

City of Piedmont
COUNCIL AGENDA REPORT

DATE: February 2, 2015
TO: Mayor and Council
FROM: Paul Benoit, City Administrator
SUBJECT: Accept Fiscal Year 2013-2014 Financial Statements

RECOMMENDATION

Review and accept the Fiscal Year (FY) 2013-14:

- a. Audited financial statements
- b. Auditor's report on compliance and internal control over financial accounting based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
- c. Measure B program financial statements
- d. Measure F program financial statements
- e. Proposition 111 2014-15 Appropriations Limit Increment

BACKGROUND

Maze and Associates has completed the FY 2013-14 audit of the City of Piedmont. The Audit Committee, consisting of Mayor Margaret Fujioka and Councilmember Jeffrey Wieler, met with the audit partner and City staff on January 21, 2015 and accepted the auditor's financial reports and recommendation regarding internal control. The financial statements received an unqualified opinion from Maze & Associates which is the highest assurance the City can receive to show that staff is properly accounting for the City's assets. The audit partner from Maze and Associates will be present at the February 2, 2015 City Council meeting to answer any questions regarding the audit.

Financial Statements Highlights

Net Position of the City

The City's net position decreased to \$36,386,041 from \$41,428,714 as of June 30, 2014. The net position decreased by \$5,042,673 due to the following factors:

- a. Investment in capital assets net of debt increased \$938,917 to \$34,354,693 due to the following:
 1. Governmental Activities increased by \$318,963 due to depreciation on capital

- assets.
2. Business Type Activities increased due to net additions to the sewer infrastructure and repayment of the State of California Water Resources Board Loans Water Board Loans for \$189,925 and \$430,029, respectively.
- b. Unrestricted net position decreased by \$5,663,329 to \$608,023 due to the following:
1. 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. The payment to CalPERS is reflected as a nondepartmental expense for \$7,321,984.
 2. Property tax related revenues represent 62.2% of governmental activity revenue and increased \$1,369,475 to \$15,755,851.
 - i. Property tax revenues amounted to \$10,148,610 an increase of \$554,413 (5.8%)
 - ii. Real property transfer tax revenues amounted to \$4,001,012 an increase of \$815,011 (25.6%) and had the best year in the City's history.

General Fund

The General Fund is the chief operating fund of the City of Piedmont. At the end of the current fiscal year, fund balance and unassigned fund balance of the General Fund were \$4,703,317 and \$4,489,850 respectively. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance and total fund balance are 20.9% and 21.9% of total General Fund expenditures, respectively. During the current fiscal year, the fund balance of the City of Piedmont's General Fund increased by \$352,429.

| | Actual FY 13-14 |
|---|----------------------------|
| General Fund Beginning Balance | \$4,350,888 |
| Revenues | \$23,309,258 |
| Operating transfers-in | 1,304,079 |
| Total income | \$24,613,337 |
| Expenditures | \$21,521,298 |
| Operating transfers-out | 2,739,610 |
| Total expenditures and transfers-out | \$24,260,908 |
| Operating net income | \$352,429 |
| General Fund Ending Fund Balance | \$4,703,317 |

| General Fund Balance Detail | FY 12-13 | FY 13-14 |
|------------------------------------|--------------------|--------------------|
| Restricted for COPS | \$152,504 | \$213,467 |
| Unassigned | 4,198,384 | 4,489,850 |
| Total General Fund Balance | \$4,350,888 | \$4,703,317 |

Revenues

General Fund revenues of \$23,309,258 increased \$1,719,952 from the prior year due to improved property tax revenues and real property transfer tax. Property tax revenues of \$10,148,610 increased \$554,412 due to rising assessed value from home sales and consumer price index. The real property transfer tax revenues had a historic year with revenues of \$4,001,012 an increase of \$815,011 from the prior year.

Expenditures

General Fund expenditures of \$21,521,298 increased \$2,248,040 from the prior year. The largest increase relates to a reclassification of costs of \$1,860,599 that are shown as nondepartmental expenditures, which were transfers in the prior year based on a recommendation from the auditors. The nondepartmental expenditures represent the contributions for workers compensation, general liability, and other post employment benefit costs.

Other Post Employment Benefits and Equipment Replacement & Facilities Maintenance Funds

As mentioned earlier, the City had a historic real property transfer tax revenue year. In the past, we have treated excess real property transfer tax revenues as one time in nature and transferred the funds to assist with capital and retiree medical benefits as recommended by the Budget Advisory and Financial Planning Committee and Municipal Tax Committee. Similarly, the City Council authorized additional transfers to Other Post Employment Benefits and Equipment Replacement & Facilities Maintenance Funds for \$819,354 and \$1,638,708, respectively.

Future Accounting Standards

GASB 68 - Accounting and Financial Reporting for Pensions

GASB 68 will have material impact on the City’s financial statements. The primary objective of this Statement is to improve accounting and financial reporting by local governments for pensions. It establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The following are the major impacts:

- This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (**net pension liability**) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (**total pension liability**), less the amount of the pension plan's **fiduciary net position**.
- Actuarial valuations of the total pension liability are required to be performed at least every two years.
- The actuarial present value of projected benefit payments is required to be attributed to periods of employee service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each employee individually, from the period when the employee first accrues pensions through the period when the employee retires.

The City as part of the current financial statements is seeing a preview of the GASB 68 with the issuance of the Tax Allocation Bonds to refinance the outstanding fund liability to CalPERS. The refinancing added \$7,305,000 of liabilities to the City's balance sheet and the main reason for Governmental Activities Unrestricted Net Position to be negative -\$30,478 (see PP24).

When the City implements GASB 68 for FY 2014-15, and shows the pension assets of the Police & Fire Pension Trust and pension liabilities with CalPERS on the balance sheet, the net impact will probably cause the Unrestricted Net Position to further decline. The decline will occur for most government agencies throughout California as they show the CalPERS pension liability. While this is important information for the public to know and understand, it currently does not affect the daily operations of the City as long as we continue to make our required contribution payments to CalPERS. It does encourage CalPERS and the respective members have a plan to reduce that liability over time. CalPERS over the last year has instituted new measures from updating mortality tables and elimination of rolling amortizations for gains and losses on investments, which should eventually reflect in a fully funded pension program assuming their rate of return of 7.5%.

By: Erick Cheung, Finance Director

Attachments

- A. Basic Financial Statements for the Year Ended June 30, 2014
- B. Memorandum on Internal Control and Required Communication
- C. Measure B Programs Financial Statements for the Year Ended June 30, 2014
- D. Alameda County Vehicle Registration Fee (VRF) Measure F Programs Financial Statements for the Year Ended June 30, 2014
- E. 2014-15 Appropriations Limit Increment

CITY OF PIEDMONT, CALIFORNIA
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

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CITY OF PIEDMONT
Basic Financial Statements
For the Year Ended June 30, 2014

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CITY OF PIEDMONT

**Basic Financial Statements
For the Year Ended June 30, 2014**

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INDEPENDENT AUDITOR'S REPORT

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

Report on 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 (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall 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.

Opinion

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 as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2014, and had material effects on the financial statements:

Statement 67 – Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25. This Statement replaces the requirements of *Statements 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and *No. 50, Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements. See Note 9 to the financial statements for relevant disclosures.

The implementations of these statements do not constitute a modification to our opinion.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and Required Supplementary Information, 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's basic financial statements as a whole. The Supplemental Information as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 Supplemental Information is 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 November 18, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maze & Associates

Pleasant Hill, California
November 18, 2014

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CITY OF PIEDMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

In an effort to make these financial statements clearer and more understandable, we offer readers of the City of Piedmont's financial statements this narrative overview and analysis of the financial activities of the City of Piedmont for the fiscal year ended June 30, 2014.

Financial Highlights

City-wide:

- Net position is defined as the excess of assets over liabilities. As of June 30, 2014, the City's government-wide net position amounted to a positive balance of \$36,386,041. This represents a decrease of \$5,042,673 from the June 30, 2013 balances of \$41,428,714.
 - Governmental activities of \$27,053,449 and accounts for 74% of total net position.
 - Business-type activities of \$9,332,591 and accounts for 26% of total net position.
- Net position decreased by \$5,042,673 due to the following factors:
 - Investment in capital assets net of debt increased \$938,917 to \$34,354,693 due to the following:
 - Governmental Activities increased by \$318,963 due to depreciation on capital assets.
 - Business Type Activities increased due to net additions to the sewer infrastructure and repayment of the State of California Water Resources Board Loans Water Board Loans for \$189,925 and \$430,029, respectively.
 - Unrestricted net position decreased by \$5,663,329 to \$616,556 due to the following:
 - 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. The payment to CalPERS is reflected as a nondepartmental expense for \$7,321,984.
 - Property tax related revenues represent 62.2% of governmental activity revenue and increased \$1,369,475 to \$15,755,851.
 - Property tax revenues amounted to \$10,148,610 an increase of \$554,413 (5.8%)
 - Real property transfer tax revenues amounted to \$4,001,012 an increase of \$815,011 (25.6%) and had the best year in the City's history.
- As of June 30, 2014, capital assets, net of depreciation, amounting to \$40,031,808 are reported in the Statement of Net Position.

Fund Level:

- Governmental Fund balances increased \$1,436,142 to \$11,877,755. Of this amount, the unassigned fund balance was \$4,489,850 an increase of \$291,466 from the prior year.
- Enterprise Fund net positions increased \$357,166 to \$9,332,591. Of this amount, net investment in capital assets balance was \$8,694,090 an increase of \$619,954 from the prior year.

Fiduciary Funds:

- The Trust Funds net position increased \$2,480,657 to \$16,072,562. The Trust Funds represent the Police and Fire Pension Plan and OPEB for \$11,719,272 and \$4,353,290, respectively.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Piedmont's basic financial statements. The City of Piedmont'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 other supplementary information in addition to the basic financial statements themselves.

CITY OF PIEDMONT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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

The *statement of net position* presents information on all the City of Piedmont's assets and liabilities, 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 of Piedmont 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 of Piedmont 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 of Piedmont include administration, public works, public safety, and recreation. The business-type activities of the City of Piedmont include sewer and aquatics. The government-wide financial statements can be found on pages 16-17 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 of Piedmont, 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.

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 governmental-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 of Piedmont maintains thirteen 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 & Facilities Maintenance fund as a major fund. Data for these funds are also presented separately. Data from the other eleven 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 of Piedmont 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 20-23 of the report.

CITY OF PIEDMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

Proprietary funds. The City of Piedmont 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 of Piedmont 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 26-28 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 30-31 of this report.

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 33-63 of this report.

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 66-69 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 72-84 of this report.

CITY OF PIEDMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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 exceeded liabilities by \$36,379,176 at the close of the most recent fiscal year.

By far the largest portion of the City of Piedmont's net position (94%) 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 of Piedmont'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.

City of Piedmont's Net Position

| | Governmental Activities | | Business-Type Activities | | Totals | |
|-----------------------------------|-------------------------|---------------|--------------------------|--------------|---------------|---------------|
| | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 |
| Assets | | | | | | |
| Current and other assets | \$ 15,009,042 | \$ 17,143,171 | \$ 1,363,031 | \$ 938,345 | \$ 16,372,073 | \$ 18,081,516 |
| Capital assets | 25,341,640 | 25,660,603 | 14,181,280 | 14,371,205 | 39,522,920 | 40,031,808 |
| Total Assets | 40,350,682 | 42,803,774 | 15,544,311 | 15,309,550 | 55,894,993 | 58,113,324 |
| Liabilities | | | | | | |
| Long-term liabilities outstanding | 5,029,522 | 10,807,484 | 5,677,116 | 5,237,770 | 10,706,638 | 16,045,254 |
| Other liabilities | 2,867,871 | 4,942,840 | 891,770 | 739,189 | 3,759,641 | 5,682,029 |
| Total Liabilities | 7,897,393 | 15,750,324 | 6,568,886 | 5,976,959 | 14,466,279 | 21,727,283 |
| Net Position | | | | | | |
| Net investment in capital assets | 25,341,640 | 25,660,603 | 8,074,136 | 8,694,090 | 33,415,776 | 34,354,693 |
| Restricted | 1,741,586 | 1,423,325 | - | - | 1,741,586 | 1,423,325 |
| Unrestricted | 5,370,063 | (30,478) | 901,289 | 638,501 | 6,271,352 | 608,023 |
| Total Net Position | \$ 32,453,289 | \$ 27,053,450 | \$ 8,975,425 | \$ 9,332,591 | \$ 41,428,714 | \$ 36,386,041 |

At the end of the current fiscal year, the City of Piedmont 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, governmental activities decreased the City of Piedmont's net position by \$5,399,839 primarily due to the refinancing of the City's CalPERS Side Funds which is reflected by the \$7,321,984 payment and partially offset by the improved property transfer tax of \$4,001,012.

Business-type activities. Business-type activities increased the City of Piedmont's net position by \$357,166 primarily due to the capital additions to the sewer system.

CITY OF PIEDMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 |
| Revenues | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | \$ 3,951,467 | \$ 4,273,821 | \$ 2,692,729 | \$ 2,772,863 | \$ 6,644,196 | \$ 7,046,684 |
| Operating contributions and grants | 1,092,358 | 1,185,257 | | | 1,092,358 | 1,185,257 |
| Capital contributions and grants | 35,648 | 105,057 | - | - | 35,648 | 105,057 |
| General Revenues: | | | | | | |
| Property taxes | 9,594,197 | 10,148,610 | - | - | 9,594,197 | 10,148,610 |
| Other taxes | 8,052,125 | 9,007,465 | - | - | 8,052,125 | 9,007,465 |
| Unrestricted investment earnings | 15,710 | 21,957 | 13,227 | 3,613 | 28,937 | 25,570 |
| Other | 642,329 | 607,012 | 4,055 | - | 646,384 | 607,012 |
| Total Revenues | 23,383,834 | 25,349,179 | 2,710,011 | 2,776,476 | 26,093,845 | 28,125,655 |
| Expenses | | | | | | |
| Administration | 2,532,922 | 2,558,199 | - | - | 2,532,922 | 2,558,199 |
| Public works | 5,359,267 | 5,465,958 | - | - | 5,359,267 | 5,465,958 |
| Public safety: | | | | | | |
| Police services | 5,704,244 | 5,358,116 | - | - | 5,704,244 | 5,358,116 |
| Fire services | 5,928,312 | 5,070,178 | - | - | 5,928,312 | 5,070,178 |
| Recreation | 4,054,278 | 3,507,915 | - | - | 4,054,278 | 3,507,915 |
| Sewer | - | - | 887,024 | 1,030,471 | 887,024 | 1,030,471 |
| Aquatics | - | - | 633,770 | 648,839 | 633,770 | 648,839 |
| Non-departmental | 357,375 | 9,528,652 | - | - | 357,375 | 9,528,652 |
| Total Expenses | 23,936,398 | 31,489,018 | 1,520,794 | 1,679,310 | 25,457,192 | 33,168,328 |
| Change in net position before transfers | (552,564) | (6,139,839) | 1,189,217 | 1,097,166 | 636,653 | (5,042,673) |
| Transfers | 761,844 | 740,000 | (761,844) | (740,000) | - | - |
| Change in net position | 209,280 | (5,399,839) | 427,373 | 357,166 | 636,653 | (5,042,673) |
| Net Position Beginning | 32,244,009 | 32,453,289 | 8,548,052 | 8,975,425 | 40,792,061 | 41,428,714 |
| Net Position Ending | \$ 32,453,289 | \$ 27,053,450 | \$ 8,975,425 | \$ 9,332,591 | \$ 41,428,714 | \$ 36,386,041 |

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City of Piedmont'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 \$11,877,755 an increase of \$1,436,142 in comparison with the prior year. Approximately 38% percent, namely, \$4,489,850, constitutes unassigned General Fund balance.

CITY OF PIEDMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

General Fund

The General Fund is the chief operating fund of the City of Piedmont. At the end of the current fiscal year, fund balance and unassigned fund balance of the General Fund were \$4,711,850 and \$4,489,850, respectively. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance and total fund balance are 20.9% and 21.9% of total General Fund expenditures, respectively. During the current fiscal year, the fund balance of the City of Piedmont's General Fund increased by \$360,962.

General Fund revenues of \$23,309,258 increased \$1,719,952 from the prior year due to improved property tax revenues and real property transfer tax. Property tax revenues of \$10,148,610 increased \$554,412 due to rising assessed value from home sales and consumer price index. The real property transfer tax revenues had a historic year with revenues of \$4,001,012 an increase of \$815,011 from the prior year. The table below shows the number of homes sold and the average sales price during the fiscal year since the recession:

| 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 |

General Fund expenditures of \$21,521,298 increased \$2,248,040 from the prior year. The largest increase relates to a reclassification of costs of \$1,860,599 that are shown as nondepartmental expenditures, which were transfers in the prior year based on a recommendation from the auditors. The nondepartmental expenditures represent the contributions for workers compensation, general liability, and other post employment benefit costs.

