

# Annual Financial Report



City of Carmel-by-the-Sea  
California

Fiscal Year Ended June 30, 2018

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# *City of Carmel-by-the-Sea California*

*Annual Financial Report  
For the Fiscal Year Ended June 30, 2018*



Prepared by the Finance Department  
Robin Scattini, Finance Manager

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**CITY OF CARMEL-BY-THE-SEA  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2018**

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**TABLE OF CONTENTS**

**FINANCIAL SECTION**

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis (Required Supplementary Information) .....	6
Basic Financial Statements:	
<i>Government-Wide Financial Statements:</i>	
Statement of Net Position.....	23
Statement of Activities.....	24
<i>Fund Financial Statements</i>	
<i>Governmental Funds:</i>	
Balance Sheet .....	25
Reconciliation of the Government Funds Balance Sheet to the Government-Wide Financial Statement of Net Position.....	26
Statement of Revenues, Expenditures and Changes in Fund Balances .....	27
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities .....	28
<i>Proprietary Funds:</i>	
Statement of Net Position .....	29
Statement of Revenues, Expenses, and Changes in Fund Net Position.....	30
Statement of Cash Flows.....	31
<i>Fiduciary Funds:</i>	
Statement of Fiduciary Net Position.....	32
Notes to the Basic Financial Statements.....	33
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP Basis):	
General Fund .....	67
Measure D Sales Tax Fund.....	68
Schedule of Pension Contributions .....	69
Schedule of Proportionate Share of Net Pension Liability .....	70
Schedule of Total OPEB Liability .....	71

**CITY OF CARMEL-BY-THE-SEA  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2018**

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**SUPPLEMENTARY INFORMATION**

*Combining Nonmajor Governmental Funds:*

Combining Balance Sheet.....	75
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	77
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP Basis):	
Gas Tax Fund.....	80
Transportation Safety Fund .....	81
COPS Grant Fund.....	82
Parking In-Lieu Fun .....	83
Asset Seizure Fun.....	84
Harrison Memorial Library Fund .....	85
Debt Service Fund.....	86

*Combining Internal Service Funds:*

Combining Statement of Net Position.....	88
Combining Statement of Revenues, Expenses and Changes in Fund Net Position .....	89
Combining Statement of Cash Flows .....	90

*Agency Funds:*

Schedule of Changes in Assets and Liabilities .....	92
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**OTHER INDEPENDENT AUDITOR REPORTS**

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	94
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## FINANCIAL SECTION



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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the  
City Council of the City of Carmel-by-the-Sea  
Carmel-by-the-Sea, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Carmel-by-the-Sea (the "City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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



## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Carmel-by-the-Sea, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Change in Accounting Principle*

As discussed in Note 1 to the financial statements, the City adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). The City currently funds this obligation on a pay-as-you go basis. The City anticipates that its ongoing funding and current resources are sufficient to meet its obligations as they come due. Our opinion is not modified with respect to this matter.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining individual non-major fund schedules and other information as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the



basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

C & A LLP

December 21, 2018  
San Jose, California



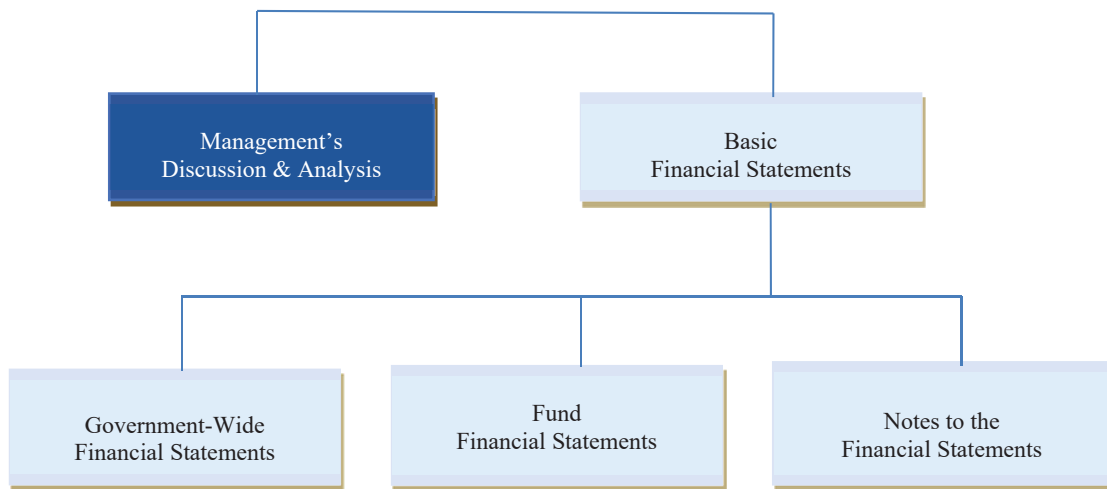
## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**INTRODUCTION**

As management of the City of Carmel-by-the-Sea, we offer readers of the City’s financial statements this narrative overview and analysis of financial activities of the City of Carmel-by-the-Sea for the fiscal year that ended on June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the other sections of the attached audited financial statements, required supplemental information and other supplemental information. The required components of the report are listed below.

**Required Components of the Annual Financial Report**



**FISCAL YEAR 2017/18 FINANCIAL HIGHLIGHTS**

*Government-Wide Highlights*

- The assets and deferred outflows of resources of the City of Carmel-by-the-Sea exceeded the liabilities at the close of the most recent fiscal year by \$25.7 million (net position). Of this amount, net position included \$35.2 million classified as net investment in capital assets; \$2.6 million as restricted; and \$12.1 million as a deficit unrestricted net position (negative net position). The negative unrestricted net position is largely due to the implementation of *GASB 68 – Accounting and Financial Reporting for Pensions*. This pronouncement requires local governments to record pension liabilities on the government-wide financial statements. The City’s pension liability in accordance with GASB 68 as of June 30, 2018 was \$19.9 million.
- The City of Carmel-by-the-Sea’s total net position decreased by \$2.1 million from last fiscal year mostly due to the implementation of GASB 75 for other postemployment benefits, which requires local governments to record their unfunded actuarially accrued liabilities (UAAL) for medical, dental and vision benefits provided to employees upon retirement. The net OPEB liability (NOL, previously the UAAL) was \$3.65 million as of June 30, 2018. In prior years, the City was only required to record the accumulated difference between its annual required contributions and actual premiums paid plus contributions as a liability (or asset) instead of the entire net OPEB liability as required by GASB 75. To implement GASB 75 the City recorded a prior period adjustment to net position of \$1,4 million, see Table 2.

*Fund Highlights*

- At the close of Fiscal Year 17/18 the City of Carmel-by-the-Sea's governmental funds reported combined fund balances of \$12.3 million, a decrease of \$855 thousand in comparison with the prior year. Approximately 27% or \$3.3 million is classified as unassigned fund balance and is available for spending at the government's discretion, which is down from \$3.4 million in the prior year.
- At the end of the current fiscal year, unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) for the general fund was \$8.0 million, or 45% of total general fund expenditures, prior to transfers, versus \$9.3 million and 50% in the prior year.
- The City's long-term liabilities increased by \$3.6 million primarily as the result of a \$2.7 million increase in net pension liabilities and a \$1.6 million increase to the net OPEB liability, net of debt service payments on loans, bonds and other debt payable.
- The City's net capital assets decreased by 5% or \$2.0 million primarily as a result of depreciation and adjustments in construction-in-progress that resulted in a loss of \$2.4 million from disposal of capital assets. These items were offset by additions of approximately \$1.9 million.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The discussion and analysis are intended to serve as an introduction to the City of Carmel-by-the-Sea's financial statements. The City of Carmel-by-the-Sea's basic financial statements are comprised of (1) Government-wide Financial Statements (2) Fund Financial Statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements**

The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Carmel-by-the-Sea's finances, in a manner similar to a private-sector business. Government-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole. Government-wide financial statements consist of the *Statement of Net Position* and the *Statement of Activities*.

The *Statement of Net Position* presents financial information on all of the City of Carmel-by-the-Sea's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Carmel-by-the-Sea is improving or deteriorating.

The *Statement of Activities* presents information showing how the City of Carmel-by-the-Sea's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. This is consistent with a full accrual concept, which may result in the reporting of revenues and expenses in the current fiscal year, with cash flows occurring in future fiscal periods (e.g. uncollected revenues and earned but not used vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Carmel-by-the-Sea that are principally support by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). An overview of the City's functions associated with each classification is listed below.



*Governmental Activities* – All of the City's basic services are considered to be governmental activities. This includes general government, public safety, public works, library, and community planning and building. These services are supported by general City revenues such as taxes, and by specific program revenues such as development and general government program fees. The City also operates three internal service funds, which are combined with the governmental funds and reported as governmental activities. The government-wide financial statements can be found on pages 23-24 of this report.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Fund financial statements provide detailed information about each of the City's most significant funds, called major funds. Major funds are presented individually, with all nonmajor funds summarized and presented only in a single column. Subordinate schedules present the detail of these nonmajor funds. Major funds present the major activities of the City for the fiscal year and may change from year to year as a result of changes in the pattern of the City's activities. The City's funds are segregated into three categories: governmental funds, proprietary funds, and fiduciary funds.

#### *Governmental Funds*

*Governmental funds* are used to account for essentially the same function reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. This represents a modified accrual basis of accounting, with capital assets, long-lived assets, and long-term liabilities excluded from the financial statements. Such information may be useful in evaluating the City's near-term financing requirements.

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

The City maintains eleven governmental funds (not included the five funds that were closed during the year and had no operating activity). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Measure D Sales Tax Fund, the Capital Projects Fund and the Ambulance fund (closed). These four funds are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The City of Carmel-by-the-Sea adopts an annual budget for its governmental funds. A budgetary comparison statements have been provided to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 25-27 of this report.

### *Proprietary Funds*

*Internal service funds* are an accounting mechanism used to accumulate and allocate costs internally among the City of Carmel-by-the-Sea's various functions. The City uses internal service funds to account for the management of its retained risks associated with liability self-insurance, workers compensation and other post-employment benefits (OPEB). The City also uses an internal service fund, the Vehicle & Equipment Replacement Fund, to manage the costs of various equipment purchased, maintained and utilized to operate City services for various departments. Because these internal services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the Government-Wide Financial Statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are provided in the form of combining statements in the combining and individual fund statements and schedules section of this report. The basic proprietary fund financial statements can be found on pages 29-31 of this report.

