,869 | \$ 5,606,873 |
| Construction-in-progress | <u>894,275</u> | <u>387,785</u> | <u>-</u> | <u>(1,040,294)</u> | <u>241,766</u> |
| Total capital assets not being depreciated | <u>6,409,279</u> | <u>387,785</u> | <u>-</u> | <u>(948,425)</u> | <u>5,848,639</u> |
| Capital assets being depreciated | | | | | |
| Buildings and improvements | 3,146,551 | - | - | 356,606 | 3,503,157 |
| Vehicles | 3,738,072 | 89,430 | (169,137) | - | 3,658,365 |
| Property and equipment | 3,603,771 | 118,437 | - | 173,036 | 3,895,244 |
| Infrastructure | <u>40,183,296</u> | <u>2,165,112</u> | <u>(125,520)</u> | <u>418,783</u> | <u>42,641,671</u> |
| Total capital assets being depreciated | <u>50,671,690</u> | <u>2,372,979</u> | <u>(294,657)</u> | <u>948,425</u> | <u>53,698,437</u> |
| Less accumulated depreciation | | | | | |
| Buildings and improvements | (1,231,955) | (136,399) | - | - | (1,368,354) |
| Vehicles | (1,649,222) | (200,294) | 169,137 | - | (1,680,379) |
| Property and equipment | (1,956,792) | (305,822) | - | - | (2,262,614) |
| Infrastructure | <u>(25,141,199)</u> | <u>(961,503)</u> | <u>125,520</u> | <u>-</u> | <u>(25,977,182)</u> |
| Total accumulated depreciation | <u>(29,979,168)</u> | <u>(1,604,018)</u> | <u>294,657</u> | <u>-</u> | <u>(31,288,529)</u> |
| Total Capital Assets, net | <u>\$ 27,101,801</u> | <u>\$ 1,156,746</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 28,258,547</u> |

Depreciation was charged to functions based on their usage of the related assets as follows:

Governmental Activities:

| | |
|------------------------|----------------|
| Administration | \$ 68,091 |
| Public works | 847,085 |
| Public safety - police | 226,076 |
| Public safety - fire | 188,450 |
| Recreation | <u>274,316</u> |

Total governmental activities depreciation expense \$ 1,604,018

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4: CAPITAL ASSETS (CONTINUED)

Business-type Activities:

| | <u>Balance at July 1, 2016</u> | <u>Additions</u> | <u>Retirements</u> | <u>Transfers</u> | <u>Balance at June 30, 2017</u> |
|--|------------------------------------|---------------------|--------------------|------------------|-------------------------------------|
| Capital assets not being depreciated | | | | | |
| Construction-in-progress | \$ 459,864 | \$ 109,876 | \$ - | \$ - | \$ 569,740 |
| Total capital assets not being depreciated | <u>459,864</u> | <u>109,876</u> | <u>-</u> | <u>-</u> | <u>569,740</u> |
| Capital assets being depreciated | | | | | |
| Building and improvements | 540,500 | - | - | - | 540,500 |
| Vehicles | 655,428 | - | - | - | 655,428 |
| Infrastructure | <u>17,434,128</u> | <u>79,600</u> | <u>-</u> | <u>-</u> | <u>17,513,728</u> |
| Total capital assets being depreciated | <u>18,630,056</u> | <u>79,600</u> | <u>-</u> | <u>-</u> | <u>18,709,656</u> |
| Less accumulated depreciation | | | | | |
| Building and improvements | (106,298) | (50,260) | - | - | (156,558) |
| Vehicles | (495,406) | (21,621) | - | - | (517,027) |
| Infrastructure | <u>(4,027,275)</u> | <u>(348,681)</u> | <u>-</u> | <u>-</u> | <u>(4,375,956)</u> |
| Total accumulated depreciation | <u>(4,628,979)</u> | <u>(420,562)</u> | <u>-</u> | <u>-</u> | <u>(5,049,541)</u> |
| Total Capital Assets, net | <u>\$ 14,460,941</u> | <u>\$ (231,086)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 14,229,855</u> |

Depreciation was charged to functions based on their usage of the related assets as follows:

Business-type Activities:

| | |
|---|-------------------|
| Sewer | \$ 398,942 |
| Aquatics | <u>21,620</u> |
| Total business-type activities depreciation expense | <u>\$ 420,562</u> |

NOTE 5: LONG-TERM LIABILITIES

Governmental activities long-term debt issued and outstanding at June 30, 2017 was comprised of the following:

| <u>Type of Indebtedness</u> | <u>Maturity</u> | <u>Interest Rates</u> | <u>Authorized and Issued</u> | <u>Outstanding June 30, 2017</u> |
|-------------------------------|-----------------|-----------------------|----------------------------------|--------------------------------------|
| 2014 Tax allocation bonds | 2020 | 2.79% | \$ 7,305,000 | \$ 3,780,000 |
| Compensated absences | | | | <u>904,203</u> |
| Total governmental activities | | | | <u>\$ 4,684,203</u> |

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5: LONG-TERM LIABILITES (CONTINUED)

Business-type activities long-term debt issued and outstanding at June 30, 2017 was comprised of the following:

| <u>Type of Indebtedness</u> | <u>Maturity</u> | <u>Interest Rates</u> | <u>Authorized and Issued</u> | <u>Outstanding June 30, 2017</u> |
|--------------------------------|-----------------|-----------------------|------------------------------|----------------------------------|
| Sewer Rehab Loan - Phase I | 2022 | 2.40% | \$ 2,266,920 | \$ 797,722 |
| Sewer Rehab Loan - Phase II | 2023 | 2.50% | 2,211,812 | 900,214 |
| Sewer Rehab Loan - Phase III | 2025 | 2.50% | 2,512,708 | 1,158,071 |
| Sewer Rehab Loan - Phase IV | 2031 | 1.00% | 1,900,188 | 1,474,248 |
| Sewer Rehab Loan - Phase V | 2037 | 1.70% | 4,397,000 | <u>-</u> |
| Total business-type activities | | 2.8050% | | <u>\$ 4,330,255</u> |

The following is a summary of changes in the City's long-term liabilities for the fiscal year ended June 30, 2017:

| | <u>Balance at July 1, 2016</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance June 30, 2017</u> | <u>Current Portion</u> |
|---------------------------------------|--------------------------------|-------------------|-----------------------|------------------------------|------------------------|
| Governmental Activities: | | | | | |
| Tax allocation bonds | \$ 5,000,000 | \$ - | \$ (1,220,000) | \$ 3,780,000 | \$ 1,296,000 |
| Total bonds and notes payable | <u>5,000,000</u> | <u>-</u> | <u>(1,220,000)</u> | <u>3,780,000</u> | <u>1,296,000</u> |
| Other liabilities: | | | | | |
| Compensated absences | 799,090 | 598,384 | (493,271) | 904,203 | 462,751 |
| Total Governmental Activities | <u>\$ 5,799,090</u> | <u>\$ 598,384</u> | <u>\$ (1,713,271)</u> | <u>\$ 4,684,203</u> | <u>\$ 1,758,751</u> |
| | | | | | |
| | <u>Balance at July 1, 2016</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance June 30, 2017</u> | <u>Current Portion</u> |
| Business-type Activities | | | | | |
| Sewer Rehab Loan - Phase I | \$ 919,985 | \$ - | \$ (122,263) | \$ 797,722 | \$ 125,197 |
| Sewer Rehab Loan - Phase II | 1,016,579 | - | (116,365) | 900,214 | 119,274 |
| Sewer Rehab Loan - Phase III | 1,287,399 | - | (129,328) | 1,158,071 | 132,561 |
| Sewer Rehab Loan - Phase IV | <u>1,564,928</u> | <u>-</u> | <u>(90,680)</u> | <u>1,474,248</u> | <u>91,586</u> |
| Total Business-type Activities | <u>\$ 4,788,891</u> | <u>\$ -</u> | <u>\$ (458,636)</u> | <u>\$ 4,330,255</u> | <u>\$ 468,618</u> |

CITY OF PIEDMONT
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2017

NOTE 5: LONG-TERM LIABILITIES (CONTINUED)

A description of the long-term liabilities related to governmental activities at June 30, 2017 follows:

A. Governmental Activities

2014 Taxable Pension Obligation Bonds

In May 2014, the City authorized and issued \$7,305,000 of taxable pension obligation bonds to pay off the City's outstanding side fund liability to the California Public Employee's Retirement System (CalPERS) for its safety and miscellaneous plans. The bonds are subject to mandatory principal redemption amounts on March 30, June 30, September 30, and December 30. The bonds accrue interest at a rate of 2.79 percent annually, and mature on March 30, 2020.

Compensated Absences

At June 30, 2017, compensated absences totaled \$904,203, of which \$462,751 was recorded as a current liability and the non-current portion totaled \$441,452. For governmental activities, compensated absences are liquidated by the general fund.

Governmental Activities Long-Term Liabilities Future Debt Service

Pension Obligation Bonds

| <u>For the Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--|----------------------------|--------------------------|----------------------------|
| 2018 | \$ 1,296,000 | \$ 91,924 | \$ 1,387,924 |
| 2019 | 1,374,000 | 54,949 | 1,428,949 |
| 2020 | <u>1,110,000</u> | <u>15,763</u> | <u>1,125,763</u> |
| Total | <u>\$ 3,780,000</u> | <u>\$ 162,636</u> | <u>\$ 3,942,636</u> |

B. Business-type Activities

Sewer Rehabilitation Loan - Phase I

In August 2001, the City entered into a loan agreement with the State of California Water Resources Control Board to provide funding for a sewer rehabilitation project (Phase I). Funds are drawn on the agreement as work is completed up to a maximum amount of \$2,226,920 plus any construction period interest. The loan accrues interest at a rate of 2.4 percent annually. Principal and interest payments are due in 20 annual installments with the first payment due one year after completion of the project. The project was completed in July 2002 and the first principal installment was paid in July 2003. Final payment is due July 2022.

Sewer Rehabilitation Loan - Phase II

In October 2003, the City entered into a loan agreement with the State of California Water Resources Control Board to provide funding for a sewer rehabilitation project (Phase II). Funds are drawn on the agreement as work is completed up to a maximum amount of \$2,211,812 plus any construction period interest. The loan accrues interest at a rate of 2.5 percent annually. Principal and interest payments are due in 20 annual installments with the first payment due one year after completion of the project. The project was completed in December 2003 and the first principal installment was paid in December 2004. Final payment is due December 2023. Net revenues, defined as all sewer enterprise fund revenues less operations and maintenance costs (excluding depreciation and amortization expenses), is pledged for future debt service.

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5: LONG-TERM LIABILITES (CONTINUED)

Sewer Rehabilitation Loan - Phase III

In September 2004, the City entered into a loan agreement with the State of California Water Resources Control Board to provide funding for a sewer rehabilitation project (Phase III). Funds are drawn on the agreement as work is completed up to a maximum amount of \$2,512,708 plus any construction period interest. The loan accrues interest at a rate of 2.5 percent annually. Principal and interest payments are due in 20 annual installments with the first payment due one year after completion of the project. The project was completed in May 2005 and the first principal installment was paid in May 2006. Final payment is due May 2025. Net revenues, defined as all sewer enterprise fund revenues less operations and maintenance costs (excluding depreciation and amortization expenses), is pledged for future debt service.

Sewer Rehabilitation Loan - Phase IV

In October 2009, the City entered into a loan agreement with the State of California Water Resources Control Board to provide funding for a sewer rehabilitation project (Phase IV). Funds are drawn on the agreement as work is completed up to a maximum amount of \$1,900,188 plus any construction period interest. The loan accrues interest at a rate of 1.0 percent annually. Annual principal payments are due each September 1, commencing September 1, 2012. Final payment is due September 2031. Net revenues, defined as all sewer enterprise fund revenues less operations and maintenance costs (excluding depreciation and amortization expenses), is pledged for future debt service.

Sewer Rehabilitation Loan - Phase V

In October 2016, the City entered into a loan agreement with the State of California Water Resources Control Board to provide funding for a sewer rehabilitation project (Phase V). Funds are drawn on the agreement as work is completed up to a maximum amount of \$4,397,000 plus any construction period interest. The loan accrues interest at a rate of 1.7 percent annually. Annual principal payments are due each December 1, commencing December 1, 2018. Final payment is due December 2037. Net revenues, defined as all sewer enterprise fund revenues less operations and maintenance costs (excluding depreciation and amortization expenses), are pledged for future debt service. For the year ended June 30, 2017 the City incurred a total of \$109,877 in Phase V sewer rehab costs, however the City had not yet submitted a drawdown request. As such, at June 30, 2017, debt outstanding on the loan is \$0.

Business-type Activities Long-Term Liabilities Future Debt Service

| <u>For the Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--|----------------------------|--------------------------|----------------------------|
| 2018 | \$ 468,618 | \$ 85,345 | \$ 553,963 |
| 2019 | 478,835 | 75,128 | 553,963 |
| 2020 | 489,290 | 64,673 | 553,963 |
| 2021 | 499,990 | 53,973 | 553,963 |
| 2022 | 510,940 | 43,022 | 553,962 |
| 2023 - 2027 | 1,366,524 | 77,557 | 1,444,081 |
| 2028 - 2032 | <u>516,058</u> | <u>15,583</u> | <u>531,641</u> |
| Total | \$ <u>4,330,255</u> | \$ <u>415,281</u> | \$ <u>4,745,536</u> |

NOTE 6: ASSESSMENT DEBT WITHOUT CITY COMMITMENT

The following are assessment districts debts in which the City is not liable for the repayment of these debts and is only acting as an agent for the property owners in collecting the assessments, forwarding the collections to the bondholders, and initiating foreclosure proceedings. For this reason, these debts are not reported as long-term liabilities of the City.