During the fiscal year the City completed negotiations with all of its bargaining units which increased costs approximately \$345,000 as reflected in the midyear budget adjustments. The key provisions of the approved salary and benefits resolutions and memorandum of understandings included salary increases, but sharing of benefit costs with employees. The following is a summary of those provisions:

- A. Wages
 - a. 3% salary increases for each year over the remaining three years, effective July 1, 2014.
- B. Medical
 - a. Employees began contributing 50% of increases over the January 2013 Kaiser Rate beginning January 1, 2014.
 - b. Adopted PERS vesting schedule for retiree medical benefits for employees hired on or after March 1, 2014. This requires that an employee hired on or after this date must work 5 years and retire from the City before they are eligible for retiree medical. Also, these employees will need to provide 10 years of CalPERS service to receive 50% and will increase incrementally to 20 years of service for 100%. The prior vesting schedule only required 5 years of CalPERS service to receive the full benefit.
- C. Retirement
 - a. Employees will continue to share pension costs on the employer rate based on caps for Miscellaneous and Safety Plans.
 - b. Effective February 4, 2014, Miscellaneous employees (Tier I and Tier II) began contributing 2% of the Employer Paid Member Contributions (EPMC) and will contribute an additional 2% in each fiscal year thereafter for three years. By July 1, 2016, the employees will be paying the full EPMC.

CITY OF PIEDMONT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Equipment Replacement & Facilities Maintenance Fund

The Equipment Replacement & Facilities Maintenance Fund is used to replace and maintain the capital assets of the City of Piedmont. The fund balance of the Equipment Replacement & Facilities Maintenance Fund increased \$1,884,070 to \$4,975,898. The City Council authorized additional transfers from the General Fund to the Equipment Replacement & Facilities Maintenance Fund of \$1,638,706 to fund necessary future capital needs due to the historic property transfer tax the City received this fiscal year. The significant items purchased during the fiscal year were the Automated License Plate Reader for \$654,688 and a partial payment of \$406,023 for an Aerial Fire Truck.

2014 Taxable Pension Obligations Fund

The 2014 Taxable Pension Obligation Bonds Fund is used to account for the debt service payments. The City issued \$7,305,000 Tax Allocation Bonds with voter approval to refinance the side fund liability to the California Public Employees' Retirement System (CalPERS) for its Safety and Miscellaneous Plans which will save the City \$1,188,099 over a seven year period. During the fiscal year the City made a principal payment of \$84,000 and the outstanding balance at June 30, 2014 was \$7,221,000.

Proprietary funds. The City of Piedmont'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 of Piedmont's proprietary funds: the Sewer Enterprise Fund, Aquatics Enterprise Fund and the Internal Service Fund.

Sewer Fund

The Sewer Fund is used to account for the sanitary sewer and storm sewer systems of the city. The net position of the Sewer Fund increased \$293,550 to \$8,842,392. The increase is due to the net capital improvements of the sewer system which increased \$271,707 to \$13,540,359. The unrestricted net position of the Sewer Fund decreased \$348,024 to \$625,744 as the funds are used for sewer maintenance.

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 \$63,616 to \$490,199. The increase is due to improved revenue from seasonal passes and controlling operational costs compared to the prior year.

Internal Services Funds

The Internal Service Funds net position amounted to (\$3,263,908), a deficit decrease of \$66,056 from the prior fiscal year. The primary reason for a modest increase in net position is based on the City transferring an additional \$819,354 into the City's OPEB Obligation in the Employee Benefits Internal Service Fund. As stated earlier, the City was able to transfer funds based on the historic property transfer tax revenues received during the fiscal year.

CITY OF PIEDMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

General Fund Budgetary Highlights

The General Fund's original budget of \$20,753,204 increased \$2,724,884 to the final amended budget of \$23,478,088. Among the primary budgetary increases was a reclassification of costs recommended by our auditors to reflect workers compensation, general liability and employee benefits as nondepartmental expenditures instead of transfers. This reclassification increased the nondepartmental budget by \$1,851,503. Also, this final amended budget includes the amendments for approximately \$345,000 for salary and benefit resolutions and MOUs explained earlier.

The General Fund's actual expenditures of \$21,521,298 was less than the final amended budget of \$23,478,088. The City saved approximately \$1,100,000 due to retirements and departures, which created vacancies throughout various departments. For example, the Fire Department had two vacant firefighter positions throughout the fiscal year. The Police Department had three vacant police officer positions due to promoting internally after three sergeants and another officer retired during the fiscal year. Also, the Police Department had a vacant dispatcher during the fiscal year. The City had a vacant Recreation Director for half of the fiscal year due to retirement. Second, a savings of approximately \$458,000 to properly reflect pension sharing with employees was applied based on resolutions and Memoranda of Understanding.

Capital Asset and Debt Administration

Capital Assets. The City of Piedmont's total capital assets for its governmental and business-type activities as of June 30, 2014, amounted to \$40,031,808 (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 of Piedmont's capital assets increased \$508,888 from \$39,522,920 to \$40,031,808. As mentioned earlier, additions to capital assets included the fire aerial ladder truck for \$406,023 as part of construction in progress, since it will be completed in the following fiscal year. Property and equipment increased due to the automated license plate readers being installed throughout the City for \$654,688. Finally, infrastructure increased due to work on the sewer system for \$271,707.

City of Piedmont's Capital Assets
(Net of Depreciation)

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 |
| Land | \$ 5,400,882 | \$ 5,515,004 | | | \$ 5,400,882 | \$ 5,515,004 |
| Construction in progress | 211,750 | 597,298 | \$ 95,341 | \$ 95,341 | 307,091 | 692,639 |
| Building and improvements | 1,707,828 | 1,619,606 | 499,062 | 477,442 | 2,206,890 | 2,097,048 |
| Vehicles | 994,827 | 949,229 | 318,225 | 258,063 | 1,313,052 | 1,207,292 |
| Property and equipment | 1,154,549 | 1,704,626 | | | 1,154,549 | 1,704,626 |
| Infrastructure | 15,871,804 | 15,274,840 | 13,268,652 | 13,540,359 | 29,140,456 | 28,815,199 |
| Totals | \$ 25,341,640 | \$ 25,660,603 | \$ 14,181,280 | \$ 14,371,205 | \$ 39,522,920 | \$ 40,031,808 |

Additional information on the City of Piedmont's capital assets can be found in Note 5 on pages 47-48 of this report.

CITY OF PIEDMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Long-term Debt. At the end of the current fiscal year, the City of Piedmont had total long term outstanding debt of \$12,898,115 an increase of \$6,790,971 from the prior fiscal year. As stated earlier, the increase was due to the issuance of the 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 over the seven year period of time. 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.

City of Piedmont's Outstanding Debt

| | Outstanding as of June 30: | |
|---------------------------------------|----------------------------|---------------|
| | 2013 | 2014 |
| <u>Governmental - Type Activities</u> | | |
| 2014 Tax Allocation Bonds | \$ - | \$ 7,221,000 |
| <u>Business - Type Activities</u> | | |
| Sewer Loan - Phase I | 1,269,847 | 1,155,981 |
| Sewer Loan - Phase II | 1,348,921 | 1,240,864 |
| Sewer Loan - Phase III | 1,656,763 | 1,536,669 |
| Sewer Loan - Phase IV | 1,831,613 | 1,743,601 |
| Total | 6,107,144 | 5,677,115 |
| Total Outstanding Debt | \$ 6,107,144 | \$ 12,898,115 |

Additional information on the City of Piedmont's long-term debt can be found in Note 6 on pages 49-51 of this report.

Economic Factors and Next Year's Budgets

General Fund

Over 60 percent of the City of Piedmont's general revenue sources are property related. One of the critical sources of General Fund revenue is the parcel tax which was continued this fiscal year through fiscal year 2016-17 with the approval by Piedmont residents in November 2012 election. This represents approximately 7% of General Fund revenues and provides funding to maintain essential services. 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 had the best year in the City's history and represents approximately 17% of General Fund revenues. As these funds are considered one time in nature, the excess was transferred to Other Post Employment Benefits-Retiree Medical, Facilities and Equipment Replacement Funds. Real property transfer tax is an area to be monitored since historically this source will fluctuate as it relates to home sales in Piedmont.

The City's salary and benefit costs represent approximately 70% of the General Fund and it was significant that negotiations with all employee groups were completed during the fiscal year. As noted above, the new agreements provided for salary increases, but required employees to continue contribution to pension costs and begin contributing towards medical costs. The agreements also allowed for the continued negotiation on a cafeteria plan which would help the City control future retiree medical costs.

CITY OF PIEDMONT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Sewer Fund

The Sewer Fund financial outlook has changed from a year ago due to the United States Environmental Protection Agency (EPA) issuing a negotiated Consent Decree (CD). The CD is intended to provide an expanded period of time (22 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 will be required to pay civil penalties of \$20,519 to the EPA and \$20,519 to the State Water Board. The other requirements in the CD was already being performed performing by the City, such as assessing the sewer collection system with continued closed circuit television, cleaning the collection system, and completion of the rehabilitation of the remaining sewer system.

As stated earlier, the City had a historic year in property transfer tax revenues and these funds were transferred to Other Post Employment Benefits Fund (OPEB), Facilities Maintenance and Equipment Replacement Funds. On October 10, 2014, the City Council approved a loan to the Sewer Fund from the Equipment Replacement and Facilities Maintenance Funds to assist in completing the rehabilitation of the sewer system. The City will restart Phase V preliminary work so it can apply for additional State Water Control Board loans which provide funding at low interest rates. This is a loan of \$800,000 to the Sewer Fund from Equipment Replacement Fund and Facilities Maintenance Fund for \$600,000 and \$200,000, respectively. The loan will bear a simple interest rate based on the Local Agency Investment Fund (LAIF) rate, not to exceed 1.0%.

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
AND STATEMENT OF ACTIVITIES**

The Statement of Net Position and the Statement of Activities summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Position reports the excess of the City's total assets and deferred outflows of resources over the City's total liabilities and deferred inflows of resources, including all the City's capital assets and all its long-term debt. The Statement of Net Position presents information in a way that focuses the reader on the composition of the City's net position, by subtracting total liabilities from total assets.

The Statement of Net Position summarizes the financial position of all the City's Governmental Activities in a single column. The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue and Capital Projects Funds.

The Statement of Activities reports increases and decreases in the City's net position. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The Statement of Activities presents the City's expenses first, listed by program. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each governmental program. The City's general revenues are then listed in the Governmental Activities and the Change in Net Position is computed and reconciled with the Statement of Net Position.

CITY OF PIEDMONT
STATEMENT OF NET POSITION
JUNE 30, 2014

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|---------------------|
| ASSETS | | | |
| Cash and investments (Note 3) | \$14,996,533 | \$825,793 | \$15,822,326 |
| Restricted cash and investments (Note 3) | 555,699 | | 555,699 |
| Receivables: | | | |
| Taxes | 1,478,344 | | 1,478,344 |
| Accounts | 112,595 | 112,552 | 225,147 |
| Capital assets (Note 5): | | | |
| Land and construction in progress | 6,112,302 | 95,341 | 6,207,643 |
| Depreciable, net of accumulated depreciation | 19,548,301 | 14,275,864 | 33,824,165 |
| Total Assets | <u>42,803,774</u> | <u>15,309,550</u> | <u>58,113,324</u> |
| LIABILITIES | | | |
| Accounts payable | 2,213,184 | 46,744 | 2,259,928 |
| Accrued wages and benefits | 274,284 | 15,948 | 290,232 |
| Accrued interest payable | | 59,803 | 59,803 |
| Deposits payable | 349,723 | | 349,723 |
| Unearned revenue | | 177,349 | 177,349 |
| Compensated absences (Note 2J): | | | |
| Due within one year | 381,971 | | 381,971 |
| Due in more than one year | 379,329 | | 379,329 |
| Claims payable (Note 12): | | | |
| Due within one year | 300,349 | | 300,349 |
| Due in more than one year | 755,959 | | 755,959 |
| Net OPEB Obligation (Note 10): | | | |
| Due in more than one year | 3,874,525 | | 3,874,525 |
| Long-term debt (Note 6): | | | |
| Due within one year | 1,044,000 | 439,345 | 1,483,345 |
| Due in more than one year | 6,177,000 | 5,237,770 | 11,414,770 |
| Total Liabilities | <u>15,750,324</u> | <u>5,976,959</u> | <u>21,727,283</u> |
| NET POSITION (Note 11): | | | |
| Net investment in capital assets | 25,660,603 | 8,694,090 | 34,354,693 |
| Restricted for: | | | |
| Community development | 142,723 | | 142,723 |
| Public safety | 253,310 | | 253,310 |
| Street improvement | 1,027,292 | | 1,027,292 |
| Total Restricted Net Position | <u>1,423,325</u> | | <u>1,423,325</u> |
| Unrestricted | (30,478) | 638,501 | 608,023 |
| Total Net Position | <u>\$27,053,450</u> | <u>\$9,332,591</u> | <u>\$36,386,041</u> |

See accompanying notes to financial statements

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

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | Total |
|---|---------------------|-------------------------|--|--|--|-----------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | |
| Governmental Activities: | | | | | | | |
| Administration | \$2,558,199 | \$77,007 | \$24,205 | | (\$2,456,987) | | (\$2,456,987) |
| Public works | 4,815,034 | 934,920 | 1,029,439 | \$105,057 | (2,745,618) | | (2,745,618) |
| Street improvement | 650,924 | | | | (650,924) | | (650,924) |
| Public safety: | | | | | | | |
| Police services | 5,358,116 | 214,215 | 120,539 | | (5,023,362) | | (5,023,362) |
| Fire services | 5,070,178 | 349,240 | | | (4,720,938) | | (4,720,938) |
| Recreation | 3,507,915 | 2,698,439 | 11,074 | | (798,402) | | (798,402) |
| Nondepartmental | 9,528,652 | | | | (9,528,652) | | (9,528,652) |
| Total Governmental Activities | 31,489,018 | 4,273,821 | 1,185,257 | 105,057 | (25,924,883) | | (25,924,883) |
| Business-type Activities: | | | | | | | |
| Sewer | 1,030,471 | 2,220,408 | | | | \$1,189,937 | 1,189,937 |
| Aquatic | 648,839 | 552,455 | | | | (96,384) | (96,384) |
| Total Business-type Activities | 1,679,310 | 2,772,863 | | | | 1,093,553 | 1,093,553 |
| Total | \$33,168,328 | \$7,046,684 | \$1,185,257 | \$105,057 | (25,924,883) | 1,093,553 | (24,831,330) |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property tax | | | | | 10,148,610 | | 10,148,610 |
| Sales tax | | | | | 201,310 | | 201,310 |
| Franchise tax | | | | | 463,661 | | 463,661 |
| Utility users tax | | | | | 1,207,295 | | 1,207,295 |
| Real property transfer tax | | | | | 4,001,012 | | 4,001,012 |
| Business license and rental tax | | | | | 488,834 | | 488,834 |
| Parcel tax | | | | | 1,606,229 | | 1,606,229 |
| Paramedic tax | | | | | 69,447 | | 69,447 |
| Motor vehicle license fee | | | | | 969,677 | | 969,677 |
| Investment earnings | | | | | 21,957 | 3,613 | 25,570 |
| Other revenues | | | | | 607,012 | | 607,012 |
| Transfers (Note 4) | | | | | 740,000 | (740,000) | |
| Total general revenues and transfers | | | | | 20,525,044 | (736,387) | 19,788,657 |
| Change in Net Position | | | | | (5,399,839) | 357,166 | (5,042,673) |
| Net Position-Beginning | | | | | 32,453,289 | 8,975,425 | 41,428,714 |
| Net Position-Ending | | | | | \$27,053,450 | \$9,332,591 | \$36,386,041 |

See accompanying notes to financial statements

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CITY OF PIEDMONT

FUND FINANCIAL STATEMENTS

Major funds are defined generally as having significant activities or balances in the current year.

The funds described below were determined to be Major Funds by the City for fiscal 2014. Individual non-major funds may be found in the Supplemental Section.

GENERAL FUND

The General Fund is the government's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

EQUIPMENT REPLACEMENT & FACILITIES MAINTENANCE FUND

The Equipment Replacement & Facilities Maintenance Fund is used to account for the accumulation of resources used to replace and maintain capital assets used by governmental funds.

2014 TAXABLE PENSION OBLIGATION BONDS DEBT SERVICE FUND

The 2014 Taxable-Pension Obligation Bonds Debt Service Fund accounts for the payment of principal and interest associated with paying off the CalPERS Side Funds.