### *Fiduciary Funds*

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reported in the Government-Wide financial statements because the resources of these funds are not available to support the City of Carmel-by-the-Sea's own programs. The accounting for fiduciary funds is much like that used for business type activities. See pages 32 and 92 for fiduciary fund financial activity during the year and statements at the end of the year.

## **NOTES TO THE FINANCIAL STATEMENTS**

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found immediately following the fund financial statements.

## **OTHER INFORMATION**

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City of Carmel-by-the-Sea's budgetary information for the General Fund and Major Special Revenue Funds, and the City's funding progress for its employee pension and OPEB benefit obligations. The required supplementary information can be found on pages 67-71 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the *required supplementary information*. Combining and individual fund statements and schedules can be found on pages 75-92 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position may serve as an indicator of a government's financial position. In the case of the City of Carmel-by-the-Sea, assets and deferred outflows of resources exceeded liabilities by \$25.7 million at the close of the Fiscal Year. This represents a decrease of \$2.1 million over the prior year.

The following table summarizes the City's ending net position:

<b>Table 1 - Net Position</b>			
	<b>Governmental Activities</b>		<b>Increase</b>
	2018	2017	<b>(Decrease)</b>
<b>Assets</b>			
Current and other assets	\$16,486,095	\$15,560,772	\$ 925,323
Capital assets	40,953,831	42,998,716	(2,044,885)
<b>Total Assets</b>	<u>\$57,439,926</u>	<u>\$58,559,488</u>	<u>\$(1,119,562)</u>
<b>Deferred Outflows of Resources</b>	<u>\$ 5,606,418</u>	<u>\$ 3,843,433</u>	<u>\$ 1,762,985</u>
<b>Liabilities</b>			
Current and other liabilities	\$ 1,344,148	\$ 2,063,041	\$ (718,893)
Noncurrent liabilities	33,671,349	30,101,730	3,569,619
<b>Total Liabilities</b>	<u>\$35,015,497</u>	<u>\$32,164,771</u>	<u>\$ 2,850,726</u>
<b>Deferred Inflows of Resources</b>	<u>\$ 2,327,444</u>	<u>\$ 2,446,847</u>	<u>\$ (119,403)</u>
<b>Net Position</b>			
Net investment in capital assets	\$35,216,550	\$36,931,575	\$(1,715,025)
Restricted	2,628,238	5,027,082	(2,398,844)
Unrestricted	(12,141,385)	(14,167,354)	2,025,969
<b>Total Net Position</b>	<u>\$25,703,403</u>	<u>\$27,791,303</u>	<u>\$(2,087,900)</u>

A significant portion or \$35.2 million of the City's net position reflects its investment in capital assets, (e.g., land, buildings, general government infrastructure, equipment, etc.), less accumulated depreciation and any outstanding debt that was used to acquire or construct those assets. Capital assets represent infrastructure which provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the liabilities.

An additional \$2.6 million of the City of Carmel-by-the-Sea's net position represents resources that are subject to external restrictions on how they may be used. The remaining deficit balance of \$12.1 million is classified as unrestricted. This negative unrestricted balance is largely due to *GASB 68 – Accounting and Financial Reporting for Pensions*. The City participates in the CalPERS Miscellaneous and Safety pension plans. GASB 68 impacted local governments by requiring them to report a proportional share of their pension plan's net pension liabilities on financial statements. As of June 30, 2018, the City's proportionate share of the CalPERS pension liability was \$19.9 million. See note 8 for detailed information related to the Plans, along with the required supplementary information section of this report.

At the end of the current fiscal year, the City of Carmel-by-the-Sea is able to report a positive balance for the government as a whole, with financial strength increasing. The reasons for the overall financial changes are discussed in the following sections for governmental activities.

**Governmental Activities**

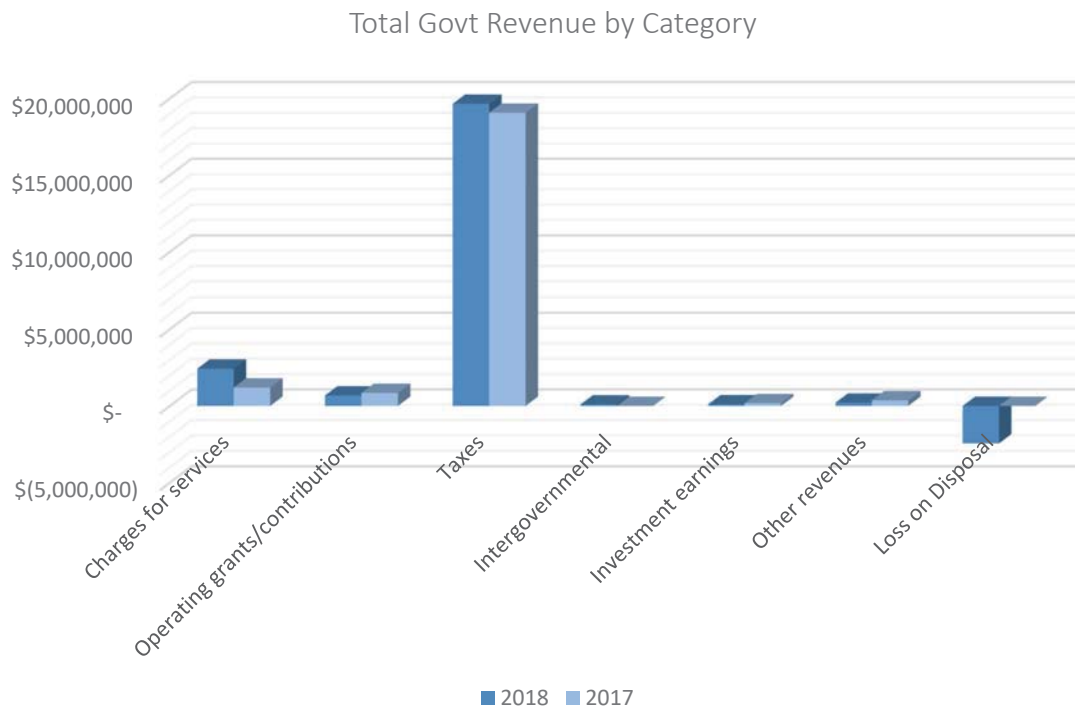
As shown in the *Statement of Changes in Net Position* schedule below, the net position for governmental activities decreased from a surplus balance of \$867 thousand in the prior year to a deficit balance of \$784 thousand in the current fiscal year. This decrease is largely due to adjustments from pension plans, OPEB plans and a one-time loss to write-off construction in-progress reported as special item referred to as a loss on the disposal of capital assets. The loss on disposal totaled \$2.4 million but was not a cash item or outflow of resources, but simply an accounting entry to adjust for ongoing construction that has not been completed and placed in service. See Note 5 in the notes to financial statements. The change in net position increased by \$3.2 million over prior year when the loss on disposal is not reflected. Total governmental revenues increased by \$1.5 million from the prior year (not including the loss on disposal of capital assets), which included a \$1.1 million increase in program revenues and a \$444 thousand increase in general revenues. The net change in expenses from the prior year was an increase of \$726 thousand.

With total revenues for the fiscal year at \$17.6 million and total expenses at \$21.5 million, the change in net position for current activity yielded a decrease of \$784 thousand. The total decrease, including prior period adjustments totaling \$1.3 million, was \$2 million. An analysis of the changes in revenues and expenses is as follows:

<b>Functions/Programs</b>	<b>Governmental Activities</b>		<b>Increase</b>
	<b>2018</b>	<b>2017</b>	<b>(Decrease)</b>
<b>Program Revenues</b>			
Charges for services	\$ 2,427,843	\$ 1,196,172	\$ 1,231,671
Operating grants and contributions	681,240	842,491	(161,251)
<b>Total Program Revenues</b>	<b>3,109,083</b>	<b>2,038,663</b>	<b>1,070,420</b>
<b>General Revenues</b>			
Taxes	19,652,166	19,070,188	581,978
Intergovernmental	92,155	-	92,155
Investment earnings	101,743	182,366	(80,623)
Other revenues	212,820	362,561	(149,741)
Special item - loss on disposal of capital assets	(2,439,255)	-	(2,439,255)
<b>Total General Revenues</b>	<b>17,619,629</b>	<b>19,615,115</b>	<b>(1,995,486)</b>
<b>Expenses</b>			
General government	4,896,809	4,981,304	(84,495)
Community Planning and Building	1,206,295	1,146,860	59,435
Public Safety	7,771,104	7,281,137	489,967
Public Works	2,950,423	2,605,036	345,387
Library	1,303,989	1,144,883	159,106
Community Activities	153,224	446,445	(293,221)
Economic Revitalization	1,125,261	1,110,857	14,404
Interest on fiscal charges	319,974	322,181	(2,207)
Depreciation	1,786,021	1,747,960	38,061
<b>Total Expenses</b>	<b>21,513,100</b>	<b>20,786,663</b>	<b>726,437</b>
Increase / (Decrease) in Net Position	(784,388)	867,115	(1,651,503)
Prior Period Adjustment - Capital Assets	38,904	-	38,904
Prior Period Adjustment - Pensions	99,832	-	99,832
Prior Period Adjustment - GASB 75 OPEB	(1,442,248)	-	(1,442,248)
<b>Net Position, Beginning of Year</b>	<b>27,791,303</b>	<b>26,924,188</b>	<b>867,115</b>
<b>Net Position, End of Year</b>	<b>\$ 25,703,403</b>	<b>\$ 27,791,303</b>	<b>\$ (2,087,900)</b>

### Governmental Revenues

The following chart summarizes the changes in revenues by category during the fiscal year:

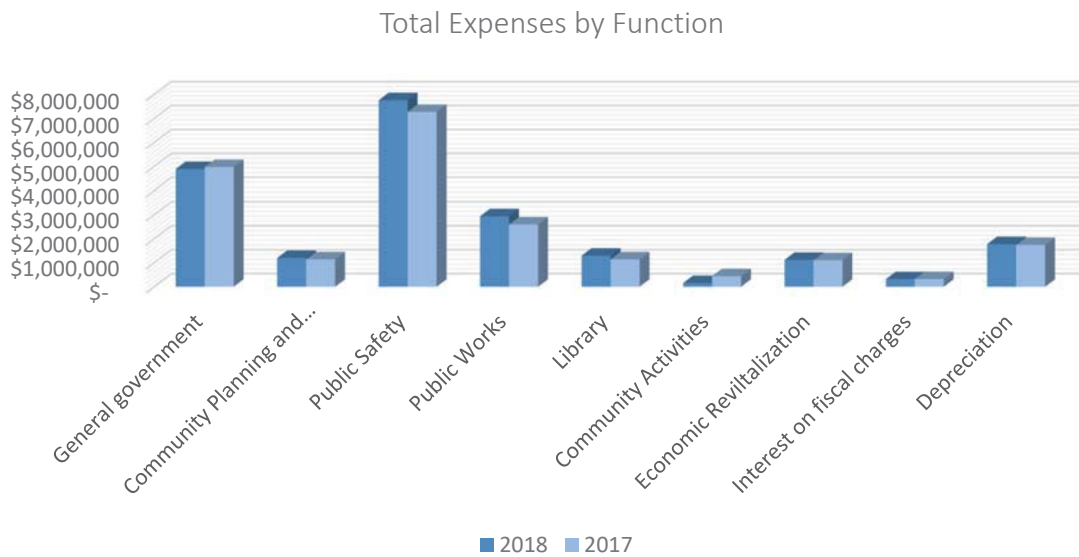


Significant changes in governmental revenues consisted of the following:

- Charge for Services, which included building permits, building plan check fees, planning permits, ambulance service fees, parking related service fees, in addition to other various City fees for services, increased by approximately by \$1.2 million, or 103%, primarily due to net increases in various building and planning activities; an adjustment in citywide fees for services and increased parking stall revenue due to a construction project.
- Taxes increased by \$581,972, or 3%, primarily due to the following:
  - Transient occupancy taxes increased by \$116,566 as a result of hotel occupancy rates. The City experienced an increase in visitors due to marketing efforts and from the fires occurring in neighboring areas.
  - Sales tax revenues increased by \$271,804 largely due to a strong economy and an increase in sales tax statewide. A large portion of the increase is related to timing differences associated with a sales tax true-up and the State's final triple flip payment.
- The loss on disposal is a one-time loss to write-off construction in-progress totaling \$2.4 million. The loss on disposal was not a cash item or outflow of resources in the current year, but simply an accounting entry to adjust for ongoing construction that has not been completed and placed in service. See Note 5 in the notes to financial statements
- Investment earnings decreased by \$80,623 primarily due to fair market value adjustments associated with GASB Statement 72 – Fair Value and Measurement Application.

**Governmental Expenses**

The following chart summarizes the changes in expenses by category during the fiscal year:



Significant changes in governmental expenses consisted of the following:

- Public safety increased by \$489,967, or 6.7%, primarily due to GASB 68 pension expense adjustments of \$557,084 and GASB 75 benefit adjustments of \$97,149.
- Public works increased by \$345,387, or 13.3%, primarily due to GASB 68 pension expense adjustments of \$106,417, GASB 75 benefit adjustments of \$38,299, and the recategorization of expenses by function during the implementation of a new accounting system during the year.
- Community activities decreased by \$293,221, or 65.7%, primarily due to the recategorization of expenses by function during the implementation of a new accounting system during the year.



**FINANCIAL ANALYSIS OF THE CITY’S GOVERNMENTAL FUNDS**

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

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. In particular, the unassigned fund balance may serve as a useful measure of a government’s net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for particular purposes by the City of Carmel-by-the-Sea’s Council.

The following is a summary of the changes in fund balance of the major and other (nonmajor) governmental funds:

**Table 3 - Summary of Changes in Fund Balance - Governmental Funds**

	Major Funds					Total
	General Fund	Measure D Sales Tax Fund	Capital Projects Fund	Ambulance Fund	Other Governmental Funds	
Total Revenues	\$ 19,367,073	\$ 2,898,445	\$ -	\$ -	\$ 780,915	\$23,046,433
Total Expenditures	17,747,222	-	1,833,014	-	1,563,662	21,143,898
Revenues Over (Under) Expenditures	1,619,851	2,898,445	(1,833,014)	-	(782,747)	1,902,535
Transfers in	7,507,522	-	3,870,626	1,264,197	1,313,145	13,955,490
Transfers out	(10,436,475)	(5,234,366)	(410,514)	-	(632,032)	(16,713,387)
Net change in fund balances	(1,309,102)	(2,335,921)	1,627,098	1,264,197	(101,634)	(855,362)
Beginning of year	9,315,496	2,541,547	-	(1,264,197)	2,523,763	13,116,609
End of year	\$ 8,006,394	\$ 205,626	\$ 1,627,098	\$ -	\$ 2,422,129	\$12,261,247

The fund balance of the City’s General Fund decreased by \$1.3 million. This decrease was mostly due to the City’s reorganization of its fund structure during the implementation of its new accounting system. The City closed five funds, the Ambulance Fund, Traffic Safety Fund, Road Impact Fee Fund, Grants Fund and Forest Theater Fund. The fund balance in these funds as of July 1, 2017, was transferred into the General Fund or other City funds. The Ambulance Fund had a deficit fund balance of \$1.3 million that was moved to the General Fund. The City also created four new governmental funds; the Capital Projects Fund, Transportation Safety Fund (Measure X), COPS Grant Fund, and the Asset Seizure Fund. The equity transfers of the fund balance from the liquidated funds was required to be report as operating transfers by the Governmental Accounting Standards Board (GASB). The City also create two new internal service funds, the Workers’ Compensation Insurance Fund and OPEB Reserve Fund, and one new agency fund, the Refundable Deposits Fund. The transfers in and out of the internal service funds were reported as noted above, while the transfers into and out of the agency fund were reported as additions and deletions in the Agency fund.

The following summarizes the equity transfers during the year:

	Equity Transfers In	Equity Transfers Out
COPS Grant Fund	\$ 69,674	\$ -
Asset Seizure Fund	890	-
Traffic Safety Fund	-	40,537
Road Impact Fee Fund	-	64,503
Grants Fund	-	95,174
Forest Theatre Fund	-	51,206
Workers Comp. Insurance Fund	181,163	-
OPEB Reserve Fund	1,756,080	-
Ambulance Fund	1,264,197	-
Capital Projects Fund	-	380,264
General Fund	55,525	3,054,398
Refundable Deposits Agency Fund	358,553	-
Totals	<u>\$ 3,686,082</u>	<u>\$ 3,686,082</u>

*Combined Funds – Components of Fund Balance*

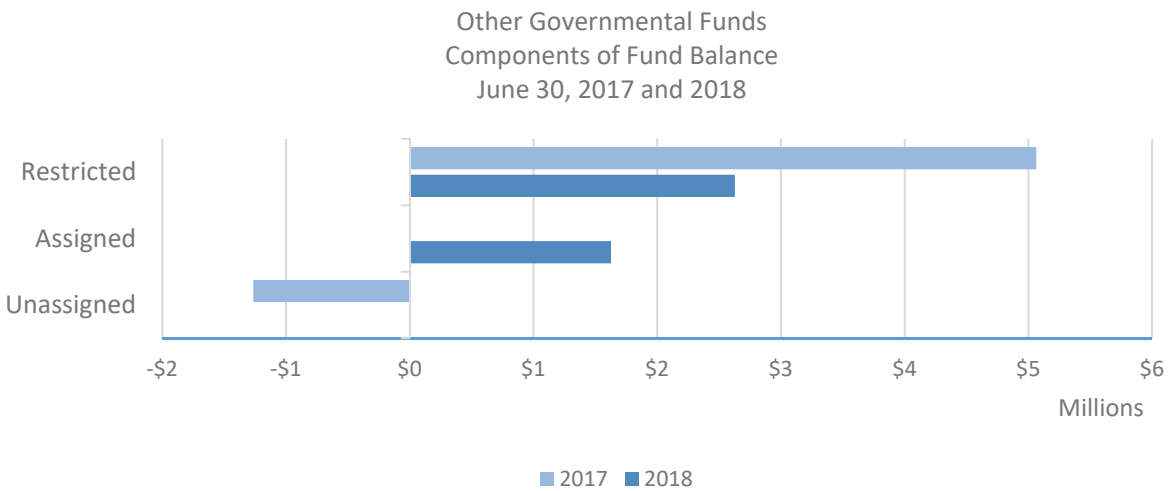
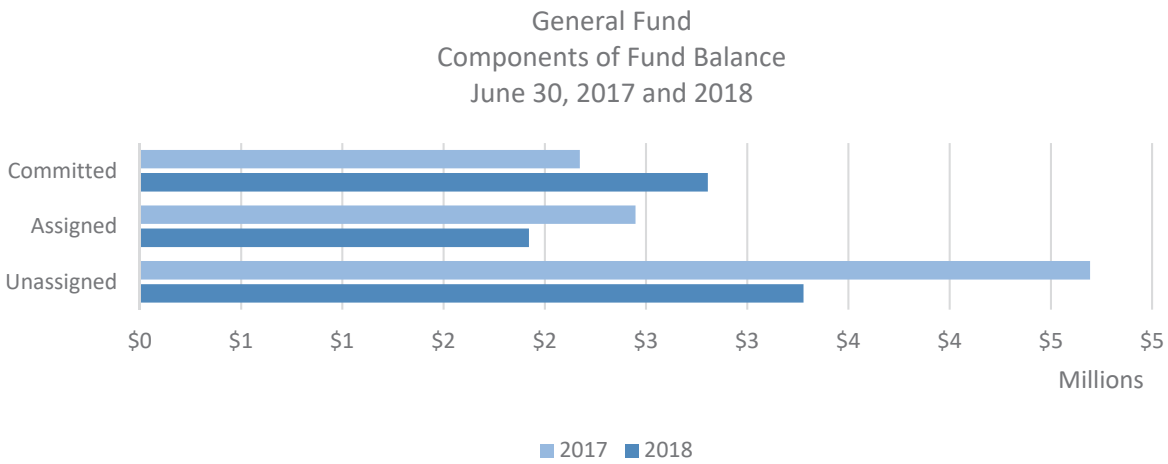
As of June 30, 2018, the City of Carmel-by-the-Sea’s reported combined fund balances of \$12.3 million, which represents a \$855,362 decrease over the prior year. Approximately 27%, or \$3.3 million, is classified as unassigned fund balance, which is available for spending at the government’s discretion. The remainder of the fund balance is either committed, restricted, or assigned. The committed balance of \$2.8 million represents funds that are set-aside for specific purposes via resolution of the City Council. The restricted balance of \$2.6 million reflects fund that are legally required to remain intact, while the remainder of \$3.6 million represents funds that are assigned to a particular purpose by the City Council or management given legal authority by the Council.