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6: ASSESSMENT DEBT WITHOUT CITY COMMITMENT (CONTINUED)

In June 2002, the City administered the issuance of special assessment bonds to provide funds for the Dudley/Blair Underground Utility Assessment District. At June 30, 2017, the outstanding principal of the bond issue was \$985,000.

In August 2005, the City administered the issuance of special assessment bonds to provide funding for the Wildwood/Crocker Underground Utility Assessment District. At June 30, 2017 the outstanding principal of the bond issue was \$430,000.

In July 2009, the City administered the issuance of special assessment bonds to provide funding for the Piedmont Hills Underground Assessment District. At June 30, 2017 the outstanding principal of the bond issue was \$2,815,000.

NOTE 7: DEFINED BENEFIT PENSION PLAN

A. General Information about the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS.) The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other.) Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The City sponsors six rate plans (three miscellaneous and three safety). Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 (age 62 for Miscellaneous Plan members if membership date is on or after January 1, 2013) with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is one of the following: the Special Death Benefit (Safety only), the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

The rate plan provisions and benefits in effect at June 30, 2017 are summarized as follows:

| Hire Date | Miscellaneous | | |
|--|------------------------------------|-------------------------------------|--|
| | Tier I Prior to January 1, 2013 | Tier II Prior to January 1, 2013 | Tier III (PEPRA) On or After January 1, 2013 |
| Benefit Formula | 3.0% @ 60 | 2.0% @ 60 | 2.0% @ 62 |
| Benefit Vesting Schedule | 5 years service | 5 years service | 5 years service |
| Benefit Payments | monthly for life | monthly for life | monthly for life |
| Retirement Age | 50 and up | 60 and up | 62 and up |
| Monthly Benefits, as a % of Eligible Compensation | 2.0% to 3.0% | 2.0% | 2.0% |
| Required Employee Contribution Rates | 8.000% | 7.000% | 6.250% |
| Required Employer Contribution Rates * | 20.749% | 7.159% | 6.798% |

| Hire Date | Safety | | |
|--|------------------------------------|-------------------------------------|--|
| | Tier I Prior to January 1, 2013 | Tier II Prior to January 1, 2013 | Tier III (PEPRA) On or After January 1, 2013 |
| Benefit Formula | 3.0% @ 50 | 2.0% @ 50 | 2.7% @ 57 |
| Benefit Vesting Schedule | 5 years service | 5 years service | 5 years service |
| Benefit Payments | monthly for life | monthly for life | monthly for life |
| Retirement Age | 50 and up | 50 and up | 57 and up |
| Monthly Benefits, as a % of Eligible Compensation | 3.0% | 2.0% | 2.70% |
| Required Employee Contribution Rates | 9.000% | 9.000% | 12.250% |
| Required Employer Contribution Rates * | 35.573% | 16.312% (police) 18.405% (fire) | 12.821% |

* The required employee contribution rate includes the normal cost rate plus the employer unfunded liability.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The City's contributions to the Plan for the year ending June 30, 2017 were \$2,295,957.

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

As of June 30, 2017, the City reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$22,238,992.

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2016 was as follows:

| | |
|------------------------------|----------|
| Proportion - June 30, 2015 | 0.24111% |
| Proportion - June 30, 2016 | 0.25701% |
| Change - Increase (Decrease) | 0.01589% |

For the year ended June 30, 2017, the City recognized pension expense of \$2,685,036. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Pension Contributions Made Subsequent to Measurement Date | \$ 2,295,957 | \$ - |
| Differences between Employer's Contributions and Proportionate Share of Contributions | 193,812 | 708,536 |
| Differences between Expected and Actual Experience | - | 96,092 |
| Changes of Assumptions | - | 724,284 |
| Change in Employer's Proportion | 219,622 | 327,735 |
| Differences between Projected and Actual Investment Earnings | <u>3,543,334</u> | <u>-</u> |
| Total | <u>\$ 6,252,725</u> | <u>\$ 1,856,647</u> |

\$2,295,957 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Measurement Period Ended June 30, | |
|--------------------------------------|--------------|
| 2017 | \$ (218,347) |
| 2018 | \$ (162,792) |
| 2019 | \$ 1,559,290 |
| 2020 | \$ 921,970 |

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuations was determined using the following actuarial assumptions:

| | |
|----------------------------------|---|
| Valuation Date | June 30, 2015 |
| Measurement Date | June 30, 2016 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.65% |
| Inflation | 2.75% |
| Salary Increases | Varies by Entry Age and Service |
| Investment Rate of Return | 7.65% net of pension plan investment expenses; includes inflation |
| Mortality (1) | Derived using CalPERS membership data for all funds |
| Post Retirement Benefit Increase | Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter |

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 Experience Study Report.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Changes in Assumptions

There were no changes of assumptions during the measurement period ended June 30, 2016. Deferred inflows of resources for changes in assumptions presented in the deferred inflows/outflows table above represents the portion of the changes of assumptions related to prior measurement periods..

Discount Rate

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

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

CITY OF PIEDMONT
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective July 1, 2015.

| <u>Asset Class</u> | <u>New Strategic Allocation</u> | <u>Real Return Years 1-10 (a)</u> | <u>Real Return Years 11+ (b)</u> |
|-------------------------------|---------------------------------|---------------------------------------|--------------------------------------|
| Global Equity | 51.0% | 5.25% | 5.71% |
| Global Fixed Income | 20.0% | 0.99% | 2.43% |
| Inflation Sensitive | 6.0% | 0.45% | 3.36% |
| Private Equity | 10.0% | 6.83% | 6.95% |
| Real Estate | 10.0% | 4.50% | 5.13% |
| Infrastructure and Forestland | 2.0% | 4.50% | 5.09% |
| Liquidity | 1.0% | (0.55%) | (1.05%) |

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

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

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

| <u></u> | <u>Discount Rate -1% (6.65%)</u> | <u>Current Discount Rate (7.65%)</u> | <u>Discount Rate +1% (8.65%)</u> |
|-------------------------------|--------------------------------------|--|--------------------------------------|
| Net Pension Liability (Asset) | \$ 35,336,409 | \$ 22,238,992 | \$ 11,463,669 |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8: PIEDMONT POLICE AND FIRE PENSION PLAN (CLOSED PLAN)

A. General Information about the Pension Plan

Plan Description

The Piedmont Police and Fire Pension Plan (the Plan) is a single-employer defined benefit pension plan for the City's police and fire employees hired before July 1, 1971. The Plan is closed to new participants. Section 26.1 of the City Ordinance grants authority to establish and manage benefit terms to the Police and Fire Pension Board (the Board). The Board comprises of the mayor, one member of the City Council, one member of the police department, one member of the fire department, and one community representative.

As of June 30, 2017, the Plan covers 13 retired City employees or surviving spouses, who receive monthly benefits, which will continue for life.

Funding Policy

Contributions are determined by an actuarial valuation. Currently, assets exceed the total pension liability, so the contribution rate is 0%.

Benefit Terms

Benefits for service retirement - Benefit is 50% of final average salary (FAS) (average over the 12 months before retirement, 36 months if advanced in rank during the last 3 years before retirement) plus $3 \frac{1}{3}\%$ x FAS for each year of service greater than 25 but less than 30 years. The maximum benefit is $66 \frac{2}{3}\%$ of pay. Benefits are payable for participant's lifetime with 50% of the benefit payable to eligible spouse upon the death of the participant.

Benefits for duty related disability - Benefit is 50% of FAS plus $3 \frac{1}{3}\%$ x FAS for each year of service greater than 25 but less than 30 years. The maximum benefit is $66 \frac{2}{3}\%$ of pay. Benefits are payable for participant's lifetime with 50% of the benefit payable to eligible spouse or minor children upon the death of the participant.

A 2% cost-of-living adjustment is payable to certain retirees.

B. Net Pension Liability (Asset)

The City's net pension liability (asset) is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability (asset) of the Plan is based on a valuation as of June 30, 2017. A summary of principal assumptions and methods used to determine the net pension liability (asset) is shown below.

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8: PIEDMONT POLICE AND FIRE PENSION PLAN (CLOSED PLAN) (CONTINUED)

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------------------|---|
| Measurement Date | June 30, 2017 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 6.00% |
| Inflation | 3.00% |
| Salary Increases | 2.00% |
| Investment Rate of Return | 6.00% net of pension plan investment expenses |
| Mortality | |
| Service retirements and beneficiaries | California PERS mortality table for healthy recipients (based on CalPERS 2006-2011 experience), with generational mortality projections utilizing Society of Actuaries Scale MP-2014 |
| Disability retirements | California PERS mortality table for work-related disabled retirees (based on CalPERS 2006-2011 experience), with generational mortality projection utilizing Society of Actuaries Scale MP-2014 |

Discount Rate

The Discount Rate was set equal to the long-term expected rate of return. The long-term expected rate of return was used as current assets are expected to be sufficient to cover all future benefit payments and expenses due to the magnitude of the Plan's 601% funded ratio and the average age of the group (83).

The 6% long-term expected rate of return was based on an assumed long-term asset allocation of 58% equities, 39% fixed, and 3% cash with geometric rates of return of 5.35%, 0.82%, and 0.45% respectively and a 0.30% reduction for investment expenses. The sensitivity of the Net Pension Liability/(Asset) to a 1% change in the Discount Rate is shown below.

| | 1% Decrease 5.0% | Current Discount Rate 6.0% | 1% Increase 7.0% |
|-------------------------------|---------------------|-------------------------------|---------------------|
| | _____ | _____ | _____ |
| Net pension liability (asset) | (\$9,801,746) | (\$9,947,500) | (\$10,075,410) |

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8: PIEDMONT POLICE AND FIRE PENSION PLAN (CLOSED PLAN) (CONTINUED)

C. Changes in the Net Pension Liability (Asset)

The changes in the net pension liability (asset) for the Plan follows:

| | Increase (Decrease) | | |
|--|----------------------------|--------------------------------|----------------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability (Asset) |
| Balance at June 30, 2016 | \$ 2,100,484 | \$ 10,853,164 | \$ (8,752,680) |
| Changes in the year: | | | |
| Interest | 119,038 | - | 119,038 |
| Net investment income | - | 1,321,041 | (1,321,041) |
| Differences between expected and actual experience | - | - | - |
| Administrative expenses | - | (7,183) | 7,183 |
| Benefit payments | <u>(233,036)</u> | <u>(233,036)</u> | <u>-</u> |
| Net changes | <u>(113,998)</u> | <u>1,080,822</u> | <u>(1,194,820)</u> |
| Balance at June 30, 2017 | <u>\$ 1,986,486</u> | <u>\$ 11,933,986</u> | <u>\$ (9,947,500)</u> |

D. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the City recognized pension expense of \$(310,815). At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Net differences between projected and actual earnings on plan investments | \$ <u>389,138</u> | \$ <u>-</u> |
| Total | <u>\$ 389,138</u> | <u>\$ -</u> |

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

| Measurement Period Ended June 30, | |
|--------------------------------------|--------------|
| 2018 | \$ 206,952 |
| 2019 | \$ 206,952 |
| 2020 | \$ 110,647 |
| 2021 | \$ (135,413) |

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9: OTHER POST EMPLOYMENT BENEFITS

Plan Description

Effective January 1, 1997, all City employees were enrolled in the PERS Health Care Plan. The City provides postretirement healthcare benefits to eligible employees who retire directly from the City. The City pays healthcare coverage up to a cap for eligible retirees and their dependents. This cap is calculated using the 5% unequal method. Under this method, the City must contribute an amount equal to 5% times years in PEMHCA (with a limit in the increase in the monthly City contributions of \$100/year). The City paid \$417,640 on behalf of 33 retirees during the fiscal year ended June 30, 2017. There are 94 active participants.

The City reports the financial activity of the other post-employment benefits (OPEB) in the fiduciary OPEB Trust Fund, and no separate financial report is prepared.

In fiscal 2010, the City established an OPEB irrevocable trust with the City Administrator and Finance Director acting as trustee for the OPEB Trust Fund.

