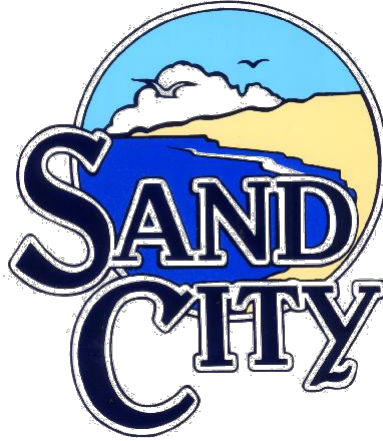




SPECIAL BUDGET MEETING

BUDGET AND PERSONNEL COMMITTEE

THURSDAY, JANUARY 12, 2023

12:00 PM

AGENDA
BUDGET AND PERSONNEL COMMITTEE

SPECIAL Budget Meeting - Thursday, January 12, 2023
12:00 PM

THIS MEETING WILL BE HELD VIRTUALLY AND IN PERSON, IS COMPLIANT WITH ASSEMBLY BILL (“AB”) 361, SIGNED INTO LAW ON SEPTEMBER 16, 2021, WHICH AMENDS GOVERNMENT CODE SECTION 54953 TO PROVIDE AUTHORITY FOR PUBLIC AGENCIES TO HOLD VIRTUAL MEETINGS DURING A PROCLAIMED STATE OF EMERGENCY AND REMAIN IN COMPLIANCE WITH THE BROWN ACT (GOV. CODE §§ 54950 ET SEQ.).

TO PARTICIPATE IN THE ZOOM COUNCIL MEETING LIVE:

<https://us02web.zoom.us/j/4614728829>

Meeting ID: 461 472 8829

To participate telephonically by calling the number below:

(669) 900-6833

Meeting ID: 461 472 8829#

If prompted to enter a participant ID, press #

TO PARTICIPATE IN PERSON:

City Hall Council Chambers

1 Pendergrass Way

Sand City, CA

1. CALL TO ORDER

2. ROLL CALL

3. COMMUNICATIONS

Members of the Public may address the Budget/Personnel Committee on matters not appearing on the Budget/Personnel Committee Agenda at this time for up to three minutes. In order that the Budget/Personnel Committee Secretary may later identify the speaker in the minutes of the meeting, it is helpful if the speakers state their names. Public comments regarding items on the scheduled agenda will be heard at the time the item is being considered by the Budget/Personnel Committee.

4. ORDER OF BUSINESS

4a. Approval of May 26, 2022 Budget/Personnel Committee Meeting Minutes

4b. Consideration and Approval of Audited Financial Statements for Year Ending June 30, 2022

5. ADJOURNMENT

The current agenda is available in PDF format on our website at:

If you have a request for a disability-related modification or accommodation, including auxiliary aids or services, which will allow you to participate in a Sand City public meeting, please call the City Clerk at (831) 394-3054 extension 220, or give your written request to the City Clerk at 1 Pendergrass Way, Sand City, CA 93955 at least 48 hours prior to the scheduled meeting to allow the City Clerk time to arrange for the requested modification or accommodation.

AGENDA ITEM

4.a

**Approval of May 26, 2022
Budget/Personnel Committee Meeting
Minutes**

MINUTES
BUDGET AND PERSONNEL COMMITTEE

Budget Meeting - Thursday, May 26, 2022

3:00 PM

As allowed per Assembly Bill (AB361), this meeting was conducted in person and by
teleconference

AGENDA ITEM 1, CALL TO ORDER

Committee Chair Carbone called the meeting to order at 3:00 P.M.

AGENDA ITEM 2, ROLL CALL

Members Present: Committee Member Kim Cruz
Committee Chair Mary Ann Carbone

Staff Present: Acting City Manager Vibeke Norgaard
Finance Specialist Devon Lazzarino

AGENDA ITEM 3, COMMUNICATIONS

3:02 P.M. Chair Carbone opened the floor for public comment and seeing none,
closed the floor for public comment.

AGENDA ITEM 4, ORDER OF BUSINESS

4a. Approval of February 23, 2022 Budget/Personnel Committee Meeting Minutes

There was no discussion regarding the February 23, 2022
Budget/Personnel Committee Meeting Minutes.

Motion to approve the February 2, 2022 Budget/Personnel Committee
meeting minutes was made by Committee Member Cruz, seconded by
Committee Member Carbone. There was consensus of the Committee to
approve the minutes.

4b. Consideration and Discussion of Fiscal Year 2021-2022 Budget Amendment #2

Finance Specialist Devon Lazzarino presented the staff report on all items
and indicated the changes to the Fiscal year 2021-2022 Budget that required
an amendment.

Motion to approve Amendment #2 to the Fiscal Year 21-22 budget and to bring to the Council for consideration was made by Committee Member Cruz, seconded by Committee Member Carbone. There was consensus of the Budget/Personnel Committee to approve the motion.

4c. Discussion and Approval of Proposed Fiscal Year 2022-2023 Budget

Finance Specialist Devon Lazzarino presented the Staff report. Committee member Cruz asked questions regarding the extent to which the expenditures in 2022-2023 were high due to the fact that items were not available in 2021-2022, because of supply chain issues. Ms. Lazzarino confirmed that this was the case.

There was some discussion regarding the issue with the street sweeper. Committee member Carbone spoke about the need for future vehicles that would be electric powered by 2030, and that the City should be thinking of the future. Questions were raised regarding grant writing. Committee member Carbone requested that the City Manager follow-up with the CCCE grant application and why it was not granted. Committee member Cruz inquired whether there was in-house expertise regarding grant writing.

There was further discussion regarding review of grant applications by the City Manager.

Motion to approve the Proposed Fiscal year 2022-2023 Budget and to bring to the Council for consideration was made by Committee Member Cruz, seconded by Committee Member Carbone. There was consensus of the Budget/Personnel Committee to approve the motion.

AGENDA ITEM 5, CLOSED SESSION

3:20 p.m.

- 5a. Budget/Personnel Committee to adjourn to Closed Session regarding:
1) Closed session pursuant to Cal. Gov Code § 54957.6 (Conference with Labor Negotiator):
Agency designated representatives: City Manager, Vibeke Norgaard
Unrepresented employees: Miscellaneous Employees

The Committee gave direction to the City Manager to bring a recommendation to the Council in Closed Session on June 7, 2022.

AGENDA ITEM 6, ADJOURNMENT

Chair Carbone adjourned the meeting at 3:45 p.m. to the next Budget/Personnel Committee meeting to be announced.

Connie Horca, Committee Secretary
On behalf of City Manager Norgaard

**AGENDA ITEM
4.b**

**Consideration and Approval of Audited
Financial Statements for Year Ending June
30, 2022**



City of Sand City

STAFF REPORT

TO: BUDGET AND PERSONNEL COMMITTEE

FROM: VIBEKE NORGAARD, CITY MANAGER
DEVON LAZZARINO, FINANCE/HR SPECIALIST

SUBJECT: REVIEW OF FY 2021-2022 FINAL AUDIT

DATE: JANUARY 10, 2023

FOR: JANUARY 12, 2023 MEETING

Discussion: On January 12, 2023 the Budget and Personnel Committee will receive a presentation from the City auditors Hayashi & Wayland/CLE Connect. The key takeaways from the FY 2021-2022 draft audit are listed below:

1. The assets of the City of Sand City exceeded its liabilities at the close of the year ended June 30, 2022 by \$32 million. However, \$10 million is a net investment in capital assets, and \$10 million is a noncurrent receivable due from the Successor Agency.
2. The assets and liabilities include \$542,222 that is due to TAMC in regards to a development project.
3. At the close of the fiscal year, the City of Sand City's governmental funds reported a combined ending fund balance of \$23 million, \$10 million of which is a noncurrent receivable. The net change in fund balance was an increase of \$1.6 million.
4. The City of Sand City's total net position increased by approximately \$3.2 million. This increase in the City's end of year net position is due to a combination of factors, including:
 - The City experienced an increase of \$691,000 in total revenues in fiscal year 2021-2022. This increase was mainly due to an increase in sales and transaction tax revenue, due to: (1) Inflationary impacts increasing the cost of goods and materials; (2) New businesses opening in the third and fourth quarters of fiscal year 2020-2021 and start of fiscal year 2022, such as Total Wine & More and the Good Feet Store; Ashley Home Store and Mancini's Sleep world; (3) The high price of gasoline in fiscal year 2021-2022.

- The increase in the City's net position is also the result of a decrease in overall expenditures of \$1,325,000 in part due to:
 - 1) Supply chain issues that resulted in capital outlay items not being completed and expensed in the fiscal year.
 - 2) Personnel changes such as the former City Manager, Aaron Blair, departing and the position being filled by the then City Attorney Norgaard at no additional salary increase for approximately 5 months,
 - 3) The retirement of two police officers.

Additional information will be shared during the auditor's presentation including highlights of the City's assets and liabilities and overall financial position. They will also provide information on how the City's current position compares to the financial position in past years. The auditors will be available for questions from the Council and the public after their presentation.

Fiscal Impact: There is no fiscal impact associated with approving a resolution accepting the audit statements and the auditor's report.

Recommendation: Staff recommends that the Committee review the City's audited financial statements for the Fiscal year ending June 30, 2022 and the Independent Auditor's Report and recommend approval to Council.

CITY OF SAND CITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2022
AND INDEPENDENT AUDITOR'S REPORT

DRAFT

CITY OF SAND CITY

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CITY OF SAND CITY

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DRAFT

CITY OF SAND CITY

JUNE 30, 2022

Members of the City Council

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Mary Ann Carbone	Mayor	December, 2022
Jerry Blackwelder	Vice Mayor	December, 2022
Elizabeth Sofer	Council Member	December, 2022
Gregory Hawthorne	Council Member	December, 2024
Kim Cruz	Council Member	December, 2024

City Staff

<u>Name</u>	<u>Office</u>
Vibeke Norgaard	City Manager
Brian Ferrante	Chief of Police

INDEPENDENT AUDITOR'S REPORT

**The Honorable Mayor and City Council Members
City of Sand City**

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **City of Sand City**, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **City of Sand City**, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the **City of Sand City**, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the **City of Sand City's** ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards (GAS) will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 of Sand City's*** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the ***City of Sand City's*** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 11, the Budgetary Comparison Schedule on page 49, the Schedule of Proportionate Share of the Net Pension Liability on page 51, the Schedule of Contributions – Pension on page 52, the Schedule of Changes in the Net OPEB Liability/(Asset) and Related Ratios on page 53, and the Schedule of Contributions – OPEB on page 54 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Members of the City Council and Staff schedule, which is the responsibility of management, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated **DATE** on our consideration of the ***City of Sand City's*** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the ***City of Sand City's*** internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ***City of Sand City's*** internal control over financial reporting and compliance.

[Firm Signature]

Salinas, California

[Date of the Auditors' Report]

CITY OF SAND CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022

The discussion and analysis of the City of Sand City's financial performance provides an overview and analysis of the City's financial activities for the year ended June 30, 2022. It should be read in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City of Sand City exceeded its liabilities at the close of the year ended June 30, 2022 by \$31 million. However, \$10 million is a net investment in capital assets, and \$10 million is a noncurrent receivable due from the Successor Agency.
- The City of Sand City's total net position increased by \$2.3 million.
- The assets and liabilities include \$542,222 that is due to TAMC in regard to a development project.
- At the close of the year ended June 30, 2022, the City of Sand City's governmental funds reported combined ending fund balances of \$23 million, \$10 million of which is a noncurrent receivable. The net change in fund balances was an increase of \$1.6 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Government-wide Financial Statements (Continued)

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

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

The government-wide financial statements can be found on pages 12 and 13 of this report.