CITY OF PIEDMONT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014

| | General | Equipment Replacement and Facilities Maintenance | 2014 Taxable Pension Obligation Bonds | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|--|--|--------------------------------|--------------------------------|
| ASSETS | | | | | |
| Cash and investments (Note 3) | \$4,656,818 | \$5,035,760 | | \$2,043,574 | \$11,736,152 |
| Restricted cash and investments (Note 3) | 555,699 | | | | 555,699 |
| Receivables: | | | | | |
| Taxes | 1,371,515 | | | 106,829 | 1,478,344 |
| Accounts | | | | 112,595 | 112,595 |
| Total Assets | \$6,584,032 | \$5,035,760 | | \$2,262,998 | \$13,882,790 |
| LIABILITIES | | | | | |
| Accounts payable | \$1,268,164 | \$59,862 | | \$53,002 | \$1,381,028 |
| Accrued wages and benefits | 262,828 | | | 11,456 | 274,284 |
| Deposits payable | 349,723 | | | | 349,723 |
| Total Liabilities | 1,880,715 | 59,862 | | 64,458 | 2,005,035 |
| FUND BALANCES (Note 11) | | | | | |
| Restricted | 213,467 | | | 1,367,838 | 1,581,305 |
| Assigned | | 4,975,898 | | 830,702 | 5,806,600 |
| Unassigned | 4,489,850 | | | | 4,489,850 |
| Total Fund Balances | 4,703,317 | 4,975,898 | | 2,198,540 | 11,877,755 |
| Total Liabilities and Fund Balances | \$6,584,032 | \$5,035,760 | | \$2,262,998 | \$13,882,790 |

See accompanying notes to financial statements

CITY OF PIEDMONT
Reconciliation of the
GOVERNMENTAL FUNDS -- BALANCE SHEET
with the
STATEMENT OF NET POSITION
JUNE 30, 2014

Total fund balances reported on the governmental funds balance sheet \$11,877,755

Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds. 25,660,603

LONG-TERM LIABILITIES

The liability below is not due and payable in the current period and therefore is not reported in the funds:
Long-term debt (7,221,000)

ALLOCATION OF INTERNAL SERVICE FUND NET POSITION

Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and employee benefits to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the following line items in the Statement of Net Position.

| | |
|----------------------|-----------------------------|
| Cash and investments | 3,260,381 |
| Accounts payable | (832,156) |
| Compensated absences | (761,300) |
| Net OPEB Obligation | (3,874,525) |
| Claims payable | (1,056,308) |
| | <u> </u> |

NET POSITION OF GOVERNMENTAL ACTIVITIES \$27,053,450

See accompanying notes to financial statements

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

| | General | Equipment Replacement and Facilities Maintenance | 2014 Taxable Pension Obligation Bonds | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|--|--|--------------------------------|--------------------------------|
| REVENUES | | | | | |
| Property tax | \$10,148,610 | | | | \$10,148,610 |
| Sales tax | 201,310 | | | | 201,310 |
| Franchise tax | 463,661 | | | | 463,661 |
| Utility users tax | 1,207,295 | | | | 1,207,295 |
| Real property transfer tax | 4,001,012 | | | | 4,001,012 |
| Business license and rental tax | 488,834 | | | | 488,834 |
| Gas tax | | | | \$346,970 | 346,970 |
| Licenses and permits | 474,390 | | | | 474,390 |
| Use of money and property | 425,101 | \$7,753 | | 3,264 | 436,118 |
| Other agencies | 1,395,489 | | | 171,483 | 1,566,972 |
| Current service charges | 2,771,555 | | | 939,466 | 3,711,021 |
| Measure B tax | | | | 487,322 | 487,322 |
| Parcel tax | 1,606,229 | | | | 1,606,229 |
| Contribution and donations | | | | 35,150 | 35,150 |
| Other revenues | 125,772 | | | 48,513 | 174,285 |
| Total Revenues | 23,309,258 | 7,753 | | 2,032,168 | 25,349,179 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| Administration | 2,465,105 | | | 21,227 | 2,486,332 |
| Public works | 4,144,868 | | | 33,863 | 4,178,731 |
| Public safety: | | | | | |
| Police services | 5,224,978 | | | | 5,224,978 |
| Fire services | 4,956,826 | | | | 4,956,826 |
| Recreation | 2,440,376 | | | 805,982 | 3,246,358 |
| Nondepartmental | 2,206,668 | | \$7,321,984 | | 9,528,652 |
| Street improvement | | | | 650,924 | 650,924 |
| Capital outlay | 82,477 | 602,309 | | 916,450 | 1,601,236 |
| Debt service - principal | | | 84,000 | | 84,000 |
| Total Expenditures | 21,521,298 | 602,309 | 7,405,984 | 2,428,446 | 31,958,037 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 1,787,960 | (594,556) | (7,405,984) | (396,278) | (6,608,858) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Long-term debt issuance (Note 6) | | | 7,305,000 | | 7,305,000 |
| Transfers in (Note 4) | 1,304,079 | 2,478,626 | 100,984 | 95,000 | 3,978,689 |
| Transfers (out) (Note 4) | (2,739,610) | | | (499,079) | (3,238,689) |
| Total Other Financing Sources (Uses) | (1,435,531) | 2,478,626 | 7,405,984 | (404,079) | 8,045,000 |
| NET CHANGE IN FUND BALANCES | 352,429 | 1,884,070 | | (800,357) | 1,436,142 |
| BEGINNING FUND BALANCES | 4,350,888 | 3,091,828 | | 2,998,897 | 10,441,613 |
| ENDING FUND BALANCES | \$4,703,317 | \$4,975,898 | | \$2,198,540 | \$11,877,755 |

See accompanying notes to financial statements

CITY OF PIEDMONT
Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$1,436,142

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

| | |
|--|-------------|
| The capital outlay expenditures are therefore added back to fund balance | 1,601,236 |
| Depreciation expense is deducted from the fund balance | (1,421,909) |
| Net retirements are added to the fund balance | 139,636 |

LONG-TERM DEBT PROCEEDS

Proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities.

| | |
|---|-------------|
| Issuance of debt reduces the fund balance | (7,305,000) |
| Repayment of debt principal is added back to fund balance | 84,000 |

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as insurance and employee benefits to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.

| | |
|---|---------------|
| Change in Net Position - All Internal Service Funds | <u>66,056</u> |
|---|---------------|

| | |
|---|-----------------------------|
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES | <u><u>(\$5,399,839)</u></u> |
|---|-----------------------------|

See accompanying notes to financial statements

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CITY OF PIEDMONT

MAJOR PROPRIETARY FUND

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The City reported its only enterprise fund as a major fund.

SEWER FUND

The Sewer Enterprise Fund is used to account for the operations of the sewer and storm drain systems.

AQUATIC FUND

The Aquatic Enterprise Fund is used to account for the operations of the Piedmont Community Pool activities.

CITY OF PIEDMONT
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2014

| | Business-type Activities- | | Total | Governmental Activities- Internal Service Funds |
|--|------------------------------|------------------|--------------------|--|
| | Sewer Fund | Aquatic Fund | | |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and investments (Note 3) | \$596,935 | \$228,858 | \$825,793 | \$3,260,381 |
| Accounts receivables | 112,552 | | 112,552 | |
| Total current assets | <u>709,487</u> | <u>228,858</u> | <u>938,345</u> | <u>3,260,381</u> |
| Noncurrent Assets: | | | | |
| Capital assets (Note 5): | | | | |
| Non-depreciable | 95,341 | | 95,341 | |
| Depreciable, net of accumulated depreciation | 13,798,422 | 477,442 | 14,275,864 | |
| Total noncurrent assets | <u>13,893,763</u> | <u>477,442</u> | <u>14,371,205</u> | |
| Total Assets | <u>14,603,250</u> | <u>706,300</u> | <u>15,309,550</u> | <u>3,260,381</u> |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | 23,940 | 22,804 | 46,744 | 832,156 |
| Accrued payroll | | 15,948 | 15,948 | |
| Accrued interest payable | 59,803 | | 59,803 | |
| Unearned revenue | | 177,349 | 177,349 | |
| Deposits payable | | | | |
| Compensated absences payable (Note 2J): | | | | |
| Due within one year | | | | 381,971 |
| Claims payable (Note 12): | | | | |
| Due within one year | | | | 300,349 |
| Long-term debt (Note 6): | | | | |
| Due within one year | 439,345 | | 439,345 | |
| Total current liabilities | <u>523,088</u> | <u>216,101</u> | <u>739,189</u> | <u>1,514,476</u> |
| Noncurrent liabilities: | | | | |
| Compensated absences payable (Note 2J): | | | | |
| Due in more than one year | | | | 379,329 |
| Claims payable (Note 12): | | | | |
| Due in more than one year | | | | 755,959 |
| Net OPEB obligation (Note 10): | | | | |
| Due in more than one year | | | | 3,874,525 |
| Long-term debt (Note 6): | | | | |
| Due in more than one year | 5,237,770 | | 5,237,770 | |
| Total noncurrent liabilities | <u>5,237,770</u> | | <u>5,237,770</u> | <u>5,009,813</u> |
| Total Liabilities | <u>5,760,858</u> | <u>216,101</u> | <u>5,976,959</u> | <u>6,524,289</u> |
| NET POSITION (DEFICITS) (Note 11) | | | | |
| Net investment in capital assets | 8,216,648 | 477,442 | 8,694,090 | |
| Unrestricted | 625,744 | 12,757 | 638,501 | (3,263,908) |
| Total Net Position (Deficit) | <u>\$8,842,392</u> | <u>\$490,199</u> | <u>\$9,332,591</u> | <u>(\$3,263,908)</u> |

See accompanying notes to financial statements

CITY OF PIEDMONT
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

| | Business-type Activities | | Total Business-type Activities- | Governmental |
|---|--------------------------|------------------|---------------------------------------|--|
| | Sewer Fund | Aquatic Fund | | Activities- Internal Service Funds |
| OPERATING REVENUES | | | | |
| Current service charges | \$2,220,408 | \$552,455 | \$2,772,863 | |
| Total Operating Revenues | <u>2,220,408</u> | <u>552,455</u> | <u>2,772,863</u> | |
| OPERATING EXPENSES | | | | |
| Contract and professional services | 566,926 | 444,533 | 1,011,459 | |
| Services and supplies | | 182,686 | 182,686 | |
| Insurance and claims expenses | | | | \$847,156 |
| OPEB expense | | | | 1,153,142 |
| Depreciation | 387,357 | 21,620 | 408,977 | |
| Total Operating Expenses | <u>954,283</u> | <u>648,839</u> | <u>1,603,122</u> | <u>2,000,298</u> |
| Operating income (loss) | <u>1,266,125</u> | <u>(96,384)</u> | <u>1,169,741</u> | <u>(2,000,298)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Interest income | 3,613 | | 3,613 | |
| Interest expense | (76,188) | | (76,188) | |
| Other income | | | | 2,066,354 |
| Total Nonoperating Revenue (Expenses) | <u>(72,575)</u> | | <u>(72,575)</u> | <u>2,066,354</u> |
| Income (Loss) Before Transfers | <u>1,193,550</u> | <u>(96,384)</u> | <u>1,097,166</u> | <u>66,056</u> |
| Transfers in (Note 4) | | 160,000 | 160,000 | |
| Transfers (out) (Note 4) | (900,000) | | (900,000) | |
| Net transfers | <u>(900,000)</u> | <u>160,000</u> | <u>(740,000)</u> | |
| Change in net position | 293,550 | 63,616 | 357,166 | 66,056 |
| BEGINNING NET POSITION (DEFICIT) | <u>8,548,842</u> | <u>426,583</u> | <u>8,975,425</u> | <u>(3,329,964)</u> |
| ENDING NET POSITION (DEFICIT) | <u>\$8,842,392</u> | <u>\$490,199</u> | <u>\$9,332,591</u> | <u>(\$3,263,908)</u> |

See accompanying notes to financial statements

CITY OF PIEDMONT
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

| | Business-type Activities- | | Total | Governmental Activities- Internal Service Funds |
|--|------------------------------|-------------------|--------------------|--|
| | Sewer Fund | Aquatic Fund | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from customers | \$2,212,735 | \$547,666 | \$2,760,401 | |
| Payment to suppliers | (707,018) | (633,951) | (1,340,969) | |
| Claims and premiums paid | | | | (\$832,263) |
| Cash Flows from Operating Activities | <u>1,505,717</u> | <u>(86,285)</u> | <u>1,419,432</u> | <u>(832,263)</u> |
| CASH FLOWS FROM NON-OPERATING ACTIVITIES | | | | |
| Other income | | | | 1,693,413 |
| Cash Flows from Non-operating Activities | | | | <u>1,693,413</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Transfers in | | 160,000 | 160,000 | |
| Transfers (out) | (900,000) | | (900,000) | |
| Cash Flows from Noncapital Financing Activities | <u>(900,000)</u> | <u>160,000</u> | <u>(740,000)</u> | |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Acquisition of capital assets | (598,902) | | (598,902) | |
| Principal repayments | (430,029) | | (430,029) | |
| Interest paid loans | (81,182) | | (81,182) | |
| Cash Flows from Capital and Related Financing Activities | <u>(1,110,113)</u> | | <u>(1,110,113)</u> | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Interest on investments | 3,613 | | 3,613 | |
| Net Cash Flows | (500,783) | 73,715 | (427,068) | 861,150 |
| Cash and investments at beginning of period | <u>1,097,718</u> | <u>155,143</u> | <u>1,252,861</u> | <u>2,399,231</u> |
| Cash and investments at end of period | <u>\$596,935</u> | <u>\$228,858</u> | <u>\$825,793</u> | <u>\$3,260,381</u> |
| Reconciliation of operating income to net cash flows from operating activities: | | | | |
| Operating income (loss) | \$1,266,125 | (\$96,384) | \$1,169,741 | (\$2,000,298) |
| Adjustments to reconcile operating income to net cash flows from operating activities: | | | | |
| Depreciation | 387,357 | 21,620 | 408,977 | |
| Other income | | | | 2,066,354 |
| Change in assets and liabilities: | | | | |
| Accounts receivables | (2,382) | | (2,382) | |
| Accounts payable and accruals | (140,092) | 9,358 | (130,734) | 825,321 |
| Accrued payroll | | (16,090) | (16,090) | (19) |
| Deferred revenue | | (4,789) | (4,789) | |
| Deposits payable | (5,291) | | (5,291) | |
| Claims payable | | | | 8,945 |
| Net OPEB Obligation | | | | 21,788 |
| Accrued compensated absences | | | | (60,941) |
| Cash Flows from Operating Activities | <u>\$1,505,717</u> | <u>(\$86,285)</u> | <u>\$1,419,432</u> | <u>\$861,150</u> |

See accompanying notes to financial statements

CITY OF PIEDMONT

FIDUCIARY FUNDS

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

CITY OF PIEDMONT
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

| | <u>Agency Funds</u> | <u>Police and Fire Pension Plan Trust Fund</u> | <u>OPEB Trust Fund</u> |
|---|-------------------------|--|----------------------------|
| ASSETS | | | |
| Cash and investments: | | | |
| Restricted cash (Note 3) | \$503,462 | | |
| Restricted investments (Note 3) | | | |
| Equity mutual funds | | | \$4,353,290 |
| Fixed income mutual funds | | \$3,853,414 | |
| Domestic equities | | 7,212,428 | |
| Foreign equities | | 393,326 | |
| Money market funds | | 386,811 | |
| Total cash and investments | <u>503,462</u> | <u>11,845,979</u> | <u>4,353,290</u> |
| Receivables: | | | |
| Accounts receivables | 15,877 | | |
| Interest receivable | | 15,401 | |
| Total receivables | <u>15,877</u> | <u>15,401</u> | |
| Total Assets | <u>\$519,339</u> | <u>\$11,861,380</u> | <u>\$4,353,290</u> |
| LIABILITIES | | | |
| Accounts payable | \$965 | \$142,108 | |
| Deposits payable | 293,512 | | |
| Due to bondholders | 224,862 | | |
| Total Liabilities | <u>\$519,339</u> | <u>142,108</u> | |
| NET POSITION | | | |
| Restricted for police and fire pensions | | 11,719,272 | |
| Restricted for OPEB | | | \$4,353,290 |
| Total Net Position | | <u>\$11,719,272</u> | <u>\$4,353,290</u> |

See accompanying notes to financial statements

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

| | Police and Fire Pension Plan Trust Fund | OPEB Trust Fund |
|--|---|--------------------|
| ADDITIONS | | |
| Investment income: | | |
| Net increase/(decrease) in fair value of investments | \$1,604,195 | \$614,117 |
| Interest and dividends | 308,766 | |
| Other revenues | | 312,000 |
| Net investment income | 1,912,961 | 926,117 |
| Total additions | 1,912,961 | 926,117 |
| DEDUCTIONS | | |
| Pension benefits paid | 283,192 | |
| Administrative expense | 75,229 | |
| Total Deductions | 358,421 | |
| Change in net position | 1,554,540 | 926,117 |
| BEGINNING NET POSITION | 10,164,732 | 3,427,173 |
| ENDING NET POSITION | \$11,719,272 | \$4,353,290 |

See accompanying notes to financial statements

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CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 1 – GENERAL

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, 2014 was approximately 11,023.

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, 2014, the City's staff was comprised of 91 full-time employees who were responsible for the following City-provided services:

Public Safety – the City employs 21 sworn and 7 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 38 full-time and 4 part-time employees.

In addition, the City employs approximately 321 seasonal recreational personnel.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

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.

A. Reporting Entity

The basic financial statements of the City of Piedmont include only 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 Statements require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and 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.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including blended component units. Separate statements for each fund category—*governmental and proprietary*—are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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

C. Major Funds

The City's major governmental and business-type funds are identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

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

The **General Fund** is the government's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The **Equipment Replacement & Facilities Maintenance Fund** is used to account for the accumulation of resources used to replace and maintain capital assets used by governmental funds.

The **2014 Taxable Pension Obligation Bonds Debt Service Fund** accounts for principal and interest associated with the payoff of the CalPERS Side Funds.

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reported its enterprise funds as major funds in the accompanying financial statements:

The **Sewer Fund** is used to account for the operations of the sewer and storm drain systems.

The **Aquatic Fund** is used to account for the operations of the Piedmont Community Pool activities.

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City uses internal service funds to account for insurance and employee benefits activities.