*General Fund – Components of Fund Balance*

The general fund is the chief operating fund of the City of Carmel-by-the-Sea. At the end of the current fiscal year, the unassigned fund balance of the general fund was \$3.3 million, and the total fund balance decreased to \$8 million. As a measure of the general fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. The total general fund expenditures, prior to transfers was \$17.8 million. Unassigned fund balance represents approximately 18% of the total general fund expenditures, while total fund balance represents approximately 45% of total general fund expenditures.



The following charts provide an annual comparison of the fund balance components included in the general fund and the other governmental funds.



The assigned fund balance in other governmental funds was from the Capital Projects Fund which had \$1.6 million in fund balance assigned for capital projects. In 2017, the Ambulance Fund had a deficit unassigned fund balance of \$1.3 million. This fund has been closed and the operations are now reported in the General Fund.

**FINANCIAL ANALYSIS OF CITY'S INTERNAL SERVICE FUNDS**

The following is a summary of the changes in fund balance of the City's internal service funds:

**Table 3 - Summary of Changes in Fund Balances - Internal Service Funds**

	<b>Major Funds</b>			<b>Total</b>
	<b>Workers Compensation Fund</b>	<b>OPEB Reserve Fund</b>	<b>Vehicle &amp; Equipment Replacement Fund</b>	
Total Revenues	\$ 3,828	\$ -	\$ -	\$ 3,828
Total Expenditures	147,052	-	280,293	427,345
Revenues Over (Under) Expenditures	(143,224)	-	(280,293)	(423,517)
Nonoperating Revenue (Expense)	11,336	32,352	(38,905)	4,783
Transfers in	181,163	1,756,080	438,500	2,375,743
Transfers out	-	-	-	-
Net change in fund balances	49,275	1,788,432	119,302	1,957,009
Beginning of year	-	-	1,156,247	1,156,247
End of year	<u>\$ 49,275</u>	<u>\$ 1,788,432</u>	<u>\$ 1,275,549</u>	<u>\$ 3,113,256</u>

**CAPITAL ASSETS**

The City of Carmel-by-the-Sea's investment in capital assets for its governmental activities as of June 30, 2018 amounts to \$41 million (net of accumulated depreciation). The investment in capital assets includes land, buildings, systems, improvements, machinery, equipment, facilities, roads, and other similar assets and infrastructure. The following table summarizes the City's capital assets at the end of the year:

**Table 4 - Capital Assets at Year End - Net**

	<b>Governmental Activities</b>		<b>Increase</b>
	<b>2018</b>	<b>2017</b>	<b>(Decrease)</b>
Land	\$ 5,101,641	\$ 5,101,641	\$ -
Construction in Progress	1,799,679	2,464,441	(664,762)
Buildings and improvements	16,246,372	16,738,407	(492,035)
Infrastructure	17,102,239	17,633,461	(531,222)
Vehicles	164,091	328,188	(164,097)
Technology/Hardware and Software	419,675	356,695	62,980
Machinery and equipment	120,134	375,883	(255,749)
Total Capital Assets, Net	<u>\$ 40,953,831</u>	<u>\$ 42,998,716</u>	<u>\$ (2,044,885)</u>

The City reported additions to construction-in-progress totaling \$1.9 million during the year, but also reported a loss on disposal of capital assets totaling \$2.4 million.

See Note 5 in the notes to financial statements section for additional information.

**DEBT ADMINISTRATION (LONG-TERM LIABILITIES)**

During the year, Long-Term Liabilities from governmental activities increased by \$3.6 million primarily due to increases in pension and OPEB obligations as shown below and described in the financial highlights section.

The following table summarizes the City's debt at the end of the year:

**Table 5 - Outstanding Long-Term Liabilities**

	<u>Governmental Activities</u>		<u>Increase</u>
	2018	2017	<u>(Decrease)</u>
Sunset Center COP	\$ 5,530,000	\$ 5,840,000	\$ (310,000)
Countywide Radio Project	207,281	227,141	(19,860)
Pension Obligation Bonds	3,220,000	3,825,000	(605,000)
Compensated Absences	580,146	510,024	70,122
Net Pension Liability	19,908,483	17,167,636	2,740,847
Claims Liability	575,000	460,000	115,000
Net OPEB Liability	3,650,439	2,071,929	1,578,510
Total Long-Term Liabilities	<u>\$ 33,671,349</u>	<u>\$ 30,101,730</u>	<u>\$ 3,569,619</u>

See Note 6 in the notes to financial statements section for additional information.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Changes from the City's General Fund original budget to the final budget are detailed in the *Required Supplementary Information* section along with a comparison to actual activity for the year ended. In Fiscal Year 17/18, the City originally estimated that a \$261,047 drawdown from fund balance was needed to fund operating activities; however due to increased performance in revenues and decreased annual spending, the City ended the year with an excess of revenues over expenditures of \$1.6 million.

*Revenues*

The General Fund adopted and final revenue budgets were \$18.6 and \$18.8 million, with actual revenues recorded at \$19.4 million. This \$585,024 difference is primarily related to greater than anticipated performance in most tax categories, with the exception of property and franchise taxes, license and permits, and charges for services.

*Expenditures*

The General Fund adopted expenditure budget was \$18.8 million and the final budget was \$19.4 million. The actual expenditures totaled \$17.8 million, which resulted in a net difference of \$1.6 million. Most of the savings can be attributed to salary and benefit savings due to vacant positions.

## ECONOMIC OUTLOOK

The City anticipates modest growth in its primary revenue sources for Fiscal Year 2018-2019. Property taxes reflect a 5% increase over the FY 18-19 Estimated Actual. Historically, the City has averaged a 5.05% increase in secured property taxes over the last ten years. In addition, the California Department of Finance reported in its April 2018 Finance Bulletin, that sales of existing single-family detached homes in February, were up 5.4% from last year and the statewide median home price was up 8.8% from the prior year. The California Association of Realtors also reported on April 17, 2018 that the median sales price of existing single-family homes for the Monterey region increased 5.9% from the previous month and 11.1% over the prior year. The revenue projection assumes the real estate market remains on track with statewide and local trends and that the City's limited housing stock and high demand for housing, driven in part by its close proximity to the Bay Area, where six of the nine Bay area counties reported annual sales increases, will allow the projection to be met. Similarly, the City expects strong performance in sales and use tax both at the statewide and local level and has budgeted a 3% increase over the FY 17-18 Estimated Actual for the Bradley-Burns and Measure D sales and use taxes respectively. The FY 18-19 projection for Measure D is more aggressive and anticipates that marketing efforts by the Carmel Hospitality Improvement District, the anticipated Carmel Restaurant Improvement District and other marketing partners, augmented by local events such as the US Open, will increase sales by residents and visitors to the Village. Transient occupancy tax is also budgeted at a 3% increase and assumes increased overnight stays within the Village based on marketing efforts and local events like the US Open.

The largest type of expense within the General Fund operating budget is salaries and benefits, which represent \$11.1 million, or 55%, of the operating budget. Proposed FY 18-19 salaries and benefits are increasing by \$327,000, or 3%, over the FY 17-18 Adopted Budget primarily due to scheduled pay increases per the City's memorandums of understanding with various bargaining groups, planned step and merit increases and other adjustments. Another personnel-related expense within the operating budget include the City's pension liability with CalPERS, which grew by \$232,000, or 28%, over the FY 17-18 Adopted Budget. The unfunded actuarial liability is on track to increase to \$1,329,000, in FY 19-20, foreshadowing the challenge the City will have in balancing its budget in future years. The City's liability insurance premiums for general liability, property insurance and workers' compensation, are also on the rise by \$227,000 and budgeted at \$652,000. Increased payroll costs, as well as prior years' liability losses factor into the rates of the premiums. In addition, various increased costs of contractual services, license and maintenance costs associated with newly acquired equipment and other expenses drive increases in expenditures in Fiscal Year 2018-2019.

## REQUEST FOR FINANCIAL INFORMATION

This Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. If you have any questions about this report, need additional financial information, or would like to obtain component unit financial statements, contact the City of Carmel-by-the-Sea-by-the-Sea Finance Department, P O Box CC, Carmel-by-the-Sea, CA 93921, or visit the City's web page at <http://ci.carmel.ca.us/carmel>.



## **BASIC FINANCIAL STATEMENTS**

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## MAJOR GOVERNMENTAL FUNDS

Fund Title	Fund Description
General Fund	This fund is used to account for all of the general operations and other financial transactions of the City, which are not accounted for by another fund.
Measure D Sales Tax	This fund is used to account for the transaction and use tax increase to be used to maintain essential services, including fire, ambulance and police response times; fund capital needs, including streets, beach, parks, forest and trails; increase code compliance; maintain libraries, Sunset Center and other public facilities; address CalPERS pension liabilities and other debt; and provide other general City services.
Capital Projects	This fund accounts for resources utilized, committed, assigned or restricted for capital projects.

**City of Carmel-by-the-Sea**  
**Statement of Net Position**  
**June 30, 2018**

	Governmental Activities
<b>ASSETS</b>	
Current Assets:	
Cash and investments	\$ 14,138,004
Receivables:	
Accounts	1,872,135
Due from other governments	475,956
Total Current Assets	<u>16,486,095</u>
Noncurrent Assets:	
Capital Assets:	
Nondepreciable	6,901,320
Depreciable, net of accumulated depreciation	34,052,511
Total Capital Assets - Net	<u>40,953,831</u>
<b>Total Assets</b>	<u>\$ 57,439,926</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension Adjustments	\$ 5,606,418
<b>Total Deferred outflows of Resources</b>	<u>\$ 5,606,418</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	\$ 648,525
Payroll related liabilities	636,150
Deposits and other liabilities	1,300
Interest payable	56,000
Unearned revenues	2,173
Claims payable - current portion	57,500
Compensated absences - current portion	145,037
Long-term debt - due within one year	950,645
Total Current Liabilities	<u>2,497,330</u>
Noncurrent Liabilities:	
Long-term debt - due in more than one year	8,006,636
Claims payable	517,500
Compensated absences	435,109
Net pension obligation	19,908,483
Net OPEB liability	3,650,439
Total Noncurrent Liabilities	<u>32,518,167</u>
<b>Total Liabilities</b>	<u>\$ 35,015,497</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
OPEB Adjustments	\$ 113,713
Pension Adjustments	2,213,731
<b>Total Deferred Inflows of Resources</b>	<u>\$ 2,327,444</u>
<b>NET POSITION</b>	
Net investment in capital assets	\$ 35,216,550
Restricted for:	
Transportation	40,614
Public safety	93,763
Debt service	319,845
Library	1,253,088
Public parking	714,396
Measure D	205,626
Asset seizure	906
Total Restricted	<u>2,628,238</u>
Unrestricted	<u>(12,141,385)</u>
<b>Total Net Position</b>	<u>\$ 25,703,403</u>

The accompanying notes are an integral part of these financial statements.