A summary of eligibility and retiree contribution requirements are shown below by bargaining unit:

| Retirement eligibility | <ul style="list-style-type: none"> Retire directly from the City Age 50 and 5 years CalPERS service or disability retirement | | | | | | | | | | | | |
|---|---|----------|--------------|----------|---------|----------|----------|----------|------------|----------|---------|------------|-----|
| Retiree medical benefit | <ul style="list-style-type: none"> PEMHCA unequal method Percentage of active contribution with percentage equal to 5% multiplied by years in PEMHCA, up to a maximum increase of \$100/month for a given year. City joined PEMHCA in 1997. City contributes full Kaiser premium for employees and dependents 2017 retiree healthcare monthly caps: <table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="border: none;"></th> <th style="border: none; text-align: center; border-bottom: 1px solid black;">Non-Medicare</th> <th style="border: none; text-align: center; border-bottom: 1px solid black;">Medicare</th> </tr> </thead> <tbody> <tr> <td style="border: none; padding-left: 20px;">Single:</td> <td style="border: none; text-align: center;">\$733.39</td> <td style="border: none; text-align: center;">\$300.48</td> </tr> <tr> <td style="border: none; padding-left: 20px;">2-party:</td> <td style="border: none; text-align: center;">\$1,267.36</td> <td style="border: none; text-align: center;">\$600.96</td> </tr> <tr> <td style="border: none; padding-left: 20px;">Family:</td> <td style="border: none; text-align: center;">\$1,347.26</td> <td style="border: none; text-align: center;">N/A</td> </tr> </tbody> </table> | | Non-Medicare | Medicare | Single: | \$733.39 | \$300.48 | 2-party: | \$1,267.36 | \$600.96 | Family: | \$1,347.26 | N/A |
| | Non-Medicare | Medicare | | | | | | | | | | | |
| Single: | \$733.39 | \$300.48 | | | | | | | | | | | |
| 2-party: | \$1,267.36 | \$600.96 | | | | | | | | | | | |
| Family: | \$1,347.26 | N/A | | | | | | | | | | | |
| | <ul style="list-style-type: none"> Fire and police retirees hired before 10/1/84 receive additional contribution equal to difference between Kaiser single premium and current single retiree cap until age 65. Premiums are paid for 2 non-PEMHCA retirees. | | | | | | | | | | | | |
| Employee Contributions | <ul style="list-style-type: none"> Active employees who are or may become eligible for retiree medical benefits upon retirement are required to contribute \$50 each semi-monthly pay period beginning July 1, 2012 (August 1, 2012 for Police). These contributions are not refundable. | | | | | | | | | | | | |
| Surviving Spouse Benefit | <ul style="list-style-type: none"> A benefit is payable to the surviving spouse if form of benefit including survivor continuance was elected in the retirement plan. | | | | | | | | | | | | |
| Medicare Part B Reimbursement, Non-PEMHCA Medical, Dental, Vision, and Life | <ul style="list-style-type: none"> None | | | | | | | | | | | | |

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Funding Policy

The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount which was determined as part of a June 30, 2015 actuarial valuation. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The ARC is subject to change with each actuarial valuation date performed no less than every three years.

The City's funding policy is to contribute a minimum of \$312,000 to the OPEB irrevocable trust each year, commencing in fiscal year 2012, in addition to paying plan benefits to retirees ("pay-as-you-go") until such time as that combined contribution exceeds the ARC. For the fiscal year ended June 30, 2017, the City contributed \$312,000 to the OPEB irrevocable trust.

Annual OPEB Cost and Net OPEB Obligation

The City's OPEB unfunded actuarial accrued liability as of June 30, 2015 the date of the most recent actuarial valuation totaled \$5,218,206.

| | | | |
|---|--|----|-------------------------|
| Annual required contribution | | \$ | 1,660,000 |
| Amortization on the net OPEB obligation | | | (288,000) |
| Interest on the net OPEB obligation | | | <u>233,000</u> |
| Total annual OPEB cost | | | <u>1,605,000</u> |
| Contributions made: | | | |
| Premium paid | | | (417,640) |
| Contribution to OPEB trust | | | (312,000) |
| Implied subsidy benefit payment | | | <u>(98,000)</u> |
| Total Contributions | | | <u>(827,640)</u> |
| Over (under) contribution of ARC | | | (777,360) |
| Net OPEB obligation, July 1, 2016 | | | <u>4,440,846</u> |
| Net OPEB obligation, June 30, 2017 | | \$ | <u><u>5,218,206</u></u> |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal 2017 and the two preceding years were as follows:

| <u>Year Ended</u> | <u>Annual OPEB cost</u> | <u>Actual Employer Contribution</u> | <u>Percentage Contributed</u> | <u>Net Ending OPEB</u> |
|-------------------|-------------------------|-------------------------------------|-------------------------------|------------------------|
| June 30, 2015 | \$ 1,504,000 | \$ 1,243,003 | 82.65 % | \$ 4,135,522 |
| June 30, 2016 | \$ 1,528,000 | \$ 1,222,676 | 80.02 % | \$ 4,440,846 |
| June 30, 2017 | \$ 1,605,000 | \$ 827,640 | 51.57 % | \$ 5,218,206 |

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Funded Status and Funding Progress

The funded status of the plan based on the most recent actuarial study using age-adjusted premiums as of June 30, 2017, was as follows:

| | |
|---|----------------------|
| Actuarial accrued liability (AAL) | |
| Active employees | \$ 8,920,000 |
| Retired employees | <u>9,604,000</u> |
| | <u>18,524,000</u> |
| Actuarial value of plan assets | <u>7,171,296</u> |
| Unfunded actuarial accrued liability (UAAL) | <u>\$ 11,352,704</u> |
| Funded Ratio (actuarial value of plan assets / AAL) | 39 % |
| Covered payroll (active plan members) | \$ 10,332,000 |
| UAAL as a percentage of covered payroll | 110 % |

Actuarial valuations for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continuous revision as actual results are compared to past expectations and new estimates about the future are formulated. Although the valuation results are based on the values which the City's actuarial consultant believes are reasonable assumptions, the valuation results reflect a long-term perspective and, as such, are merely an estimate of what future costs may actually be. Deviations in any of several factors, such as future interest rates, medical cost inflation, Medicare coverage, and changes in marital status, could result in actual costs being less or greater than estimated.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of the 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 as understood by the employer and plan members, and include the types of plan benefits provided at the time of the valuation and the historical pattern of sharing benefit costs between 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 assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefit obligations is the Entry Age Normal. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The City's OPEB unfunded actuarial accrued liability is amortized over a fixed 24-year period as a level percentage of payroll. The actuarial assumptions include a 3.25% projected annual salary increase and a 3.0% inflation rate. Actuarial assumptions for the discount rate is graded at 5.50% for 2014/15. Mortality, disability, and termination assumptions are based on the CalPERS 1997-2011 Experience Study.

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10: OPEB TRUST

As noted in Note 9, the City established an OPEB irrevocable trust with the City Administrator and Finance Director acting as trustee for the OPEB Trust Fund. The City reports the financial activity of the other post-employment benefits (OPEB) in the fiduciary OPEB Trust Fund, and no separate financial report is prepared. As the City's Plan does not issue stand-alone financial statements, GASB 74 requires the following disclosures in the audit report of the City.

The components of the net OPEB liability as of the most recent actuarial valuation date is as follows:

| | |
|-------------------------------|----------------------|
| <u>Net Pension Liability:</u> | <u>June 30, 2017</u> |
| Discount Rate | 5.1 % |
| Total OPEB Liability (TOL) | \$ 25,842,000 |
| Fiduciary Net Position (FNP) | \$ 7,171,000 |
| Net OPEB Liability (NOL) | \$ 18,671,000 |
| Funded Status (FNP/TOL) | 28.0 % |

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. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of changes in the City's net OPEB liability and related ratios, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the Actuarially Determined Contribution (ADC), an amount that is actuarially determined in accordance with the parameters of GASB Statement 74. The ADC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed twenty five years.

Discount Rate

The discount rate used to measure the total OPEB liability was 5.09%. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The plan did not pass the crossover test - meaning that assets are not projected to be sufficient under the current funding policy to pay all future projected benefits. Therefore the single discount rate equivalent to using the long-term expected rate of return to discount benefit payments before the crossover point and the 6/30/2017 AA 20-year tax-exempt general obligation municipal bond rate for discontinuing benefit payments after the crossover point was used.

The 6.75% long-term expected rate of return was based on an assumed long-term asset allocation of 57% equities, 38% fixed income, and 5% cash with geometric rates of return of 5.35%, 1.55%, and 0.45% respectively and a 0.30% reduction for investment expenses. The sensitivity of the Net OPEB Liability/(Asset) to a 1% change in the Discount Rate is shown below:

| | 1% Decrease | Discount Rate | 1% Increase |
|----------------------------------|--------------------|----------------------|--------------------|
| | 4.09% | 5.09% | 6.09% |
| Net OPEB Liability/(Asset) (NOL) | \$23,160,000 | \$18,671,000 | \$15,125,000 |

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10: OPEB TRUST (CONTINUED)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The sensitivity of the Net OPEB Liability/(Asset) to a 1% change in the healthcare cost trend is shown below:

| | 1% Decrease | Discount Rate | 1% Increase |
|----------------------------------|--------------------|----------------------|--------------------|
| Net OPEB Liability/(Asset) (NOL) | \$14,386,000 | \$18,671,000 | \$24,216,000 |

Actuarial Assumptions

The total net OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|-----------------------------------|--|
| Valuation Date | June 30, 2015 |
| Discount Rate | 5.09%, net of investment expenses. Assumes employer and members will continue to contribute actuarially determined contribution. |
| Inflation rate | 3.00% |
| 20-yr multi bond rate | 3.58% |
| Long Term Expected Rate of Return | 6.75% is based on an assumed long-term asset allocation of 57% equities, 38% fixed income, and 5% cash with geometric rates of return of 5.35%, 1.55%, and 0.45% respectively and a 0.30% reduction for investment expenses. |
| Mortality Assumptions | <p><i>Service retirements and beneficiaries</i> CalPERS Mortality Table for Health Recipients (based on CalPERS 2006-2011 experience), with recognition of future mortality improvement utilizing Society of Actuaries Scale MP-2014</p> <p><i>Disability retirements</i> CalPERS Mortality Table of Work-related Disables Retirees (based on CalPERS 2006-2011 experience), with recognition of future mortality improvement utilizing Society of Actuaries Scale MP-2014</p> |
| Medical Trend | 7.20% for 2017, decreasing to an ultimate rate of 5.25% for 2021 and later years |

Employees Covered by Benefit Term

At June 30, 2017, the following employees were covered by the benefit term:

| | |
|--|----|
| Inactive employees or beneficiaries currently receiving benefits | 46 |
| Inactive employees entitled to but not yet receiving benefits | - |
| Active employees | 89 |

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11: FUND BALANCE

GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*" provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Non Spendable: Amounts that cannot be spent because they are either (a) not in spendable form (not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.

Restricted: Amounts subject to externally enforceable legal restrictions or constrained for a specific purpose by external parties, constitutional provision, or enabling legislation. This fund balance type is essentially the same definition as restricted net position under GASB Statement No. 34.

Committed: Amounts that can only be used for specific purposes pursuant to constraints imposed by the formal action of City Council. Committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (legislation, resolution, ordinance) it employed to previously commit those amounts. Action to constrain resources must occur prior to year-end; however, the amount can be determined in the subsequent period.

Assigned: Amounts that are not restricted by the funding agency but are for specific purposes and assigned by City Council for that purpose. City Council's action in creating the fund is to ensure that the funds are used for their intended purpose. That purpose is not always planned for the current fiscal year as it may take several years to build up a sufficient fund balance to be able to implement the stated purpose. This classification also represents all remaining amounts (except negative balances) reported in governmental funds, other than the general fund, that are not classified as non spendable, restricted, or committed.

Unassigned: Residual amounts in the general fund, not classified as non spendable, restricted, committed, or assigned. For other governmental fund types, unassigned is only used when a deficit or negative fund balance occurs.

The City Council establishes (and modifies or rescinds) fund balance commitments by approval of a resolution. Currently, the City Council has not committed any fund balances. The City Council delegates authority to the Finance Director to assign amounts to be used for specific purpose. Assignments are less formal than commitments and can be changed by the Director of Finance.

The accounting policies of the City consider restricted fund balance to have been spent first when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the City considers committed amounts to be reduced first, followed by assigned amounts, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11: FUND BALANCE (CONTINUED)

As of June 30, 2017, fund balances were comprised of the following:

| | <u>General Fund</u> | <u>Equipment Replacement</u> | <u>Facilities Maintenance</u> | <u>Non-Major Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--------------------------------|---------------------|------------------------------|-------------------------------|-------------------------------------|---------------------------------|
| Nonspendable | | | | | |
| Advances | - | 600,000 | 200,000 | - | 800,000 |
| Total Nonspendable | <u>-</u> | <u>600,000</u> | <u>200,000</u> | <u>-</u> | <u>800,000</u> |
| Restricted | | | | | |
| Projects and services | \$ - | \$ - | \$ - | \$ 878,624 | \$ 878,624 |
| Street projects | - | - | - | 152,283 | 152,283 |
| Schoolmates program | - | - | - | 326,317 | 326,317 |
| Measure D | - | - | - | 68,033 | 68,033 |
| Undergrounding administration | - | - | - | 58,938 | 58,938 |
| Measure B sales tax | - | - | - | 75,558 | 75,558 |
| Measure BB sales tax | - | - | - | 238,315 | 238,315 |
| Measure F | - | - | - | 4,932 | 4,932 |
| Athletic facility preservation | - | - | - | 85,135 | 85,135 |
| Abandoned vehicle | - | - | - | 52,740 | 52,740 |
| COPS | 406,933 | - | - | - | 406,933 |
| Total Restricted | <u>406,933</u> | <u>-</u> | <u>-</u> | <u>1,940,875</u> | <u>2,347,808</u> |
| Assigned | | | | | |
| Capital improvement | - | - | - | 440,312 | 440,312 |
| Equipment replacement | - | 3,337,414 | - | - | 3,337,414 |
| Facilities maintenance | - | - | 3,582,199 | - | 3,582,199 |
| Sidewalk repair | - | - | - | 62,051 | 62,051 |
| Total Assigned | <u>-</u> | <u>3,337,414</u> | <u>3,582,199</u> | <u>502,363</u> | <u>7,421,976</u> |
| Unassigned | <u>4,695,201</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>4,695,201</u> |
| Total Fund Balance | <u>\$ 5,102,134</u> | <u>\$ 3,937,414</u> | <u>\$ 3,782,199</u> | <u>\$ 2,443,238</u> | <u>\$ 15,264,985</u> |

Fund Balance Deficits

As of June 30, 2017, the Employee Benefits Internal Service fund had a net deficit of \$5,218,206.