Fiduciary Fund Financial Statements include a Statement of Net Position and a Statement of Changes in Net Position. The fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net position and changes in net position and is reported using accounting principles similar to proprietary funds. Since these assets are being held for the benefit of a third party, these funds are not incorporated into the government-wide statements.

The City reports the following fiduciary funds:

Agency Funds are used to account for amounts held for eight separate underground utility assessment districts.

The **Police and Fire Pension Trust Fund** accounts for pension investment activity including retirement payments to 16 retired City employees and/or surviving spouses.

The **OPEB Trust Fund** accounts for OPEB Trust investment activity for the post-employment retiree healthcare benefits.

D. Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Those revenues susceptible to accrual are property taxes, sales taxes, transient occupancy taxes, utility user taxes, property transfer taxes, interest revenue and charges for services. Licenses, use of property and permit revenues are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The City may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be 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.

Certain indirect costs are included in program expenses reported for individual functions and activities.

The City follows statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

E. Implementation of Governmental Accounting Standards Board Statements

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. This Statement is effective for fiscal periods beginning after December 15, 2012.

GASB Statement No. 67 – *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, replaces the requirements of *Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and *No. 50, Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements. See Note 9 for the applicable disclosures.

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Use of Estimates

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

G. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | |
|------------------------------------|-------------|
| 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 |

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Property Taxes

Alameda County assesses all properties and it bills, collects, and distributes property taxes and special assessments as follows:

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

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.

I. Compensated Absences

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.

The changes of the compensated absences were as follows:

| | |
|-------------------|-----------|
| Beginning balance | \$822,241 |
| Additions | 354,075 |
| Payments | (415,016) |
| Ending Balance | \$761,300 |
| Current Portion | \$381,971 |

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Cash and Cash Equivalents

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

K. Use of Restricted Resources

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, and then unrestricted resources as they are needed.

L. New Fund

During the current fiscal year, the City established the 2014 Taxable Pension Obligations Bonds Debt Service Fund.

M. Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price as current exchange rates. Real estate assets are reported at fair value utilizing an income approach to valuation. By contract, an independent appraisal is obtained once every year to determine the fair market value of the real estate.

NOTE 3 – CASH AND INVESTMENTS

The City’s dependence on property tax receipts requires it to maintain significant cash reserves to finance operations during certain portions of the year. The City pools cash from all sources and all funds except the Police and Fire Pension Trust Fund and the Underground Utility Assessment Districts so that it can be safely invested at maximum yields, while individual funds can make expenditures at any time.

A. Classification

Cash and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

| | |
|---------------------------------|--------------|
| Statement of Net Assets | |
| Cash and investments | \$15,822,325 |
| Restricted cash and investments | 555,699 |
| Subtotal | 16,378,024 |
| Fiduciary Funds | |
| Restricted cash and investments | 16,702,731 |
| Total Cash and Investments | \$33,080,755 |

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 3 – CASH AND INVESTMENTS (Continued)

B. Investments Authorized by the California Government Code and the City of Piedmont's Investment Policy

The table below identifies the investment types that are authorized for the City of Piedmont by the California Government Code. The 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 trustee that are governed by the provisions of debt agreements of the City of Piedmont, rather than the general provisions of the California Government Code.

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

C. Investments Authorized by Debt Agreements

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

D. 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, conversions 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.

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 3 – CASH AND INVESTMENTS (Continued)

Authorized investments include the following:

| | Maximum Percent of Portfolio | Minimum Credit Rating |
|--|------------------------------------|-----------------------------|
| Domestic Equities | 5% per issuer | N/A |
| Foreign Equity Instruments 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. Government 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.

E. Investments Authorized by the OPEB Trust Fund

Investments 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 Financial Statements
For the Year Ended June 30, 2014

NOTE 3 – 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 Retirement Income 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 | <ul style="list-style-type: none"> 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 |

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 3 – CASH AND INVESTMENTS (Continued)

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 Commercial (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 |

The following investments are explicitly prohibited by the OPEB Trust investment policy:

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

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 3 – CASH AND INVESTMENTS (Continued)

F. 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 of Piedmont manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City’s investments (including investments held in pension) to market interest rate fluctuations is provided by the following table that shows the distribution of the City’s investments by maturity:

| <u>Investments</u> | <u>12 Months or less</u> | <u>Total</u> |
|---|-----------------------------------|-----------------------------------|
| Police and Fire Pension Trust Fund: | | |
| Fixed Income Mutual Funds | \$3,853,414 | \$3,853,414 |
| Domestic Equities | 7,212,428 | 7,212,428 |
| Foreign Equities | 393,326 | 393,326 |
| Money Market Funds | 386,811 | 386,811 |
| Total Police and Fire Pension Trust Fund | <u><u>\$11,845,979</u></u> | 11,845,979 |
| OPEB Trust Fund: | | |
| Equity Mutual Funds | 4,353,290 | 4,353,290 |
| Total OPEB Trust Fund | <u><u>\$4,353,290</u></u> | 4,353,290 |
| City and Agency Fund: | | |
| Local Agency Investment Fund | | 14,656,592 |
| Cash in banks | | 2,223,994 |
| Petty Cash | | 900 |
| Total Cash and Investments | | <u><u>\$33,080,755</u></u> |

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 3 – CASH AND INVESTMENTS (Continued)

G. 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 City of Piedmont’s investment policy, or debt agreements, and the actual Moody’s rating as of June 30, 2014 for each investment type:

| Investment Type | Total |
|---|--------------|
| Not Rated | |
| Police and Fire Pension Trust Fund | |
| Fixed income mutual funds | \$3,853,414 |
| Domestic equities | 7,212,428 |
| Foreign equities | 393,326 |
| Money market funds | 386,811 |
| Total Police and Fire Pension Trust Fund | 11,845,979 |
| OPEB Trust Fund: | |
| Equity mutual funds | 4,353,290 |
| Other Cash and Investments: | |
| Local Agency Investment Fund | 14,656,592 |
| Cash in banks | 2,223,994 |
| Petty cash | 900 |
| Total Cash and Investments | \$33,080,755 |

H. 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 of Piedmont’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 3 – CASH AND INVESTMENTS (Continued)

I. Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligation, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. At June 30, 2014, these investments matured in an average of 232 days.

NOTE 4 – INTERFUND ACTIVITIES

With Council approval, resources may be transferred from one City fund to another. Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

| <u>Fund Receiving Transfers</u> | <u>Fund Making Transfers</u> | <u>Amount Transferred</u> |
|---|--|---------------------------|
| General Fund | Street Projects Special Revenue Fund | \$300,000 |
| | Projects and Services Special Revenue Fund | 59,600 |
| | Measure D Special Revenue Fund | 14,356 |
| | Capital Improvement Capital Projects Fund | 30,123 |
| | Sewer Enterprise Fund | 900,000 |
| Capital Project Funds | | |
| Equipment Replacement & Facilities Maintenance Fund | General Fund | 2,478,626 |
| Capital Improvements Fund | Projects and Services Special Revenue Fund | 95,000 |
| Debt Service Fund | | |
| 2014 Tax Allocation Bonds | General Fund | 100,984 |
| Enterprise Fund | | |
| Aquatic Fund | General Fund | 160,000 |
| | Total Interfund Transfers | <u>\$4,138,689</u> |

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 5 – CAPITAL ASSETS

The City has reported all capital assets including infrastructure in the Government-wide Statement of Net Position. The City elected to use the basic approach for all infrastructures reporting, whereby depreciation expense and accumulated depreciation has been recorded. The following table presents the capital assets activity for the year ended June 30, 2014.

| | Balance June 30, 2013 | Additions | Retirements | Transfers | Balance June 30, 2014 |
|---------------------------------------|--------------------------|--------------------|--------------------|-----------------|--------------------------|
| Governmental Activities | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land and improvements | \$5,400,882 | | | \$114,122 | \$5,515,004 |
| Construction in progress | 211,750 | \$632,433 | (\$120,902) | (125,983) | 597,298 |
| | <u>5,612,632</u> | <u>632,433</u> | <u>(120,902)</u> | <u>(11,861)</u> | <u>6,112,302</u> |
| Depreciable capital assets: | | | | | |
| Building and improvements | 2,633,902 | | | | 2,633,902 |
| Vehicles | 2,849,460 | 92,424 | (86,938) | | 2,854,946 |
| Property and equipment | 2,370,147 | 765,502 | (45,000) | 11,861 | 3,102,510 |
| Infrastructure- | | | | | |
| Pavement system | 7,117,803 | 286,515 | | | 7,404,318 |
| Sidewalk, curb, and gutter system | 22,130,307 | 84,900 | (10,192) | | 22,205,015 |
| Traffic signals | 284,097 | | | | 284,097 |
| Street lights | 402,738 | | | | 402,738 |
| Bridges | 350,000 | | | | 350,000 |
| Park facilities system | 8,023,780 | | | | 8,023,780 |
| Total | <u>46,162,234</u> | <u>1,229,341</u> | <u>(142,130)</u> | <u>11,861</u> | <u>47,261,306</u> |
| Less: accumulated depreciation for | | | | | |
| Building and improvements | (926,074) | (88,222) | | | (1,014,296) |
| Vehicles | (1,854,633) | (138,022) | 86,938 | | (1,905,717) |
| Property and equipment | (1,215,598) | (227,286) | 45,000 | | (1,397,884) |
| Infrastructure- | | | | | |
| Pavement system | (4,944,168) | (205,427) | | | (5,149,595) |
| Sidewalk, curb, and gutter system | (12,931,433) | (513,153) | 10,192 | | (13,434,394) |
| Traffic signals | (120,902) | (7,741) | | | (128,643) |
| Street lights | (169,138) | (16,110) | | | (185,248) |
| Bridges | (70,004) | (4,667) | | | (74,671) |
| Park facilities system | (4,201,276) | (221,281) | | | (4,422,557) |
| Total accumulated depreciation | <u>(26,433,226)</u> | <u>(1,421,909)</u> | <u>142,130</u> | | <u>(27,713,005)</u> |
| Depreciable capital assets, net | <u>19,729,008</u> | <u>(192,568)</u> | | <u>11,861</u> | <u>19,548,301</u> |
| Governmental capital assets, net | <u>\$25,341,640</u> | <u>\$439,865</u> | <u>(\$120,902)</u> | | <u>\$25,660,603</u> |

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 5 – CAPITAL ASSETS (Continued)

| | Balance June 30, 2013 | Additions | Balance June 30, 2014 |
|---|--------------------------|------------------|--------------------------|
| Business-type Activities | | | |
| Capital assets not being depreciated: | | | |
| Construction in progress | \$95,341 | | \$95,341 |
| | <u>95,341</u> | | <u>95,341</u> |
| Depreciable capital assets: | | | |
| Vehicles | 655,428 | | 655,428 |
| Building and improvements | 540,500 | | 540,500 |
| Infrastructure-sewer and storm drain system | 16,288,869 | \$598,902 | 16,887,771 |
| Total | <u>17,484,797</u> | <u>598,902</u> | <u>18,083,699</u> |
| Less: accumulated depreciation for | | | |
| Vehicles | (337,203) | (60,162) | (397,365) |
| Building and improvements | (41,438) | (21,620) | (63,058) |
| Infrastructure-sewer and storm drain system | (3,020,217) | (327,195) | (3,347,412) |
| Total accumulated depreciation | <u>(3,398,858)</u> | <u>(408,977)</u> | <u>(3,807,835)</u> |
| Depreciable capital assets, net | <u>14,085,939</u> | <u>189,925</u> | <u>14,275,864</u> |
| Total capital assets, net | <u>\$14,181,280</u> | <u>\$189,925</u> | <u>\$14,371,205</u> |

A. Depreciation Allocation

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

| | |
|----------------------------------|--------------------|
| Governmental Activities: | |
| Administration | \$77,814 |
| Public Works | 785,188 |
| Public Safety: | |
| Police Services | 152,293 |
| Fire Services | 132,506 |
| Recreation | <u>274,108</u> |
| Total Governmental Activities | <u>\$1,421,909</u> |
| Business-type Activities: | |
| Sewer | \$387,357 |
| Aquatic | <u>21,620</u> |
| Total Business-Type Activities | <u>\$408,977</u> |

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 6 – LONG TERM LIABILITIES

The City generally incurs long-term debt to finance projects, which will have useful lives equal to or greater than the related debt. The City's debt issues and transactions are related to business-type activities are discussed below.

A. Current Year Transactions and Balances

| | Original Issue Amount | Balance June 30, 2013 | Additions | Retirements | Balance June 30, 2014 | Current Portion |
|--|--------------------------|--------------------------|--------------------|----------------------|--------------------------|--------------------|
| Government-type Activities | | | | | | |
| 2014 Tax Allocation Bonds 2.79%, due 2020 | \$7,305,000 | | \$7,305,000 | (\$84,000) | \$7,221,000 | \$1,044,000 |
| Business-type Activities | | | | | | |
| Sewer Rehab Loan - Phase I | 2,266,920 | \$1,269,847 | | (113,866) | 1,155,981 | 116,599 |
| Sewer Rehab Loan - Phase II | 2,211,812 | 1,348,921 | | (108,057) | 1,240,864 | 110,758 |
| Sewer Rehab Loan - Phase III | 2,512,708 | 1,656,763 | | (120,094) | 1,536,669 | 123,096 |
| Sewer Rehab Loan - Phase IV | 4,171,500 | 1,831,613 | | (88,012) | 1,743,601 | 88,892 |
| Long-Term Liabilities | | <u>\$6,107,144</u> | <u>\$7,305,000</u> | <u>(\$514,029)</u> | <u>12,898,115</u> | <u>\$1,483,345</u> |
| | | | | Less current portion | <u>(\$1,483,345)</u> | |
| | | | | Non-current portion | <u>\$11,414,770</u> | |

B. 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 Employees' 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.

C. 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 \$2,266,920 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.

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 6 – LONG TERM LIABILITIES (Continued)

D. 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 payment 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 debt service.

E. 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 construction phase of the project was completed in May 2005 and the first principal payment 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), are pledged for debt service.

F. 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 \$4,171,500 plus any construction period interest. The loan accrued 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 30, 2031. Net revenues, defined as all Sewer Enterprise Fund Revenues less operations and maintenance costs (excluding depreciation and amortization expenses), are pledged for debt service.

G. Debt Service Coverage for Sewer Rehabilitation Loans – Phase I, II, III and IV

For fiscal year 2014, gross Sewer Fund Revenues including operating revenues, non-operating interest earnings and other income amounted to \$2,224,021 and operating costs, including operating expenses but not interest, depreciation or amortization and amounted to \$566,926. Net Revenues available for debt service amounted to \$1,657,095 which represented coverage of 2.99 over the \$553,963 in debt service for all the Sewer Rehabilitation Loans combined.

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 6 – LONG TERM LIABILITIES (Continued)

H. Debt Service Requirements

Annual debt service requirements are shown below for all long-term debt with specified repayment terms:

| For the Year Ending June 30 | Business-type Activities | |
|--------------------------------|--------------------------|--------------------|
| | Principal | Interest |
| 2015 | \$1,483,345 | \$305,183 |
| 2016 | 1,625,879 | 257,760 |
| 2017 | 1,678,635 | 213,861 |
| 2018 | 1,764,618 | 168,758 |
| 2019 | 1,852,835 | 120,982 |
| 2020-2024 | 3,521,638 | 219,973 |
| 2025-2029 | 658,454 | 34,700 |
| 2030-2032 | 312,711 | 6,274 |
| Total | <u>\$12,898,115</u> | <u>\$1,327,491</u> |

NOTE 7 – ASSESSMENT DISTRICT DEBT WITHOUT CITY COMMITMENT

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

- In June 2002, the City administered the issuance of special assessment bonds to provide funds for the Dudley/Blair Underground Utility Assessment District. The amount outstanding at June 30, 2014 was \$1,160,000.
- In August 2005, the City administered the issuance of special assessment bonds to provide funds for the Wildwood/Crocker Underground Utility Assessment District. The amount outstanding at June 30, 2014 was \$495,000.
- In July 2009, the City administered the issuance of special assessment bonds to provide funds for the Piedmont Hills Underground Assessment District. The amount outstanding at June 30, 2014 was \$2,990,000.

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 8 – PENSION PLAN

A. CALPERS Safety and Miscellaneous Employees Plans

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City’s employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The City’s labor contracts require it to pay the employees contributions as well as its own. The Plans’ provisions and benefits in effect at June 30, 2014, are summarized as follows:

| | Prior to January 1, 2013 | | After January 1, 2013 |
|---|--------------------------|-----------------------|-----------------------|
| | Prior to August 21, 2012 | After August 21, 2012 | |
| | Tier I Safety | Tier II Safety | Tier III Safety |
| 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 | 50 | 57 |
| Monthly benefits, as a % of annual salary | 3.00% | 2.00% | 2.70% |
| Required employee contribution rates | 9% | 9% | 12.25% |

| | Prior to January 1, 2013 | | After January 1, 2013 |
|---|---------------------------|--------------------------|---------------------------|
| | Prior to December 5, 2012 | After December 5, 2012 | |
| | Tier I Miscellaneous | Tier II Miscellaneous | Tier III Miscellaneous |
| 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 | 60 | 62 |
| Monthly benefits, as a % of annual salary | 2% to 3% | 2% | 2% |
| Required employee contribution rates | 8.00% | 7.00% | 6.25% |

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City’s total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this Method is the level amount the employer must pay annually to fund an employee’s projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability.