**City of Carmel-by-the-Sea**  
**Statement of Activities**  
**For the Year Ended June 30, 2018**

Functions/Programs	Program Revenues				Governmental Activities	Net (Expense) Revenue and Change in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Total		
<b>Primary Government:</b>						
<b>Governmental Activities:</b>						
General government	\$ 4,896,809	\$ 318,414	\$ 362,842	\$ 681,256	\$ (4,215,553)	
Community Planning and Building	1,206,295	1,167,308	-	1,167,308	(38,987)	
Public Safety	7,771,104	692,187	-	692,187	(7,078,917)	
Public Works	2,950,423	58,931	-	58,931	(2,891,492)	
Library	1,303,989	14,794	318,398	333,192	(970,797)	
Community Activities	153,224	79,067	-	79,067	(74,157)	
Economic Revitalization	1,125,261	97,142	-	97,142	(1,028,119)	
Interest and fiscal charges	319,974	-	-	-	(319,974)	
Depreciation (unallocated)	1,786,021	-	-	-	(1,786,021)	
<b>Total Governmental Activities</b>	<b>\$ 21,513,100</b>	<b>\$ 2,427,843</b>	<b>\$ 681,240</b>	<b>\$ 3,109,083</b>	<b>(18,404,017)</b>	

**General Revenues and Special Items:**

Taxes:	
Property taxes	6,192,126
Sales and use taxes	5,486,449
Transient occupancy taxes	6,329,074
Franchise fees	637,136
Motor vehicle in-lieu	462,989
Business license tax	544,392
Total taxes	19,652,166
Intergovernmental	92,155
Investment earnings	101,743
Other revenues	212,820
Special item - loss on disposal of capital assets	(2,439,255)
Total General Revenues and Special Item	17,619,629
Change in Net Position	(784,388)
Net Position - Beginning of Year	27,791,303
Prior Period Adjustment - Capital Assets	38,904
Prior Period Adjustment - Pensions	99,832
Prior Period Adjustment - GASB 75 Other Postemployment Benefits	(1,442,248)
Net Position - Beginning of Year, As Adjusted	26,487,791
Net Position - End of Year	\$ 25,703,403

The accompanying notes are an integral part of these financial statements.

**City of Carmel-by-the-Sea**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2018**

	Major Funds				
	General Fund	Measure D Sales Tax Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments	\$ 6,976,284	\$ -	\$ 1,787,503	\$ 2,421,552	\$ 11,185,339
Receivables:					
Accounts	1,872,135	-	-	-	1,872,135
Due from other governments	-	459,289	-	16,667	475,956
Due from other funds	254,146	-	-	-	254,146
<b>Total assets</b>	<b>\$ 9,102,565</b>	<b>\$ 459,289</b>	<b>\$ 1,787,503</b>	<b>\$ 2,438,219</b>	<b>\$ 13,787,576</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 485,646	\$ -	\$ 147,272	\$ 15,607	\$ 648,525
Accrued liabilities	607,052	-	13,133	-	620,185
Deposits	1,300	-	-	-	1,300
Due to other funds	-	253,663	-	483	254,146
Unearned revenues	2,173	-	-	-	2,173
<b>Total liabilities</b>	<b>1,096,171</b>	<b>253,663</b>	<b>160,405</b>	<b>16,090</b>	<b>1,526,329</b>
<b>Fund Balances:</b>					
Restricted:					
Transportation	-	-	-	40,614	40,614
Public safety	-	-	-	93,763	93,763
Debt service	-	-	-	319,845	319,845
Library	-	-	-	1,253,088	1,253,088
Asset seizure	-	-	-	906	906
Public parking	-	-	-	714,396	714,396
Measure D	-	205,626	-	-	205,626
Committed:					
Holstery tax	632,907	-	-	-	632,907
Budget stabilization	2,173,138	-	-	-	2,173,138
Assigned:					
Operational reserves	1,922,008	-	-	-	1,922,008
Capital projects	-	-	1,627,098	-	1,627,098
Unassigned	3,278,341	-	-	(483)	3,277,858
<b>Total fund balances</b>	<b>8,006,394</b>	<b>205,626</b>	<b>1,627,098</b>	<b>2,422,129</b>	<b>12,261,247</b>
<b>Total liabilities and fund balances</b>	<b>\$ 9,102,565</b>	<b>\$ 459,289</b>	<b>\$ 1,787,503</b>	<b>\$ 2,438,219</b>	<b>\$ 13,787,576</b>

The accompanying notes are an integral part of these financial statements.

**City of Carmel-by-the-Sea**  
**Reconciliation of the Government Funds Balance Sheet**  
**to the Government-Wide Statement of Net Position**  
**June 30, 2018**

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**Total Fund Balances - Total Governmental Funds** \$ 12,261,247

Amounts reported for governmental activities in the statement of net position were different because:

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. The capital assets were adjusted as follows:

Capital assets	58,893,629
Less: accumulated depreciation	(18,691,354)
Total Capital Assets	<u>40,202,275</u>

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet. (56,000)

Internal service funds are used by management to charge the costs of stores, vehicle maintenance and various insurance costs to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position. 3,113,256

The differences from benefit plan assumptions and estimates versus actuals are not included in the plan's actuarial study until the next fiscal year and are reported as deferred inflows or deferred outflows of resources in the statement of net position. 3,278,974

Long-term obligations were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet. The long-term liabilities were adjusted as follows:

Long-term debt	(8,957,281)
Compensated absences	(580,146)
Net pension obligation	(19,908,483)
Net OPEB liability	(3,650,439)
Total Long-Term Obligations	<u>(33,096,349)</u>

**Net Position of Governmental Activities** \$ 25,703,403

The accompanying notes are an integral part of these financial statements.

**City of Carmel-by-the-Sea**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2018**

	Major Funds					Total Governmental Funds
	General Fund	Measure D Sales Tax Fund	Capital Projects Fund	Ambulance Fund	Other Governmental Funds	
<b>REVENUES</b>						
Taxes:						
Property taxes	\$ 6,192,126	\$ -	\$ -	\$ -	\$ -	\$ 6,192,126
Sales and use taxes	2,588,004	2,898,445	-	-	-	5,486,449
Transient occupancy taxes	6,329,074	-	-	-	-	6,329,074
Franchise fees	637,136	-	-	-	-	637,136
Motor vehicle in-lieu	462,989	-	-	-	-	462,989
Business license tax	544,392	-	-	-	-	544,392
Intergovernmental revenues	42,846	-	-	-	412,151	454,997
License and permits	1,087,953	-	-	-	-	1,087,953
Contributions	-	-	-	-	318,398	318,398
Fines and forfeitures	91,813	-	-	-	-	91,813
Charges for services	1,056,205	-	-	-	14,794	1,070,999
Interest	22,483	-	-	-	35,572	58,055
Rents and concessions	100,899	-	-	-	-	100,899
Other revenues	211,153	-	-	-	-	211,153
<b>Total Revenues</b>	<b>19,367,073</b>	<b>2,898,445</b>	<b>-</b>	<b>-</b>	<b>780,915</b>	<b>23,046,433</b>
<b>EXPENDITURES</b>						
Current:						
General government	4,693,813	-	-	-	3,110	4,696,923
Community Planning and Building	1,128,977	-	-	-	-	1,128,977
Public Safety	7,024,092	-	-	-	-	7,024,092
Public Works	2,769,129	-	-	-	-	2,769,129
Library	894,197	-	-	-	323,490	1,217,687
Community Activities	141,378	-	-	-	-	141,378
Economic Revitalization	1,095,636	-	-	-	-	1,095,636
Capital outlay	-	-	1,833,014	-	-	1,833,014
Debt service						
Principal	-	-	-	-	934,860	934,860
Interest and fiscal charges	-	-	-	-	302,202	302,202
<b>Total Expenditures</b>	<b>17,747,222</b>	<b>-</b>	<b>1,833,014</b>	<b>-</b>	<b>1,563,662</b>	<b>21,143,898</b>
Excess (Deficiency) of						
Revenues over Expenditures	1,619,851	2,898,445	(1,833,014)	-	(782,747)	1,902,535
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers from agency funds	-	-	31,000	-	-	31,000
Transfers in	7,507,522	-	3,839,626	1,264,197	1,313,145	13,924,490
Transfers out	(10,436,475)	(5,234,366)	(410,514)	-	(632,032)	(16,713,387)
<b>Total Other Financing Sources (Uses)</b>	<b>(2,928,953)</b>	<b>(5,234,366)</b>	<b>3,460,112</b>	<b>1,264,197</b>	<b>681,113</b>	<b>(2,757,897)</b>
Net Change in Fund Balances	(1,309,102)	(2,335,921)	1,627,098	1,264,197	(101,634)	(855,362)
Fund Balances Beginning	9,315,496	2,541,547	-	(1,264,197)	2,523,763	13,116,609
Fund Balances Ending	\$ 8,006,394	\$ 205,626	\$ 1,627,098	\$ -	\$ 2,422,129	\$ 12,261,247

The accompanying notes are an integral part of these financial statements.