NOTE 12: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, and natural disasters. The City manages risk by participating in the public entity risk pools described below and by retaining certain risks.

Public entity risk pools are formally organized separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these risk pools exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each risk pool is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the board. Obligations and liabilities of these risk pools are the City's responsibility.

CITY OF PIEDMONT
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2017

NOTE 12: RISK MANAGEMENT (CONTINUED)

A. Risk Pools

General Liability - Bay Cities Joint Powers Insurance Authority (BCJPIA) covers general liability claims, including excess liability, in an amount up to \$29,000,000. The City has a deductible or uninsured liability of up to \$10,000 per claim. Once the City's deductible is met, BCJPIA becomes responsible for payment of all claims up to the limit. During the fiscal year ended June 30, 2017, the City contributed \$448,253 for current year coverage.

Workers' Compensation - BCJPIA also covers workers' compensation liability in an amount up to \$1,000,000 per claim. The City has a deductible or uninsured liability of up to \$150,000 per claim. The Local Agency Workers' Compensation Excess Insurance Joint Powers Authority (LAWCX) covers workers' compensation claims in excess of \$1,000,000 per claim up to \$300,000,000. During the fiscal year ended June 30, 2017, the City contributed \$417,096 for current year coverage.

Financial statements for BCJPIA and LAWCX may be obtained from Bickmore & Associates, 1750 Creekside Oaks Drive, Suite 200, Sacramento, CA 95833.

The City's contribution with each risk pool equals the ratio of the City's payroll to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

B. Liability for Uninsured Claims

The City has retained the risk for the uninsured portion of the above claims as discussed above. Activity for the City's liability for uninsured claims was as follows for the year ended June 30, 2017:

| | General Liability | | Workers' Compensation | | Total | |
|-------------------|-------------------|------------------|-----------------------|-------------------|---------------------|---------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Beginning balance | \$ 90,593 | \$ 94,510 | \$ 973,000 | \$ 1,042,000 | \$ 1,063,593 | \$ 1,136,510 |
| Incurred claims | 34,787 | 62,656 | 138,939 | 57,210 | 173,728 | 119,866 |
| Claims paid | <u>(48,130)</u> | <u>(66,573)</u> | <u>(144,939)</u> | <u>(126,210)</u> | <u>(193,069)</u> | <u>(192,783)</u> |
| Ending Balance | <u>\$ 77,250</u> | <u>\$ 90,593</u> | <u>\$ 967,000</u> | <u>\$ 973,000</u> | <u>\$ 1,044,252</u> | <u>\$ 1,063,593</u> |
| Current portion | <u>\$ 21,397</u> | <u>\$ 26,802</u> | <u>\$ 300,252</u> | <u>\$ 305,098</u> | <u>\$ 321,649</u> | <u>\$ 331,900</u> |

NOTE 13: PARCEL TAX

The City of Piedmont is required by the Municipal Code to refund or reduce subsequent taxes regarding any excess of the ending General Fund balance over 25 percent of that year's General Fund expenditures. General Fund balance at June 30, 2017 did not exceed the 25 percent of expenditures limitation.

| | Amount |
|--|-------------------|
| General fund expenditures | \$ 24,318,720 |
| Fund balance limitation, 25% of expenditures | 6,079,680 |
| General fund balance at year end | <u>5,102,134</u> |
| Amount below fund balance limitation | <u>\$ 977,546</u> |

CITY OF PIEDMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14: EXCESS EXPENDITURES AND TRANSFERS OUT OVER APPROPRIATIONS

The following funds incurred expenditures and transfers out (excluding extraordinary items) in excess of appropriations in the following amounts for the year ended June 30, 2017:

| Fund | Excess Expenditures and Transfers Out |
|--------------------------------|---|
| General Fund | \$ 421,302 |
| Streets Projects | \$ 315,441 |
| Schoolmates Program | \$ 14,753 |
| Projects and Services | \$ 127,996 |
| Undergrounding Administration | \$ 16,272 |
| Measure B Sales Tax | \$ 4,905 |
| Measure F | \$ 897 |
| Athletic Facility Preservation | \$ 7,939 |
| 2014 Pension Obligation Bonds | \$ 255 |

The excess expenditures were covered by available fund balance in the funds.

NOTE 15: CONTINGENCIES AND COMMITMENTS

Grant Awards

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Litigation

The City is involved in several pending lawsuits of a nature common to many similar jurisdictions. City management estimates that potential claims against the City, not covered by insurance, will not have a material adverse effect on the financial statements of the City.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PIEDMONT
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | 2016 - 2017 | | Actual | Variance |
|---|-------------------------|-----------------------|---------------------|--------------------|
| | Budgeted Amounts | | | |
| | Original | Final | Actual | Positive |
| | | | Amounts | (Negative) |
| <u>REVENUES</u> | | | | |
| Property taxes | \$ 11,725,100 | \$ 11,725,100 | \$ 12,512,002 | \$ 786,902 |
| Sales tax | 200,000 | 200,000 | 166,852 | (33,148) |
| Franchise tax | 420,000 | 420,000 | 444,841 | 24,841 |
| Utility users tax | 1,195,000 | 1,195,000 | 1,323,052 | 128,052 |
| Real property transfer tax | 2,800,000 | 2,800,000 | 3,522,078 | 722,078 |
| Business licenses and rental tax | 475,000 | 475,000 | 539,177 | 64,177 |
| Licenses and permits | 448,500 | 448,500 | 577,032 | 128,532 |
| Intergovernmental | 1,496,000 | 1,496,000 | 1,813,407 | 317,407 |
| Use of money and property | 548,350 | 548,350 | 617,818 | 69,468 |
| Parcel tax | 1,740,000 | 1,740,000 | 1,745,533 | 5,533 |
| Charges for services | 2,877,700 | 2,877,700 | 3,342,420 | 464,720 |
| Other revenues | 80,000 | 80,000 | 184,555 | 104,555 |
| | <u>24,005,650</u> | <u>24,005,650</u> | <u>26,788,767</u> | <u>2,783,117</u> |
| Total Revenues | | | | |
| <u>EXPENDITURES</u> | | | | |
| Current: | | | | |
| Administration | 2,707,285 | 2,756,188 | 2,552,577 | 203,611 |
| Public works | 4,119,921 | 4,222,161 | 4,160,550 | 61,611 |
| Public safety: | | | | |
| Police services | 5,954,918 | 6,079,816 | 5,757,401 | 322,415 |
| Fire services | 5,518,350 | 5,518,350 | 5,415,911 | 102,439 |
| Recreation | 2,745,500 | 2,745,500 | 2,771,370 | (25,870) |
| Nondepartmental | 1,698,471 | 3,698,471 | 3,660,911 | 37,560 |
| Total Expenditures | <u>22,744,445</u> | <u>25,020,486</u> | <u>24,318,720</u> | <u>701,766</u> |
| Excess (deficiency) of revenues over expenditures | <u>1,261,205</u> | <u>(1,014,836)</u> | <u>2,470,047</u> | <u>2,081,351</u> |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | |
| Transfers in | 1,081,000 | 1,081,000 | 1,109,886 | 28,886 |
| Transfers out | <u>(2,326,732)</u> | <u>(2,326,736)</u> | <u>(3,478,690)</u> | <u>(1,151,954)</u> |
| Total Other Financing Sources (Uses) | <u>(1,245,732)</u> | <u>(1,245,736)</u> | <u>(2,368,804)</u> | <u>(1,123,068)</u> |
| Net change in fund balance | <u>\$ 15,473</u> | <u>\$ (2,260,572)</u> | <u>101,243</u> | <u>\$ 958,283</u> |
| Fund balance - July 1, 2016 | | | <u>5,000,891</u> | |
| Fund balance - June 30, 2017 | | | <u>\$ 5,102,134</u> | |

**CITY OF PIEDMONT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY ACCOUNTING AND CONTROL
FOR THE YEAR ENDED JUNE 30, 2017**

Budgetary Information

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

Budgetary Controls

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The City Council approves total appropriations on a departmental basis. Budgetary comparison schedules are presented for all funds. The budgetary comparison schedules present both the original adopted budget and the final budget with all amendments.

**CITY OF PIEDMONT
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Prepared for the City's Miscellaneous and Safety Plan, Cost Sharing Defined Benefit Pension Plan
As of June 30, 2017
Last 10 Years ***

| | Measurement Period | | |
|--|--------------------|---------------|---------------|
| | 2016 | 2015 | 2014 |
| Proportion of the net pension liability | 0.25701 % | 0.24111 % | 0.24773 % |
| Proportionate share of the net pension liability | \$ 22,238,992 | \$ 16,549,792 | \$ 15,419,642 |
| Covered - employee payroll | \$ 9,305,356 | \$ 9,157,966 | \$ 8,752,938 |
| Proportionate share of the net pension liability as a percentage of covered - employee payroll | 238.99 % | 180.71 % | 176.17 % |
| Plan fiduciary net position as a percentage of the total pension liability | 74.06 % | 78.40 % | 79.82 % |

Notes to Schedule:

Changes in assumptions. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction or pension administrative expense). In 2014, amounts reported were based on the 7.5 discount rate.

* Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

**CITY OF PIEDMONT
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CONTRIBUTIONS
Prepared for the City's Miscellaneous and Safety Plan, Cost Sharing Defined Benefit Pension Plan
As of June 30, 2017
Last 10 Years ***

| | Fiscal Year-End | | |
|---|------------------|------------------|------------------|
| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
| Contractually required contribution (actuarially determined) | \$ 2,295,957 | \$ 2,072,601 | \$ 1,934,849 |
| Contributions in relation to the actuarially determined contributions | <u>2,295,957</u> | <u>2,072,601</u> | <u>1,934,849</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered - employee payroll | \$ 9,471,727 | \$ 9,305,356 | \$ 9,157,966 |
| Contributions as a percentage of covered - employee payroll | 24.24 % | 22.27 % | 21.13 % |

* Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

**CITY OF PIEDMONT
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF FUNDING PROGRESS FOR POLICE AND FIRE PENSION (CLOSED PLAN)
Last 10 Years ***

| | Fiscal Year-End | | | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2017 | 2016 | 2015 | 2014 |
| Total Pension Liability | | | | |
| Interest | \$ 119,038 | \$ 141,412 | \$ 148,653 | \$ 156,380 |
| Differences between expected and actual experience | - | (270,454) | - | - |
| Benefit payments, including refunds of employee contributions | <u>(233,036)</u> | <u>(251,005)</u> | <u>(287,175)</u> | <u>(283,192)</u> |
| Net change in total pension liability | (113,998) | (380,047) | (138,522) | (126,812) |
| Total pension liability - beginning | <u>2,100,484</u> | <u>2,480,531</u> | <u>2,619,053</u> | <u>2,745,865</u> |
| Total pension liability - ending (a) | <u>\$ 1,986,486</u> | <u>\$ 2,100,484</u> | <u>\$ 2,480,531</u> | <u>\$ 2,619,053</u> |
| Plan Fiduciary Net Position | | | | |
| Net investment income | \$ 1,321,041 | \$ (539,063) | \$ 213,159 | \$ 1,837,733 |
| Benefit payments, including refunds of employee contributions | (233,036) | (251,005) | (287,175) | (283,192) |
| Administrative expenses | <u>(7,183)</u> | <u>(2,025)</u> | <u>-</u> | <u>-</u> |
| Net change in plan fiduciary net position | 1,080,822 | (792,093) | (74,016) | 1,554,541 |
| Plan fiduciary net position - beginning | <u>10,853,164</u> | <u>11,645,257</u> | <u>11,719,273</u> | <u>10,164,732</u> |
| Plan fiduciary net position - ending (b) | <u>\$ 11,933,986</u> | <u>\$ 10,853,164</u> | <u>\$ 11,645,257</u> | <u>\$ 11,719,273</u> |
| Plan's net pension liability (asset) - ending (a)-(b) | <u>\$ (9,947,500)</u> | <u>\$ (8,752,680)</u> | <u>\$ (9,164,726)</u> | <u>\$ (9,100,220)</u> |
| Fiduciary net position as a percentage of total pension liability | 601 % | 517 % | 469 % | 447 % |
| Covered employee payroll | \$ - | \$ - | \$ - | \$ - |
| Net pension liability as percentage of covered employee payroll | N/A | N/A | N/A | N/A |

Employer Actuarial Determined Contribution for fiscal year June 30, 2017:

| Actuarial Valuation Date | Actuarially Determined Contribution (ADC) | Employer Contributions | Contribution Deficiency (Excess) | Covered Payroll | ADA as a % of Covered Payroll |
|--------------------------|---|------------------------|----------------------------------|-----------------|-------------------------------|
| 2014 | \$ - | \$ - | \$ - | - | NA |
| 2015 | \$ - | \$ - | \$ - | - | NA |
| 2016 | \$ - | \$ - | \$ - | - | NA |
| 2017 | \$ - | \$ - | \$ - | - | NA |

The actuarially determined contribution is based on the same assumptions as the net pension liability (asset).