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 8 – PENSION PLAN (Continued)

The City uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions. Annual Pension Costs, representing the payment of all contributions required by CALPERS, for the years ended June 30, 2014, 2013, and 2012 amounted to \$2,525,051; \$3,072,646; and \$3,090,167 respectively.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.5% is assumed, including inflation at 2.75%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Gain and losses that occur in the operation of risk pool are amortized over a rolling thirty year period.

| Fiscal Year Ended | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|-------------------------|---------------------------------|-------------------------------------|------------------------------|
| 2012 | \$3,090,167 | 100% | --- |
| 2013 | 3,072,646 | 100% | --- |
| 2014 | 2,525,051 | 100% | --- |

As required by State law, effective July 1, 2005, the City's Safety and Miscellaneous Plan was terminated, and the employees in the plan were required by CALPERS to join a State-wide pool. One of the conditions of entry to these pools was that the City true-up any unfunded liability in the former Plan, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. In May 2014, the City issued the 2014 Taxable Pension Obligation Bonds for \$7,305,000 and paid off the City's Side Fund liabilities for the Miscellaneous Plan and Safety Plan.

State-Wide Pool - Miscellaneous Plan:

| Actuarial | | | | | | |
|-------------------|-----------------------------------|--------------------|---------------------------------------|-----------------|------------------------------|--|
| Valuation Date | Entry Age Accrued Liability | Value of Assets | Unfunded (Overfunded) Liability | Funded Ratio | Annual Covered Payroll | Unfunded (Overfunded) Liability as % of Payroll |
| 2010 | \$945,221,095 | \$754,858,961 | \$190,362,134 | 79.9% | \$159,156,834 | 119.6% |
| 2011 | 1,023,127,404 | 825,991,347 | 197,136,057 | 80.7% | 160,900,495 | 122.5% |
| 2012 | 1,081,962,506 | 903,410,915 | 178,551,591 | 83.5% | 153,161,984 | 116.6% |

State-Wide Pool - Safety Plan:

| Actuarial | | | | | | |
|-------------------|-----------------------------------|--------------------|---------------------------------------|-----------------|------------------------------|--|
| Valuation Date | Entry Age Accrued Liability | Value of Assets | Unfunded (Overfunded) Liability | Funded Ratio | Annual Covered Payroll | Unfunded (Overfunded) Liability as % of Payroll |
| 2010 | \$10,165,475,166 | \$8,470,235,152 | \$1,695,240,014 | 83.3% | \$955,980,815 | 177.3% |
| 2011 | 10,951,745,049 | 9,135,654,246 | 1,816,090,803 | 83.4% | 949,833,090 | 191.2% |
| 2012 | 11,724,021,480 | 9,854,787,710 | 1,869,233,770 | 84.1% | 947,734,809 | 197.2% |

Audited annual financial statements and ten year statistical comparison are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 9 –THE PIEDMONT POLICE AND FIRE PENSION PLAN (CLOSED PLAN)

Plan description and administration - 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 the authority to establish and manage benefit terms to the Police and Fire Pension Board (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.

Plan membership – The Plan covers 16 retired City employees or surviving spouses, who receive monthly benefits, which will continue for life.

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 1/3% x FAS for each year of service greater than 25 but less than 30 years. The maximum benefit is 66 2/3% of pay. Benefit is 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 1/3% times FAS for each year of service greater than 25 but less than 30 years. The maximum benefit is 66 2/3% of pay. Benefit is payable for participant's lifetime with 50% of the benefit payable to eligible spouse or minor children upon the death of the participant.

A. Net Pension Liability

| Net Pension Liability | 6/30/2014 |
|--|----------------------|
| Discount Rate | 6.00% |
| Total pension liability | \$2,619,052 |
| Plan fiduciary net position | <u>(11,719,272)</u> |
| City's net pension liability (Asset) | <u>(\$9,100,220)</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 447% |

B. Significant Assumptions to Measure Total Pension Liability

| | |
|---|----|
| Discount Rate | 6% |
| Inflation Rate | 3% |
| Cost-of-living Increases to Eligible Participants | 2% |

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 447% funded ratio and the average age of 82 for the 16 plan members.

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 9 – THE PIEDMONT POLICE AND FIRE PENSION PLAN (CLOSED PLAN) (Continued)

The 6% long-term expected rate of return was derived based on the inflation assumption of 3% and a real rate of return net of investment expenses of 3.5%, reduced by a margin for adverse deviation of 0.5%. The net real 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%, 1.55%, and 0.45% respectively and a 0.30% reduction for investment expenses. The sensitivity of the Net Pension Liability to a 1% change in the Discount Rate is shown below.

| | 1% Decrease | Current Discount Rate | 1% Increase |
|-------------------------------|---------------|--------------------------|---------------|
| | 5.0% | 6.0% | 7.0% |
| Net pension liability (Asset) | (\$8,899,696) | (\$9,100,220) | (\$9,275,421) |

Mortality Assumptions -

| | |
|---------------------------------------|---|
| Service retirements and beneficiaries | California PERS Mortality Table for Healthy Recipients (based on CalPERS 2006-2011 experience), with recognition of future mortality improvement utilizing Society of Actuaries Scale MP-2014 |
| Disability retirements | California PERS Mortality Table for Healthy Recipients (based on CalPERS 2006-2011 experience), with recognition of future mortality improvement utilizing Society of Actuaries Scale MP-2014 |

Date of Actuarial Assumption - The June 30, 2014 Total Pension Liability is based on a valuation as of June 30, 2014.

NOTE 10 – POSTEMPLOYMENT HEALTH CARE BENEFITS

The City reports the financial activity of the 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.

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 monthly City contributions of \$100/year). The City paid \$232,858 on behalf of 36 retirees during the fiscal year ended June 30, 2014.

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 10 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

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. 2012 Retiree Healthcare Monthly Caps: | | |
| | | Pre-Medicare | Medicare |
| | Single: | \$457.83 | \$208.36 |
| | 2-Party: | \$767.36 | \$416.72 |
| | Family: | \$847.26 | N/A |
| | 2 Party: Basic & Medicare | N/A | \$667.36 |
| | <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 two non-PMEHCA 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 Financial Statements
For the Year Ended June 30, 2014

NOTE 10 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

A. Funding Policy and Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a June 30, 2012 actuarial valuation using the entry age normal actuarial cost method. 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 actuarial assumptions included (a) 3.25% projected annual salary increase, (b) 3.0% inflation rate.

Funding Policy – 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. In fiscal year 2014, the City contributed \$312,000 to the OPEB Irrevocable Trust.

Actuarial assumptions for the discount rates are as follows:

| <u>Fiscal Year</u> | <u>Discount Rate</u> |
|--------------------|----------------------|
| 2010/11 | 4.50% |
| 2020/21 | 5.50% |
| 2030/31 | 6.00% |
| 2040/41 | 6.75% |
| 2072/73 | 6.75% |

The actuarial assumptions also included the following health care cost trend:

| <u>Year</u> | <u>Non-Medicare</u> | <u>Medicare</u> |
|-------------|---------------------|-----------------|
| 2014 | 8.50% | 8.90% |
| 2015 | 8.00% | 8.30% |
| ↓ | ↓ | ↓ |
| 2021+ | 5.25% | 5.25% |

The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The City’s OPEB unfunded actuarial accrued liability is amortized over a fixed 30-year period as a level percentage of payroll beginning with the 2011-12 fiscal year.

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 10 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

B. Funding Progress and Funded Status

Generally accepted accounting principles permit contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2014, the City’s funding progress and status are as follows:

| | |
|--|-----------------------------|
| Annual required contribution (ARC) | \$1,547,000 |
| Amortization on the Net OPEB Obligations | (329,000) |
| Interest on the Net OPEB Obligations | <u>168,000</u> |
| Annual OPEB Cost (AOC) | <u>1,386,000</u> |
| Contributions made: | |
| Premium paid | 232,858 |
| Contribution to OPEB Trust | 312,000 |
| Contribution held by City for OPEB Trust (a) | <u>819,354</u> |
| Total contributions | <u>1,364,212</u> |
| Over (Under) contribution of ARC | (21,788) |
| Net OPEB Obligation at June 30, 2013 | <u>(3,852,737)</u> |
| Net OPEB Obligation at June 30, 2014 | <u><u>(\$3,874,525)</u></u> |

(a) Includes \$819,354 that was held by the City of the OPEB Trust as of June 30, 2014.

The Plan’s annual required contributions and actual contributions for the year ended June 30, 2014 is set forth below:

| <u>Fiscal Year</u> | <u>Annual OPEB Cost (AOC)</u> | <u>Actual Contribution</u> | <u>Percentage of AOC Contributed</u> | <u>Net OPEB Obligation</u> |
|--------------------|---------------------------------------|--------------------------------|--|--------------------------------|
| 6/30/2012 | \$1,250,000 | \$366,595 | 29% | \$3,212,055 |
| 6/30/2013 | 1,318,000 | 677,318 | 51% | 3,852,737 |
| 6/30/2014 | 1,386,000 | 1,364,212 | 98% | 3,874,525 |

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 10 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the last two years' actuarial studies are presented below:

| Fiscal Year | Actuarial Value of Assets | Entry Age Actuarial Accrued Liability | Overfunded (Underfunded) Actuarial Accrued Liability | Funded Ratio | Covered Payroll | Overfunded (Underfunded) Actuarial Liability as Percentage of Covered Payroll |
|-------------|---------------------------|---------------------------------------|--|--------------|-----------------|---|
| 6/30/2009 | 1/0/1900 | \$12,536,000 | (\$12,536,000) | 0% | \$8,281,000 | (151.4%) |
| 6/30/2012 | 6/8/8706 | 12,488,000 | (10,002,000) | 19.9% | 8,210,000 | (121.8%) |

NOTE 11 – NET POSITION AND FUND BALANCES

A. Net Position

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 captions. These captions apply only to Net Position, which is determined only at the Government-wide level, and are described below:

Net investment in Capital Assets, describes the portion of Net Position which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects and debt service requirements.

Unrestricted describes the portion of Net Position which is not restricted to use.

B. Fund Balance

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities.

The City's fund balances are classified based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the City prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint.

Nonspendables represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Fund balances required to be maintained intact, such as Permanent Funds, and assets not expected to be converted to cash, such as prepaids, notes receivable, and land held for redevelopment are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then Nonspendable amounts are required to be presented as a component of the applicable category.

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 11 – NET POSITION AND FUND BALANCES (Continued)

Restricted fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.

Committed fund balances have constraints imposed by formal action of the City Council which may be altered only by formal action of the City Council. Encumbrances and nonspendable amounts subject to council commitments are included along with spendable resources.

Assigned fund balances are amounts constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the City Council or its designee and may be changed at the discretion of the City Council or its designee. This category includes encumbrances; Nonspendables, when it is the City's intent to use proceeds or collections for a specific purpose, and residual fund balances, if any, of Special Revenue, Capital Projects and Debt Service Funds which have not been restricted or committed.

Unassigned fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual general fund balance and residual fund deficits, if any, of other governmental funds.

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 11 – NET POSITION AND FUND BALANCES (Continued)

Detailed classifications of the City's Fund Balances, as of June 30, 2014, are below:

| | General Fund | Equipment Replacement Capital Project Funds | Other Governmental Funds | Total |
|-------------------------------------|--------------------|--|--------------------------------|---------------------|
| Fund balances: | | | | |
| Restricted for: | | | | |
| Projects and Services | | | \$129,410 | \$129,410 |
| Street Projects | | | 489,279 | 489,279 |
| Measure D | | | 142,723 | 142,723 |
| Measure B Sales Tax | | | 396,137 | 396,137 |
| Measure F | | | 141,876 | 141,876 |
| Athletic Facility Preservation Fund | | | \$28,570 | \$28,570 |
| Abandoned Vehicle | | | 39,843 | 39,843 |
| COPS | \$213,467 | | | 213,467 |
| Total Restricted | <u>213,467</u> | | <u>1,367,838</u> | <u>1,581,305</u> |
| Assigned: | | | | |
| Capital Improvement | | | 496,877 | 496,877 |
| Equipment Replacement | | \$4,975,898 | | 4,975,898 |
| Sidewalk Repair | | | 47,906 | 47,906 |
| Schoolmates Program | | | 226,981 | 226,981 |
| Undergrounding Administration | | | 58,938 | 58,938 |
| Total Assigned | | <u>4,975,898</u> | <u>830,702</u> | <u>5,806,600</u> |
| Unassigned: | | | | |
| General Fund | 4,489,850 | | | 4,489,850 |
| Total Unassigned | <u>4,489,850</u> | | | <u>4,489,850</u> |
| Total Fund Balances | <u>\$4,703,317</u> | <u>\$4,975,898</u> | <u>\$2,198,540</u> | <u>\$11,877,755</u> |

C. Fund Equity Deficits

The Employee Benefits Internal Service Fund had a net deficit of \$3,874,525 at June 30, 2014.

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 12 – RISK MANAGEMENT

The City participates in the following public entity risk pools, which operate under agreements with the City and the other participating governmental entities.

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, 2014, the City contributed \$387,036 for current year coverage. The City also received a refund from prior year of \$1,326.

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, 2014, the City contributed \$196,487 for current year coverage. The City also received a refund from prior year of \$9,718.

Each risk pool is governed by a board consisting of representatives from member municipalities. The board controls the operations of each risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

The City’s contributions to each risk pool equal 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.

Audited financial statements may be obtained from BCJPIA and LAWCX at 6371 Auburn Boulevard, Suite B, Citrus Heights, CA 95621.

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 years ended June 30, 2013 and 2014:

| | Insurance Liabilities Fund | | Workers' Compensation Fund | | Totals | |
|-------------------|----------------------------|-----------------|----------------------------|------------------|--------------------|--------------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Beginning balance | \$75,363 | \$79,992 | \$972,000 | \$846,000 | \$1,047,363 | \$925,992 |
| Incurred claims | 36,196 | 34,768 | 199,487 | 532,023 | 235,683 | 566,791 |
| Claims paid | (30,251) | (39,397) | (196,487) | (406,023) | (226,738) | (445,420) |
| Ending balance | <u>\$81,308</u> | <u>\$75,363</u> | <u>\$975,000</u> | <u>\$972,000</u> | <u>\$1,056,308</u> | <u>\$1,047,363</u> |
| Current portion | <u>\$17,226</u> | <u>\$18,101</u> | <u>\$283,123</u> | <u>\$292,747</u> | <u>\$300,349</u> | <u>\$310,848</u> |

CITY OF PIEDMONT
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 13 – PARCEL TAX

The City of Piedmont is required by its 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, 2014 did not exceed the 25 percent of expenditures limitation.

| | Amount |
|--|--------------|
| General Fund expenditures | \$21,521,298 |
| Fund balance limitation, 25% of expenditures | 5,380,325 |
| General Fund balance at year end | 4,703,317 |
| Amount below fund balance limitation | \$677,008 |

NOTE 14 – COMMITMENT & CONTINGENT LIABILITIES

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney, there is no pending litigation that is likely to have a material adverse effect on the financial position of the City.