# City of Carmel-by-the-Sea

## Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities For the Year Ended June 30, 2018

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<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ (855,362)
Amounts reported for governmental activities in the Statement of Activities and Changes in net position were different because:	
Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in net position, the cost of those assets was allocated over their estimated useful lives as depreciation expense.	
Capital outlay	1,900,132
Depreciation expense	(1,598,230)
Gains and losses from the disposal of capital assets are recorded in the government-wide statement of activities as a special item, but only the proceeds from disposals are reported in the fund statements.	(2,400,350)
Internal service funds are used by management to charge the costs of stores, vehicle maintenance, and various insurance costs to individual funds.	
Net revenue (excess expenses) reported with governmental activities	1,957,009
Claims liabilities transfers to establish internal service fund	460,000
Long-term compensated absences and claims payables were reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources and were not reported as expenditures in governmental funds.	
Compensated absences	(70,122)
In governmental funds, actual contributions to benefit plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year benefit expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.	(844,578)
Repayment of long-term debt was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of net position.	934,860
Certain expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the fund statements as follows:	
Other postemployment benefits	(249,975)
Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in net position, but it did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in governmental funds. The following amount represented the net change in accrued interest from and accreted interest from prior year.	<u>(17,772)</u>
<b>Change in Net Position of Governmental Activities</b>	<u><u>\$ (784,388)</u></u>

The accompanying notes are an integral part of these financial statements.

**City of Carmel-by-the-Sea**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2018**

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	Governmental Activities - Internal Service Funds
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 2,952,665
Capital assets:	
Capital assets - net	751,556
<b>Total assets</b>	<b>\$ 3,704,221</b>
<b>LIABILITIES</b>	
Current liabilities:	
Accrued liabilities	\$ 15,965
Claims payable - current	57,500
Total current liabilities	73,465
Non-current liabilities:	
Claims payable	517,500
<b>Total liabilities</b>	<b>\$ 590,965</b>
<b>NET POSITION</b>	
Net Investment in capital assets	\$ 751,556
Unrestricted	2,361,700
<b>Total net position</b>	<b>\$ 3,113,256</b>

The accompanying notes are an integral part of these financial statements.

**City of Carmel-by-the-Sea**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2018**

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	Governmental Activities - Internal Service Funds
<b>OPERATING REVENUES</b>	
Other	\$ 3,828
<b>Total operating revenues</b>	<u>3,828</u>
<b>OPERATING EXPENSES</b>	
Claims	147,052
Supplies and materials	92,502
Depreciation	187,791
<b>Total operating expenses</b>	<u>427,345</u>
Operating income (loss)	(423,517)
<b>NONOPERATING REVENUES(EXPENSES)</b>	
Loss on disposal of capital assets	(38,905)
Investment earnings	<u>43,688</u>
Income (loss) before operating transfers	(418,734)
Transfers in	2,375,743
Transfers out	<u>-</u>
Change in net position	1,957,009
Total net position - beginning	<u>1,156,247</u>
Total net position - ending	<u><u>\$ 3,113,256</u></u>

The accompanying notes are an integral part of these financial statements.

**City of Carmel-by-the-Sea**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2018**

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	Governmental Activities - Internal Service Funds
<b>Cash flows from operating activities:</b>	
Receipts from interfund services provided	\$ 3,828
Payments for claims	(32,052)
Payments for supplies and materials	(252,300)
Net cash provided (used) by operating activities	<u>(280,524)</u>
<b>Cash flows from noncapital financing activities:</b>	
Interfund transactions	2,835,743
Net cash provided (used) by noncapital financing activities	<u>2,835,743</u>
<b>Cash flows from capital financing activities:</b>	
Purchases of property and equipment	(241,355)
Net cash provided (used) by capital financing activities	<u>(241,355)</u>
<b>Cash flows from investing activities:</b>	
Investment income received	43,688
Net cash provided (used) by investing activities	<u>43,688</u>
Net increase (decrease) in cash and cash equivalents	2,357,552
Cash and cash equivalents - beginning	595,113
Cash and cash equivalents - ending	<u>\$ 2,952,665</u>
<b>Reconciliation of operating income to net cash provided (used)</b>	
<b>by operating activities:</b>	
Operating income (loss)	\$ (423,517)
Adjustments to reconcile operating income (loss)	
to net cash provided (used) by operating activities:	
Depreciation	187,791
Change in operating assets and liabilities:	
Accounts payable	(175,763)
Accrued liabilities	15,965
Claims payable	115,000
Net cash provided (used) by operating activities	<u>\$ (280,524)</u>

The accompanying notes are an integral part of these financial statements.



**City of Carmel-by-the-Sea**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2018**

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	Agency Funds
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 357,801
Accounts receivable	495
<b>Total assets</b>	<u><u>\$ 358,296</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 3,557
Interest payable	6,551
Deposits	348,188
<b>Total liabilities</b>	<u><u>\$ 358,296</u></u>

The accompanying notes are an integral part of these financial statements.

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the City of Carmel-by-the-Sea, California, (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

***A. Financial Reporting Entity***

The City of Carmel-by-the-Sea, California was incorporated on October 31, 1916, under the laws and regulations of the State of California (State). The City operates under a City Council/Manager form of government and provides the following services: general government, community planning and building, public safety (fire, police and ambulance), public works, library, economic revitalization and other community activities.

The City operates as a self-governing local government unit within the State. It has limited authority to levy taxes and has the authority to determine user fees for the services that it provides. The City's main funding sources include sales taxes, other intergovernmental revenue from state and federal sources, user fees, and federal and state financial assistance. All property taxes are paid to Monterey County (County) as part of the revenue neutrality payment obligation. The financial statements do not reflect the amounts received on behalf of the City and retained by the County.

The financial reporting entity consists of (a) the primary government, the City, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (a) the City has the ability to impose its will on the organization, or (b) there is a potential for the organization to provide a financial benefit to or impose a financial burden on the City.

As required by US GAAP, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. These component units are reported on a blended basis. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The financial statements of the individual component units, if applicable as indicated below, may be obtained by writing to the City of Carmel-by-the-Sea, Finance Department, Post Office Box CC, Carmel-by-the-Sea, CA 93921.

The City's reporting entity includes the following blended component units:

- Carmel Public Improvement Authority
- Harrison Memorial Library

The above component units are included in the City's basic financial statements using the blended method. There are no component units of the City that meet the criteria for discrete presentation.

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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The City applies all applicable GASB pronouncements for certain accounting and financial reporting guidance. In December of 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. In June of 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 also amends GASB 62 and AICPA Pronouncements paragraphs 64, 74, and 82. The GAAP hierarchy sets forth what constitutes GAAP for all state and local governmental entities. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. The sources of authoritative GAAP are categorized in descending order of authority as follows:

- a. Officially established accounting principles—Governmental Accounting Standards Board (GASB) Statements (Category A)
- b. GASB Technical Bulletins; GASB Implementation Guides; and literature of the AICPA cleared by the GASB (Category B).

If the accounting treatment for a transaction or other event is not specified by a pronouncement in Category A, a governmental entity should consider whether the accounting treatment is specified by a source in Category B.

***B. Basis of Accounting and Measurement Focus***

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

**Government-Wide Financial Statements**

The City's government-wide financial statements include a *Statement of Net Position* and a *Statement of Activities and Changes in Net Position*. These statements present summaries of governmental and business-type activities for the City. Fiduciary activities of the City are not included in these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The City did not report any business-type activities for the year.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets, deferred outflows of resources, liabilities, deferred inflows of resources (including capital assets, as well as infrastructure assets, and long-term liabilities), are included in the accompanying *Statement of Net Position*. The *Statement of Activities* presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those clearly identifiable with a specific function or segment. In conformity with the City's indirect cost allocation plan, certain indirect costs are included in the program expense reported for individual functions and activities. Certain types of

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in-regards-to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated. Interfund services provided and used are not eliminated in the process of consolidation. The following interfund activities have been eliminated:

- Transfers in/Transfers out
- Internal Service Fund charges

**Governmental Fund Financial Statements**

Governmental fund financial statements include a *Balance Sheet* and a *Statement of Revenues, Expenditures and Changes in Fund Balances* for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the government-wide financial statements. The City has presented all major funds that met the applicable criteria.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources are included on the balance sheets. The *Statement of Revenues, Expenditures and Changes in Fund Balances* present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally up to 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales taxes, intergovernmental revenues, other taxes, interest revenue, rental revenue and certain charges for services. Fines, forfeitures, licenses and permits and parking meter revenues are not susceptible to accrual because they are usually not measurable until received in cash. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Unearned revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the unearned revenue is removed from the combined balance sheet and revenue is recognized.

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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The following funds are major funds:

**General Fund**

The General Fund is used to account for all of the general operations and other financial transactions of the City, which are not accounted for by another fund.

**The Measure D Sales Tax Fund**

The Measure D Sales Tax Fund used to account for the transaction and use tax increase to be used to maintain essential services, including fire, ambulance and police response times; fund capital needs, including streets, beach, parks, forest and trails; increase code compliance; maintain libraries, Sunset Center and other public facilities; address CalPERS pension liabilities and other debt; and provide other general City services.

**Capital Projects Fund**

This fund accounts for resources utilized, committed, assigned or restricted for capital projects.

Additionally, the City reports the following nonmajor fund types of governmental funds:

**Special Revenue Funds**

Special revenue funds account for and report the proceeds of specific revenue sources that are restricted, committed or assigned to specific purposes other than debt service or capital projects.

**Debt Service Funds**

Debt service funds account for the accumulation of resources for, and payment on, long-term obligation debt principal and interest.

**Proprietary Funds**

In the fund financial statements, proprietary funds are presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are presented using the “economic resources measurement focus”. This means all assets, deferred outflows of resources, liabilities (whether current or noncurrent) and deferred inflows of resources associated with their activities are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal value. Non-operating revenues, such as subsidies, taxes, and investment earnings result from nonexchange transactions or ancillary activities. Amounts paid to acquire capital assets are capitalized as assets in the internal service funds financial statements.

The City’s internal service funds are proprietary funds. Internal service funds account for charges to City departments for services provided, on a cost reimbursement basis. The City has the following internal service funds:

**Worker's Compensation Fund**

This fund accounts for workers compensation insurance provided to departments on a cost reimbursement basis.

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**OPEB Reserve Fund**

This fund accounts for other postemployment benefits provided to departments on a cost reimbursement basis.

**Vehicle & Equipment Replacement Fund**

This fund is to set aside financial resources for future purchases of replacement equipment essential to the operations of the City.

**Fiduciary Funds**

**Agency Funds**

Agency Funds account for assets held by the City in a purely custodial capacity. Since agency funds are custodial in nature, they do not involve the measurement of results of operations and are not presented in the government-wide financial statements.