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

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

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

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

The fund financial statements can be found on pages 14 to 19 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 20 through 48 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. The City's net position increased by \$2.3 million in fiscal year 2021–2022 from fiscal year 2020–2021. The City's net investment in assets of \$10 million is used to provide services to citizens; consequently, these assets are not available for future spending. Another \$10 million is a noncurrent receivable leaving approximately \$11.8 million available for operations.

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

	<u>2022</u>	<u>2021</u>	<u>Change</u>
Current and other assets	\$ 27,207,000	\$ 23,792,000	\$ 3,415,000
Capital assets	<u>10,335,000</u>	<u>10,883,000</u>	<u>(548,000)</u>
Total assets	<u>37,542,000</u>	<u>34,675,000</u>	<u>2,867,000</u>
Deferred outflows of resources	<u>1,518,000</u>	<u>1,619,000</u>	<u>(101,000)</u>
Current and other liabilities	926,000	1,022,000	(96,000)
Long-term liabilities	<u>2,888,000</u>	<u>5,641,000</u>	<u>(2,753,000)</u>
Total liabilities	<u>3,814,000</u>	<u>6,663,000</u>	<u>(2,849,000)</u>
Deferred inflows of resources	<u>4,168,000</u>	<u>863,000</u>	<u>3,305,000</u>
Net Investment in capital assets	10,271,000	10,789,000	(518,000)
Restricted for:			
Streets/roads	95,000	88,000	7,000
Beach access repair	30,000	44,000	(14,000)
Unrestricted	<u>20,683,000</u>	<u>17,847,000</u>	<u>2,836,000</u>
Total net position	<u>\$ 31,079,000</u>	<u>\$ 28,768,000</u>	<u>\$ 2,311,000</u>

Current assets increased due to an increase in cash of \$60,000, investments of \$2,170,000, OPEB asset of \$946,000 and receivables of \$239,000.

Capital assets and net investment in capital assets decreased due to depreciation of \$443,000 and \$334,000 of disposals offset by net capital additions of \$229,000.

Long-term liabilities decreased due to a decrease in the pension liability of \$2,700,000 and compensated absences of \$51,000.

The increase in deferred inflows of resources is due to a change in the deferred OPEB adjustments and deferred lease revenue as a result of GASB 87, leases, implementation.

The increase in unrestricted is due to the excess of revenues over expenses of \$2,311,000 and the decrease of net investment in capital assets.

The decrease in restricted for beach access repair is due to amounts spent during the year.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**Change in Net Position (Rounded to the nearest \$1,000)
For the Year Ended June 30**

	<u>2022</u>	<u>2021</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 1,143,000	\$ 1,700,000	\$ (557,000)
Operating grants and contributions	149,000	292,000	(143,000)
Capital grants and contributions	12,000	134,000	(122,000)
General revenues:			
Property taxes	353,000	386,000	(33,000)
Sales and transaction taxes	6,598,000	5,755,000	843,000
Other taxes	321,000	290,000	31,000
Investment earnings (loss)	(118,000)	14,000	(132,000)
Gain/(loss) on disposal of assets	(150,000)	—	(150,000)
Total revenues	<u>8,308,000</u>	<u>8,571,000</u>	<u>(263,000)</u>
Expenses:			
General government	1,428,000	1,575,000	(147,000)
Public safety	2,797,000	3,839,000	(1,042,000)
Public works	1,159,000	1,382,000	(223,000)
Planning	280,000	306,000	(26,000)
Building	155,000	113,000	42,000
Community development	166,000	96,000	70,000
Parks	7,000	5,000	2,000
Interest on long-term debt	5,000	6,000	(1,000)
Total expenses	<u>5,997,000</u>	<u>7,322,000</u>	<u>(1,325,000)</u>
Change in net position	2,311,000	1,249,000	1,062,000
Net position, beginning of year	<u>28,768,000</u>	<u>27,519,000</u>	<u>1,249,000</u>
Net position, end of year	<u>\$ 31,079,000</u>	<u>\$ 28,768,000</u>	<u>\$ 2,311,000</u>

The increase in charges for services is due to an increase in planning, building, and engineering fees received for projects in Sand City.

The increase in sales and transaction tax revenues is due to ongoing recovery from COVID-19, including deferred payments of said taxes and businesses reopening, as well as the opening of new businesses in late fiscal year 2020-2021 and early fiscal year 2021-2022.

The decrease in general government expenses is due in part to the change in City Manager from Aaron Blair to Vibeke Norgaard and the consequent cost savings to the City due to Mrs. Norgaard's role as Interim City Manager for approximately five months with no salary increase. Further, the OPEB and pensions liability were significantly reduced.

The decrease in public safety expense is due to the retirement of two police officers, one of whom retired after a long service with the City. One new officer was hired in the last quarter of the fiscal year and at a lower pay rate. There was also a reduction in compensated absence liability due to the retiring officers, reduction in police OPEB liability (\$208,252) and pension liability (\$616,265).

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The investment loss is due to an unrealized loss on the monies invested in the Local Agency Investment Fund (LAIF). The decrease in public works expense is due to lower workers comp premiums (\$53,509), lower expense on City infrastructure projects (\$38,640), a reduction in public works OPEB liability (\$34,709) and a reduction in public works pension liability (\$81,056). The increase in community development expense is due to the return of City sponsored events after Covid-19.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – At June 30, 2022, the City's net investment in capital assets amounted to \$10 million (net of accumulated depreciation), a net decrease of \$548,000 over the prior year due to depreciation and disposals offset by equipment purchases and construction in progress. Capital assets included land, land improvements, infrastructure, buildings, equipment, right-to-use leased equipment, vehicles, furniture and fixtures, and construction in progress.

Debt Administration – At June 30, 2022, the City had \$3 million in long-term debt. The net change to debt during the year was a decrease of \$2,700,000 due to a decrease of the pension obligation.

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

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

At the end of the current fiscal year, the City's governmental funds reported a total fund balance of \$22 million. This fund balance includes a noncurrent receivable of \$10 million. The General Fund has an unassigned fund balance of \$12 million.

During the current fiscal year, the fund balance of the City's General Fund increased by \$1.6 million.

FUND BUDGETARY HIGHLIGHTS**General Fund –**

The increase in the City's net position is the result of a decrease in overall expenditures of \$1,325,000 in part due to supply chain issues that resulted in capital outlay items not being completed and expensed in the fiscal year. The decrease in expenditures is also due to personnel changes such as the City Manager departing and the position being filled by the then City Attorney at no additional cost to the City, and the retirement of two police officers.

The City experienced a decrease of \$263,000 in total revenues in fiscal year 2021-2022. This was mainly due to a decrease of charges for services of \$557,000 as a result of the implementation of GASB 87, leases, and investment loss due to poor market performance. This decrease was offset by an increase in sales and transaction tax revenue of \$843,000. The growth in sales and transaction taxes from fiscal 2019-2021 to fiscal 2021-2022 is attributable to several factors: (1) Inflationary impacts increasing the cost of goods and materials; (2) New businesses opening in the third and fourth quarters of fiscal year 2021 and start of fiscal year 2021-2022, such as Total Wine & More and the Good Feet Store; Ashley Home Store and Mancini's Sleep world; (3) the high price of gasoline in fiscal year 2021-2022.

The City amended its budget twice during the fiscal year to reflect changes in projections of revenue and expenditures. Actual general fund revenues were less than those originally budgeted by \$1,053,255 and actual expenditures from the general fund were also under budget by \$1,018,661.

ECONOMIC FACTORS AND NEXT YEARS BUDGET

The City's projections for the fiscal year 2022-2023 budget show a general fund trending towards a budget surplus. This projected budget surplus is a result of a projected increase in revenues due in turn to several factors: A transaction and use tax measure was passed by Sand City voters in the November 2022 election.

The measure raises the City's transaction and use tax revenue by .5% to 1.5%. The increased revenue from that measure is projected to be approximately \$1,400,000 annually with \$350,000 projected to be received in the 4Q of fiscal year 2022-2023. The City also passed a short-term rental ordinance in the first quarter of fiscal year 2022-2023, which has resulted in increased revenue from Transient Occupancy Taxes. Furthermore, the City is projecting an increase in revenues from business licenses. This projection of increased revenues is despite the City facing a loss of lease payments from California American Water's lease of the Sand City desalination facility in the amount of \$850,000 annually.

The City's expenses in fiscal year 2022-2023 are expected to increase compared to fiscal year 2021-2022. This is in part due to supply chain issues in fiscal year 2021-2022, resulting in items purchased in prior fiscal years being delivered in fiscal year 2022-2023, as well as projects that have been moving forward over the past two fiscal years finally entering into the construction stage, as well as the added expense of increases in costs associated with construction and labor. Other projected increases in expenses are due to certain planning department activities, which are overdue and in need of being implemented in fiscal year 2022-2023 and 2023-2024, such as the update of the City's housing element and general plan.

The City has continued to utilize Consultants and Contract Labor in several areas for assistance in lieu of permanent additions to the payroll such as building, planning, engineering, and information technology.

The South of Tioga project took several key steps forward in fiscal year 2021-2022 due in part to the Lyles Diversified member of the ownership LLC taking over the management of the Project. While project site demolition was temporary halted during in fiscal year 2021-2022 due to state agency procedures aimed at the protection of endangered species in the project area, demolition commenced in fiscal year 2021-2022 and was fully completed in Q2 of fiscal year 2022-2023, with grading completed also in Q2 of fiscal year 2022-2023, and public improvements well on their way to completion before the end of the fiscal year 2023. The City has been processing building permits for the first phase of the project, which consists of the construction of the hotel component. The project, which includes a 216-room hotel and a residential component that includes 356 units will ultimately be a positive revenue generator for the City through increased Transient Occupancy Tax revenue, though the revenue impacts will not be seen until fiscal year 2023-2024, at the earliest.

Two other projects that have been projected to positively impact City revenues, Collections at Monterey Bay (King Ventures) and the Monterey Bay Shores Eco-Resort, are currently not projected to impact the fiscal year 2022-23, 2023-2024 or 2024-2025 budgets. However, the City is confident that at some point these two projects will come to fruition. At this point, no projected revenues or expenses related to the two projects has been included in the 3-year projections.

Looking forward to fiscal year 2023-2024 and 2024-2025, the budget will be developed in a financially uncertain time. The years ahead are difficult to plan due to the continued impacts of COVID, the impacts from the war in Ukraine, and rising inflation. With that in mind, the City's budgets will communicate what we think is the most fiscally responsible approach to funding operations and capital investments to best serve the Sand City community.

Staff will ensure that a balanced and fiscally responsible budget for fiscal year 2023-2024 and 2024-2025 that takes into account all information available in ever-changing times. Staff will anticipate revenues and expenditures are such that we will have a positive operating reserve. This reserve will be available for operating contingencies, capital improvements, or service changes.