The City participates in several Federal and State Grant programs. These programs are subject to examination by the grantors and the amount, if any, of expenditures, which may be disallowed by the granting agencies, and cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

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REQUIRED SUPPLEMENTARY INFORMATION

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

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|--------------------|----------------------|--------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Property tax | \$9,426,167 | \$10,089,000 | \$10,148,610 | \$59,610 |
| Sales tax | 150,000 | 150,000 | 201,310 | 51,310 |
| Franchise tax | 405,000 | 405,000 | 463,661 | 58,661 |
| Utility users tax | 1,255,000 | 1,255,000 | 1,207,295 | (47,705) |
| Real property transfer tax | 2,800,000 | 2,800,000 | 4,001,012 | 1,201,012 |
| Business license and rental tax | 440,000 | 440,000 | 488,834 | 48,834 |
| Licenses and permits | 401,500 | 401,500 | 474,390 | 72,890 |
| Use of money and property | 402,000 | 402,600 | 425,101 | 22,501 |
| Other agencies | 1,252,008 | 1,352,008 | 1,395,489 | 43,481 |
| Parcel tax | 1,630,000 | 1,630,000 | 1,606,229 | (23,771) |
| Current service charges | 2,557,000 | 2,557,000 | 2,771,555 | 214,555 |
| Other revenues | 90,000 | 90,000 | 125,772 | 35,772 |
| Total Revenues | 20,808,675 | 21,572,108 | 23,309,258 | 1,737,150 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Administration | 2,477,370 | 2,786,325 | 2,465,105 | 321,220 |
| Public works | 4,214,072 | 4,359,760 | 4,144,868 | 214,892 |
| Public safety: | | | | |
| Police services | 5,685,349 | 5,789,100 | 5,224,978 | 564,122 |
| Fire services | 5,359,300 | 5,580,200 | 4,956,826 | 623,374 |
| Recreation | 2,530,392 | 2,658,830 | 2,440,376 | 218,454 |
| Nondepartmental | 366,471 | 2,217,974 | 2,206,668 | 11,306 |
| Capital outlay | 120,250 | 85,899 | 82,477 | 3,422 |
| Total Expenditures | 20,753,204 | 23,478,088 | 21,521,298 | 1,956,790 |
| EXCESS OF REVENUES OVER EXPENDITURES | 55,471 | (1,905,980) | 1,787,960 | 3,693,940 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 1,305,000 | 1,433,123 | 1,304,079 | (129,044) |
| Transfers (out) | (2,197,000) | (2,799,690) | (2,739,610) | 60,080 |
| Total Other Financing Sources (Uses) | (892,000) | (1,366,567) | (1,435,531) | (68,964) |
| NET CHANGE IN FUND BALANCE | (\$836,529) | (\$3,272,547) | 352,429 | \$3,624,976 |
| BEGINNING FUND BALANCE | | | 4,350,888 | |
| ENDING FUND BALANCE | | | \$4,703,317 | |

| |
|--|
| NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION |
|--|

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 except for the Undergrounding Administration Special Revenue Fund, the Measure F Special Revenue Fund, the Athletic Facilities Preservation Fund and the Capital Improvement Capital Projects Fund. The budgetary comparison schedules present both the original adopted budget and the final budget with all amendments.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Police and Fire Pension Plan (closed plan)

| | 2014 |
|--|---------------|
| Total pension liability | |
| Service cost | \$0 |
| Interest | 156,380 |
| Changes of benefit terms | 0 |
| Differences between expected and actual experience | 0 |
| Changes of assumptions | 0 |
| Benefit payments, including refunds of employee contributions | (283,192) |
| Net change in total pension liability | (126,812) |
| Total pension liability - beginning | 2,745,865 |
| Total pension liability - ending (a) | \$2,619,053 |
| Plan fiduciary net position | |
| Contributions - employer | \$0 |
| Contributions - employee | 0 |
| Net investment income | 1,837,732 |
| Benefit payments, including refunds of employee contributions | (283,192) |
| Administrative expense | 0 |
| Net change in plan fiduciary net position | 1,554,540 |
| Plan fiduciary net position - beginning | 10,164,732 |
| Plan fiduciary net position - ending (b) | \$11,719,272 |
| Plan's net pension liability - ending (a) - (b) | (\$9,100,219) |
| Fiduciary Net Position as percentage of Total Pension Liability | 447% |
| Covered employee payroll | 0 |
| Net Pension Liability as percentage of covered employee payroll | NA |

The Total Pension Liability as of the beginning of the year is a roll-back of the June 30, 2014 Total Pension Liability.

| |
|--|
| NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION |
|--|

Police and Fire Pension Plan (continued)

Employer Actuarial Determined Contribution for Fiscal Year 2013-14:

| (1) | (2) | (3) | (4) | (5) |
|--|---------------------------|---|---------------------------------|---|
| Actuarially Determined Contribution (ADC) | Employer Contributions | Contribution Deficiency (Excess) (1) - (2) | Covered- Employee Payroll | ADC / Covered- Employee Payroll (1)/(4) |
| \$0 | \$0 | \$0 | \$0 | \$0 |

The Actuarially Determined Contribution is based on same assumptions as the Net Pension Liability.

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NON-MAJOR GOVERNMENTAL FUNDS

CITY OF PIEDMONT
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2014

SPECIAL REVENUE FUNDS

| | Street Projects | Schoolmates Program | Projects and Services | Measure D | Sidewalk Repair |
|-------------------------------------|--------------------|------------------------|--------------------------|------------------|--------------------|
| ASSETS | | | | | |
| Cash and investments | \$489,279 | \$242,764 | \$128,316 | \$138,040 | \$47,906 |
| Receivables: | | | | | |
| Taxes | | | | | |
| Accounts | | | 2,461 | 5,000 | |
| Total Assets | <u>\$489,279</u> | <u>\$242,764</u> | <u>\$130,777</u> | <u>\$143,040</u> | <u>\$47,906</u> |
| LIABILITIES | | | | | |
| Accounts payable | | \$4,327 | \$1,367 | \$317 | |
| Accrued wages and benefits | | 11,456 | | | |
| Total Liabilities | | <u>15,783</u> | <u>1,367</u> | <u>317</u> | |
| FUND BALANCE | | | | | |
| Restricted | \$489,279 | | 129,410 | 142,723 | |
| Assigned | | 226,981 | | | \$47,906 |
| Total Fund Balances | <u>489,279</u> | <u>226,981</u> | <u>129,410</u> | <u>142,723</u> | <u>47,906</u> |
| Total Liabilities and Fund Balances | <u>\$489,279</u> | <u>\$242,764</u> | <u>\$130,777</u> | <u>\$143,040</u> | <u>\$47,906</u> |

CITY OF PIEDMONT
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2014

| SPECIAL REVENUE FUNDS | | | | | CAPITAL PROJECTS FUND | Total Nonmajor Governmental Funds |
|-----------------------|----------------------------------|------------------------|------------------|--|-----------------------------|--|
| Abandoned Vehicle | Undergrounding Administration | Measure B Sales Tax | Measure F | Athletic Facility Preservation Fund | Capital Improvement | |
| \$38,692 | \$60,581 | \$323,373 | \$133,404 | \$28,570 | \$412,649 | \$2,043,574 |
| | | 106,829 | | | | 106,829 |
| 1,151 | | | 8,472 | | 95,511 | 112,595 |
| <u>\$39,843</u> | <u>\$60,581</u> | <u>\$430,202</u> | <u>\$141,876</u> | <u>\$28,570</u> | <u>\$508,160</u> | <u>\$2,262,998</u> |
| | \$1,643 | \$34,065 | | | \$11,283 | \$53,002 |
| | 1,643 | 34,065 | | | 11,283 | 11,456 |
| \$39,843 | | 396,137 | \$141,876 | \$28,570 | | 1,367,838 |
| | 58,938 | | | | 496,877 | 830,702 |
| 39,843 | 58,938 | 396,137 | 141,876 | 28,570 | 496,877 | 2,198,540 |
| <u>\$39,843</u> | <u>\$60,581</u> | <u>\$430,202</u> | <u>\$141,876</u> | <u>\$28,570</u> | <u>\$508,160</u> | <u>\$2,262,998</u> |

CITY OF PIEDMONT
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

| | SPECIAL REVENUE FUNDS | | | | |
|--|-----------------------|------------------------|--------------------------|------------------|--------------------|
| | Street Projects | Schoolmates Program | Projects and Services | Measure D | Sidewalk Repair |
| REVENUES | | | | | |
| Use of money and property | \$641 | \$433 | \$2 | \$558 | |
| Other agencies | | | | | |
| Measure B tax | | | | | |
| Gas tax | 346,970 | | | | |
| Current service charges | | 910,737 | | | |
| Contribution and donations | | | 35,150 | | |
| Other revenues | | | | 27,286 | |
| Total Revenues | 347,611 | 911,170 | 35,152 | 27,844 | |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| Administration | | | | | |
| Public works | | | | 19,256 | \$14,607 |
| Street improvement | | | | | |
| Recreation | | 773,657 | | | |
| Capital outlay | | 3,642 | | | |
| Total Expenditures | | 777,299 | | 19,256 | 14,607 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 347,611 | 133,871 | 35,152 | 8,588 | (14,607) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Proceeds from debt | | | | | |
| Transfers in | | | | | |
| Transfers (out) | (300,000) | | (154,600) | (14,356) | |
| Total Other Financing Sources (Uses) | (300,000) | | (154,600) | (14,356) | |
| NET CHANGE IN FUND BALANCES | 47,611 | 133,871 | (119,448) | (5,768) | (14,607) |
| BEGINNING FUND BALANCES | 441,668 | 93,110 | 248,858 | 148,491 | 62,513 |
| ENDING FUND BALANCES | \$489,279 | \$226,981 | \$129,410 | \$142,723 | \$47,906 |

| SPECIAL REVENUE FUNDS | | | | | CAPITAL PROJECT FUND | Total Nonmajor Governmental Funds |
|-----------------------|-------------------------------|---------------------|-----------|-------------------------------------|----------------------|-----------------------------------|
| Abandoned Vehicle | Undergrounding Administration | Measure B Sales Tax | Measure F | Athletic Facility Preservation Fund | Capital Improvement | |
| | | \$1,417 | \$213 | | | \$3,264 |
| \$4,566 | | 487,322 | 47,254 | | \$119,663 | 171,483 |
| | | | | \$28,729 | | 487,322 |
| | \$21,227 | | | | | 346,970 |
| | | | | | | 939,466 |
| | | | | | | 35,150 |
| | | | | | | 48,513 |
| 4,566 | 21,227 | 488,739 | 47,467 | 28,729 | 119,663 | 2,032,168 |
| | 21,227 | | | | | 21,227 |
| | | 650,924 | | | | 33,863 |
| | | | | 32,325 | | 650,924 |
| | | | | | 912,808 | 805,982 |
| | | | | | | 916,450 |
| | 21,227 | 650,924 | | 32,325 | 912,808 | 2,428,446 |
| 4,566 | | (162,185) | 47,467 | (3,596) | (793,145) | (396,278) |
| | | | | | 95,000 | 95,000 |
| | | | | | (30,123) | (499,079) |
| | | | | | 64,877 | (404,079) |
| 4,566 | | (162,185) | 47,467 | (3,596) | (728,268) | (800,357) |
| 35,277 | 58,938 | 558,322 | 94,409 | 32,166 | 1,225,145 | 2,998,897 |
| \$39,843 | \$58,938 | \$396,137 | \$141,876 | \$28,570 | \$496,877 | \$2,198,540 |

CITY OF PIEDMONT
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULES OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

| | SPECIAL REVENUE FUNDS | | | | | |
|--|-----------------------|------------------|------------------------------------|---------------------|------------------|------------------------------------|
| | Street Projects | | | Schoolmates Program | | |
| | Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) |
| REVENUES | | | | | | |
| Use of money and property | | \$641 | \$641 | \$600 | \$433 | (\$167) |
| Other agencies | | | | | | |
| Measure B tax | | | | | | |
| Gas tax | \$177,700 | 346,970 | 169,270 | | | |
| Contribution and donations | | | | | | |
| Current service charges | | | | 780,800 | 910,737 | 129,937 |
| Other revenues | | | | | | |
| Total Revenues | <u>177,700</u> | <u>347,611</u> | <u>169,911</u> | <u>781,400</u> | <u>911,170</u> | <u>129,770</u> |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| Public works | | | | | | |
| Recreation | | | | 812,850 | 773,657 | 39,193 |
| Capital outlay | | | | 12,000 | 3,642 | 8,358 |
| Total Expenditures | | | | <u>824,850</u> | <u>777,299</u> | <u>47,551</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>177,700</u> | <u>347,611</u> | <u>169,911</u> | <u>(43,450)</u> | <u>133,871</u> | <u>177,321</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | | | | | | |
| Transfers (out) | <u>(200,000)</u> | <u>(300,000)</u> | <u>(100,000)</u> | | | |
| Total Other Financing Sources (Uses) | <u>(200,000)</u> | <u>(300,000)</u> | <u>(100,000)</u> | | | |
| NET CHANGES IN FUND BALANCES | <u>(\$22,300)</u> | 47,611 | <u>\$69,911</u> | <u>(\$43,450)</u> | 133,871 | <u>\$177,321</u> |
| BEGINNING FUND BALANCES | | <u>441,668</u> | | | <u>93,110</u> | |
| ENDING FUND BALANCES | | <u>\$489,279</u> | | | <u>\$226,981</u> | |

SPECIAL REVENUE FUNDS

| Projects and Services | | | Measure D | | | Sidewalk Repair | | |
|-----------------------|------------------|------------------------------|-------------------|------------------|------------------------------|-----------------|-----------------|------------------------------|
| Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) |
| | \$2 | \$2 | | \$558 | \$558 | | | |
| \$25,000 | 35,150 | 10,150 | | | | | | |
| 70,000 | | (70,000) | \$36,200 | 27,286 | (8,914) | \$3,000 | | \$3,000 |
| 95,000 | 35,152 | (59,848) | 36,200 | 27,844 | (8,356) | 3,000 | | 3,000 |
| | | | 44,953 | 19,256 | 25,697 | 3,000 | \$14,607 | (11,607) |
| | | | 44,953 | 19,256 | 25,697 | 3,000 | 14,607 | (11,607) |
| 95,000 | 35,152 | (59,848) | (8,753) | 8,588 | 17,341 | | (14,607) | (14,607) |
| | (154,600) | (154,600) | (15,000) | (14,356) | 644 | | | |
| | (154,600) | (154,600) | (15,000) | (14,356) | 644 | | | |
| <u>\$95,000</u> | <u>(119,448)</u> | <u>(\$214,448)</u> | <u>(\$23,753)</u> | <u>(5,768)</u> | <u>\$17,985</u> | | <u>(14,607)</u> | <u>(\$14,607)</u> |
| | 248,858 | | | 148,491 | | | 62,513 | |
| | <u>\$129,410</u> | | | <u>\$142,723</u> | | | <u>\$47,906</u> | |

(Continued)

CITY OF PIEDMONT
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULES OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

| | SPECIAL REVENUE FUNDS | | | | | |
|--|-----------------------|-----------------|------------------------------------|---------------------|------------------|------------------------------------|
| | Abandoned Vehicle | | | Measure B Sales Tax | | |
| | Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) |
| REVENUES | | | | | | |
| Use of money and property | | | | | \$1,417 | \$1,417 |
| Other agencies | \$3,000 | \$4,566 | \$1,566 | | | |
| Measure B tax | | | | \$412,000 | 487,322 | 75,322 |
| Gas tax | | | | | | |
| Contribution and donations | | | | | | |
| Current service charges | | | | | | |
| Other revenues | | | | | | |
| Total Revenues | <u>3,000</u> | <u>4,566</u> | <u>1,566</u> | <u>412,000</u> | <u>488,739</u> | <u>76,739</u> |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| Public works | | | | 788,437 | 650,924 | 137,513 |
| Recreation | | | | | | |
| Capital outlay | | | | | | |
| Total Expenditures | | | | <u>788,437</u> | <u>650,924</u> | <u>137,513</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>3,000</u> | <u>4,566</u> | <u>1,566</u> | <u>(376,437)</u> | <u>(162,185)</u> | <u>214,252</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | | | | | | |
| Transfers (out) | | | | | | |
| Total Other Financing Sources (Uses) | | | | | | |
| NET CHANGES IN FUND BALANCES | <u>\$3,000</u> | 4,566 | <u>\$1,566</u> | <u>(\$376,437)</u> | (162,185) | <u>\$214,252</u> |
| BEGINNING FUND BALANCES | | <u>35,277</u> | | | <u>558,322</u> | |
| ENDING FUND BALANCES | | <u>\$39,843</u> | | | <u>\$396,137</u> | |

INTERNAL SERVICE FUNDS

The Internal Service Funds are used to account for the financing of goods or services provided by one department to other departments of the City 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
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2014

| | Employee Benefits | Workers Compensation | Insurance Liabilities | Total |
|-------------------------------|-----------------------------|-------------------------|--------------------------|-----------------------------|
| ASSETS | | | | |
| Cash and investments | \$1,580,654 | \$1,314,337 | \$365,390 | \$3,260,381 |
| Total Assets | <u>1,580,654</u> | <u>1,314,337</u> | <u>365,390</u> | <u>3,260,381</u> |
| LIABILITIES | | | | |
| Accounts payable | 819,354 | 10,890 | 1,912 | 832,156 |
| Compensated absences payable: | | | | |
| Due within one year | 381,971 | | | 381,971 |
| Due in more than one year | 379,329 | | | 379,329 |
| Net OPEB Obligation: | | | | |
| Due in more than one year | 3,874,525 | | | 3,874,525 |
| Claims payable: | | | | |
| Due within one year | | 283,123 | 17,226 | 300,349 |
| Due in more than one year | | 691,877 | 64,082 | 755,959 |
| Total Liabilities | <u>5,455,179</u> | <u>985,890</u> | <u>83,220</u> | <u>6,524,289</u> |
| NET POSITION | | | | |
| Unrestricted | <u>(3,874,525)</u> | <u>328,447</u> | <u>282,170</u> | <u>(3,263,908)</u> |
| Total Net Position (Deficit) | <u><u>(\$3,874,525)</u></u> | <u><u>\$328,447</u></u> | <u><u>\$282,170</u></u> | <u><u>(\$3,263,908)</u></u> |

CITY OF PIEDMONT
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

| | Employee Benefits | Workers Compensation | Insurance Liabilities | Total |
|---|----------------------|-------------------------|--------------------------|----------------------|
| OPERATING EXPENSES | | | | |
| Net OPEB expense | \$1,153,142 | | | \$1,153,142 |
| Insurance and claims expenses | | \$454,175 | \$392,981 | 847,156 |
| Total Operating Expenses | 1,153,142 | 454,175 | 392,981 | 2,000,298 |
| Operating Income (Loss) Before Transfers | (1,153,142) | (454,175) | (392,981) | (2,000,298) |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Other income | 1,131,354 | 525,000 | 410,000 | 2,066,354 |
| Total Nonoperating Revenues (Expenses) | 1,131,354 | 525,000 | 410,000 | 2,066,354 |
| Change in Net Position | (21,788) | 70,825 | 17,019 | 66,056 |
| BEGINNING NET POSITION (DEFICIT) | (3,852,737) | 257,622 | 265,151 | (3,329,964) |
| ENDING NET POSITION (DEFICIT) | (\$3,874,525) | \$328,447 | \$282,170 | (\$3,263,908) |