* Fiscal year 2014 was the 1st year of implementation of GASB 67, therefore only four years are shown.

**CITY OF PIEDMONT
REQUIRED SUPPLEMENTARY INFORMATION**

SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)

| <u>Actuarial Valuation Date</u> | <u>Normal Accrued Liability</u> | <u>Actuarial Value of Assets</u> | <u>Liability (Excess Assets)</u> | <u>Funded Status</u> | <u>Annual Covered Payroll</u> | <u>UAAL as a % of Covered Payroll</u> |
|-------------------------------------|---|--|--|----------------------|---------------------------------------|---|
| 2009 | \$ 12,536,000 | \$ - | \$ 12,536,000 | 0.00% | \$ 8,281,000 | 151 % |
| 2012 | \$ 12,488,000 | \$ 2,486,000 | \$ 10,002,000 | 19.90% | \$ 8,210,000 | 122 % |
| 2015 | \$ 18,524,000 | \$ 7,171,296 | \$ 11,352,704 | 39.00% | \$ 10,332,000 | 110 % |

**CITY OF PIEDMONT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE CITY'S NET OPEB LIABILITY
Last 10 Years ***

| <u>Fiscal Year</u> | <u>June 30, 2017</u> |
|---|----------------------|
| Total OPEB Liability: | |
| Service cost | \$ 1,333,000 |
| Interest | 1,231,000 |
| Changes of benefit terms | - |
| Differences between expected and actual experience | - |
| Changes of assumptions | (2,656,000) |
| Benefit payments | <u>(516,000)</u> |
| Net change in Total OPEB Liability | (608,000) |
| Total OPEB Liability at beginning of year | <u>26,450,000</u> |
| Total OPEB Liability at end of year | \$ 25,842,000 |
| Fiduciary Net Position: | |
| Contributions - employer | \$ 828,000 |
| Contributions - member | - |
| Net investment income | 664,000 |
| Benefit payments | (516,000) |
| Administrative expense | - |
| Other changes | <u>-</u> |
| Net change in Fiduciary Net Position | 976,000 |
| Fiduciary Net Position at beginning of year | 6,195,000 |
| Fiduciary Net Position at end of year | 7,171,000 |
| Net OPEB Liability (Asset) at end of year | \$ 18,671,000 |
| Fiduciary Net Position as percentage of Total OPEB Liability | 28.0 % |
| Covered-employee payroll | \$ 10,332,000 |
| Net OPEB Liability as percentage of Covered-employee Payroll | 180.7 % |

* Fiscal year 2017 was the 1st year of implementation of GASB 74, therefore only one year is shown.

**CITY OF PIEDMONT
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF EMPLOYER ACTUARIALLY DETERMINED CONTRIBUTIONS
Last 10 Years ***

| Fiscal Year Ending | (1) Actuarially Determined Contribution (ADC) | (2) Employer Contributions | (3) Contribution Deficiency (Excess) (1)-(2) | (4) Covered- Employee Payroll | (5) ADC / Covered- Employee Payroll (1)/(4) |
|-----------------------|---|----------------------------------|--|-------------------------------------|--|
| June 30, 2017 | \$ 1,660,000 | \$ 828,000 | \$ 832,000 | \$ 10,332,000 | 16.1 % |

The Actuarially Determined Contribution is based on the discount rate that increased from 5.50% in 2014/15 to the ultimate rate of 6.75% in 2021-22 and beyond. Other assumptions are the same as those used to determine the Net OPEB Liability.

* Fiscal year 2017 was the 1st year of implementation of GASB 74, therefore only one year is shown.

COMBINING FINANCIAL SCHEDULES AND OTHER SUPPLEMENTARY INFORMATION

CITY OF PIEDMONT
EQUIPMENT REPLACEMENT - MAJOR CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | 2016 - 2017 | | Actual | Variance |
|---|-------------------------|--------------------|---------------------|-------------------|
| | Budgeted Amounts | | | |
| | Original | Final | Amounts | with Final |
| | | | | Positive |
| | | | | (Negative) |
| <u>REVENUES</u> | | | | |
| Use of money and property | \$ 7,000 | \$ 7,000 | \$ 39,994 | \$ 32,994 |
| Total Revenues | <u>7,000</u> | <u>7,000</u> | <u>39,994</u> | <u>32,994</u> |
| <u>EXPENDITURES</u> | | | | |
| Current: | | | | |
| Public safety - police | - | 42,500 | 3,609 | 38,891 |
| Capital outlay | <u>437,250</u> | <u>437,250</u> | <u>211,560</u> | <u>225,690</u> |
| Total Expenditures | <u>437,250</u> | <u>479,750</u> | <u>215,169</u> | <u>264,581</u> |
| Excess (deficiency) of revenues over expenditures | <u>(430,250)</u> | <u>(472,750)</u> | <u>(175,175)</u> | <u>297,575</u> |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | |
| Transfers in | <u>400,000</u> | <u>400,000</u> | <u>409,699</u> | <u>9,699</u> |
| Total Other Financing Sources (Uses) | <u>400,000</u> | <u>400,000</u> | <u>409,699</u> | <u>9,699</u> |
| Net change in fund balance | <u>\$ (30,250)</u> | <u>\$ (72,750)</u> | <u>234,524</u> | <u>\$ 307,274</u> |
| Fund balance - July 1, 2016 | | | <u>3,702,890</u> | |
| Fund balance - June 30, 2017 | | | <u>\$ 3,937,414</u> | |

CITY OF PIEDMONT
FACILITIES MAINTENANCE - MAJOR CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | <u>2016 - 2017</u> <u>Budgeted Amounts</u> | | <u>Actual</u> <u>Amounts</u> | <u>Variance</u> <u>with Final</u> <u>Budget</u> <u>Positive</u> <u>(Negative)</u> |
|---|---|-----------------------|---------------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| <u>REVENUES</u> | | | | |
| Use of money and property | \$ 20,000 | \$ 20,000 | \$ 1,500 | \$ (18,500) |
| Other revenues | <u>-</u> | <u>-</u> | <u>405,860</u> | <u>405,860</u> |
| Total Revenues | <u>20,000</u> | <u>20,000</u> | <u>407,360</u> | <u>387,360</u> |
| <u>EXPENDITURES</u> | | | | |
| Current: | | | | |
| Administration | - | - | 51,465 | (51,465) |
| Public works | - | - | 6,776 | (6,776) |
| Public safety - police | - | - | 23,506 | (23,506) |
| Public safety - fire | - | - | 1,454 | (1,454) |
| Recreation | - | - | 180,488 | (180,488) |
| Capital outlay | <u>2,669,795</u> | <u>2,669,795</u> | <u>2,403,769</u> | <u>266,026</u> |
| Total Expenditures | <u>2,669,795</u> | <u>2,669,795</u> | <u>2,667,458</u> | <u>2,337</u> |
| Excess (deficiency) of revenues over expenditures | <u>(2,649,795)</u> | <u>(2,649,795)</u> | <u>(2,260,098)</u> | <u>389,697</u> |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | |
| Transfers in | 450,000 | 507,325 | 1,679,000 | 1,171,675 |
| Transfers out | <u>-</u> | <u>-</u> | <u>(12,643)</u> | <u>(12,643)</u> |
| Total Other Financing Sources (Uses) | <u>450,000</u> | <u>507,325</u> | <u>1,666,357</u> | <u>1,159,032</u> |
| Net change in fund balance | <u>\$ (2,199,795)</u> | <u>\$ (2,142,470)</u> | <u>(593,741)</u> | <u>\$ 1,548,729</u> |
| Fund balance - July 1, 2016 | | | <u>4,375,940</u> | |
| Fund balance - June 30, 2017 | | | <u>\$ 3,782,199</u> | |

NON-MAJOR GOVERNMENTAL FUNDS

The following funds are reported in total on the Governmental Fund Financial Statements under the column Other Governmental Funds.

SPECIAL REVENUE FUNDS

Streets Projects - accounts for revenues and expenditures associated with the maintenance and improvements of the City's roads and street landscaping that is funded through the receipt of the City's share of the gas tax.

Schoolmates Program - accounts for the operation of the before- and after-school child care program for elementary school age children operated by the Piedmont Recreation Department.

Projects and Services - accounts for both the Private Contribution Fund and the Traffic Safety Fund. The Private Contribution Fund is used to account for all citizen and other private contributions and donations to the City. The Traffic Safety Fund is used to account for traffic ticket fine revenues and fine revenues collected by other entities and allocated to the City.

Measure D - accounts for surcharges collected for the continuation and expansion of municipal recycling programs.

Abandoned Vehicle - accounts for abandoned vehicle abatement funding as the City is a participant in the Alameda County Abandoned Vehicle Program for receiving reimbursement of expenses arising from the investigation of reported abandoned vehicles.

Undergrounding Administration - accounts for administrative costs arising from the City's role as debt payment Fiscal Agent for various utility undergrounding projects.

Measure B Sales Tax - accounts for a tax approved by Alameda County voters in November 2000 to provide programmatic pass-through funds for bicycle and pedestrian paths & safety improvements, mass transit, paratransit, and local streets and roads projects.

Measure BB Sales Tax - accounts for a tax approved by Alameda County voters in November 2014 for the direct funding for local street projects and bicycle and pedestrian projects based on population and road mileage.

Measure F - accounts for the additional \$10 fee associated with registering a vehicle in the County. Fees are restricted to reduce traffic congestion and vehicle related pollution.

Athletic Facility Preservation - accounts for funds to be used for repairing, refurbishing, and replacing City athletic facilities.

CAPITAL PROJECT FUNDS

Capital Improvement - accounts for the City's major capital projects.

Sidewalk Repair - accounts for sidewalk reimbursement revenue associated with the repair/replacement of City sidewalks under article V, section 18.26 of the City code.

Miscellaneous Grant Funds - established to record and track revenues received from various State, Federal and miscellaneous grants restricted for specific capital projects as approved by the granting source.

DEBT SERVICE FUNDS

2014 Taxable Pension Obligation Bonds - accounts for principal and interest associated with the payoff of the CalPERS side funds.

CITY OF PIEDMONT
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2017

| |
|------------------------------|
| Special Revenue Funds |
|------------------------------|

| | Streets Projects | Schoolmates Program | Projects and Services | Measure D | Abandoned Vehicle |
|--|-------------------|------------------------|--------------------------|------------------|----------------------|
| ASSETS | | | | | |
| Cash and investments | \$ 147,249 | \$ 315,025 | \$ 880,321 | \$ 54,421 | \$ 51,584 |
| Receivables: | | | | | |
| Accounts | 5,034 | 24,487 | 905 | 13,744 | 1,156 |
| Total Assets | \$ 152,283 | \$ 339,512 | \$ 881,226 | \$ 68,165 | \$ 52,740 |
| LIABILITIES | | | | | |
| Accounts payable | \$ - | \$ 2,330 | \$ 2,602 | \$ 132 | \$ - |
| Accrued payroll and benefits | - | 10,865 | - | - | - |
| Due to other funds | - | - | - | - | - |
| Total Liabilities | - | 13,195 | 2,602 | 132 | - |
| FUND BALANCES | | | | | |
| Restricted | 152,283 | 326,317 | 878,624 | 68,033 | 52,740 |
| Assigned | - | - | - | - | - |
| Total Fund Balances | 152,283 | 326,317 | 878,624 | 68,033 | 52,740 |
| Total Liabilities and Fund Balances | \$ 152,283 | \$ 339,512 | \$ 881,226 | \$ 68,165 | \$ 52,740 |

CITY OF PIEDMONT
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2017

| Special Revenue Funds | | | | | |
|--|--|--------------------------------|---------------------------------|------------------------|---|
| | <u>Undergrounding Administration</u> | <u>Measure B Sales Tax</u> | <u>Measure BB Sales Tax</u> | <u>Measure F</u> | <u>Athletic Facility Preservation</u> |
| ASSETS | | | | | |
| Cash and investments | \$ 58,938 | \$ 39,581 | \$ 172,325 | \$ - | \$ 82,132 |
| Receivables: | | | | | |
| Accounts | <u>-</u> | <u>71,342</u> | <u>65,990</u> | <u>8,546</u> | <u>3,003</u> |
| Total Assets | <u>\$ 58,938</u> | <u>\$ 110,923</u> | <u>\$ 238,315</u> | <u>\$ 8,546</u> | <u>\$ 85,135</u> |
| LIABILITIES | | | | | |
| Accounts payable | \$ - | \$ 35,365 | \$ - | \$ 3,614 | \$ - |
| Accrued payroll and benefits | - | - | - | - | - |
| Due to other funds | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Liabilities | <u>-</u> | <u>35,365</u> | <u>-</u> | <u>3,614</u> | <u>-</u> |
| FUND BALANCES | | | | | |
| Restricted | 58,938 | 75,558 | 238,315 | 4,932 | 85,135 |
| Assigned | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Fund Balances | <u>58,938</u> | <u>75,558</u> | <u>238,315</u> | <u>4,932</u> | <u>85,135</u> |
| Total Liabilities and Fund Balances | <u>\$ 58,938</u> | <u>\$ 110,923</u> | <u>\$ 238,315</u> | <u>\$ 8,546</u> | <u>\$ 85,135</u> |