We will continue to monitor revenues and expenditures, and any additional modifications that may need to be made based on new available information. Future proposed budgets and capital improvements will do the following:

- Remain fiscally responsible
- Maintain a safe and healthy community
- Enhance economic vitality
- Deliver exceptional City services
- Invest in well-planned infrastructure and growth

In light of the economic reality imposed by COVID-19 over the past two years, staff will continue to look for opportunities to reduce expenses without impacting the level of service provided. We will continue to look for opportunities to increase revenues including the continued successful development of the South of Tioga project, a retail cannabis ordinance, and the continued investment into the West End and various infill projects.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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CITY OF SAND CITY
STATEMENT OF NET POSITION
JUNE 30, 2022

ASSETS

Cash and cash equivalents	\$ 2,107,913
Investments	11,744,237
Receivables	119,408
Lease receivable	182,539
Receivables from other governments	1,181,184
Loans due from Successor Agency	9,730,824
Net OPEB asset	2,140,583
Capital assets, net:	
Non-depreciable	2,217,579
Depreciable/amortizable	<u>8,117,908</u>
Total assets	<u>37,542,175</u>

DEFERRED OUTFLOWS OF RESOURCES

PERS contributions	845,075
Deferred pension adjustments	556,201
OPEB contributions	<u>117,116</u>
Total deferred outflows of resources	<u>1,518,392</u>

LIABILITIES

Accounts payable	174,359
Due to other governments	542,222
Accrued liabilities	28,216
Developer deposit	25,000
Noncurrent liabilities:	
Due within one year	155,806
Due in more than one year	<u>2,888,231</u>
Total liabilities	<u>3,813,834</u>

DEFERRED INFLOWS OF RESOURCES

Deferred lease revenue	953,496
Deferred pension adjustments	1,961,935
Deferred OPEB adjustments	<u>1,252,642</u>
Total deferred inflows of resources	<u>4,168,073</u>

NET POSITION

Net investment in capital assets	10,271,499
Restricted for:	
Streets and roads	95,257
Beach access repair	30,449
Unrestricted	<u>20,681,455</u>
Total net position	<u>\$ 31,078,660</u>

See Notes to the Basic Financial Statements.

CITY OF SAND CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<u>FUNCTIONS/PROGRAMS</u>					
Governmental activities:					
General government	\$ 1,428,154	\$ 720,796	\$ 102,950	\$ —	\$ (604,408)
Public safety	2,797,125	198,755	2,500	—	(2,595,870)
Public works	1,158,953	15,215	43,069	12,486	(1,088,183)
Planning	280,478	126,836	—	—	(153,642)
Building	154,938	53,313	—	—	(101,625)
Community development	165,831	28,228	—	—	(137,603)
Parks	7,164	—	—	—	(7,164)
Interest on long-term debt	4,888	—	—	—	(4,888)
Total governmental activities	<u>\$ 5,997,531</u>	<u>\$ 1,143,143</u>	<u>\$ 148,519</u>	<u>\$ 12,486</u>	<u>\$ (4,693,383)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					352,707
Sales tax					3,557,590
Transaction tax					3,039,904
Transient occupancy tax					17,896
Utility user's tax					173,015
Franchise taxes					108,098
Gas taxes					14,443
Road maintenance and rehabilitation					7,718
Investment earnings (loss)					(117,701)
Gain/(loss) on disposal of assets					(149,770)
Total general revenues					<u>7,003,901</u>
CHANGE IN NET POSITION					2,310,517
NET POSITION, BEGINNING OF YEAR					<u>28,768,143</u>
NET POSITION, END OF YEAR					<u>\$ 31,078,660</u>

See Notes to the Basic Financial Statements.

CITY OF SAND CITY
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2022

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,015,115	\$ 92,798	\$ 2,107,913
Investments	11,744,237	–	11,744,237
Receivables	119,408	–	119,408
Lease receivable	182,539	–	182,539
Receivables from other governments	1,178,725	2,459	1,181,184
Loans due from Successor Agency	<u>9,730,824</u>	<u>–</u>	<u>9,730,824</u>
Total assets	<u>24,970,848</u>	<u>95,257</u>	<u>25,066,105</u>
<u>LIABILITIES</u>			
Accounts payable	174,359	–	174,359
Due to other governments	542,222	–	542,222
Accrued liabilities	28,216	–	28,216
Developer deposit	<u>25,000</u>	<u>–</u>	<u>25,000</u>
Total liabilities	<u>769,797</u>	<u>–</u>	<u>769,797</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable revenue	60,201	–	60,201
Deferred interest on Successor Agency loans	774,766	–	774,766
Deferred lease revenue	<u>953,496</u>	<u>–</u>	<u>953,496</u>
Total deferred inflows of resources	<u>1,788,463</u>	<u>–</u>	<u>1,788,463</u>
<u>FUND BALANCES</u>			
Non-spendable –			
Noncurrent receivable	9,730,824	–	9,730,824
Restricted:			
Streets and roads	–	95,257	95,257
Beach access repair	30,449	–	30,449
Committed:			
Tioga beach	120,000	–	120,000
OPEB Funding	142,609	–	142,609
Contracts	620,171	–	620,171
Unassigned	<u>11,768,535</u>	<u>–</u>	<u>11,768,535</u>
Total fund balances	<u>22,412,588</u>	<u>95,257</u>	<u>22,507,845</u>
Total liabilities, deferred inflows of Resources and fund balances	<u>\$ 24,970,848</u>	<u>\$ 95,257</u>	<u>\$ 25,066,105</u>

See Notes to the Basic Financial Statements.

CITY OF SAND CITY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2022

FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$ 22,507,845
Amounts reported in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	10,335,487
Amounts paid to the trust for other post-employment benefits in excess of the required contributions, the net OPEB asset, are not financial resources and therefore are not reported in the funds.	2,140,583
Other assets are not available to pay for the current period expenditures and therefore are deferred in the funds.	834,967
Deferred outflows and inflows of resources associated with net pension and OPEB are not financial resources and therefore are not reported in the funds:	
Deferred outflows	1,518,392
Deferred inflows	(3,214,577)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(3,044,037)
NET POSITION	<u>\$ 31,078,660</u>

See Notes to the Basic Financial Statements.

CITY OF SAND CITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2022

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total</u>
REVENUES:			
Property taxes	\$ 352,707	\$ —	\$ 352,707
Sales tax	3,557,590	—	3,557,590
Transaction tax	3,039,904	—	3,039,904
Transient occupancy tax	17,896	—	17,896
Utility user's tax	173,015	—	173,015
Franchise taxes	108,098	—	108,098
Business licenses	568,431	—	568,431
Licenses and permits	72,685	—	72,685
Fines, forfeits and penalties	8,689	689	9,378
Charges for current services	112,921	—	112,921
Developer reimbursements	50,405	—	50,405
Revenue from other agencies	390,497	22,161	412,658
Investment earnings (loss)	(117,701)	—	(117,701)
Rental income	96,152	—	96,152
Other revenue	244,136	—	244,136
Total revenues	<u>8,675,425</u>	<u>22,850</u>	<u>8,698,275</u>
EXPENDITURES:			
Current:			
General government	1,615,361	—	1,615,361
Public safety	3,626,095	—	3,626,095
Public works	914,175	—	914,175
Planning	339,698	—	339,698
Building	154,938	—	154,938
Community development	165,831	—	165,831
Parks	6,350	—	6,350
Debt service:			
Principal	29,633	—	29,633
Interest and other charges	4,888	—	4,888
Capital outlay	228,868	—	228,868
Total expenditures	<u>7,085,837</u>	<u>—</u>	<u>7,085,837</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,589,588</u>	<u>22,850</u>	<u>1,612,438</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	15,228	—	15,228
Transfers out	—	(15,228)	(15,228)
Total other financing sources (uses)	<u>15,228</u>	<u>(15,228)</u>	<u>—</u>
NET CHANGE IN FUND BALANCES	1,604,816	7,622	1,612,438
FUND BALANCES, BEGINNING OF YEAR	<u>20,807,772</u>	<u>87,635</u>	<u>20,895,407</u>
FUND BALANCES, END OF YEAR	<u>\$ 22,412,588</u>	<u>\$ 95,257</u>	<u>\$ 22,507,845</u>

See Notes to the Basic Financial Statements.

CITY OF SAND CITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

NET CHANGE IN FUND BALANCES	\$ 1,612,438
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Amounts reported in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation/amortization expense. In the current period, these amounts are:

Capital outlay	228,868
Current year depreciation	(442,588)
Disposals	(333,613)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.	(56,393)
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Proceeds from financing provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position	(220)
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The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, it has no effect on net assets. In the current period, the amount is:	
Principal payments on long-term debt	29,633

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Compensated absences	50,784
Current year OPEB cost difference	347,086
Current year pension cost difference	<u>874,522</u>

CHANGE IN NET POSITION	<u>\$ 2,310,517</u>
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See Notes to the Basic Financial Statements.

CITY OF SAND CITY
STATEMENT OF FIDUCIARY NET POSITION (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2022

ASSETS

Cash and cash equivalents	\$ 934,513
Investments	1,283,123
Capital assets, net– Non-depreciable	<u>1,100,000</u>
Total assets	<u>3,317,636</u>

LIABILITIES

Developer fees received in advance	1,455,000
Noncurrent liabilities:	
Due within one year	545,000
Due in more than one year	<u>12,645,824</u>
Total liabilities	<u>14,645,824</u>

DEFERRED INFLOWS OF RESOURCES

Deferred ROPS revenue	<u>553,312</u>
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NET POSITION (DEFICIT)

Enforceable obligations	<u>(11,881,500)</u>
Total net position (deficit)	<u>\$ (11,881,500)</u>

See Notes to the Basic Financial Statements.

CITY OF SAND CITY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2022

ADDITIONS:	
Property taxes	\$ 1,178,736
Interest income	<u>563</u>
Total additions	<u>1,179,299</u>
DEDUCTIONS:	
Administrative expenses	48,990
Legal expenses	89,614
Contract services	21,396
Interest expense	120,736
Seaside settlement	<u>364,522</u>
Total deductions	<u>645,258</u>
NET INCREASE	534,041
NET POSITION, (DEFICIT) BEGINNING OF THE YEAR	<u>(12,415,541)</u>
NET POSITION, (DEFICIT) END OF THE YEAR	<u><u>\$ (11,881,500)</u></u>

See Notes to the Basic Financial Statements.

CITY OF SAND CITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Sand City (the City), California have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units (hereinafter referred to as generally accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

Reporting Entity – The City is a Charter City operating under a Mayor-Council-City Manager form of government. As required by GAAP, these financial statements present the City (the primary government) and its component units. The City's financial statements include one fiduciary component unit-

Successor Agency Trust Fund

Assembly Bill 1X 26 ("the Bill") provided for the dissolution of all redevelopment agencies in the State of California. As allowed under the Bill, the City elected to serve as the Successor Agency to hold the assets until they are distributed to other units of state and local government. The Successor Agency Trust Fund meets the definition of a fiduciary component unit and is reported as a private-purpose trust fund. Separate financial statements are not available for the Successor Agency Trust Fund.

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

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

The City reports the following major governmental fund –

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

Additionally, the City reports the following fund type –

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value – The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The City uses valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. For the fiscal year ended June 30, 2022, the application of valuation techniques applies to the City's financial statements has been consistent.

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

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

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. The allowance is based on an assessment of the current status of individual accounts. At June 30, 2022, the allowance was estimated to be zero.

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

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

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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

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

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

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

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

Other Postemployment Benefits (OPEB) – For purposes of measuring the net OPEB liability/(asset), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City’s plan (OPEB Plan) and additions to/deductions from the OPEB Plan’s fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2021
Measurement Period	July 1, 2020 to June 30, 2021

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

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

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

The City reports the following classifications:

- *Non-spendable* – Non-spendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form, such as long-term receivables or (b) legally or contractually required to be maintained intact, such as a trust that must be retained in perpetuity.
- *Restricted* – Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed* – Committed fund balances are amounts that can only be used for specific purposes as a result of constraints imposed by the City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints by taking some type of action (passage of a resolution). Amounts in the committed fund balance classification may be used for other purposes with appropriate due process by the City Council. Committed fund balances differ from restricted balances because the constraints on their use do not come from outside parties, constitutional provisions or enabling legislation.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Assigned* – Assigned fund balances are amounts that are constrained by the City's intent to be used for specific purpose, but are neither restricted nor committed. Intent is expressed by (a) the City Administrator or (b) the City Council. The City Council has the authority to remove or change the assignment of the funds with a simple majority vote.
- *Unassigned* – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

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

Leases:

Lessee: The City is a lessee for a noncancellable lease of equipment. The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. The City recognizes lease liabilities with an initial, individual value of \$10,000 or more.