CITY OF PIEDMONT
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

| | Employee Benefits | Workers Compensation | Insurance Liabilities | Total |
|--|----------------------|-------------------------|--------------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Claims and premiums paid | | (\$445,257) | (\$387,006) | (\$832,263) |
| Cash Flows from Operating Activities | | (445,257) | (387,006) | (832,263) |
| CASH FLOWS FROM NON-OPERATING ACTIVITIES | | | | |
| Other income | \$758,413 | 525,000 | 410,000 | 1,693,413 |
| Cash Flows from Non-operating Activities | 758,413 | 525,000 | 410,000 | 1,693,413 |
| Net Cash Flows | 758,413 | 79,743 | 22,994 | 861,150 |
| Cash and investments at beginning of period | 822,241 | 1,234,594 | 342,396 | 2,399,231 |
| Cash and investments at end of period | <u>\$1,580,654</u> | <u>\$1,314,337</u> | <u>\$365,390</u> | <u>\$3,260,381</u> |
| Reconciliation of operating income (loss) to net cash flows from operating activities: | | | | |
| Operating income (loss) | (\$1,153,142) | (\$454,175) | (\$392,981) | (\$2,000,298) |
| Adjustments to reconcile operating income to net cash flows from operating activities: | | | | |
| Other income | 1,131,354 | 525,000 | 410,000 | 2,066,354 |
| Change in assets and liabilities: | | | | |
| Accounts payable | 819,354 | 5,937 | 30 | 825,321 |
| Accrued payroll | | (19) | | (19) |
| Compensated absences liability | (60,941) | | | (60,941) |
| Net OPEB Obligation | 21,788 | | | 21,788 |
| Claims payable | | 3,000 | 5,945 | 8,945 |
| Cash Flows from Operating Activities | <u>\$758,413</u> | <u>\$79,743</u> | <u>\$22,994</u> | <u>\$861,150</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
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2014

| | Balance June 30, 2013 | Additions | Deductions | Balance June 30, 2014 |
|---|--------------------------|----------------|-----------------|--------------------------|
| <hr/> <u>Dudley/Blair</u> <hr/> | | | | |
| Assets: | | | | |
| Restricted cash and investments | \$166,902 | | \$8,070 | \$158,832 |
| Accounts receivable | 1,899 | \$3,404 | | 5,303 |
| Total Assets | <u>\$168,801</u> | <u>\$3,404</u> | <u>\$8,070</u> | <u>\$164,135</u> |
| Liabilities: | | | | |
| Due to bondholders | \$168,801 | \$3,404 | \$8,070 | \$164,135 |
| Total Liabilities | <u>\$168,801</u> | <u>\$3,404</u> | <u>\$8,070</u> | <u>\$164,135</u> |
| <hr/> <u>Wildwood/Crocker</u> <hr/> | | | | |
| Assets: | | | | |
| Restricted cash and investments | \$63,912 | | \$2,220 | \$61,692 |
| Total Assets | <u>\$63,912</u> | | <u>\$2,220</u> | <u>\$61,692</u> |
| Liabilities: | | | | |
| Accounts payable | \$965 | | | \$965 |
| Due to bondholders | 62,947 | | \$2,220 | 60,727 |
| Total Liabilities | <u>\$63,912</u> | | <u>\$2,220</u> | <u>\$61,692</u> |
| <hr/> <u>Piedmont Hills Underground</u> <hr/> | | | | |
| Assets: | | | | |
| Restricted cash and investments | \$286,213 | | \$3,275 | \$282,938 |
| Accounts receivable | 11,435 | | 861 | 10,574 |
| Total Assets | <u>\$297,648</u> | | <u>\$4,136</u> | <u>\$293,512</u> |
| Liabilities: | | | | |
| Deposit payable | \$297,648 | | \$4,136 | \$293,512 |
| Total Liabilities | <u>\$297,648</u> | | <u>\$4,136</u> | <u>\$293,512</u> |
| <hr/> <u>Total Agency Funds</u> <hr/> | | | | |
| Assets: | | | | |
| Restricted cash and investments | \$517,027 | | \$13,565 | \$503,462 |
| Accounts receivable | 13,334 | \$3,404 | 861 | 15,877 |
| Total Assets | <u>\$530,361</u> | <u>\$3,404</u> | <u>\$14,426</u> | <u>\$519,339</u> |
| Liabilities: | | | | |
| Accounts payable | \$965 | | | \$965 |
| Deposit payable | 297,648 | | \$4,136 | 293,512 |
| Due to bondholders | 231,748 | \$3,404 | 10,290 | 224,862 |
| Total Liabilities | <u>\$530,361</u> | <u>\$3,404</u> | <u>\$14,426</u> | <u>\$519,339</u> |



**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 Honorable Members of the City Council
City of 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 basic financial statements of the City of Piedmont, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 18, 2014. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

We have also issued a separate Memorandum on Internal Control dated November 18, 2014 which is an integral part of our audit and should be read in conjunction with this report.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maze & Associates

Pleasant Hill, California
November 18, 2014

**CITY OF PIEDMONT
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS
FOR THE YEAR ENDED JUNE 30, 2014**

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**CITY OF PIEDMONT
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS**

For The Year Ended June 30, 2014

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MEMORANDUM ON INTERNAL CONTROL

To the City Council of
The City of Piedmont, California

In planning and performing our audit of the basic financial statements of the City of Piedmont for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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.

Included in the Schedule of Other Matters are recommendations not meeting the above definition that we believe to be of potential benefit to the City.

The City's written responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, City Council, others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
November 18, 2014

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**CITY OF PIEDMONT
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF OTHER MATTERS

FS2014-01: Current Vendor Contract (This item was also noted in fiscal 2012 and 2013.)

Criteria: Under Section 2.159 of the City Purchasing Policy, a vendor contract is required for the purchase of supplies, services and equipment of value greater than \$10,000. The contract should be kept current.

Condition: In our prior year audit for the fiscal year ended June 30, 2013, we selected a sample of 40 disbursement transactions for our testing. Two check payments in the amounts of \$14,747 (check number xx647) and \$21,298 (check number xx202) were made during fiscal year 2013 to Cleary Brothers Landscape Inc. for monthly landscape maintenance for the month of August, and September-October 2012, respectively. The contract that City Staff provided to us for our review was from 2004.

Furthermore, the City could not obtain contracts for seven of the check payments of \$34,348 (check number xx241) for Striping Graphics for the pavement maintenance for August-September 2012, \$13,423 (check number xx599) for Diamond Tree Service for sewer maintenance services, \$12,500 (check number xx581) from Bartel Associates, LLC for the post-retirement healthcare valuation services, \$21,300 (check number xx930) from C. Rapella & Sons, Inc. for miscellaneous sidewalk repairs, \$13,407 (check number xx979) from Superior Equipment Co. for purchases of supplies and miscellaneous products, \$11,264 (check number xx167) from Golden Gate Petroleum for gasoline corporation yard delivery, and \$12,105 (check number xx331) from Wesco Graphics, Inc. for payment of printing brochure copies.

Effect: The City does not have a current contract to ensure that the payments made to this vendor were based on a current contract. Furthermore, the City is not in compliance with Section 2.159 of the City Purchasing Policy by not providing all written contract payments for purchases over \$10,000 and not renewing any outdated contracts.

Cause: The City has not entered into new written contracts with vendors whose contracts have expired. In addition, the City was not aware that written contracts were needed before the purchases were made.

Recommendation: The City should make sure that all vendor contracts are in place and are current in order to comply with the City's purchasing policy.

Management Response:

The City concurs with the auditors' findings that vendor contracts should be in place to comply with the City's purchasing policy. In regards to the vendors and invoices mentioned above:

- Cleary Brothers Landscape Inc. – On October 4, 2013, the City issued a request for proposal for landscape maintenance services. Based on the proposals, the City Council approved a contract with Cleary Brothers Landscape Inc. as the lowest responsible bidder at the December 16, 2013 council meeting.
- Striping Graphics – The City has used Striping Graphics to provide pavement services for several years. The City concurs with the auditor's finding and during 2014 will request quotes for pavement marking services and enter into a contract with the selected vendor.
- Diamond Tree Service – The City of Piedmont experienced high winds during the winter which caused tree debris blocking sewer and storm drain access. There was no contract in place as this was emergency work that the City needed to have completed.

**CITY OF PIEDMONT
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF OTHER MATTERS

- Bartel Associates, LLC – The City used Bartel Associates, LLC (Bartel) in the past to prepare the post-retirement healthcare valuation reports. The City had Bartel update the valuation to be in compliance with GASB 45 – Other Post Employment Benefits (OPEB) since they already had most of the information to complete the work. The City does concur that a current contract with Bartel Associates, LLC should have been done.
- C. Rapella & Sons – The City has used C. Rapella & Sons to provide sidewalk repairs for several years. The City concurs with the auditor’s finding and during 2014 will request for quotes for sidewalk repair services and enter into a contract with the selected vendor.
- Superior Equipment Co. – The City has a franchise agreement with Republic Services for garbage and recycling services. The City needed to replace the green waste container at the Corporation Yard and requested Republic Services to do the work as the City’s garbage and recycling provider. Republic Services subcontracts with Superior Equipment to do this work. The City paid Superior Equipment for the new container based on the franchise agreement with Republic Services.
- Golden Gate Petroleum – The City has used Golden Gate Petroleum to provide fuel for several years. The City concurs with the auditor’s finding and during 2014 request for quotes for fuel and enter into a contract with the selected vendor.
- Wesco Graphics – The City has used Wesco Graphics for brochures for its programs for several years and went over the \$10,000 threshold with the additional pages required to advertise for the pool programs. The City concurs with the auditor’s finding and during 2014 request for quotes for brochures and enters into a contract with the selected vendor.

The City will review all payments to vendors during calendar 2013 and verify that contracts are in place as required by the City Municipal Code.

Current Status (Prepared by Management): The City is in the process of finalizing contracts with C. Rapella & Sons, Golden Gate Petroleum, and Wesco Graphics. The City is still in the process of preparing a RFP for pavement services and will be requesting for quotes for work to be done in the summer. The City is also in the process of reviewing and updating the purchasing policy based on current best practices since the last update was done in 1988.

CITY OF PIEDMONT
MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

FS2014-02: Upcoming Governmental Accounting Standards Board (GASB) Pronouncements

The following pronouncements are effective in fiscal year 2014-15:

GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27)

This Statement will have material impact on the City's financial statements. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared.

The following are the major impacts:

- This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (**net pension liability**) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (**total pension liability**), less the amount of the pension plan's **fiduciary net position**.
- Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. If a valuation is not performed as of the measurement date, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 30 months and 1 day prior to the employer's most recent year-end).
- The actuarial present value of projected benefit payments is required to be attributed to periods of employee service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each employee individually, from the period when the employee first accrues pensions through the period when the employee retires.

**CITY OF PIEDMONT
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF OTHER MATTERS

GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27)
(Continued)

Single and Agent Employers

- In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a single or agent employer that does not have a special funding situation is required to recognize a liability equal to the net pension liability. The net pension liability is required to be measured as of a date no earlier than the end of the employer's prior fiscal year (the measurement date), consistently applied from period to period.
- The pension expense and deferred outflows of resources and deferred inflows of resources related to pensions that are required to be recognized by an employer primarily result from changes in the components of the net pension liability—that is, changes in the total pension liability and in the pension plan's fiduciary net position.
- This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change. For example, changes in the total pension liability resulting from current-period service cost, interest on the total pension liability, and changes of benefit terms are required to be included in pension expense immediately. Projected earnings on the pension plan's investments also are required to be included in the determination of pension expense immediately.
- The effects of certain other changes in the net pension liability are required to be included in pension expense over the current and future periods. The effects on the total pension liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees), beginning with the current period. The effect on the net pension liability of differences between the projected earnings on pension plan investments and actual experience with regard to those earnings is required to be included in pension expense in a systematic and rational manner over a closed period of five years, beginning with the current period. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions.
- Employer contributions subsequent to the measurement date of the net pension liability are required to be reported as deferred outflows of resources.

CITY OF PIEDMONT
MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27)
(Continued)

- In governmental fund financial statements: A net pension liability should be recognized to the extent the liability is normally expected to be liquidated with expendable **available** financial resources. Pension expenditures should be recognized equal to the total of (1) amounts paid by the employer to the pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.
- Notes to financial statements of single and agent employers include descriptive information, such as the types of benefits provided and the number and classes of employees covered by the benefit terms. Single and agent employers also should disclose the following information:
 - For the current year, sources of changes in the net pension liability
 - Significant assumptions and other inputs used to calculate the total pension liability, including those about inflation, salary changes, ad hoc postemployment benefit changes (including ad hoc COLAs), and inputs to the discount rate, as well as certain information about mortality assumptions and the dates of experience studies.
 - The date of the actuarial valuation used to determine the total pension liability, information about changes of assumptions or other inputs and benefit terms, the basis for determining employer contributions to the pension plan, and information about the purchase of allocated insurance contracts, if any.
 - Required Supplementary Information: Single and agent employers are required to present in required supplementary information the following information, determined as of the measurement date, for each of the 10 most recent fiscal years:
 - Sources of changes in the net pension liability
 - The components of the net pension liability and related ratios, including the pension plan's fiduciary net position as a percentage of the total pension liability, and the net pension liability as a percentage of covered-employee payroll.
 - Schedule covering each of the 10 most recent fiscal years that includes information about the actuarially determined contribution, contributions to the pension plan, and related ratios. If the contributions of a single or agent employer are not actuarially determined but are established in statute or by contract, the employer should present a schedule covering each of the 10 most recent fiscal years that includes information about the statutorily or contractually required contribution rates, contributions to the pension plan, and related ratios.

**CITY OF PIEDMONT
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF OTHER MATTERS

GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27)
(Continued)

- Significant methods and assumptions used in calculating the actuarially determined contributions, if applicable, should be presented as notes to required supplementary information. In addition, the employer should explain factors that significantly affect trends in the amounts reported in the schedules, such as changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions.

GASB 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date (an amendment of GASB Statement No. 68)

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a state or local government employer (or non-employer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or non-employer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or non-employer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or non-employer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or non-employer contributing entity's beginning net position and expense in the initial period of implementation.

**CITY OF PIEDMONT
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF OTHER MATTERS

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This benefit will be achieved without the imposition of significant additional costs.

GASB 69 – Government Combinations and Disposals of Government Operations

This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

- The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.
- A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.
- This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.
- This statement is applied on a prospective basis. Earlier application is encouraged.

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MEMORANDUM ON INTERNAL CONTROL

CURRENT STATUS OF PRIOR YEAR OTHER MATTERS

2013-01: Super-user Rights of Financial System

Criteria: The financial system super-user is an individual who has full access to the City's financial system including all modules and all functions. If possible, super-user rights should be removed from Finance Department staff. This item was also discussed in prior year Memorandum on Internal Control 2012-01.

Condition: During our inquiry, we noted all employees in the Finance Department have super-user rights.

Cause: There is only limited staff in the Finance Department.

Recommendation: The City should remove the super user rights from all Finance Department employees. Each employee should only have access to the module he/she is responsible for managing. Access to other modules of the financial system not required to perform the duties of a given employee should be limited to a read only basis.

Management Response (Prepared by Management):

The City of Piedmont has a small finance department staff (four employees in total) where each employee is cross trained to perform functions beyond their immediate responsibility. For example, the payroll employee was on medical leave and the accounts payable employee performed the payroll function. The interplay of functions happens frequently in a small finance department and an asset to have the employees cross trained.

The City of Piedmont believes that a number of compensating internal controls are in place to compensate for the lack of segregation of duties which a bigger city might have. For example, the city accountant prepares the budgeted payroll and this is compared to the actual payroll frequently throughout the fiscal year. This control gives some assurance that fictitious employees are not on the payroll. The accounts payable function is performed each week and signed off by the Finance Director. Regarding the general ledger system, the only person who makes journal entries into the financial system is the city accountant and these entries are signed off by the Finance Director. The Finance Director will review system access to see if there are other options while maintaining the functionality of a small finance department.

Current Status (Prepared by Management): The City believes there are internal controls in place but is working with the financial system vendor to modify settings to further improve internal controls.

MEMORANDUM ON INTERNAL CONTROL

CURRENT STATUS OF PRIOR YEAR OTHER MATTERS

2013-02: Current Vendor Contract

Criteria: Under Section 2.159 of the City Purchasing Policy, a vendor contract is required for the purchase of supplies, services and equipment of value greater than \$10,000. The contract should be kept current.

Condition: We selected a sample of 40 disbursement transactions for our testing. Two check payments in the amounts of \$14,747 (check number xx647) and \$21,298 (check number xx202) were made during fiscal year 2013 to Cleary Brothers Landscape Inc. for monthly landscape maintenance for the month of August, and September-October 2012, respectively. The contract that City Staff provided to us for our review was from 2004.

Furthermore, the City could not obtain contracts for seven of the check payments of \$34,348 (check number xx241) for Striping Graphics for the pavement maintenance for August-September 2012, \$13,423 (check number xx599) for Diamond Tree Service for sewer maintenance services, \$12,500 (check number xx581) from Bartel Associates, LLC for the post-retirement healthcare valuation services, \$21,300 (check number xx930) from C. Rapella & Sons, Inc. for miscellaneous sidewalk repairs, \$13,407 (check number xx979) from Superior Equipment Co. for purchases of supplies and miscellaneous products, \$11,264 (check number xx167) from Golden Gate Petroleum for gasoline corporation yard delivery, and \$12,105 (check number xx331) from Wesco Graphics, Inc. for payment of printing brochure copies.