***C. Cash, Cash Equivalents and Investments***

The City pools its available cash for investment purposes. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as Cash and Investments.

Deposit and Investment Risk Disclosures - In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures* (Amendment of GASB Statement No. 3), certain disclosure requirements, if applicable, for Deposits and Investment Risks in the following areas: Interest Rate Risk, Overall Credit Risk, Custodial Credit Risk, Concentrations of Credit Risk, and Foreign Currency Risk. Other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in Structured Notes and Asset Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to change in interest rates.

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

***D. Interfund Receivables and Payables***

Items classified as interfund receivables/payables are referred to as “advances to/advances from other funds” or as “due to/from other funds”. Due to/from other funds include short-term lending/borrowing transactions between funds. This classification also includes the current portion of an advance to or from another fund. Advances to/advances from other funds represents non-current portions of any long-term lending/borrowing transactions between funds. This amount will be equally offset by a reserve of fund balance which indicates that it does not represent available financial resources and therefore, is not available for appropriation.

***E. Receivables***

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property tax, sales tax, and intergovernmental subventions since they are usually both measurable and available. Non-exchange transactions collectible but not available, such as property tax, are deferred in the fund financial statements in accordance with the modified accrual basis, but not deferred in the government-wide financial statements in accordance with the accrual basis.

Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. The City’s experience is that all accounts receivable are collectible; therefore an allowance for doubtful accounts is unnecessary.

The County of Monterey is responsible for the collection and allocation of property taxes. Under California law, property taxes are assessed and collected by the County up to 1% of the full cash value of taxable property, plus other increases approved by the voters and distributed in accordance with statutory formulas. The City recognizes property taxes when the individual installments are due, provided they are collected within 60 days after year-end.

***F. Capital Assets***

The City's assets are capitalized at historical cost or estimated historical cost, if actual is unavailable, except for donated Capital Assets which are recorded at their estimated fair value at the date of donation. Policy has set the capitalization threshold for reporting at \$5,000 for non-infrastructure capital assets and \$25,000 for infrastructure capital assets.

Public domain (infrastructure) capital assets include roads, bridges, curbs and gutters, streets, sidewalks, drainage systems, and lighting systems.

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

Prior to July 1, 2003, governmental funds’ infrastructure assets were not capitalized, since then these assets have been valued at estimated historical cost.



**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. No depreciation is recorded in the year of acquisition or in the year of disposition. In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same way as in the government-wide statements.

Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings and improvements	20-50 Years
Improvements other than buildings	35 Years
Vehicles, machinery and equipment	5-20 Years
Infrastructure	20-50 Years
Technology/Hardware and Software	5-20 Years

***G. Deferred Outflows/Deferred Inflows***

Deferred outflows of resources are a consumption of net assets by the City that is applicable to a future reporting period; for example, prepaid items and deferred charges.

Deferred inflows of resources are an acquisition of net assets by the City that is applicable to a future reporting period; for example, unearned revenue and advance collections.

***H. Interest Payable***

In the government-wide financial statements, interest payable of long-term debt is recognized as an incurred liability for governmental fund types. The City has not allocated the interest on long-term debt to departments.

In the fund financial statements, governmental fund types do not recognize the interest payable when the liability is incurred. Interest on long-term debt is recorded in the fund statements when payment is made.

***I. Claims Payable***

The City records a liability for claims, judgments, and litigation when it is probable that an asset has been impaired or a liability has been incurred prior to fiscal year-end and the probable amount of loss (net of any insurance coverage) can be reasonably estimated.



***J. Compensated Absences***

Employees accrue vacation, sick, holiday, and compensatory time off benefits. City employees have vested interests in the amount of accrued time off, with the exception of sick time, and are paid on termination. Also, annually an employee may elect to be compensated for up to 40 hours of unused annual leave. However, this is contingent upon the employee using at least 40 hours during the previous year and, the employee having a minimum balance of 80 annual leave hours after the payment. All vacation pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements and is currently payable. The City had no employee resignations or retirements for which compensated absences should be accrued in governmental funds at year-end. The general fund is typically used to liquidate compensated absences.

***K. Long-Term Obligations***

In the government-wide financial statements and proprietary fund statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type 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. Debt issuance costs are expensed in year incurred.

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 reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

***L. Benefit Plans***

**Pension Expense**

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 (the 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 Benefit (OPEB) Expense**

For purposes of measuring the net OPEB liability, 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 Retiree Benefits Plan (the OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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***M. Fund Balances***

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies governmental fund balances as follows:

**Nonspendable**

Nonspendable fund balance includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

**Restricted**

Restricted fund balance includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

**Committed**

Committed fund balance includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end. Committed fund balances are imposed by the City Council, the City's highest level of decision-making authority, for specific purposes pursuant to constraints imposed by formal action taken such as resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use through the same type of formal action taken to establish the commitment. City Council action to commit fund balance needs to occur within the fiscal reporting periods; however the amount can be determined subsequently.

**Assigned**

Assigned fund balance includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balances may be assigned by the City Council and the City Manager.

**Unassigned**

The Unassigned Fund Balance category represents fund balance which may be held for specific types of uses or stabilization purposes, but is not yet directed to be used for a specific purpose. The detail of amounts reported for each of the above defined fund balance categories is reported in the governmental funds balance sheet and in the combining nonmajor fund balance sheets.

**Flow Assumption / Spending Order Policy**

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to be spent first. When expenditures are incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to be spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has directed otherwise.

***N. Net Position***

In the government-wide financial statements, net position is classified in the following categories:

**Net Investment in Capital Assets**

This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that are attributed to the acquisition, construction, or improvement of the assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition,

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position

**Restricted Net Position**

This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

**Unrestricted Net Position**

This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

The detail of amounts reported for each of the above defined net position categories is reported in the government-wide Statement of Net Position.

**Use of Restricted/Unrestricted Net Position**

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

***Interfund Transactions***

Interfund services provided and used are accounted for as revenue, expenditures or expenses, as appropriate. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursed fund. All other interfund transactions, except for interfund services provided and used and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as transfers.

***O. Property Taxes***

County tax assessments include secured and unsecured property taxes and special assessments. "Unsecured" refers to taxes on personal property. These tax assessments are secured by liens on the property being taxed.

Secured property taxes are levied on or before the first day of July of each year. They become a lien on real property on January 1 proceeding the fiscal year for which taxes are levied. These taxes are paid in two equal installments; the first is due November 1 and is delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Secured property taxes, which are delinquent and unpaid as of June 30, are declared to be tax defaulted and are subject to redemption penalties, cost, and interest when paid. If the delinquent taxes are not paid at the end of five years, the property is sold at public auction and the proceeds are used to pay the delinquent amounts due. Any excess is remitted, if claimed, to the taxpayer. Additional tax liens are created when there is a change in ownership of property or upon completion of new construction. Tax bills for these new tax liens are issued throughout the fiscal year and contain various payments and delinquent dates, but are generally due within one year. If the new tax liens are lower, the taxpayer receives a tax refund rather than a tax bill. Unsecured personal property taxes are not a lien against real property. These taxes are due on January 1 each year and are delinquent, if unpaid, on August 31.

The County apportions secured property tax revenue in accordance with the alternate methods of distribution, the "Teeter Plan", as described by Section 4717 of the California Revenue and Taxation

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

---

code. Therefore, the City receives 100 percent of the secured property tax levies to which it is entitled, whether or not collected. Unsecured delinquent taxes are considered fully collectible.

***P. Budgetary Information***

In accordance with applicable sections of the California Government Code and the Carmel-by-the-Sea Municipal Code, the City prepares and legally adopts an annual balanced budget on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund, Special Revenue Funds, Capital Projects Funds and the Debt Service Fund.

Budgetary control is legally maintained at the fund level for these funds. Department heads submit budget requests to the City Administrator. The City Administrator prepares an estimate of revenues and prepares recommendations for the next year's budget. The preliminary budget may or may not be amended by the City Council and is adopted by resolution by the City Council on or before June 30 in accordance with the municipal code.

The City Council may amend the budget by motion during the fiscal year. Only the Council can authorize transfers between funds and approve inter-fund loans. The City Administrator is authorized to transfer budgeted amounts within a fund without formal council action or approval. The City Administrator is authorized to increase expenditures in relation to revenues in funds receiving assigned revenues without approval by the City Council.

Expenditures may not legally exceed appropriations at the fund level, which is the legal level of control. Supplemental appropriations, which increase appropriations, may be made during the fiscal year.

Appropriations, except open project appropriations, and unexpended grant appropriations, lapse at the end of each fiscal year.

Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or returned to the taxpayers through revised tax rates or revised fee schedules, or an excess in one year may be offset against a deficit in the following year. For the fiscal year ended June 30, 2018, based on calculations by City management, proceeds of taxes did not exceed appropriations.

***Q. Encumbrances***

Under encumbrance accounting, purchase orders, contract and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all funds. All appropriations, except open project appropriations, and unexpended grant appropriations and encumbrances, lapse at year end. Valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

***R. Unearned Revenue***

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows from unearned revenue.

***S. Use of Estimates***

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

***T. Subsequent Events***

Management has considered subsequent events through December 21, 2018, the date which the financial statements were available to be issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

***U. Implemented New GASB Pronouncements***

**GASB Statement No. 75**

**Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions**

The provisions in Statement 75 are effective for the fiscal year ended June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

---

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

As of June 30, 2018, according to GASB 75, the City's net OPEB liability must be recognized. Therefore, beginning net position was adjusted by \$1,442,248 in the Statement of Activities as a separate line item to reflect the City's beginning net OPEB liability.

**GASB Statement No. 86, Certain Debt Extinguishment Issues**

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Earlier application is encouraged.

***V. Upcoming New Accounting Pronouncements***

**GASB Statement No. 83, Certain Asset Retirement Obligations**

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The City doesn't believe this statement will have a significant impact on the City's financial statements.

**GASB Statement No. 84, Fiduciary Activities**

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. Earlier application is encouraged. The presentation of the City's Agency funds will change in fiscal year 2020. However, the City doesn't believe the changes will have a significant impact on the City's financial statements.



**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

---

**GASB issued Statement No. 87, *Leases***

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. 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 statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for City's fiscal year ending June 30, 2021. The City doesn't believe this statement will have a significant impact on the City's financial statements.