CITY OF PIEDMONT
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2017

| | Capital Projects | | Debt Service | | Total Non-major Governmental Funds |
|--|--------------------------|-------------------------|-------------------------|--|---|
| | Capital Improvement | Sidewalk Repair | Misc. Grant Funds | 2014 Taxable Pension Obligation Bonds | |
| ASSETS | | | | | |
| Cash and investments | \$ 538,727 | \$ 62,051 | \$ - | \$ - | \$ 2,402,354 |
| Receivables: | | | | | |
| Accounts | <u>-</u> | <u>-</u> | <u>99,000</u> | <u>-</u> | <u>293,207</u> |
| Total Assets | <u><u>\$ 538,727</u></u> | <u><u>\$ 62,051</u></u> | <u><u>\$ 99,000</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 2,695,561</u></u> |
| LIABILITIES | | | | | |
| Accounts payable | \$ 98,415 | \$ - | \$ - | \$ - | \$ 142,458 |
| Accrued payroll and benefits | - | - | - | - | 10,865 |
| Due to other funds | <u>-</u> | <u>-</u> | <u>99,000</u> | <u>-</u> | <u>99,000</u> |
| Total Liabilities | <u>98,415</u> | <u>-</u> | <u>99,000</u> | <u>-</u> | <u>252,323</u> |
| FUND BALANCES | | | | | |
| Restricted | - | - | - | - | 1,940,875 |
| Assigned | <u>440,312</u> | <u>62,051</u> | <u>-</u> | <u>-</u> | <u>502,363</u> |
| Total Fund Balances | <u>440,312</u> | <u>62,051</u> | <u>-</u> | <u>-</u> | <u>2,443,238</u> |
| Total Liabilities and Fund Balances | <u><u>\$ 538,727</u></u> | <u><u>\$ 62,051</u></u> | <u><u>\$ 99,000</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 2,695,561</u></u> |

CITY OF PIEDMONT
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017

Special Revenue Funds

| | Streets Projects | Schoolmates Program | Projects and Services | Measure D | Abandoned Vehicle |
|---|---------------------|------------------------|--------------------------|------------------|----------------------|
| REVENUES | | | | | |
| Gas tax | \$ 219,396 | \$ - | \$ - | \$ - | \$ - |
| Intergovernmental | - | - | - | - | 7,268 |
| Use of money and property | 116 | 3,033 | 5 | - | - |
| Charges for services | - | 897,614 | - | - | - |
| Measure B tax | - | - | - | - | - |
| Contributions and donations | - | - | 1,006,192 | - | - |
| Other revenue | - | - | - | 49,027 | - |
| Total Revenues | <u>219,512</u> | <u>900,647</u> | <u>1,006,197</u> | <u>49,027</u> | <u>7,268</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| Administration | - | - | - | - | - |
| Public works | - | - | - | 4,211 | - |
| Street improvements | - | - | - | - | - |
| Recreation | - | 835,156 | - | - | - |
| Capital outlay | - | 34,977 | - | - | - |
| Debt service: | | | | | |
| Principal | - | - | - | - | - |
| Interest and fiscal charges | - | - | - | - | - |
| Total Expenditures | <u>-</u> | <u>870,133</u> | <u>-</u> | <u>4,211</u> | <u>-</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>219,512</u> | <u>30,514</u> | <u>1,006,197</u> | <u>44,816</u> | <u>7,268</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | - | - | - | - | - |
| Transfers out | (565,441) | (48,895) | (182,996) | (25,010) | - |
| Total Other Financing Sources (Uses) | <u>(565,441)</u> | <u>(48,895)</u> | <u>(182,996)</u> | <u>(25,010)</u> | <u>-</u> |
| Net change in fund balances | (345,929) | (18,381) | 823,201 | 19,806 | 7,268 |
| Fund balances - July 1, 2016 | <u>498,212</u> | <u>344,698</u> | <u>55,423</u> | <u>48,227</u> | <u>45,472</u> |
| Fund balances - June 30, 2017 | <u>\$ 152,283</u> | <u>\$ 326,317</u> | <u>\$ 878,624</u> | <u>\$ 68,033</u> | <u>\$ 52,740</u> |

CITY OF PIEDMONT
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017

| | Special Revenue Funds | | | | |
|---|--|--------------------------------|---------------------------------|------------------|---|
| | <u>Undergrounding Administration</u> | <u>Measure B Sales Tax</u> | <u>Measure BB Sales Tax</u> | <u>Measure F</u> | <u>Athletic Facility Preservation</u> |
| <u>REVENUES</u> | | | | | |
| Gas tax | \$ - | \$ - | \$ - | \$ - | \$ - |
| Intergovernmental | - | - | 426,574 | 47,632 | - |
| Use of money and property | - | 142 | 499 | 12 | - |
| Charges for services | 52,356 | - | - | - | 68,059 |
| Measure B tax | - | 461,264 | - | - | - |
| Contributions and donations | - | - | - | - | 35,000 |
| Other revenue | - | - | - | - | - |
| Total Revenues | <u>52,356</u> | <u>461,406</u> | <u>427,073</u> | <u>47,644</u> | <u>103,059</u> |
| <u>EXPENDITURES</u> | | | | | |
| Current: | | | | | |
| Administration | 16,272 | - | - | - | - |
| Public works | - | - | - | - | - |
| Street improvements | - | 316,624 | - | - | - |
| Recreation | - | - | - | - | 42,939 |
| Capital outlay | - | 153,890 | 212,510 | 45,897 | - |
| Debt service: | | | | | |
| Principal | - | - | - | - | - |
| Interest and fiscal charges | - | - | - | - | - |
| Total Expenditures | <u>16,272</u> | <u>470,514</u> | <u>212,510</u> | <u>45,897</u> | <u>42,939</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>36,084</u> | <u>(9,108)</u> | <u>214,563</u> | <u>1,747</u> | <u>60,120</u> |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | | |
| Transfers in | - | - | - | - | - |
| Transfers out | - | - | - | - | - |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | 36,084 | (9,108) | 214,563 | 1,747 | 60,120 |
| Fund balances - July 1, 2016 | <u>22,854</u> | <u>84,666</u> | <u>23,752</u> | <u>3,185</u> | <u>25,015</u> |
| Fund balances - June 30, 2017 | <u>\$ 58,938</u> | <u>\$ 75,558</u> | <u>\$ 238,315</u> | <u>\$ 4,932</u> | <u>\$ 85,135</u> |

CITY OF PIEDMONT
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017

| | Capital Projects | | Debt Service | | Total Non-major Governmental Funds |
|---|-------------------------|-----------------|----------------------|--|---|
| | Capital Improvement | Sidewalk Repair | Misc. Grant Funds | 2014 Taxable Pension Obligation Bonds | |
| <u>REVENUES</u> | | | | | |
| Gas tax | \$ - | \$ - | \$ - | \$ - | \$ 219,396 |
| Intergovernmental | 78,492 | - | - | - | 559,966 |
| Use of money and property | - | - | - | - | 3,807 |
| Charges for services | - | - | - | - | 1,018,029 |
| Measure B tax | - | - | - | - | 461,264 |
| Contributions and donations | - | - | - | - | 1,041,192 |
| Other revenue | - | 1,821 | - | - | 50,848 |
| Total Revenues | 78,492 | 1,821 | - | - | 3,354,502 |
| <u>EXPENDITURES</u> | | | | | |
| Current: | | | | | |
| Administration | - | - | - | 1,060 | 17,332 |
| Public works | 30,427 | - | - | - | 34,638 |
| Street improvements | - | - | - | - | 316,624 |
| Recreation | - | - | - | - | 878,095 |
| Capital outlay | 306,079 | - | - | - | 753,353 |
| Debt service: | | | | | |
| Principal | - | - | - | 1,220,000 | 1,220,000 |
| Interest and fiscal charges | - | - | - | 125,931 | 125,931 |
| Total Expenditures | 336,506 | - | - | 1,346,991 | 3,345,973 |
| Excess (Deficiency) of Revenues over Expenditures | (258,014) | 1,821 | - | (1,346,991) | 8,529 |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | | |
| Transfers in | 416,099 | - | - | 1,346,991 | 1,763,090 |
| Transfers out | (50,000) | - | - | - | (872,342) |
| Total Other Financing Sources (Uses) | 366,099 | - | - | 1,346,991 | 890,748 |
| Net change in fund balances | 108,085 | 1,821 | - | - | 899,277 |
| Fund balances - July 1, 2016 | 332,227 | 60,230 | - | - | 1,543,961 |
| Fund balances - June 30, 2017 | \$ 440,312 | \$ 62,051 | \$ - | \$ - | \$ 2,443,238 |

CITY OF PIEDMONT
STREETS PROJECTS - SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | <u>2016 - 2017</u> <u>Budgeted Amounts</u> | | <u>Actual</u> <u>Amounts</u> | <u>Variance</u> <u>with Final</u> <u>Budget</u> <u>Positive</u> <u>(Negative)</u> |
|---|---|------------------|---------------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| <u>REVENUES</u> | | | | |
| Gas tax | \$ 250,000 | \$ 250,000 | \$ 219,396 | \$ (30,604) |
| Use of money and property | <u>-</u> | <u>-</u> | <u>116</u> | <u>116</u> |
| Total Revenues | <u>250,000</u> | <u>250,000</u> | <u>219,512</u> | <u>(30,488)</u> |
| <u>EXPENDITURES</u> | | | | |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of revenues over expenditures | <u>250,000</u> | <u>250,000</u> | <u>219,512</u> | <u>(30,488)</u> |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | |
| Transfers out | <u>(250,000)</u> | <u>(250,000)</u> | <u>(565,441)</u> | <u>(315,441)</u> |
| Total Other Financing Sources (Uses) | <u>(250,000)</u> | <u>(250,000)</u> | <u>(565,441)</u> | <u>(315,441)</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>(345,929)</u> | <u>\$ (345,929)</u> |
| Fund balance - July 1, 2016 | | | <u>498,212</u> | |
| Fund balance - June 30, 2017 | | | <u>\$ 152,283</u> | |

CITY OF PIEDMONT
SCHOOLMATES PROGRAM - SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | <u>2016 - 2017</u> <u>Budgeted Amounts</u> | | <u>Actual</u> <u>Amounts</u> | <u>Variance</u> <u>with Final</u> <u>Budget</u> <u>Positive</u> <u>(Negative)</u> |
|---|---|------------------|---------------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| <u>REVENUES</u> | | | | |
| Use of money and property | \$ 1,100 | \$ 1,100 | \$ 3,033 | \$ 1,933 |
| Charges for services | <u>920,000</u> | <u>920,000</u> | <u>897,614</u> | <u>(22,386)</u> |
| Total Revenues | <u>921,100</u> | <u>921,100</u> | <u>900,647</u> | <u>(20,453)</u> |
| <u>EXPENDITURES</u> | | | | |
| Current: | | | | |
| Recreation | 833,275 | 833,275 | 835,156 | (1,881) |
| Capital outlay | <u>40,000</u> | <u>40,000</u> | <u>34,977</u> | <u>5,023</u> |
| Total Expenditures | <u>873,275</u> | <u>873,275</u> | <u>870,133</u> | <u>3,142</u> |
| Excess (deficiency) of revenues over expenditures | <u>47,825</u> | <u>47,825</u> | <u>30,514</u> | <u>(17,311)</u> |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | |
| Transfers out | <u>(31,000)</u> | <u>(31,000)</u> | <u>(48,895)</u> | <u>(17,895)</u> |
| Total Other Financing Sources (Uses) | <u>(31,000)</u> | <u>(31,000)</u> | <u>(48,895)</u> | <u>(17,895)</u> |
| Net change in fund balance | <u>\$ 16,825</u> | <u>\$ 16,825</u> | <u>(18,381)</u> | <u>\$ (35,206)</u> |
| Fund balance - July 1, 2016 | | | <u>344,698</u> | |
| Fund balance - June 30, 2017 | | | <u>\$ 326,317</u> | |

CITY OF PIEDMONT
PROJECTS AND SERVICES - SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | 2016 - 2017 Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|---|-----------------|---------------------------|---|
| | Original | Final | | |
| <u>REVENUES</u> | | | | |
| Use of money and property | \$ - | \$ - | \$ 5 | \$ 5 |
| Contributions and donations | <u>60,000</u> | <u>60,000</u> | <u>1,006,192</u> | <u>946,192</u> |
| Total Revenues | <u>60,000</u> | <u>60,000</u> | <u>1,006,197</u> | <u>946,197</u> |
| <u>EXPENDITURES</u> | | | | |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of revenues over expenditures | <u>60,000</u> | <u>60,000</u> | <u>1,006,197</u> | <u>946,197</u> |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | |
| Transfers out | <u>(55,000)</u> | <u>(55,000)</u> | <u>(182,996)</u> | <u>(127,996)</u> |
| Total Other Financing Sources (Uses) | <u>(55,000)</u> | <u>(55,000)</u> | <u>(182,996)</u> | <u>(127,996)</u> |
| Net change in fund balance | <u>\$ 5,000</u> | <u>\$ 5,000</u> | <u>823,201</u> | <u>\$ 818,201</u> |
| Fund balance - July 1, 2016 | | | <u>55,423</u> | |
| Fund balance - June 30, 2017 | | | <u>\$ 878,624</u> | |