At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and the purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long term debt on the statement of net position.

Lessor: The City is a lessor for noncancellable leases of the desalination facility and cell tower site premises. The City recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

- Key estimates and judgments include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.
- The City uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

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

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Adoption of New Accounting Standards: In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*. This standard requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The City adopted the requirements of the guidance effective July 1, 2021 and has applied the provisions of this standard to the beginning of the period of adoption.

Beginning net position decreased by \$19,162 with the implementation of GASB Statement No. 87 when recording right-to-use lease assets and related leases liabilities. Due to the immaterial amount of this adjustment the change was run through the current year rather than shown as a restatement of net position.

In January 2020, GASB issued Statement No. 92 *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The adoption of this standard had no significant impact on the financial statements.

In June 2020, GASB issued Statement No. 97 *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform. The adoption of this standard had no significant impact on the financial statements.

NOTE 2. CASH AND INVESTMENTS

Custodial Credit Risk-Deposits with Financial Institutions – 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 California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the provision, which requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2022, \$1,968,459 of the City's bank balances of \$2,218,459 was exposed to custodial credit risk as uninsured, but it's collateralized by the pledging bank's trust department not in the City's name.

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

Investments at June 30, 2022 consisted of the following:

Local Agency Investment Fund	\$ 10,507,029
Certificates of Deposit	<u>1,237,208</u>
Total	<u>\$ 11,744,237</u>

As of June 30, 2022, all of the City's investments had a maturity of less than one year.

The fair value of the City's position in the State LAIF pool is the same as the value of the pool shares. The State LAIF pool credit quality is unrated. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually.

The fair value measurement for the Certificates of Deposit are level 1.

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. The City has no formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates beyond those specified in the statutes.

NOTE 2. CASH AND INVESTMENTS (Continued)

Credit Risk – This is the risk of loss due to the failure of the security issues or backer. The City's policies to mitigate credit risk include:

- Limiting investment to the safest type of securities. As noted above, the California Government Code limits the investment vehicles available to local agencies. The credit risk of these securities is measured by the assignment of a rating by a nationally recognized statistical rating organization. The table below presents the rating for each investment type as provided by Standard & Poor's except as noted.
- Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the City will do business.

The following table identifies the Standard & Poor's credit quality rating for those investments requiring this disclosure as of June 30, 2022:

Rating A:

Negotiable Certificates of Deposit - \$1,237,208

Not Rated:

State Local Agency Investment Fund - \$10,507,029

NOTE 3. RECEIVABLES

Amounts other than leases receivable are aggregated into a single accounts receivable line. At June 30, 2022 for the City's individual major funds and nonmajor fund in the aggregate, are as follows:

	General	Other Governmental Funds	Total
Receivables:			
Accounts	\$ 100,912	\$ –	\$ 100,912
Interest	18,496	–	18,496
Total	<u>\$ 119,408</u>	<u>\$ –</u>	<u>\$ 119,408</u>
Other Governments:			
Sales tax	\$ 587,411	\$ –	\$ 587,411
Transaction tax	518,208	–	518,208
Gas tax	–	2,459	2,459
Grants	73,106	–	73,106
Total	<u>\$ 1,178,725</u>	<u>\$ 2,459</u>	<u>\$ 1,181,184</u>

NOTE 4. LOANS DUE FROM SUCCESSOR AGENCY

The Redevelopment Agency (the Agency) received loans from the City to pay its share of administrative expenses, to make payments on non-tax incremental borrowings, and to reimburse the City for payments made on Certificates of Participation. Upon dissolution of the Agency, these loans became the obligation of the Successor Agency. Balances as of June 30, 2022 are as follows:

Operating Expenses	\$ 3,626,058
Costco/Seaside Agreements	4,650,000
COP Reimbursement	<u>1,454,766</u>
Total	<u>\$ 9,730,824</u>

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NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022 was as follows:

	Balance 6/30/21	Additions and Transfers	Deletions and Transfers	Balance 6/30/22
Capital assets not being depreciated:				
Land	\$ 1,837,194	\$ —	\$ —	\$ 1,837,194
Construction in progress	521,963	211,640	353,218	380,385
Total capital assets not being depreciated	2,359,157	211,640	353,218	2,217,579
Capital assets being depreciated/amortized:				
Infrastructure	5,209,014	—	—	5,209,014
Land improvements	441,563	—	—	441,563
Equipment	2,594,596	5,000	148,033	2,451,563
Right-to-use leased equipment	—	93,621*	—	93,621
Vehicles	605,970	12,229	—	618,199
Buildings	8,538,775	—	—	8,538,775
Furniture and fixtures	114,514	—	—	114,514
Total capital assets being depreciated	17,504,432	110,850	148,033	17,467,249
Less accumulated depreciation/amortization:				
Infrastructure	2,895,692	127,730	—	3,023,421
Land improvements	435,753	3,170	—	438,923
Equipment	2,430,714	44,613	74,017	2,504,934
Right-to-use leased equipment	—	31,207	—	31,207
Vehicles	546,768	25,219	—	571,987
Buildings	2,557,329	210,649	—	2,767,978
Furniture and fixtures	114,514	—	—	114,514
Total accumulated depreciation	8,980,770	442,588	74,017	9,349,341
Total capital assets being depreciated – net	8,523,662	(331,738)	74,016	8,117,908
Capital assets – net	\$ 10,882,819	\$ (120,098)	\$ 427,234	\$ 10,335,487

* The addition is due to the implementation of GASB 87

Depreciation expense for the year ending June 30, 2022 was charged to functions/programs of the primary government as follows:

General government	\$ 12,700
Public safety	64,452
Public works	364,621
Parks	815
Total depreciation expense	<u>\$ 442,588</u>

NOTE 6. LEASES

Leases receivable – The City, acting as lessor, leases the desalination facility to California-American Water Company (CAW) and site premises to control and operate a cell tower on City owned land to Crown Castle International Corp under long-term, non-cancelable lease agreements. The leases expire at various dates through June 15, 2038. During the year ended June 30, 2022, the City recognized \$71,084 and \$28,068 in lease revenue and interest revenue, respectively, pursuant to these contracts. As of June 30, 2022, the City's receivable for lease payments was \$182,539. Also, the City has a deferred inflow of resources associated with these leases that will be recognized over the lease terms. As of June 30, 2022, the balance of deferred inflow of resources was \$953,496.

The future minimum lease payments to be received as of June 30, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 15,581	\$ 5,676	\$ 21,257
2024	20,413	5,025	25,438
2025	23,218	4,177	27,395
2026	24,100	3,295	27,395
2027	25,017	2,378	27,395
Thereafter	74,210	9,591	83,801
Total	<u>\$ 182,539</u>	<u>\$ 30,142</u>	<u>\$ 212,681</u>

Lease payable – The City leases police radio equipment under long term, non-cancelable lease agreement. The lease expires August 15, 2023. The annual principal and interest payments are \$34,520 with interest at 5.22% per annum.

The future minimum lease payments as of June 30, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 31,180	\$ 3,340	\$ 34,520
2024	32,808	1,712	34,520
Total	<u>\$ 63,988</u>	<u>\$ 5,052</u>	<u>\$ 69,040</u>

Right-to-use asset acquired through outstanding leases are shown below:

Equipment	\$ 93,621
Less: Accumulated amortization	<u>31,207</u>
Total	<u>\$ 62,414</u>

NOTE 7. LONG-TERM LIABILITIES

General long-term liability balances and transactions for the fiscal year ended June 30, 2022 are as follows:

	<u>Balance Beginning Of the Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
Lease payable	\$ —	\$ 93,621	\$ 29,633	\$ 63,988	\$ 31,180
Compensated absences	678,508	—	50,784	627,724	124,626
Net pension liability	<u>5,079,862</u>	<u>—</u>	<u>2,727,537</u>	<u>2,352,325</u>	<u>—</u>
Total	<u>\$5,758,370</u>	<u>\$ 93,621</u>	<u>\$2,807,954</u>	<u>\$3,044,037</u>	<u>\$ 155,806</u>

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

NOTE 8. INTERFUND ACTIVITY

Transfers between funds during the year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 15,228	\$ —
Special revenue fund	<u>—</u>	<u>15,228</u>
Total	<u>\$ 15,228</u>	<u>\$ 15,228</u>

Transfers were made for expenditures covered by gas tax and traffic safety monies.

NOTE 9. PENSION PLAN**General Information about the Pension Plans**

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

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2022, are summarized as follows:

<u>Hire date</u>	Miscellaneous	
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Benefit formula	2% @55, 3% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2% - 2.7%	1.0% - 2.5%
Required employee contribution rates	7% and 8%	6.75%
Required employer contribution rates	10.880% and 15.250%	7.590%

<u>Hire date</u>	Safety	
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Benefit formula	2% @ 50, 3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50-57
Monthly benefits, as a % of eligible compensation	3.0%	2.0% to 2.7%
Required employee contribution rates	9%	13%
Required employer contribution rates	19.250% and 21.790%	13.130%

NOTE 9. PENSION PLAN (Continued)

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

For the year ended June 30, 2022, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Contributions	\$ 380,620	\$ 448,841

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

As of June 30, 2022, the City reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$ 1,335,879
Safety	1,016,446
Total Net Pension Liability	<u>\$ 2,352,325</u>

The City’s net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2021, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021 using standard update procedures. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City’s proportionate share of the net pension liability for each Plan as of June 30, 2022 and 2021 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion – June 30, 2021	0.02435%	0.02234%
Proportion – June 30, 2022	0.02470%	0.01879%
Change - Increase (Decrease)	0.00035%	(0.00355%)

NOTE 9. PENSION PLAN (Continued)

For the year ended June 30, 2022, the City recognized pension income of \$29,447. Pension income is allocated to the functions based on full time equivalents. At June 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between Expected and Actual Experience	\$ 323,464	\$ —
Difference between Projected and Actual Investment Earnings	—	1,771,133
Change in Employer's Proportion	232,737	—
Differences between Employer's Contributions and Proportionate Share of Contributions	—	190,802
Pension Contributions Made Subsequent to Measurement Date	<u>845,075</u>	<u>—</u>
Total	<u>\$ 1,401,276</u>	<u>\$ 1,961,935</u>

The \$845,075 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	
2023	\$ (250,189)
2024	\$ (298,318)
2025	\$ (368,479)
2026	\$ (488,748)

NOTE 9. PENSION PLAN (Continued)

Actuarial Assumptions – The total pension liabilities in the June 30, 2022 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous/Safety</u>
Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by entry age and service
Mortality	Derived using CalPERS' membership data for all funds. The mortality rate includes 15 years of projected on-going mortality improvements using 90% scale MP 2016 published by the Society of Actuaries.
Post Retirement Benefit Increase	Contract Cola up to 2.5% Until Purchasing Power Protection Allowance Floor On Purchasing Power applies. 2.5% thereafter.

All other actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period 1997 to 2015, including updates to salary increase, mortality and retirement rates. The Experience Study can be found on the CalPERS website.