Effect: The City does not have a current contract to ensure that the payments made to this vendor were based on a current contract. Furthermore, the City is not in compliance with Section 2.159 of the City Purchasing Policy by not providing all written contract payments for purchases over \$10,000 and not renewing any outdated contracts.

Cause: The City has not entered into new written contracts with vendors whose contracts have expired. In addition, the City was not aware that written contracts were needed before the purchases were made.

Recommendation: The City should make sure that all vendor contracts are in place and are current in order to comply with the City's purchasing policy.

Current Status: See comment FS2014-01

MEMORANDUM ON INTERNAL CONTROL

CURRENT STATUS OF PRIOR YEAR OTHER MATTERS

2013-03: Recording of Interfund Payments to Internal Service Funds

Criteria: Generally accepted accounting principles (GAAP) requires that interfund payment from other funds to an internal service fund for cost-reimbursement to be recorded as expenditures/expenses in the other funds; and as revenue in the internal service fund.

Condition: In fiscal year 2012-2013, the General Fund made the following interfund payments to the City's three internal service funds: \$512,000 to the Employee Benefits Internal Service Fund, \$550,000 to the Workers Compensation Internal Service Fund and \$450,000 to the Insurance Liabilities Internal Service Fund. The General Fund recorded these payments as transfers out and the internal service funds recorded these interfund receipts as transfers in.

Cause: It has been the City's practice to record these interfund payments as transfers in and transfers out in the internal service fund.

Recommendation: To comply with GAAP, instead of recording these payments as transfers in/out, the City should record these interfund payments as expenditures/expenses in the other funds; and revenues in the internal service funds.

Management Response:

The City concurs with the finding and will record these payments as expenditures in the General Fund and revenues in the Internal Service Funds.

Current Status (Prepared by Management): The City has implemented this recommendation in fiscal year 2013-14.

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REQUIRED COMMUNICATIONS

To the City Council of
the City of Piedmont, California

We have audited the basic financial statements of the City of Piedmont for the year ended June 30, 2014. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards and, *Government Auditing Standards*.

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Piedmont are described in Note 2 to the financial statements. The following Governmental Accounting Standards Board (GASB) Statements became effective:

- *GASB 67 - Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25. This Statement replaces the requirements of Statements 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements.*

The City implemented GASB 67 for the Police and Fire Pension Plan Trust Fund. See Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, Note 9 to the financial statements; and Required Supplementary Information for relevant disclosures.

- *GASB 65 - Items Previously Reported as Assets and Liabilities*
- *GASB 70 - Accounting and Financial Reporting for Nonexchange Financial Guarantees*

The implementation of GASB 65 and GASB 70 did not have a material impact on the City's financial statements.

Unusual Transactions, Controversial or Emerging Areas

We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the City's financial statements were:

Estimated Fair Value of Investments: As of June 30, 2014, the City reported approximately \$33.1 million of cash and investments as measured by fair value as disclosed in the Financial Statements. Fair value is essentially market pricing in effect as of June 30, 2014. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2014.

Estimated Depreciation: Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Estimated Compensated Absences: Accrued compensated absences, which are comprised of accrued vacation and sick leave, is estimated using accumulated unpaid leave hours and hourly pay rates in effect at the end of the fiscal year, and are disclosed in the financial statements. We evaluated the key factors and assumptions used to develop the accrued compensated absences and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Disclosures

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all/certain such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the City Council.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in a management representation letter dated November 18, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information Accompanying the Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

With respect to the required supplementary information accompanying the financial statements, 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 did not express an opinion nor 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.

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

Very truly yours,

Maze & Associates

Pleasant Hill, California
December 18, 2014

CITY OF PIEDMONT
MEASURE B PROGRAM
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2014

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**CITY OF PIEDMONT
MEASURE B PROGRAM**

**Financial Statements
For the Year Ended June 30, 2014**

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INDEPENDENT AUDITOR'S REPORT ON MEASURE B PROGRAM

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

Report on Financial Statements

We have audited the accompanying financial statements of the Measure B Funds of the City of Piedmont (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Measure B Program and are not intended to present fairly the financial positions of the City and the results of its operations in conformity with generally accepted accounting principles.

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 the 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 City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall 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 Measure B Programs of the City as of June 30, 2014, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Kare & Associates

Pleasant Hill, California
November 18, 2014

CITY OF PIEDMONT
MEASURE B PROGRAM
BALANCE SHEET
JUNE 30, 2014

| | <u>Measure B Programs & Projects</u> | | | <u>Total</u> |
|---|--|--|--|------------------|
| | <u>ACTA Measure B</u> | <u>ACTIA Streets and Roads</u> | <u>ACTIA Bike and Pedestrian</u> | |
| ASSETS | | | | |
| Cash and cash equivalents (Note 2) | \$2,374 | \$183,346 | \$166,296 | \$352,016 |
| Measure B receivables | | 63,757 | 5,057 | 68,814 |
| Total Assets | \$2,374 | \$247,103 | \$171,353 | \$420,830 |
| LIABILITIES | | | | |
| Accounts payable and other accrued liabilities | | \$23,131 | \$1,564 | \$24,695 |
| Total Liabilities | | \$23,131 | \$1,564 | 24,695 |
| FUND BALANCES | | | | |
| Restricted for: | | | | |
| Measure B programs & projects | \$2,374 | 223,972 | 169,789 | 396,135 |
| Total Fund Balances | 2,374 | 223,972 | 169,789 | 396,135 |
| Total Liabilities and Fund Balances | \$2,374 | \$247,103 | \$171,353 | \$420,830 |

See accompanying notes to financial statements

CITY OF PIEDMONT
MEASURE B PROGRAM
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

| | <u>Measure B Programs & Projects</u> | | | <u>Total</u> |
|---------------------------------|--|--|--|-------------------------|
| | <u>ACTA Measure B</u> | <u>ACTIA Streets and Roads</u> | <u>ACTIA Bike and Pedestrian</u> | |
| REVENUES | | | | |
| Measure B pass-through revenue | | | | |
| Pass-through allocation | | \$394,629 | \$31,302 | \$425,931 |
| Interest | | 1,313 | 104 | 1,417 |
| | | <u>395,942</u> | <u>31,406</u> | <u>427,348</u> |
| Total Revenue | | <u>395,942</u> | <u>31,406</u> | <u>427,348</u> |
| EXPENDITURES | | | | |
| Public works | | <u>578,191</u> | <u>11,344</u> | <u>589,535</u> |
| Net Change in Fund Balances | | <u>(182,249)</u> | <u>20,062</u> | <u>(162,187)</u> |
| Fund Balance, Beginning of Year | <u>\$2,374</u> | <u>406,221</u> | <u>149,727</u> | <u>558,322</u> |
| Fund Balance, End of Year | <u><u>\$2,374</u></u> | <u><u>\$223,972</u></u> | <u><u>\$169,789</u></u> | <u><u>\$396,135</u></u> |

See accompanying notes to financial statements

**CITY OF PIEDMONT
MEASURE B PROGRAM
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting Entity*

All transactions of the Alameda County Transportation Commission- Measure B Funds (Measure B Program) of the City of Piedmont, California (City), are included as separate special revenue fund and capital project funds in the basic financial statements of the City. Measure B Program is used to account for the City's share of revenues earned and expenditures incurred under the City's streets and roads, and bicycle and pedestrian projects.

The accompanying financial statements are for the Measure B Program only and are not intended to fairly present the financial position of the City or the results of its operations and cash flows of the City in conformity with accounting principles generally accepted in the United States of America.

B. *Basis of Accounting*

The accompanying financial statements are prepared on the modified accrual basis of accounting. Revenues are generally recorded when measurable and available, and expenditures are recorded when the related liabilities are incurred.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a "*current financial resources*" measurement focus, wherein only current assets and current liabilities generally are included on the balance sheets. Operating statements of governmental funds present increased (revenues and other financing sources) and decreased (expenditures and other financing uses) in net current assets.

C. *Description of Fund*

The accounts are maintained on the basis of fund accounting. A fund is a separate accounting entity with a self-balancing set of accounts. The City uses Special Revenue Fund to account for the proceeds of specific revenues (other than for capital projects) that are legally restricted to be expended for specified purposes.

D. *Use of Estimates*

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

NOTE 2 – CASH AND INVESTMENTS

See the City's Basic Financial Statements for disclosures related to cash and investments and the related custodial risk categorization.

**CITY OF PIEDMONT
MEASURE B PROGRAM
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2014**

NOTE 3 – MEASURE B PROGRAM

Under Measure B, approved by the voters of Alameda County in 1986 and 2000, the City receives a portion of the proceeds of an additional on-half cent sales tax to be used for transportation-related expenditures. These measures were adopted with the intention that the funds generated by the additional sales tax will not fund expenditures previously paid by property taxes but, rather, would be used for additional projects and programs.

Projects funded by Measure B were as follows:

Street Resurfacing - To improve, repair, and overlay city streets.

Bike and Pedestrian - To provide sidewalk and ADA improvements and to implement the bikeway network.

The pool of funds held by the County is allocated among the cities in the County, based on the cities' populations and the number of roads within their city limits for other transportation-related projects. Funds allocated for streets and roads; bike lanes and pedestrian lanes are recorded as a special revenue fund.

NOTE 4 - COMMITMENTS AND CONTINGENCIES

The City participates in several grant programs. These programs have been audited by the City's independent accountants in accordance with the provisions of applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.



INDEPENDENT AUDITOR'S REPORT ON MEASURE B COMPLIANCE

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

Report on Compliance for Measure B Funds

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 basic financial statements of the Measure B Funds of the City of Piedmont (City), California, as of and for the year ended June 30, 2014 and the related notes to the financial statements, and have issued our report thereon date November 18, 2014.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants specified in the *Master Programs Funding Agreement* between the City and the Alameda County Transportation Commission.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Measure B funds based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and requirements specified in the *Master Programs Funding Agreement* between the City and the Alameda County Transportation Commission. Those standards and requirements require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on Measure B Funds occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Measure B Funds. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Measure B Funds

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Measure B Funds for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on Measure B Funds to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Measure B Funds and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements, specified in the *Master Programs Funding Agreement* between the City and the Alameda County Transportation Commission. Accordingly, this report is not suitable for any other purpose.

Maze & Associates

Pleasant Hill, California
November 18, 2014

**CITY OF PIEDMONT
ALAMEDA COUNTY
VEHICLE REGISTRATION FEE (VRF)
MEASURE F PROGRAM
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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**CITY OF PIEDMONT
ALAMEDA COUNTY VEHICLE REGISTRATION FEE (VRF)
MEASURE F PROGRAM**

**Financial Statements
For the Year Ended June 30, 2014**

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INDEPENDENT AUDITOR'S REPORT ON MEASURE F PROGRAM

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

Report on Financial Statements

We have audited the accompanying financial statements of the Alameda County Vehicle Registration Fee (VRF) – Measure F Program (Measure F Program) of the City of Piedmont as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Measure F Program and are not intended to present fairly the position of the City and the results of its operations in conformity with general accepted accounting principles.

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 the 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 City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall 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 of the Measure F Program as of June 30, 2014, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maze & Associates

Pleasant Hill, California
November 18, 2014

CITY OF PIEDMONT
ALAMEDA COUNTY VEHICLE REGISTRATION FEE (VRF)
MEASURE F PROGRAM
BALANCE SHEET
JUNE 30, 2014

| | <u>Local Road Improvement and Repair Program</u> |
|-------------------------------------|--|
| ASSETS | |
| Cash and cash equivalent (Note 2) | \$133,404 |
| Receivables | <u>8,472</u> |
| Total Assets | <u><u>\$141,876</u></u> |
| FUND BALANCES | |
| Restricted for: | |
| Measure F programs & projects | <u>\$141,876</u> |
| Total Fund Balances | <u>141,876</u> |
| Total Liabilities and Fund Balances | <u><u>\$141,876</u></u> |

See accompanying notes to financial statements

CITY OF PIEDMONT
ALAMEDA COUNTY VEHICLE REGISTRATION FEE (VRF)
MEASURE F PROGRAM
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

| | <u>Local Road Improvement and Repair Program</u> |
|---------------------------------|--|
| REVENUES | |
| Measure F pass-through revenue | |
| Pass through allocation | \$47,254 |
| Interest | <u>213</u> |
| Total Revenues | <u>47,467</u> |
| Net Change in Fund Balances | <u>47,467</u> |
| Fund Balance, Beginning of Year | <u>94,409</u> |
| Fund Balance, End of Year | <u><u>\$141,876</u></u> |

See accompanying notes to financial statements

CITY OF PIEDMONT
ALAMEDA COUNTY VEHICLE REGISTRATION FEE (VRF) – MEASURE F FUND
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2014

NOTE 1 - BACKGROUND

The Measure F Alameda County Vehicle Registration Fee (Measure F Program) was approved by the voters in November 2010, with 63 percent of the vote. The fee will generate about \$10.7 million per year by a \$10 per year vehicle registration fee. The collection of the \$10 per year vehicle registration fee started in the first week of May 2011. The goal of the VRF program is to sustain the County's transportation network and reduce traffic congestion and vehicle related pollution. The program includes four categories of projects:

- Local Road Improvement and Repair Program (60 percent)
- Transit for Congestion Relief (25 percent)
- Local Transportation Technology (10 percent)
- Pedestrian and Bicyclist Access and Safety Program (5 percent)

The Alameda County Transportation Commission administers the program and distributes an equitable share of funds among the four planning areas of the county over successive five year cycles. Geographic equity will be measure by a formula, weighted 50 percent by population of the planning area and 50 percent of registered vehicles of the planning area.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting Entity*

All transactions of the Measure F Program of the City of Piedmont, California (City) are included as a separate capital project fund in the basic financials statements of the City.

The accompanying financial statements include the Measure F Program only and are not intended to fairly present the financial position, results of operations and cash flows of the City in conformity with accounting principles generally accepted in the United States of America.

B. *Basis of Accounting*

The accompanying financial statements are prepared on the modified accrual basis of accounting. Revenues are generally recorded when measurable and available, and expenditures are recorded when the related liabilities are incurred.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a "*current financial resources*" measurement focus, wherein only current assets and current liabilities generally are included on the balance sheets. Operating statements of governmental funds presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

C. *Description of Fund*

The accounts are maintained on the basis of fund accounting. A fund is a separate accounting entity with a self-balancing set of accounts. The City uses Special Revenue Fund to account for the proceeds of specific revenues (other than for capital projects) that are legally restricted to be expended for specified purposes.

CITY OF PIEDMONT
ALAMEDA COUNTY VEHICLE REGISTRATION FEE (VRF) – MEASURE F FUND
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

NOTE 3 – CASH AND INVESTMENTS

See the City's Basic Financial Statements for disclosures related to cash and investments and the related custodial risk categorization.



INDEPENDENT AUDITOR'S REPORT ON MEASURE F COMPLIANCE

To the Honorable Mayor, Members of the City Council
City of Piedmont, California

Report on Compliance for Measure F Funds

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 Alameda County Transportation Commission Vehicle Registration Fee (VRF) Program (Measure F Funds) of the City of Piedmont, California, (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 18, 2014.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants specified in the *Master Programs Funding Agreement*, between the City and the Alameda County Transportation Commission.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance the Measure F Funds based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and requirement specified in the *Master Programs Funding Agreement* between the city and the Alameda County Transportation Commission. Those standards requirements require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on Measure B Funds. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Measure F Funds. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Measure F Funds

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Measure F Funds for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on Measure F Funds to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Measure B funds and to test and report on internal control over compliance in, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements *Master Programs Funding Agreement* between the City and the Alameda County Transportation Commission. Accordingly, this report is not suitable for any other purpose.

Maze & Associates

Pleasant Hill, California
November 18, 2014



**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED UPON PROCEDURES FOR
COMPLIANCE WITH THE PROPOSITION 111
2014-2015 APPROPRIATIONS LIMIT INCREMENT**

Honorable Mayor and Members of the City Council
City of Piedmont, California

We have performed the procedures below to the Appropriations Limit Worksheet which were agreed to by the City of Piedmont for the year ended June 30, 2015. These procedures, which were suggested by the League of California Cities and presented in their Article XIIB Appropriations Limitation Uniform Guidelines, were performed solely to assist you in meeting the requirements of Section 1.5 of Article XIIB of the California Constitution. Management is responsible for the Appropriations Limit Worksheet. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the City. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures you requested us to perform and our findings were as follows:

- A. We obtained the Appropriations Limit Worksheet and determined that the 2014-2015 Appropriations Limit of \$20,051,978 and annual adjustment factors were adopted by Resolution of the City Council. We also determined that the population and inflation options were selected by a recorded vote of the City Council.
- B. We recomputed the 2014-2015 Appropriations Limit by multiplying the 2013-2014 Prior Year Appropriations Limit by the Total Growth Factor.
- C. For the Appropriations Limit Worksheet, we agreed the Per Capita Income, City Population and County Population Factors to California State Department of Finance Worksheets.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the Appropriations Limit Worksheet. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management and the City Council; however, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

Maze & Associates

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