CITY OF PIEDMONT
MEASURE D - SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | <u>2016 - 2017</u> <u>Budgeted Amounts</u> | | <u>Actual</u> <u>Amounts</u> | <u>Variance</u> <u>with Final</u> <u>Budget</u> <u>Positive</u> <u>(Negative)</u> |
|---|---|-------------------|---------------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| <u>REVENUES</u> | | | | |
| Other revenues | \$ <u>35,000</u> | \$ <u>35,000</u> | \$ <u>49,027</u> | \$ <u>14,027</u> |
| Total Revenues | <u>35,000</u> | <u>35,000</u> | <u>49,027</u> | <u>14,027</u> |
| <u>EXPENDITURES</u> | | | | |
| Current: | | | | |
| Public works | <u>21,000</u> | <u>21,000</u> | <u>4,211</u> | <u>16,789</u> |
| Total Expenditures | <u>21,000</u> | <u>21,000</u> | <u>4,211</u> | <u>16,789</u> |
| Excess (deficiency) of revenues over expenditures | <u>14,000</u> | <u>14,000</u> | <u>44,816</u> | <u>30,816</u> |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | |
| Transfers out | <u>(17,000)</u> | <u>(17,000)</u> | <u>(25,010)</u> | <u>(8,010)</u> |
| Total Other Financing Sources (Uses) | <u>(17,000)</u> | <u>(17,000)</u> | <u>(25,010)</u> | <u>(8,010)</u> |
| Net change in fund balance | \$ <u>(3,000)</u> | \$ <u>(3,000)</u> | <u>19,806</u> | \$ <u>22,806</u> |
| Fund balance - July 1, 2016 | | | <u>48,227</u> | |
| Fund balance - June 30, 2017 | | | <u>\$ <u>68,033</u></u> | |

CITY OF PIEDMONT
ABANDONED VEHICLE - SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | 2016 - 2017 | | Actual | Variance |
|------------------------------|-------------------------|-----------------|------------------|-------------------|
| | Budgeted Amounts | | | |
| | Original | Final | Actual | Positive |
| | | | | (Negative) |
| <u>REVENUES</u> | | | | |
| Intergovernmental | \$ 4,000 | \$ 4,000 | \$ 7,268 | \$ 3,268 |
| Total Revenues | <u>4,000</u> | <u>4,000</u> | <u>7,268</u> | <u>3,268</u> |
| <u>EXPENDITURES</u> | | | | |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balance | <u>\$ 4,000</u> | <u>\$ 4,000</u> | <u>7,268</u> | <u>\$ 3,268</u> |
| Fund balance - July 1, 2016 | | | <u>45,472</u> | |
| Fund balance - June 30, 2017 | | | <u>\$ 52,740</u> | |

CITY OF PIEDMONT
UNDERGROUNDING ADMINISTRATION - SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | <u>2016 - 2017</u> <u>Budgeted Amounts</u> | | <u>Actual</u> <u>Amounts</u> | <u>Variance</u> <u>with Final</u> <u>Budget</u> <u>Positive</u> <u>(Negative)</u> |
|------------------------------|---|---------------|---------------------------------|---|
| | <u>Original*</u> | <u>Final*</u> | | |
| <u>REVENUES</u> | | | | |
| Charges for services | - | - | 52,356 | 52,356 |
| Total Revenues | \$ - | \$ - | \$ 52,356 | \$ 52,356 |
| <u>EXPENDITURES</u> | | | | |
| Current: | | | | |
| Administration | - | - | 16,272 | (16,272) |
| Total Expenditures | - | - | 16,272 | (16,272) |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>36,084</u> | <u>\$ 36,084</u> |
| Fund balance - July 1, 2016 | | | <u>22,854</u> | |
| Fund balance - June 30, 2017 | | | <u>\$ 58,938</u> | |

*No budget was adopted for the Undergrounding Administration Fund for the year ended June 30, 2017.

CITY OF PIEDMONT
MEASURE B SALES TAX - SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | <u>2016 - 2017</u> <u>Budgeted Amounts</u> | | <u>Actual</u> <u>Amounts</u> | <u>Variance</u> <u>with Final</u> <u>Budget</u> <u>Positive</u> <u>(Negative)</u> |
|---|---|----------------|---------------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| <u>REVENUES</u> | | | | |
| Use of money and property | \$ - | \$ - | \$ 142 | \$ 142 |
| Measure B tax | <u>465,609</u> | <u>465,609</u> | <u>461,264</u> | <u>(4,345)</u> |
| Total Revenues | <u>465,609</u> | <u>465,609</u> | <u>461,406</u> | <u>(4,203)</u> |
| <u>EXPENDITURES</u> | | | | |
| Current: | | | | |
| Street improvements | 254,411 | 254,411 | 316,624 | (62,213) |
| Capital outlay | <u>211,198</u> | <u>211,198</u> | <u>153,890</u> | <u>57,308</u> |
| Total Expenditures | <u>465,609</u> | <u>465,609</u> | <u>470,514</u> | <u>(4,905)</u> |
| Excess (deficiency) of revenues over expenditures | <u>-</u> | <u>-</u> | <u>(9,108)</u> | <u>(9,108)</u> |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>(9,108)</u> | <u>\$ (9,108)</u> |
| Fund balance - July 1, 2016 | | | <u>84,666</u> | |
| Fund balance - June 30, 2017 | | | <u>\$ 75,558</u> | |

CITY OF PIEDMONT
MEASURE BB SALES TAX - SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | 2016 - 2017 | | Actual | Variance |
|---|-------------------------|----------------|-------------------|-------------------|
| | Budgeted Amounts | | | |
| | Original | Final | Actual | Positive |
| | | | Amounts | (Negative) |
| <u>REVENUES</u> | | | | |
| Intergovernmental | \$ 401,000 | \$ 401,000 | \$ 426,574 | \$ 25,574 |
| Use of money and property | <u>-</u> | <u>-</u> | <u>499</u> | <u>499</u> |
| Total Revenues | <u>401,000</u> | <u>401,000</u> | <u>427,073</u> | <u>26,073</u> |
| <u>EXPENDITURES</u> | | | | |
| Capital outlay | <u>401,000</u> | <u>401,000</u> | <u>212,510</u> | <u>188,490</u> |
| Total Expenditures | <u>401,000</u> | <u>401,000</u> | <u>212,510</u> | <u>188,490</u> |
| Excess (deficiency) of revenues over expenditures | <u>-</u> | <u>-</u> | <u>214,563</u> | <u>214,563</u> |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | |
| Transfers out | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>214,563</u> | <u>\$ 214,563</u> |
| Fund balance - July 1, 2016 | | | <u>23,752</u> | |
| Fund balance - June 30, 2017 | | | <u>\$ 238,315</u> | |

CITY OF PIEDMONT
MEASURE F - SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | 2016 - 2017 | | Actual | Variance |
|------------------------------|-------------------------|---------------|-----------------|-------------------|
| | Budgeted Amounts | | | |
| | Original | Final | Actual | Positive |
| | | | | (Negative) |
| <u>REVENUES</u> | | | | |
| Intergovernmental | \$ 45,000 | \$ 45,000 | \$ 47,632 | \$ 2,632 |
| Use of money and property | <u>-</u> | <u>-</u> | <u>12</u> | <u>12</u> |
| Total Revenues | <u>45,000</u> | <u>45,000</u> | <u>47,644</u> | <u>2,644</u> |
| <u>EXPENDITURES</u> | | | | |
| Current: | | | | |
| Capital outlay | <u>45,000</u> | <u>45,000</u> | <u>45,897</u> | <u>(897)</u> |
| Total Expenditures | <u>45,000</u> | <u>45,000</u> | <u>45,897</u> | <u>(897)</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>1,747</u> | <u>\$ 1,747</u> |
| Fund balance - July 1, 2016 | | | <u>3,185</u> | |
| Fund balance - June 30, 2017 | | | <u>\$ 4,932</u> | |

CITY OF PIEDMONT
ATHLETIC FACILITY PRESERVATION - SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | <u>2016 - 2017</u> <u>Budgeted Amounts</u> | | <u>Actual</u> <u>Amounts</u> | <u>Variance</u> <u>with Final</u> <u>Budget</u> <u>Positive</u> <u>(Negative)</u> |
|------------------------------|---|------------------|---------------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| <u>REVENUES</u> | | | | |
| Charges for services | \$ 55,000 | \$ 55,000 | \$ 68,059 | \$ 13,059 |
| Contributions and donations | <u>-</u> | <u>-</u> | <u>35,000</u> | <u>35,000</u> |
| Total Revenues | <u>55,000</u> | <u>55,000</u> | <u>103,059</u> | <u>48,059</u> |
| <u>EXPENDITURES</u> | | | | |
| Current: | | | | |
| Recreation | <u>35,000</u> | <u>35,000</u> | <u>42,939</u> | <u>(7,939)</u> |
| Total Expenditures | <u>35,000</u> | <u>35,000</u> | <u>42,939</u> | <u>(7,939)</u> |
| Net change in fund balance | <u>\$ 20,000</u> | <u>\$ 20,000</u> | <u>60,120</u> | <u>\$ 40,120</u> |
| Fund balance - July 1, 2016 | | | <u>25,015</u> | |
| Fund balance - June 30, 2017 | | | <u>\$ 85,135</u> | |

CITY OF PIEDMONT
CAPITAL IMPROVEMENT - CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | 2016 - 2017 | | Actual | Variance |
|---|-------------------------|---------------------|-------------------|-------------------|
| | Budgeted Amounts | | | |
| | Original | Final | Actual | Positive |
| | | | | (Negative) |
| <u>REVENUES</u> | | | | |
| Intergovernmental | \$ 40,489 | \$ 40,489 | \$ 78,492 | \$ 38,003 |
| Total Revenues | <u>40,489</u> | <u>40,489</u> | <u>78,492</u> | <u>38,003</u> |
| <u>EXPENDITURES</u> | | | | |
| Current: | | | | |
| Public works | 90,000 | 90,000 | 30,427 | 59,573 |
| Capital outlay | <u>487,868</u> | <u>487,868</u> | <u>306,079</u> | <u>181,789</u> |
| Total Expenditures | <u>577,868</u> | <u>577,868</u> | <u>336,506</u> | <u>241,362</u> |
| Excess (deficiency) of revenues over expenditures | <u>(537,379)</u> | <u>(537,379)</u> | <u>(258,014)</u> | <u>279,365</u> |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | |
| Transfers in | - | - | 416,099 | 416,099 |
| Transfers out | <u>-</u> | <u>-</u> | <u>(50,000)</u> | <u>(50,000)</u> |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>366,099</u> | <u>366,099</u> |
| Net change in fund balance | <u>\$ (537,379)</u> | <u>\$ (537,379)</u> | <u>108,085</u> | <u>\$ 645,464</u> |
| Fund balance - July 1, 2016 | | | <u>332,227</u> | |
| Fund balance - June 30, 2017 | | | <u>\$ 440,312</u> | |

CITY OF PIEDMONT
SIDEWALK REPAIR - CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | 2016 - 2017 | | Actual | Variance |
|------------------------------|-------------------------|--------------|------------------|-------------------|
| | Budgeted Amounts | | | |
| | Original | Final | Amounts | with Final |
| | | | | Budget |
| | | | | Positive |
| | | | | (Negative) |
| <u>REVENUES</u> | | | | |
| Other revenues | \$ 3,000 | \$ 3,000 | \$ 1,821 | \$ (1,179) |
| Total Revenues | <u>3,000</u> | <u>3,000</u> | <u>1,821</u> | <u>(1,179)</u> |
| <u>EXPENDITURES</u> | | | | |
| Current: | | | | |
| Public works | <u>3,000</u> | <u>3,000</u> | - | <u>3,000</u> |
| Total Expenditures | <u>3,000</u> | <u>3,000</u> | - | <u>3,000</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>1,821</u> | <u>\$ 1,821</u> |
| Fund balance - July 1, 2016 | | | <u>60,230</u> | |
| Fund balance - June 30, 2017 | | | <u>\$ 62,051</u> | |

CITY OF PIEDMONT
MISC. GRANT FUNDS - CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | 2016 - 2017 Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|------------------------------|---|---------------|---------------------------|---|
| | Original* | Final* | | |
| <u>REVENUES</u> | | | | |
| Total Revenues | \$ _____ - | \$ _____ - | \$ _____ - | \$ _____ - |
| <u>EXPENDITURES</u> | | | | |
| Current: | | | | |
| Total Expenditures | _____ - | _____ - | _____ - | _____ - |
| Net change in fund balance | \$ _____ - | \$ _____ - | _____ - | \$ _____ - |
| Fund balance - July 1, 2016 | | | _____ - | |
| Fund balance - June 30, 2017 | | | \$ _____ - | |

*No budget was adopted for the Misc. Grant Fund for the year ended June 30, 2017.