Discount Rate –The discount rate used to measure the total pension liability was 7.15% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

NOTE 9. PENSION PLAN (Continued)

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1 - 10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	50%	4.80%	5.98%
Fixed Income	28%	1.00%	2.62%
Inflation Assets	0%	0.77%	1.81%
Private Equity	8%	6.30%	7.23%
Real Estate	13%	3.75%	4.93%
Liquidity	1%	(0)%	(.92)%
Total	<u>100%</u>		

(a) An expected inflation of 2.0% used for this period.

(b) An expected inflation of 2.92% used for this period.

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

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.15%	6.15%
Net Pension Liability	\$ 2,861,826	\$ 2,709,247
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$ 1,335,879	\$ 1,016,446
1% Increase	8.15%	8.15%
Net Pension Liability	\$ 74,399	\$ (373,981)

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 10. DEFERRED COMPENSATION PLAN

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

NOTE 11. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – The City contracts with the Public Employees Retirement System (PERS) under the PERS Care Health Plan to provide benefits of the Meyer-Geddes State Employees' Medical and Hospital Care Act per Government Code Section 22850. The Plan provides employees and option members (City Council members and City Attorney) who retire directly from the City under CalPERS continuation of medical insurance benefits for them, one dependent and surviving spouse.

The City participates in the California Employer's Retiree Benefit Trust (CERBT) Fund, which is administered by CalPERS. CERBT is a tax-qualified irrevocable trust organized under Internal Revenue Code Section 115 and established to prefund retiree healthcare benefits. CERBT, an agent multiple-employer trust, issues a publicly available financial report including GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, disclosure information in aggregate with other CERBT participating employers. That report can be obtained from the CalPERS website at www.calpers.ca.gov. The plan provides health benefits to all retired employees.

The Plan can be amended by action of the City Council on passing a resolution. The City pays premiums up to the PEMHCA Other Northern California PERS Care single party non-Medicare and Medicare eligible premiums at 100% for retirees and 50% for dependents and surviving spouses. For the fiscal year 2022, the non-Medicare premium was \$995 and the Medicare eligible was \$382. Retirees pay blended medical premiums rather than expected medical costs by age and gender and active premiums subsidize non-Medicare eligible retiree medical costs as implied subsidies.

Employees Covered – As of the June 30, 2021 actuarial valuation, the following current and former employees were covered by the benefit terms under the plan:

Active employees	23
Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to, but not yet receiving benefits	<u>11</u>
Total	<u>43</u>

Contributions – The obligations of the Plan members and the City are established by action of the City Council pursuant to the passing of a resolution. The annual contribution is based on the actuarially determined contribution, which is paid to the California Employer's Retiree Benefit Trust Program (CERBT). Cash subsidy and implied subsidy benefit payments and PEMCHA administrative fees are currently paid with City assets on a pay-as-you-go basis and are not reimbursed by CERBT. For the fiscal year ended June 30, 2022, the City's pay-as-you-go payments were \$80,773 and the estimated implied subsidy was \$5,085 resulting in total payments of \$85,858.

NOTE 11. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Net OPEB Liability/(Asset) – The City's net OPEB liability/(Asset) was measured as of June 30, 2021 and the total OPEB liability used to calculate the net OPEB liability/(Asset) was determined by an actuarial valuation dated June 30, 2021 based on the following actuarial methods and assumptions:

Actuarial Assumptions:	
Discount Rate	6.75%
Inflation	2.75%
Salary Increases	3.00% annually
Investment Rate of Return	6.75%
Mortality	CalPERS 1997-2015 Experience Study
Retirement	CalPERS 1997-2015 Experience Study
Healthcare Trend Rate	7.25% decreasing to 4.00%

The Experience Study Reports may be accessed on the CalPERS website www.calpers.ca.gov under Forms and Publications.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global Equity	59%	4.82%
Fixed Income	25%	1.47%
TIPS	5%	1.29%
REITs	8%	3.76%
Commodities	3%	0.84%
	<u>100%</u>	

Discount Rate – The discount rate used to measure the total OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

NOTE 11. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Changes in the Net OPEB Liability/ (Asset) – The changes in the net OPEB liability/(Asset) for the Plan are as follows:

	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability/(Asset)</u>
Balance at June 30, 2020	\$ 2,421,176	\$ 3,615,739	\$ (1,194,563)
<i>Changes recognized for measurement period:</i>			
Service cost	181,403	–	181,403
Interest	172,776	–	172,776
Difference between expected and actual experience	(183,940)	–	(183,940)
Changes of assumptions	(37,249)	–	(37,249)
Contributions - employer	–	86,077	(86,077)
Net investment income	–	994,521	(994,521)
Benefit payments (outside trust)	(85,858)	(85,858)	–
Administrative expense	–	(1,588)	1,588
Net Changes	<u>\$ 47,132</u>	<u>\$ 993,152</u>	<u>\$ (946,020)</u>
Balance at June 30, 2021	<u>\$ 2,468,308</u>	<u>\$ 4,608,891</u>	<u>\$ (2,140,583)</u>

Sensitivity of the Net OPEB Liability/(Asset) to Changes in the Discount Rate – The following presents the net OPEB liability/(Asset) of the City if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for the measurement period ended June 30, 2021:

	<u>1% Decrease (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
Net OPEB Liability/ (Asset)	\$ (1,841,211)	\$ (2,140,583)	\$ (2,392,263)

Sensitivity of the Net OPEB Liability/(Asset) to Changes in the Health Care Cost Trend Rates – The following presents the net OPEB liability/(Asset) of the City if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for the measurement period ended June 30, 2021:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Net OPEB Liability/ (Asset)	\$ (2,319,147)	\$ (2,140,583)	\$ (1,979,149)

NOTE 11. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

OPEB Plan Fiduciary Net Position – CERBT issues a publicly available financial report that may be obtained from California Employer’s Retiree Benefit Trust Program at the CalPERS website.

Recognition of Deferred Outflows and Deferred Inflows of Resources – Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments

5 years

All other amounts

Expected average remaining service lifetime (EARSL)
(6.2 years at June 30, 2021)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – For the fiscal year ended June 30, 2022, the City recognized OPEB expense/(income) of \$(229,970). As of fiscal year ended June 30, 2022, the City reported deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
OPEB contributions subsequent to measurement date	\$ 117,116	\$ –
Changes of assumptions	–	116,716
Net difference between projected and actual earnings on OPEB plan investments	–	532,352
Difference between expected and actual experience	–	603,574
Total	\$ 117,116	\$ 1,252,642

The \$117,116 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2023. Other amounts reported as deferred inflows of resources related to OPEB will be recognized as expense as follows:

Fiscal Year Ended June 30:	Deferred Outflows/(Inflows) Of Resources
2023	\$(326,723)
2024	\$(319,856)
2025	\$(323,636)
2026	\$(240,058)
2027	\$ (38,740)
Thereafter	\$ (3,629)

NOTE 12. JOINTLY GOVERNED ORGANIZATIONS

The City participates on the Boards of Community Human Services, a joint powers agency, Monterey Regional Waste Management District, the Monterey Peninsula Water Management District, Monterey Regional Water Pollution Control Agency, Monterey Peninsula Regional Water Authority, Monterey One Water, Association of Monterey Bay Area Governments, Transportation Agency for Monterey County, Seaside Groundwater Basin Watermaster, Seaside/Sand City Chamber of Commerce, the Monterey Peninsula Chamber of Commerce, League of California Cities, Monterey County Convention and Visitor's Bureau, Monterey County Business Council, Monterey County Mayor's Association, and Monterey Bay Area Self Insurance Authority. The Boards of these entities are comprised of representatives from local municipalities, districts, and unincorporated areas. The City made various disbursements to the organizations in the amount of \$582,797 for the fiscal year ended June 30, 2022.

NOTE 13. RISK FINANCING

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

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

NOTE 14. COMMITMENTS AND CONTINGENCIES

In the fiscal year ending June 30, 2022, the City has various service and project contracts totaling \$1,007,274, of which \$620,171 on contract commitments still remained as of June 30, 2022.

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

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

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

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

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

On November 16, 2022, the Successor Agency to the former Sand City Redevelopment Agency filed a petition for writ of mandate and complaint for declaratory relief against the California Department of Finance. The petition seeks *inter alia* an order from the Court requiring the Department of Finance to approve the enforceable obligations.

Following are disclosures specific to the Successor Agency Trust Funds:

NOTE A. DEPOSITS AND INVESTMENTS

Custodial Credit Risk-Deposits – 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 California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the provision, which requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2022, \$684,513 of the Fiduciary Fund’s bank balances of \$934,513 was exposed to custodial credit risk as uninsured, but it’s collateralized by the pledging bank’s trust department not in the City’s name. All cash held by the Fiduciary Fund must be used to repay enforceable obligations.

NOTE A. DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk Investments – The Fiduciary Fund investments consist of money market funds and certificates of deposit held with various financial institutions. All investments are recorded at fair value. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The fair value of the pledged securities in the collateral pool must equal 110% of the total amount deposited by the public agencies. Investments at June 30, 2022 consisted of the following:

Money Market Funds	\$ 223,580
Certificates of Deposit	<u>1,059,543</u>
Total	<u>\$ 1,283,123</u>

As of June 30, 2022, all of the Fiduciary Fund's investments had a maturity of less than one year.

The fair value measurement for the Certificates of Deposit are level 1. The Money Market Funds are not subject to fair value hierarchy.

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. The City has no formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates beyond those specified in the statutes.

Credit Risk – This is the risk of loss due to the failure of the security issues or backer. The City's policies to mitigate credit risk include:

- Limiting investment to the safest type of securities. As noted above, the California Government Code limits the investment vehicles available to local agencies. The credit risk of these securities is measured by the assignment of a rating by a nationally recognized statistical rating organization. The table below presents the rating for each investment type as provided by Standard & Poor's except as noted.
- Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the City will do business.

The following table identifies the Standard & Poor's credit quality rating for those investments requiring this disclosure as of June 30, 2022:

Rating A:
Negotiable Certificates of Deposit - \$1,059,543

Not Rated:
Money Market Fund - \$223,580

NOTE B. CAPITAL ASSETS

	Balance 6/30/21	Additions	Deletions	Balance 6/30/22
Capital assets not being depreciated –				
Land	\$ 1,100,000	\$ –	\$ –	\$ 1,100,000
Total capital asset not being depreciated	<u>1,100,000</u>	<u>–</u>	<u>–</u>	<u>1,100,000</u>
Capital assets being depreciated:				
Land improvements	182,631	–	–	182,631
Sculpture	40,218	–	–	40,218
Total capital assets being depreciated	<u>222,849</u>	<u>–</u>	<u>–</u>	<u>222,849</u>
Less accumulated depreciation for:				
Land improvements	182,631	–	–	182,631
Sculpture	40,218	–	–	40,218
Total accumulated depreciation	<u>222,849</u>	<u>–</u>	<u>–</u>	<u>222,849</u>
Total capital assets being depreciated—net	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Capital assets—net	<u>\$ 1,100,000</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 1,100,000</u>

NOTE C. DEVELOPER FEES RECEIVED IN ADVANCE

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

NOTE D. LONG-TERM DEBT

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

2017 Subordinate Tax Allocation Refunding Bonds – 2017 Subordinate Tax Allocation Refunding Bonds in the amount of \$4,690,000 were issued August 10, 2017 to advance refund the Tax Allocation Bonds, 2008 Series A bonds. The Bonds consist of coupon bonds with a price of \$115,000 at an interest rate of 2.85%. Interest on the Bonds is payable semi-annually on each May 1st and November 1st, commencing November 1, 2017.

NOTE D. LONG-TERM DEBT (Continued)

The Bonds are subject to mandatory sinking fund redemption in part by lot on November 1, 2017, and on each November 1st thereafter, to and including November 1, 2027. The Bonds are not subject to optional redemption prior to maturity. The Bonds are payable solely from tax increment revenue, which has been pledged for repayment of the Bonds.

Loans from the City – The former Redevelopment Agency received loans from the City to pay its share of administrative expenses and make payments on non-tax increment borrowings. The City accrued interest at a rate of 7% on these advances. There is no formal repayment schedule in place at this time. In the year ending June 30, 2013, interest on these loans was recalculated based on the average Local Agency Investment Fund rate of return for the period in which the loans existed as required by Assembly Bill 1484, in the amount of \$3,626,058 for Operating Expenditures and \$4,650,000 for Costco/Seaside.

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

Long-term debt balances and transactions for the fiscal year ended June 30, 2022 are as follows:

	Balance 6/30/21	Additions	Reductions	Balance 6/30/22	Due Within One Year
Bonds, loans and reimbursements:					
2008 Series B	\$ 600,000	\$ –	\$ 190,000	\$ 410,000	\$ 200,000
2017 Subordinate Tax Allocation Refunding Bonds	3,385,000	–	335,000	3,050,000	345,000
Subtotal	3,985,000	–	525,000	3,460,000	545,000
Loans from the City:					
Operating Expenditures	3,626,058	–	–	3,626,058	–
Costco/Seaside	4,650,000	–	–	4,650,000	–
Subtotal	8,276,058	–	–	8,276,058	–
Reimbursement due to City	1,454,766	–	–	1,454,766	–
Total bonds, loans and reimbursement	\$ 13,715,824	\$ –	\$ 525,000	\$ 13,190,824	\$ 545,000

NOTE D. LONG-TERM DEBT Continued)

Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Series B Bonds		2017 Refunding Bonds	
	Principal	Interest	Principal	Interest
2023	200,000	23,862	345,000	82,009
2024	210,000	—	495,000	70,039
2025	—	—	680,000	53,295
2026	—	—	695,000	33,701
2027	—	—	720,000	13,538
2028	—	—	115,000	1,639
	<u>\$ 410,000</u>	<u>\$ 23,862</u>	<u>\$ 3,050,000</u>	<u>\$ 254,221</u>

NOTE E. DEFERRED ROPS REVENUE

The deferred ROPS revenue represents Real Property Tax Transfer Funds (RPTTF) received in advance for future obligation payments. The revenue will be recognized in the period in which the obligation payments are made. At June 30, 2022, this amount was \$553,312.

NOTE 16. AUTHORITATIVE PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED

In May 2019, the GASB issued GASB Statement No. 91, Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The effective date of this Statement is for fiscal year ending June 30, 2023. At this time the City is not certain of the effect the adoption of Statement No. 96 will have on the accompanying financial statements.

In May 2020, the GASB issued GASB Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. At this time the City is not certain of the effect the adoption of Statement No. 96 will have on the accompanying financial statements.

NOTE 16. AUTHORITATIVE PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED (Continued)

On April 2022, GASB issued GASB Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements of this Statement that are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Earlier application is encouraged and is permitted by the topic.

In June 2022, GASB issued GASB Statement No. 101, *Compensated Absences*: The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. At this time the City is not certain of the effect the adoption of Statement No. 96 will have on the accompanying financial statements.

REQUIRED

SUPPLEMENTARY INFORMATION

DRAFT

CITY OF SAND CITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE,
BUDGET AND ACTUAL – GENERAL
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
REVENUES:				
Property taxes	\$ 304,100	\$ 296,200	\$ 352,707	\$ 56,507
Sales tax	3,058,000	3,415,000	3,557,590	142,590
Transaction tax	2,483,000	2,990,000	3,039,904	49,904
Transient occupancy tax	–	15,000	17,896	2,896
Utility user's tax	140,000	165,000	173,015	8,015
Franchise taxes	91,400	105,500	108,098	2,598
Business licenses	495,500	577,200	568,431	(8,769)
Licenses and permits	116,570	109,770	72,685	(37,085)
Fines, forfeits and penalties	4,900	8,300	8,689	389
Charges for current services	397,700	140,650	112,921	(27,729)
Developer reimbursements	100,000	50,000	50,405	405
Revenue from other agencies	803,300	710,510	390,497	(320,013)
Investment earnings (loss)	65,000	30,700	(117,701)	(148,401)
Rental income	867,200	867,200	96,152	(771,048)
Other revenue	33,450	247,650	244,136	(3,514)
Total revenues	<u>8,960,120</u>	<u>9,728,680</u>	<u>8,675,425</u>	<u>(1,053,255)</u>
EXPENDITURES:				
Current:				
General government	1,578,605	1,675,033	1,615,361	59,672
Public safety	3,625,720	3,737,140	3,626,095	111,045
Public works	1,132,260	1,093,625	914,175	179,450
Planning	458,985	353,270	339,698	13,572
Building	310,300	203,800	154,938	48,862
Community development	160,800	138,000	165,831	(27,831)
Parks	6,500	16,500	6,350	10,150
Debt Service:				
Principal	29,530	29,530	29,633	(103)
Interest and other charges	5,000	5,000	4,888	112
Capital outlay	<u>752,600</u>	<u>852,600</u>	<u>228,868</u>	<u>623,732</u>
Total expenditures	<u>8,060,300</u>	<u>8,104,498</u>	<u>7,085,837</u>	<u>1,018,661</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>889,820</u>	<u>1,624,182</u>	<u>1,589,588</u>	<u>(34,594)</u>
OTHER FINANCING SOURCES (USES):				
Transfer in	<u>–</u>	<u>–</u>	<u>15,228</u>	<u>15,228</u>
Total other financing sources (uses)	<u>–</u>	<u>–</u>	<u>15,228</u>	<u>15,228</u>
NET CHANGE IN FUND BALANCE	<u>\$ 899,820</u>	<u>\$ 1,624,182</u>	<u>\$ 1,604,816</u>	<u>\$ (19,366)</u>

See Accompanying Notes to Required Supplementary Information.

CITY OF SAND CITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 1. BUDGETARY DATA

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

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

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

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

CITY OF SAND CITY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last 10 Years*
FOR THE YEAR ENDED JUNE 30, 2022

Measurement Period	Proportion of the net pension liability	Proportionate share of the net pension liability	Covered payroll	Proportionate share of the net pension liability as percentage of covered payroll	Plan's fiduciary net position	Plan fiduciary net position as a percentage of the total pension liability
2014						
Miscellaneous Plan	0.03280%	\$ 2,041,105	\$ 979,700	208.34%	\$ 10,639,461,174	81.15%
Safety Plan	0.02186%	\$ 1,360,244	\$ 1,018,285	133.58%	\$ 13,968,041,341	78.83%
2015						
Miscellaneous Plan	0.07699%	\$ 2,112,302	\$ 957,621	220.58%	\$ 10,896,036,068	79.89%
Safety Plan	0.03227%	\$ 1,329,846	\$ 1,095,485	121.39%	\$ 14,011,269,803	77.27%
2016						
Miscellaneous Plan	0.07245%	\$ 2,516,961	\$ 973,812	258.46%	\$10,923,476,287	75.87%
Safety Plan	0.04925%	\$ 1,744,395	\$ 1,179,383	147.91%	\$13,782,056,004	72.69%
2017						
Miscellaneous Plan	0.07161%	\$ 2,823,013	\$ 964,572	292.67%	\$ 12,074,499,781	75.39%
Safety Plan	0.03447%	\$ 2,059,738	\$ 1,306,040	157.71%	\$ 15,169,595,595	71.74%
2018						
Miscellaneous Plan	0.06325%	\$ 2,383,530	\$ 968,615	246.08%	\$ 13,122,440,092	77.69%
Safety Plan	0.03322%	\$ 1,949,412	\$ 1,346,212	144.81%	\$ 13,782,056,004	72.69%
2019						
Miscellaneous Plan	0.02470%	\$ 2,531,795	\$ 980,084	258.32%	\$ 13,979,687,268	77.73%
Safety Plan	0.02104%	\$ 2,155,679	\$ 1,517,774	142.03%	\$ 17,199,726,799	73.37%
2020						
Miscellaneous Plan	0.02435%	\$ 2,648,872	\$ 981,708	269.82%	\$ 14,702,361,183	77.71%
Safety Plan	0.02234%	\$ 2,430,990	\$ 1,523,485	159.57%	\$ 18,120,140,152	73.12%
2021						
Miscellaneous Plan	0.02470%	\$ 1,335,879	\$ 997,179	133.97%	\$ 18,065,791,524	90.49%
Safety Plan	0.01879%	\$ 1,016,446	\$ 1,521,503	66.81%	\$ 22,700,862,352	86.61%

Notes to Schedule:**Benefit Changes:**

In 2015, benefit terms were modified to base public safety employee pensions on a final three-year average salary instead of a final five-year average salary.

The figures above do not include any liability impact that may have resulted from plan changes, which occurred after the valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in assumptions:

In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

In 2016, the discount rate was changed from 7.50 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

In 2017, the discount rate was changed from 7.65 percent to 7.15 percent.

In 2018, demographic assumptions and the inflation rate were changed in accordance to the CalPERS Experience Study and review of Actuarial Assumptions December 2017.

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

CITY OF SAND CITY
SCHEDULE OF CONTRIBUTIONS – PENSIONS
Last 10 Years*
FOR THE YEAR ENDED JUNE 30, 2022

<u>Fiscal Year</u>	<u>Contractually required contribution (actuarially determined)</u>	<u>Contributions in relation to the actuarially determined contributions</u>	<u>Contribution deficiency (excess)</u>	<u>Covered payroll</u>	<u>Contributions as percentage of covered payroll</u>
2015					
Miscellaneous Plan	\$ 232,159	\$ 232,159	\$ –	\$ 957,621	24.24%
Safety Plan	\$ 214,913	\$ 214,913	\$ –	\$ 1,095,485	19.62%
2016					
Miscellaneous Plan	\$ 272,359	\$ 272,359	\$ –	\$ 973,812	27.97%
Safety Plan	\$ 213,436	\$ 213,436	\$ –	\$ 1,179,383	18.10%
2017					
Miscellaneous Plan	\$ 284,073	\$ 284,073	\$ –	\$ 964,572	29.45%
Safety Plan	\$ 274,606	\$ 274,606	\$ –	\$ 1,306,040	21.03%
2018					
Miscellaneous Plan	\$ 602,399	\$ 602,399	\$ –	\$ 968,615	62.19%
Safety Plan	\$ 404,055	\$ 404,055	\$ –	\$ 1,346,212	30.01%
2019					
Miscellaneous Plan	\$ 322,974	\$ 322,974	\$ –	\$ 980,084	32.95%
Safety Plan	\$ 367,990	\$ 367,990	\$ –	\$ 1,517,774	24.25%
2020					
Miscellaneous Plan	\$ 360,507	\$ 360,507	\$ –	\$ 981,707	36.72%
Safety Plan	\$ 392,595	\$ 392,595	\$ –	\$ 1,523,485	25.77%
2021					
Miscellaneous Plan	\$ 380,620	\$ 380,620	\$ –	\$ 997,179	38.17%
Safety Plan	\$ 448,851	\$ 448,851	\$ –	\$ 1,521,503	29.50%
2022					
Miscellaneous Plan	\$ 409,249	\$ 409,249	\$ –	\$ 983,125	41.63%
Safety Plan	\$ 435,826	\$ 435,826	\$ –	\$ 1,361,413	32.01%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for the fiscal year are as follows:

FYE 2014-2015 - June 30, 2012 actuarial valuation report
 FYE 2015-2016 - June 30, 2013 actuarial valuation report
 FYE 2016-2017 - June 30, 2014 actuarial valuation report
 FYE 2017-2018 - June 30, 2015 actuarial valuation report
 FYE 2018-2019 - June 30, 2016 actuarial valuation report
 FYE 2019-2020 - June 30, 2017 actuarial valuation report
 FYE 2020-2021 - June 30, 2018 actuarial valuation report
 FYE 2021-2022 - June 30, 2019 actuarial valuation report

Actuarial Cost Method
 Amortization Method
 Remaining Amortization Periods

Entry Age Normal Cost Method
 Level percentage of pay, direct rate smoothing
 Differs by employer rate plan, but not more than 30 years.
 Market value of assets
 2.50%
 Varies by Entry Age and Service
 7.00% (net of administrative expenses)
 Derived using CalPERS' Membership Data for all Funds. The post-retirement mortality rates include 15 years of projected on-going mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries.