CITY OF PIEDMONT
2014 PENSION OBLIGATION BONDS - DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | <u>2016 - 2017</u> <u>Budgeted Amounts</u> | | <u>Actual</u> <u>Amounts</u> | <u>Variance</u> <u>with Final</u> <u>Budget</u> <u>Positive</u> <u>(Negative)</u> |
|---|---|--------------------|---------------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| <u>REVENUES</u> | | | | |
| Total Revenues | \$ _____ - | \$ _____ - | \$ _____ - | \$ _____ - |
| <u>EXPENDITURES</u> | | | | |
| Current: | | | | |
| Administration | - | - | 1,060 | (1,060) |
| Debt service - principal | 1,220,000 | 1,220,000 | 1,220,000 | - |
| Debt service - interest | <u>126,736</u> | <u>126,736</u> | <u>125,931</u> | <u>805</u> |
| Total Expenditures | <u>1,346,736</u> | <u>1,346,736</u> | <u>1,346,991</u> | <u>(255)</u> |
| Excess (deficiency) of revenues over expenditures | <u>(1,346,736)</u> | <u>(1,346,736)</u> | <u>(1,346,991)</u> | <u>(255)</u> |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | |
| Transfers in | <u>1,346,736</u> | <u>1,346,736</u> | <u>1,346,991</u> | <u>255</u> |
| Total Other Financing Sources (Uses) | <u>1,346,736</u> | <u>1,346,736</u> | <u>1,346,991</u> | <u>255</u> |
| Net change in fund balance | <u>\$ _____ -</u> | <u>\$ _____ -</u> | _____ - | <u>\$ _____ -</u> |
| Fund balance - July 1, 2016 | | | _____ - | |
| Fund balance - June 30, 2017 | | | <u>\$ _____ -</u> | |

INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of good or services provided by one department or agency to other departments or agencies of the government and to other government units, on a cost reimbursement basis.

The concept of major funds does not extend to internal service funds because they do not do business with outside parties. For the Statement of Activities, the net revenues and expenses of each internal service fund are eliminated by netting them against the operations of the City departments that generated them. The remaining balance sheet items are consolidated with these same funds in the Statement of Net Position. However, internal service funds are still presented separately in the fund financial statements.

CITY OF PIEDMONT
COMBINING SCHEDULE OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2017

Governmental Activities - Internal Service Funds

| | Employee Benefits | Workers' Compensation | Insurance Liabilities | Total Internal Service Funds |
|---|------------------------------|----------------------------------|----------------------------------|---|
| <u>ASSETS</u> | | | | |
| Current Assets | | | | |
| Cash and investments | \$ 3,368,602 | \$ 1,714,259 | \$ 365,585 | \$ 5,448,446 |
| Accounts receivable, net | - | 1,922 | - | 1,922 |
| | 3,368,602 | 1,716,181 | 365,585 | 5,450,368 |
| Total Current Assets | 3,368,602 | 1,716,181 | 365,585 | 5,450,368 |
| Total Assets | \$ 3,368,602 | \$ 1,716,181 | \$ 365,585 | \$ 5,450,368 |
| <u>LIABILITIES</u> | | | | |
| Current Liabilities | | | | |
| Accounts payable | \$ 2,464,399 | \$ 3,613 | \$ 1,228 | \$ 2,469,240 |
| Compensated absences - current | 462,751 | - | - | 462,751 |
| Claims payable - current | - | 300,252 | 21,397 | 321,649 |
| | 2,927,150 | 303,865 | 22,625 | 3,253,640 |
| Total Current Liabilities | 2,927,150 | 303,865 | 22,625 | 3,253,640 |
| Non-Current Liabilities | | | | |
| Compensated absences | 441,452 | - | - | 441,452 |
| Claims payable | - | 666,749 | 55,854 | 722,603 |
| Net OPEB obligation | 5,218,206 | - | - | 5,218,206 |
| | 5,659,658 | 666,749 | 55,854 | 6,382,261 |
| Total Non-Current Liabilities | 5,659,658 | 666,749 | 55,854 | 6,382,261 |
| Total Liabilities | 8,586,808 | 970,614 | 78,479 | 9,635,901 |
| <u>NET POSITION:</u> | | | | |
| Unrestricted | (5,218,206) | 745,567 | 287,106 | (4,185,533) |
| | (5,218,206) | 745,567 | 287,106 | (4,185,533) |
| Total Net Position | (5,218,206) | 745,567 | 287,106 | (4,185,533) |
| Total Liabilities and Net Position | \$ 3,368,602 | \$ 1,716,181 | \$ 365,585 | \$ 5,450,368 |

CITY OF PIEDMONT
 COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

Governmental Activities - Internal Service Funds

| | <u>Employee Benefits</u> | <u>Workers' Compensation</u> | <u>Insurance Liabilities</u> | <u>Total Internal Service Funds</u> |
|---|------------------------------|----------------------------------|----------------------------------|---|
| <u>OPERATING REVENUES</u> | | | | |
| Total Operating Revenue | \$ _____ - | \$ _____ - | \$ _____ - | \$ _____ - |
| <u>OPERATING EXPENSES</u> | | | | |
| Net OPEB expense | 777,360 | - | - | 777,360 |
| Pension expense | 2,000,000 | - | - | 2,000,000 |
| Insurance and claims expenses | <u> -</u> | <u>555,205</u> | <u>434,912</u> | <u>990,117</u> |
| Total Operating Expenses | <u>2,777,360</u> | <u>555,205</u> | <u>434,912</u> | <u>3,767,477</u> |
| Operating Income (Loss) | <u>(2,777,360)</u> | <u>(555,205)</u> | <u>(434,912)</u> | <u>(3,767,477)</u> |
| <u>NON-OPERATING REVENUES (EXPENSES)</u> | | | | |
| Other income | <u>2,000,000</u> | <u>555,205</u> | <u>434,912</u> | <u>2,990,117</u> |
| Total Non-Operating Revenues | <u>2,000,000</u> | <u>555,205</u> | <u>434,912</u> | <u>2,990,117</u> |
| Change in net position | (777,360) | - | - | (777,360) |
| Net Position - July 1, 2016 | <u>(4,440,846)</u> | <u>745,567</u> | <u>287,106</u> | <u>(3,408,173)</u> |
| Net Position - June 30, 2017 | <u>\$ (5,218,206)</u> | <u>\$ 745,567</u> | <u>\$ 287,106</u> | <u>\$ (4,185,533)</u> |

CITY OF PIEDMONT
COMBINING SCHEDULE OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

| | Governmental Activities - Internal Service Funds | | | |
|---|---|---------------------------------|----------------------------------|---|
| | Employee Benefits | Workers Compensation | Insurance Liabilities | Total Internal Service Funds |
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | | | |
| Claims and premiums paid | \$ - | \$ (567,503) | \$ (459,812) | \$ (1,027,315) |
| Internal activity - payments from other funds | <u>105,113</u> | <u>-</u> | <u>-</u> | <u>105,113</u> |
| Net Cash Provided By (Used for) Operating Activities | <u>105,113</u> | <u>(567,503)</u> | <u>(459,812)</u> | <u>(922,202)</u> |
| <u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u> | | | | |
| Other income | <u>2,000,000</u> | <u>555,205</u> | <u>434,912</u> | <u>2,990,117</u> |
| Net Cash Provided by Non-Capital Financing Activities | <u>2,000,000</u> | <u>555,205</u> | <u>434,912</u> | <u>2,990,117</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 2,105,113 | (12,298) | (24,900) | 2,067,915 |
| Cash and Cash Equivalents - July 1, 2016 | <u>1,263,489</u> | <u>1,726,557</u> | <u>390,485</u> | <u>3,380,531</u> |
| Cash and Cash Equivalents - June 30, 2017 | <u>\$ 3,368,602</u> | <u>\$ 1,714,259</u> | <u>\$ 365,585</u> | <u>\$ 5,448,446</u> |
| <u>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</u> | | | | |
| Operating Loss | (2,777,360) | (555,205) | (434,912) | (3,767,477) |
| Changes in assets and liabilities: | | | | |
| Increase (decrease) in accounts payable | 2,000,000 | (6,299) | (11,558) | 1,982,143 |
| Increase in compensated absences | 105,113 | - | - | 105,113 |
| Decrease in claims payable | - | (5,999) | (13,342) | (19,341) |
| Increase in net OPEB obligation | <u>777,360</u> | <u>-</u> | <u>-</u> | <u>777,360</u> |
| Net Cash Provided by (Used for) Operating Activities | <u>\$ 105,113</u> | <u>\$ (567,503)</u> | <u>\$ (459,812)</u> | <u>\$ (922,202)</u> |

AGENCY FUNDS

All agency funds, representing all fiduciary funds of the City, are custodial in nature and do not involve measurement of results of operations. Such funds have no equity since any assets are due to individuals or other entities at some future time.

These funds are presented separately from the Governmental and Fund Financial Statements.

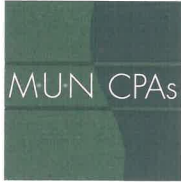
CITY OF PIEDMONT
COMBINING SCHEDULE OF NET POSITION
AGENCY FUNDS
JUNE 30, 2017

| | <u>Dudley/Blair</u> | <u>Wildwood/ Crocker</u> | <u>Piedmont Hills Underground</u> | <u>Totals</u> |
|---------------------------------|--------------------------|------------------------------|---------------------------------------|--------------------------|
| <u>ASSETS</u> | | | | |
| Restricted cash and investments | \$ 143,027 | \$ 49,802 | \$ 276,335 | \$ 469,164 |
| Accounts receivable | <u>1,839</u> | <u>2,112</u> | <u>1,070</u> | <u>5,021</u> |
| Total Assets | <u>\$ 144,866</u> | <u>\$ 51,914</u> | <u>\$ 277,405</u> | <u>\$ 474,185</u> |
| <u>LIABILITIES</u> | | | | |
| Deposits held in trust | <u>144,866</u> | <u>51,914</u> | <u>277,405</u> | <u>474,185</u> |
| Total Liabilities | <u>\$ 144,866</u> | <u>\$ 51,914</u> | <u>\$ 277,405</u> | <u>\$ 474,185</u> |

CITY OF PIEDMONT
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | <u>Balance</u> <u>July 1, 2016</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2017</u> |
|-----------------------------------|---------------------------------------|------------------|------------------|--|
| <u>Dudley/Blair</u> | | | | |
| ASSETS | | | | |
| Restricted cash and investments | \$ 163,871 | \$ - | \$ 20,844 | \$ 143,027 |
| Accounts receivable | <u>39</u> | <u>1,838</u> | <u>38</u> | <u>1,839</u> |
| Total Assets | <u>\$ 163,910</u> | <u>\$ 1,838</u> | <u>\$ 20,882</u> | <u>\$ 144,866</u> |
| LIABILITIES | | | | |
| Deposits in trust | <u>163,910</u> | <u>-</u> | <u>19,044</u> | <u>144,866</u> |
| Total Liabilities | <u>\$ 163,910</u> | <u>\$ -</u> | <u>\$ 19,044</u> | <u>\$ 144,866</u> |
| <u>Wildwood/Crocker</u> | | | | |
| ASSETS | | | | |
| Restricted cash and investments | \$ 60,215 | \$ - | \$ 10,413 | \$ 49,802 |
| Accounts receivable | <u>1,366</u> | <u>2,112</u> | <u>1,366</u> | <u>2,112</u> |
| Total Assets | <u>\$ 61,581</u> | <u>\$ 2,112</u> | <u>\$ 11,779</u> | <u>\$ 51,914</u> |
| LIABILITIES | | | | |
| Deposits in trust | <u>61,581</u> | <u>-</u> | <u>9,667</u> | <u>51,914</u> |
| Total Liabilities | <u>\$ 61,581</u> | <u>\$ -</u> | <u>\$ 9,667</u> | <u>\$ 51,914</u> |
| <u>Piedmont Hills Underground</u> | | | | |
| ASSETS | | | | |
| Restricted cash and investments | \$ 285,433 | \$ - | \$ 9,098 | \$ 276,335 |
| Accounts receivable | <u>-</u> | <u>1,070</u> | <u>-</u> | <u>1,070</u> |
| Total Assets | <u>\$ 285,433</u> | <u>\$ 1,070</u> | <u>\$ 9,098</u> | <u>\$ 277,405</u> |
| LIABILITIES | | | | |
| Deposits in trust | <u>285,433</u> | <u>-</u> | <u>8,028</u> | <u>277,405</u> |
| Total Liabilities | <u>\$ 285,433</u> | <u>\$ -</u> | <u>\$ 8,028</u> | <u>\$ 277,405</u> |
| <u>Total Agency Funds</u> | | | | |
| ASSETS | | | | |
| Restricted cash and investments | \$ 509,519 | \$ - | \$ 40,355 | \$ 469,164 |
| Accounts receivable | <u>1,405</u> | <u>5,020</u> | <u>1,404</u> | <u>5,021</u> |
| Total Assets | <u>\$ 510,924</u> | <u>\$ 5,020</u> | <u>\$ 41,759</u> | <u>\$ 474,185</u> |
| LIABILITIES | | | | |
| Deposits in trust | <u>510,924</u> | <u>-</u> | <u>36,739</u> | <u>474,185</u> |
| Total Liabilities | <u>\$ 510,924</u> | <u>\$ -</u> | <u>\$ 36,739</u> | <u>\$ 474,185</u> |

OTHER REPORTS



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

To the City Council of
the City of Piedmont
Piedmont, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Piedmont (the "City"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City of Piedmont's basic financial statements and have issued our report thereon dated April 27, 2018.

Internal Control Over Financial Reporting

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

Mann, Ursutia, Nelson CPAs

Sacramento, California
April 27, 2018