Asset Valuation Method
 Inflation
 Salary Increases
 Discount Rate
 Mortality

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

CITY OF SAND CITY
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY/(ASSET) AND RELATED RATIOS
For the Measurement Periods Ended June 30

Measurement Period	2021	2020	2019	2018	2017
Total OPEB Liability					
Service cost	\$ 181,403	\$ 180,004	\$ 248,439	\$ 241,203	\$ 234,000
Interest on the total OPEB liability	172,776	158,964	202,924	178,950	157,000
Actual and expected experience difference	(183,940)	—	(858,688)	—	—
Changes in assumptions	—	(52,022)	(95,578)	—	—
Changes in benefit terms	(37,249)	—	—	—	—
Benefit payments	<u>(85,858)</u>	<u>(81,571)</u>	<u>(78,257)</u>	<u>(66,192)</u>	<u>(83,000)</u>
Net change in total OPEB liability	47,132	205,375	(581,160)	353,961	308,000
Total OPEB liability – beginning	<u>2,421,176</u>	<u>2,215,801</u>	<u>2,796,961</u>	<u>2,443,000</u>	<u>2,135,000</u>
Total OPEB liability – ending (a)	<u>2,468,308</u>	<u>2,421,176</u>	<u>2,215,801</u>	<u>2,796,961</u>	<u>2,443,000</u>
Plan Fiduciary Net Position					
Contribution - employer	86,077	81,784	78,451	316,453	2,733,000
Net investment income	994,521	123,517	203,252	224,625	173,000
Benefit payments	(85,858)	(81,571)	(78,257)	(66,192)	(83,000)
Administrative expense	(1,588)	(1,951)	(900)	(5,502)	(1,000)
Net Change in plan fiduciary net position	<u>993,152</u>	<u>121,779</u>	<u>202,546</u>	<u>469,384</u>	<u>2,822,000</u>
Plan fiduciary net position – beginning	<u>3,615,739</u>	<u>3,493,930</u>	<u>3,291,384</u>	<u>2,822,000</u>	<u>—</u>
Plan fiduciary net position – ending (b)	<u>\$ 4,608,891</u>	<u>\$ 3,615,709</u>	<u>\$ 3,493,930</u>	<u>\$ 3,291,384</u>	<u>\$ 2,822,000</u>
Net OPEB liability/(asset) – ending (a)-(b)	<u>\$ (2,140,583)</u>	<u>\$ (1,194,533)</u>	<u>\$ (1,278,129)</u>	<u>\$ (494,423)</u>	<u>\$ (379,000)</u>
Plan fiduciary net position as percentage of the total OPEB liability	186.72%	149.34%	157.68%	117.68%	115.51%
Covered-employee payroll	\$ 2,405,581	\$ 2,505,193	\$ 2,497,858	\$ 2,314,827	\$ 2,270,612
Net OPEB liability/(asset) as a percentage of covered-employee payroll	88.98%	47.68%	51.17%	21.36%	16.69%

Notes to Schedule:

Fiscal year 2017 was the 1st year of implementation; therefore, only five years are shown.
Future years' information will be displayed up to 10 years as information becomes available.

CITY OF SAND CITY
SCHEDULE OF CONTRIBUTIONS – OPEB
Last 10 Years*
FOR THE YEAR ENDED JUNE 30, 2022

Fiscal Year Ended June 30	2022	2021	2020	2019	2018
Actuarially Determined Contribution (ADC)	\$ 79,024	\$ 78,752	\$ 239,000	\$ 232,000	\$ 225,000
Contributions in relation to the ADC	<u>(117,116)</u>	<u>(86,077)</u>	<u>(81,784)</u>	<u>(78,451)</u>	<u>(83,000)</u>
Contribution deficiency (excess)	<u>\$ (38,092)</u>	<u>\$ (7,325)</u>	<u>\$ 157,216</u>	<u>\$ 153,549</u>	<u>\$ 142,000</u>
Covered-employee payroll	<u>\$ 2,282,066</u>	<u>\$ 2,405,581</u>	<u>\$ 2,505,193</u>	<u>\$ 2,497,858</u>	<u>\$ 2,314,827</u>
Contributions as a percentage of covered-employee payroll	5.13%	3.58%	3.26%	3.14%	3.59%

Notes to Schedule:

*Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2022 were from the June 30, 2019 actuarial valuation.

Methods and assumptions used to determine contributions:

Actuarial Cost Method	Entry Age Normal, Level % of pay
Amortization Method	Level % of pay
Amortization Period	15-year fixed period for 2021/2022
Asset Valuation Method	Investment gains and losses spread over 5-year rolling period
Discount Rate	6.75%
General Inflation	2.75%
Investment Rate of Return	6.75%
Medical Trend	Non-Medicare - 7.25% for 2021, decreasing to an ultimate rate of 4.0% in 2076. Medicare – 6.3% for 2021, decreasing to an ultimate rate of 4.0% in 2076.
Mortality	CalPERS 1997-2015 Experience Study
Mortality Improvement	Mortality projected fully generational with Scale MP-2019

Fiscal year 2018 was the 1st year of implementation; therefore, only five years are shown. Future years' information will be displayed up to 10 years as information becomes available.

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

DRAFT

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **City of Sand City**, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise City of Sand City's basic financial statements, and have issued our report thereon dated DATE.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

FIRM SIGNATURE

Salinas, California

DATE

DRAFT

DATE

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

We are pleased to present this report related to our audit of the basic financial statements and compliance of the City of Sand City (the City) for the year ended June 30, 2022. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the City of Sand City's financial and compliance reporting process. Also included is a summary of recently issued accounting standards that may affect future financial reporting by the City of Sand City.

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

Our Responsibilities With Regard to the Financial Statement Audit

Our responsibilities under auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States have been described to you in our arrangement letter dated April 1, 2022. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in this letter.

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

We have issued a separate communication dated April 1, 2022 regarding the planned scope and timing of our audit and identified significant risks.

Accounting Policies and Practices

Preferability of Accounting Policies and Practices

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

Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City. The policies adopted by the City for the current fiscal year are as follows:

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, Leases. This standard requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The City adopted the requirements of the guidance effective July 1, 2021 and has applied the provisions of this standard to the beginning of the period of adoption.

Beginning net position decreased by \$19,162 with the implementation of GASB Statement No. 87 when recording right-to-use lease assets and related leases liabilities.

In January 2020, GASB issued Statement No. 92 Omnibus 2020. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The adoption of this standard had no significant impact on the financial statements.

In June 2020, GASB issued Statement No. 97 Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform. The adoption of this standard had no significant impact on the financial statements.

Significant or Unusual Transactions

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

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. The significant accounting estimates reflected in the City of Sand City's June 30, 2022 financial statements include the cost and liability/(asset) of other post-employment benefits and the pension.

Audit Adjustments and Uncorrected Misstatements

Audit adjustments, other than those that are clearly trivial, proposed by us and recorded by the City of Sand City are shown on the attached list of Recorded Audit Adjustments.

Uncorrected misstatements are summarized in the attached list of Uncorrected Misstatements.

Disagreements with Management

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

Consultations with Other Accountants

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

Significant Issues Discussed with Management

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

Significant Difficulties Encountered in Performing the Audit

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

Internal Control Matters

When significant deficiencies and material weaknesses are identified during our audit of the financial statements, we are required to communicate them to you in writing. For the year ended June 30, 2022 a letter was not required.

Other Audit Findings or Issues

Credit Card Transactions

During the credit card testing, it was noted that several transactions over \$500 did not have an approved purchase order. In addition, one of the selections was missing a receipt for \$18. Per the City's credit card policy, purchases exceeding \$500 required the approval/signature of the Department Head prior to purchase. Furthermore, itemized receipts need to be provided for all purchases.

We recommend that purchase orders be requested and approved by Department Heads prior to making purchases above \$500. We also recommend itemized receipts should be required for all credit card users in order to comply with the credit card policy.

Significant Written Communications between Management and Our Firm

We have requested certain representations from management that are included in the management representation letter dated DATE.

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

Sincerely,

CliftonLarsonAllen, LLP

Attachments: Adjusting Journal Entries
 Reclassification Journal Entries
 Uncorrected Misstatements

City of Sand City
Year End: June 30, 2022
Adjusting Journal Entries
Date: 7/1/2021 To 6/30/2022
Account No: AJE-01 To AJE-99

AJE

Number	Date	Name	Account No	Debit	Credit	Amount	Chg Net Income (Loss)
Net Income (Loss) Before Adjustments						3,748,841.00	
AJE-01	6/30/2022	Cash Balance	10-1099-00 GF01	44,782.00			
AJE-01	6/30/2022	Contract Svcs.	10-5020-11 GF01E		44,782.00		
AJE-01	6/30/2022	Cash Balance	38-1099-00 SRF04		44,782.00		
AJE-01	6/30/2022	Contract Svcs.	38-5020-11 SRF04	44,782.00			
To adjust fund balance(38) to agree to PY financial statements				89,564.00	89,564.00	0.00	3,748,841.00
AJE-02	6/30/2022	EQUIP LEASE-PRN	10-6618-08 GF01D	106.00			
AJE-02	6/30/2022	EQUIP LEASE-INT	10-6619-08 GF01D		106.00		
AJE-02	6/30/2022	Right-to-use asset-police radios	60-1285-00 G34G	93,621.00			
AJE-02	6/30/2022	FIXED ASSETS EQUIPMENT	60-1297-00 G34G		148,033.00		
AJE-02	6/30/2022	ACCUMULATED DEPRECIATION	60-1300-00 G34G	103,623.00			
AJE-02	6/30/2022	ACCUMULATED AMORTIZATION (r	60-1302-00 G34G		31,207.00		
AJE-02	6/30/2022	Investment in Fixed Assets	60-3600-00 G34G	74,015.00			
AJE-02	6/30/2022	Investment in Fixed Assets	60-3600-00 G34G		93,621.00		
AJE-02	6/30/2022	DEPRECIATION EX	60-7000-00 G34G		29,605.00		
AJE-02	6/30/2022	AMORTIZATION EXPENSE	60-7001-00 G34G	31,207.00			
AJE-02	6/30/2022	AMOUNT PROVIDED FOR LTD	70-1280-00 G34G	114.00			
AJE-02	6/30/2022	Right-to-use asset-police radios	70-2070-00 G34G		114.00		
To adjust capital lease balance based on GASB 87				302,686.00	302,686.00	(1,602.00)	3,747,239.00
AJE-03	6/30/2022	Lease Receivable	10-1102-00 GF01	1,024,580.00			
AJE-03	6/30/2022	Lease Receivable	10-1102-00 GF01		829,220.00		
AJE-03	6/30/2022	Lease Receivable	10-1102-00 GF01		12,821.00		
AJE-03	6/30/2022	Deferred Revenue	10-2057-00 GF01		1,024,580.00		
AJE-03	6/30/2022	Deferred Revenue	10-2057-00 GF01	53,848.00			
AJE-03	6/30/2022	Deferred Revenue	10-2057-00 GF01	17,236.00			
AJE-03	6/30/2022	Lease Interest Revenue	10-4414-00 GF01		20,780.00		
AJE-03	6/30/2022	Lease Interest Revenue	10-4414-00 GF01		4,288.00		
AJE-03	6/30/2022	RENTAL INCOME	10-4740-00 GF01	17,109.00			
AJE-03	6/30/2022	RENTAL INCOME	10-4740-00 GF01		17,236.00		
AJE-03	6/30/2022	CAL AM LEASE	10-4833-00 GF01	850,000.00			
AJE-03	6/30/2022	CAL AM LEASE	10-4833-00 GF01		53,848.00		
To record rent receivable and deferred inflow of resources				1,962,773.00	1,962,773.00	(770,957.00)	2,976,282.00
				2,355,023.00	2,355,023.00	(772,559.00)	2,976,282.00

Number	Date	Name	Account No	Debit	Credit	Amount Chg	Net Income (Loss)
Net Income (Loss) Before Adjustments						2,976,282.00	
RJE-01	6/30/2022	Investment in Fixed Assets	60-3600-00 G34G		337,830.00		
RJE-01	6/30/2022	CAPITAL LEASE	60-3601-00 G34G	337,830.00			
To reclass Capital Lease Net Position				337,830.00	337,830.00	0.00	2,976,282.00
				337,830.00	337,830.00	0.00	2,976,282.00

City of Sand City

Year End: June 30, 2022

Date: 7/1/2021 To 6/30/2022

Account No: UJE-01

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
UJE-01	6/30/2022	DEFERRED REVENUE	10-2050-00 GF01	7065			95,450.00		
UJE-01	6/30/2022	Covid-19 Relief Fund - American Rescue	10-4017-00 GF01	7065		95,450.00			
To record a passed adjustment for the Coronavirus relief funds received in FY21/22									
						95,450.00	95,450.00		
Net Income (Loss)			2,880,832.00						

INDEPENDENT ACCOUNTANT'S REPORT

City of Sand City
1 Pendergrass Way
Sand City, California 93955

We have examined the City of Sand City's compliance with the requirements in Transportation Agency for Monterey County (TAMC) Ordinance No. 2016-01 Transportation Safety and Investment Plan and in the Measure X Master Programs Funding Agreement between TAMC and the City of Sand City during the year ended June 30, 2022. Management of the City of Sand City is responsible for the City's compliance with the specified requirements. Our responsibility is to express an opinion on the City of Sand City's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City of Sand City complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the City of Sand City complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance with the requirements referenced above, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

Our examination does not provide a legal determination on the City of Sand City's compliance with specified requirements.

Our examination disclosed that the City was not able to certify in an annual Maintenance of Effort Report verification that they expended from its general fund an amount not less than the annual average of its expenditures from its general fund during the preceding three fiscal years as reported to the State Controller on the Street Report.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Sand City complied, in all material respects, with TAMC Ordinance No. 2016-01 Transportation Safety Investment Plan and with the Measure X Master Programs Funding Agreement for the year ended June 30, 2022.

CliftonLarsonAllen, LLP
Salinas, California
Report DATE

Date of Auditor's Report

CliftonLarsonAllen, LLP
1188 Padre Drive, Suite 101
Salinas, California, 93901

This representation letter is provided in connection with your audit of the basic financial statements of City of Sand City (the City) as of and for the year ended June 30, 2022 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of **Date of Auditor's Report**:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated April 1, 2022, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party transactions have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. The financial statements properly classify all funds and activities in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as amended.
7. All events subsequent to the date of the financial statements, and for which U.S. GAAP requires adjustment or disclosure, have been adjusted or disclosed.

8. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
9. We have no direct or indirect legal or moral obligation for any debt of any organization, public or private, that is not disclosed in the financial statements.
10. We have complied with all aspects of laws, regulations and provisions of contracts and agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act because we have not received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
11. As of and for the year ended June 30, 2022, we believe that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate, to the opinion units of the financial statements.
12. With respect to the assistance provided with our implementation of GASB Statement No. 87 *Leases*, drafting of the financial statements and footnotes, proposed adjustments, preparation of the Street and State Controller's report, Appropriation limit, and compliance with Measure X, performed in the course of the audit:
 - a. We have made all management decisions and performed all management functions;
 - b. We assigned an appropriate individual to oversee the services;
 - c. We evaluated the adequacy and results of the services performed, and made an informed judgment on the results of the services performed;
 - d. We have accepted responsibility for the results of the services; and
 - e. We have accepted responsibility for all significant judgments and decisions that were made.

Information Provided

13. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the basic financial statements such as records, documentation and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.

- c. Unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the governing board and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 14. All transactions have been recorded in the accounting records and are reflected in the basic financial statements.
- 15. We have disclosed to you the results of our assessment of risk that the basic financial statements may be materially misstated as a result of fraud.
- 16. It is our responsibility to establish and maintain internal control over financial reporting. One of the components of internal control is risk assessment. We hereby represent that our risk assessment process includes identification and assessment of risks of material misstatement due to fraud. We have shared with you our fraud risk assessment, including a description of the risks, our assessment of the magnitude and likelihood of misstatements arising from those risks, and the controls that we have designed and implemented in response to those risks.
- 17. We have no knowledge of allegations of fraud or suspected fraud affecting the City's basic financial statements involving:
 - a. Management.
 - b. Employees who have significant roles in internal control.
 - c. Others where the fraud could have a material effect on the basic financial statements.
- 18. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's basic financial statements received in communications from employees, former employees, analysts, regulators, short sellers or others.
- 19. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations.
- 20. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- 21. We have disclosed to you the identity of all of the City's related parties and all the related-party relationships and transactions of which we are aware.
- 22. We have informed you of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the City's ability to record, process, summarize and report financial data.

23. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
24. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Supplementary Information

25. With respect to supplementary information presented in relation to the basic financial statements as a whole:
 - a. We acknowledge our responsibility for the presentation of such information.
 - b. We believe such information, including its form and content, is fairly presented in accordance with guidelines presented by U.S. GAAP.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
26. With respect to the Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Schedule of Proportionate Share of the Net Pension Liability, the Schedule of Contributions – Pension, the Schedule of Changes in the Net OPEB Liability/(Asset) and Related Ratios and the Schedule of Contributions – OPEB presented as required by the Government Accounting Standards Board to supplement the basic financial statements:
 - a. We acknowledge our responsibility for the presentation of such required supplementary information.
 - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S. GAAP.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.

CITY OF SAND CITY

Vibeke Norgaard
City Manager

DATE

CliftonLarsonAllen, LLP
1188 Padre Drive, Suite 101
Salinas, California 93901

In connection with your engagement to perform, in accordance with attestation standards established by the American Institute of Certified Public Accountants, specified agreed-upon procedures solely to assist the City of Sand City (the City) in evaluating the City's compliance with the Appropriation Limit calculation for the year ended June 30, 2022, we confirm, to the best of our knowledge and belief, the following representations made to you during the course of your engagement:

1. We are responsible for the City's compliance with the Appropriation Limit calculation.
2. We acknowledge that the procedures performed during your engagement are appropriate for the intended purpose of the engagement.
3. We are responsible for establishing and maintaining effective internal control over the City's compliance with the Appropriation Limit calculation.
4. We have performed an evaluation of the City's compliance with the Appropriation Limit calculation. Based on our evaluation, the City has complied with the Appropriation Limit calculation requirements for the year ended June 30, 2022 based on the interpretation of those requirements provided by the California League of Cities.
5. We have disclosed to you all known noncompliance with the Appropriation Limit calculation for the year ended June 30, 2022 or through the date of this letter.
6. Our interpretation of the compliance requirements for the Appropriation Limit calculation is based on the interpretation of those requirements provided by the California League of Cities, in compliance with Section 1.5, of Article XIIB of the California Constitution.
7. There are no known communications from regulatory agencies, internal auditors or other practitioners concerning the City's possible noncompliance with the Appropriation Limit calculation received by us during the year ended June 30, 2022 or through the date of this letter.
8. We have made available to you all documentation related to the City's compliance with the Appropriation Limit calculation.
9. There has been no knowledge of fraud or suspected fraud affecting the entity involving:
 - a. Management.
 - b. Employees who have significant roles in internal control.
 - c. Others where fraud could have a material effect on the City's compliance with the Appropriation Limit calculation.
10. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
11. We have no knowledge of any allegations of fraud or suspected fraud affecting the City received in communications from employees, former employees, analysts, regulators, short sellers or others.

12. We have responded fully to all inquiries made to us by you during your engagement.
13. We have disclosed to you all known subsequent events through the date of the appropriations limit calculation for the year ended June 30, 2022 to the date of this letter and the date of your audit report that could have a material effect on the appropriation limit calculation.
14. During the course of your engagement, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.
15. We understand that your report is intended solely for the information and use of the City Council and management of Sand City and is not intended to be, and should not be, used by anyone other than the specified parties.

CITY OF SAND CITY

Vibeke Norgaard
City Manager

DATE

CliftonLarsonAllen, LLP
1188 Padre Drive, Suite 101
Salinas, California 93901

In connection with your examination of the City of Sand City's compliance with the requirements in Transportation Agency for Monterey County (TAMC) Ordinance No. 2016-01 Transportation Safety and Investment Plan (Ordinance) and in the Measure X Master Programs Funding Agreement (the Agreement) between TAMC and the City of Sand City for the period ended June 30, 2022, for the purpose of expressing an opinion about whether the City of Sand City has complied with the Ordinance and the Agreement in all material respects, we confirm, to the best of our knowledge and belief, the following representations made to you during the course of your engagement:

1. The City of Sand City has complied with the requirements of the Ordinance and the Agreement, except as it relates to the maintenance of effort requirement in expenditure of general funds.
2. We are responsible for complying with the Ordinance and the Agreement.
3. We are responsible for establishing and maintaining effective internal control over compliance.
4. We have performed an evaluation of the City of Sand City's compliance with the Ordinance and the Agreement.
5. All relevant matters are reflected in the measurement or evaluation of the City of Sand City's compliance with the specified requirements.
6. We are responsible for selecting the specified requirements and for determining that the specified requirements are appropriate for our purposes.
7. We have disclosed to you all known noncompliance with the Ordinance and the Agreement, including noncompliance occurring after June 30, 2021 through Report Date.
8. We have provided you will all known information and access to information and personnel in connection with your examination of compliance with the Ordinance and the Agreement.
9. We have responded fully to all inquiries made to us by you during the engagement.
10. There have been no communications from regulatory agencies, internal auditors, other independent practitioners or consultants, or others regarding possible noncompliance with the specified requirements, including communications received between June 30, 2022 and [Date of representation letter],
11. We are not aware of any deficiencies in internal control relevant to the specified requirements.

12. We have no knowledge of any actual, suspected, or alleged fraud or noncompliance with laws or regulations affecting the specified requirements involving management, employees who have significant roles in internal control, or others where the fraud or noncompliance could have an effect on the entity's compliance with the specified requirements, including any communications from employees, former employees, analysts, regulators, or others.
13. No events have occurred subsequent to June 30, 2022 that would have a material effect on the City's compliance with the specified requirements.

Sincerely,

CITY OF SAND CITY

Signature _____

Title _____