**GASB Statement No. 88**

***Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements***

This Statement addresses additional information to be disclosed in the notes to the financial statements regarding debt, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The City doesn't believe this statement will have a significant impact on the City's financial statements.

**GASB Statement No. 89**

***Accounting for Interest Cost Incurred Before the End of the Construction Period***

This Statement addresses interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The City doesn't believe this statement will have a significant impact on the City's financial statements.

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**NOTE 2 - CASH AND INVESTMENTS**

As of June 30, 2018, cash and investments were reported in the financial statements as follows:

Pooled cash and investments	\$ 13,732,262
Cash with fiscal agent	<u>405,742</u>
Total cash and investments - fund statements	14,138,004
Cash and investments - agency funds	<u>357,801</u>
Total cash and investments	<u>\$ 14,495,805</u>

The following summarized cash and investments by type:

Cash on hand	\$ 1,395
Demand Deposits	7,307,622
Investments	<u>7,186,788</u>
Total cash and investments	<u>\$ 14,495,805</u>

The City follows the practice of pooling cash and investments of all funds except for funds required to be held by fiscal agents under provisions of bond indentures. Interest income earned on pooled cash and investments is allocated monthly to the various funds based on monthly cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

**A. Cash Deposits**

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest, and places the City ahead of general creditors of the institution.

The market value of pledged securities must equal at least 110 percent of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes that have a value of 150 percent of the City's total cash deposits. The City has waived the collateral requirements for cash deposits which are fully insured to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

The bank balances before reconciling items totaled 7,366,785 at June 30, 2018 and were different from carrying amounts due to deposits in transit and outstanding checks. The amount uninsured was \$7,116,785 which was collateralized by securities held by pledging financial institutions.



**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**B. Fair Value Measurements**

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

**C. Investment Policies**

**City Investment Policy**

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
United States (U.S.) Treasury Issues	5 years	None	None
U.S. Government Agency Securities	5 years	50%	50%
California State and Local Bonds, Notes, & Warrants	None	None	None
Bankers Acceptance	180 days	40%	30%
Commercial Paper	270 days	15%	10%
Medium Term Corporate Notes	5 years	30%	30%
Negotiable Certificates of Deposit	5 years	30%	30%
Repurchase Agreements	92 days	None	None
Passbook Savings/Money Market	None	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None
Federal Instrumentalities	None	None	None

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

---

**Authorized Investments - Debt Agreements**

Investments held by bond fiscal agents (trustees) are governed by the provisions of the underlying indenture agreements rather than the general provisions of the City's investment policy or California Government Code. The indenture agreements identify the following permitted investments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
United States (U.S.) Treasury Issues	None	None	None
U.S. Government Agency Securities	None	None	None
Banker's Acceptance	360 days	None	None
Commercial Paper	270 days	None	None
Money Market Funds	None	None	None
Investment Agreements	None	None	None
Local Agency Bonds	None	None	None
Medium Term Notes	None	None	None
Negotiable Certificate of Deposits	None	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

***D. External Investment Pool***

The City's investments with LAIF at June 30, 2018, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

**Structured Notes**

These are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

**Asset-Backed Securities**

The bulk of asset-backed securities are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The approved investments policy is listed on the LAIF website, located at <http://www.treasurer.ca.gov/pmia-laif/>.

***D. Risk Disclosures***

**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 term of an investment's maturity, the greater the sensitivity to changes in market interest rates. It is the City's practice to manage its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for City's operations.

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

---

**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization, Standards and Poor. As of June 30, 2018, the City's investments were in compliance with the ratings required by the City's investment policy, indenture agreements and Government Code.

**Concentrations of Credit Risk**

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2018, the City had no investments in any one issuer (other than external investment pools which are exempt) that represented 5% or more of the total City investments.

**Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

As of June 30, 2018, the City's investments had the following maturities and ratings:

Investment Type	12 Months or Less	13 to 24 Months	25 to 36 Months	Total	Rating	Fair Value Input Levels
LAIF (state pool)	\$ -	\$ 5,124,979	\$ -	\$ 5,124,979	not rated	n/a
Money market funds	1,087,875	-	-	1,087,875	AAA	1
Certificate of deposits	246,791	-	727,143	973,934	not rated	1
Total investments	<u>\$ 1,334,666</u>	<u>\$ 5,124,979</u>	<u>\$ 727,143</u>	<u>\$ 7,186,788</u>		

**NOTE 3 - ACCOUNTS RECEIVABLE**

The following summarizes accounts receivable as of June 30, 2018:

Ambulance	\$ 321,923
Holstery Tax	1,139,321
Accruals	410,891
Total Accounts Receivable	<u>\$ 1,872,135</u>

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**NOTE 4 - INTERFUND TRANSACTIONS**

**A. Inter-fund Receivables and Payables**

Amounts due to or due from other funds reflect inter-fund balances for services rendered or short-term loans expected to be repaid in the next fiscal year. Advances to or from other funds are long-term loans between funds that are to be repaid in their entirety over several years. As of June 30, 2018, inter-fund receivables and payables consisted of the following:

Fund	Due from Other Funds	Due to Other Funds
General Fund	\$ 254,146	\$ -
Measure D Sales Tax Fund	-	253,663
Nonmajor Funds	-	483
Total Due from/to	\$ 254,146	\$ 254,146

**Transfers In/Out**

With Council approval, resources may be transferred from one fund to another. Transfers may be made to pay for capital projects or capital outlays, lease or debt service payments, operating expenses, and to finance various programs accounted for in other funds in accordance with budgetary authorizations. The following summarizes transfers between funds during the fiscal year ended June 30, 2018:

Fund	Transfer in	Transfer out
General Fund	\$ 7,507,522	\$ 10,436,475
Measure D Sales Tax Fund	-	5,234,366
Capital Projects Fund	3,870,626	410,514
Ambulance Fund	1,264,197	-
Internal Service Funds	2,375,743	-
Fiduciary Funds	413,154	31,000
Nonmajor Funds	1,313,145	632,032
Total Transfers	\$ 16,744,387	\$ 16,744,387

During the year, the City opened and closed various funds. In the process, residual equity transfers were made which is a transfer of fund balance. Governmental accounting standards require that residual equity transfers be treated as operating transfers. The following residual equity transfers were included in the transfers-in and transfers-out noted above.

	Equity Transfers In	Equity Transfers Out
COPS Grant Fund	\$ 69,674	\$ -
Asset Seizure Fund	890	-
Traffic Safety Fund	-	40,537
Road Impact Fee Fund	-	64,503
Grants Fund	-	95,174
Forest Theatre Fund	-	51,206
Workers Comp. Insurance Fund	181,163	-
OPEB Reserve Fund	1,756,080	-
Ambulance Fund	1,264,197	-
Capital Projects Fund	-	380,264
General Fund	55,525	3,054,398
Refundable Deposits Agency Fund	358,553	-
Totals	\$ 3,686,082	\$ 3,686,082

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**NOTE 5 - CAPITAL ASSETS**

Capital assets for governmental activities consisted of the following as of June 30, 2018:

<i>Governmental Activities</i>	Balance July 01, 2016	Additions	Deletions/ Transfers	Balance June 30, 2017
<b>Non-depreciable:</b>				
Land	\$ 5,101,641	\$ -	\$ -	\$ 5,101,641
Construction in Progress	2,464,441	1,900,131	(2,564,893)	1,799,679
Total Non-Depreciable	<u>7,566,082</u>	<u>1,900,131</u>	<u>(2,564,893)</u>	<u>6,901,320</u>
<b>Depreciable:</b>				
Buildings and improvements	25,490,820	-	17,860	25,508,680
Infrastructure	21,448,917	-	146,684	21,595,601
Vehicles	2,743,943	-	-	2,743,943
Technology/Hardware and Software	412,679	147,159	-	559,838
Machinery and equipment	2,616,699	94,195	-	2,710,894
Total Depreciable	<u>52,713,058</u>	<u>241,354</u>	<u>164,544</u>	<u>53,118,956</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings and improvements	(8,752,413)	(509,895)	-	(9,262,308)
Infrastructure	(3,815,456)	(677,906)	-	(4,493,362)
Vehicles	(2,415,755)	(164,097)	-	(2,579,852)
Technology/Hardware and Software	(55,984)	(84,179)	-	(140,163)
Machinery and equipment	(2,240,816)	(349,944)	-	(2,590,760)
Total Accumulated Depreciation	<u>(17,280,424)</u>	<u>(1,786,021)</u>	<u>-</u>	<u>(19,066,445)</u>
Total Depreciable Capital Assets - Net	<u>35,432,634</u>	<u>(1,544,667)</u>	<u>164,544</u>	<u>34,052,511</u>
Total Governmental Capital Assets	<u>\$ 42,998,716</u>	<u>\$ 355,464</u>	<u>\$ (2,400,349)</u>	<u>\$ 40,953,831</u>
<b>Internal Service Funds (Included with Governmental Activities)</b>				
Non-depreciable	\$ 38,904	\$ -	\$ (38,904)	\$ -
Technology/Hardware and Software	412,679	147,159	-	559,838
Vehicle, Machinery and Equipment	472,614	94,195	-	566,809
Accumulated Depreciation	(187,300)	(187,791)	-	(375,091)
Total Internal Service Funds - Net	<u>\$ 736,897</u>	<u>\$ 53,563</u>	<u>\$ (38,904)</u>	<u>\$ 751,556</u>

Depreciation expense of \$1,786,021 was unallocated during the year in governmental activities.

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**NOTE 6 - NONCURRENT LIABILITIES**

The City's noncurrent liabilities consisted of the following as of June 30, 2018:

Noncurrent Liabilities	Beginning			Ending Balance	Due Within One Year
	Balance	Additions	Deletions		
Sunset Center COP	\$ 5,840,000	\$ -	\$ 310,000	\$ 5,530,000	\$ 315,000
Countywide Radio Project	227,141	-	19,860	207,281	20,645
Pension Obligation Bonds	3,825,000	-	605,000	3,220,000	615,000
Compensated Absences	510,024	197,628	127,506	580,146	145,037
Net Pension Liability	17,167,636	2,740,847	-	19,908,483	-
Claims Liability	460,000	147,052	32,052	575,000	57,500
Net OPEB Liability	2,071,929	1,578,510	-	3,650,439	-
<b>Total Noncurrent Liabilities</b>	<b>\$ 30,101,730</b>	<b>\$ 4,664,037</b>	<b>\$ 1,094,418</b>	<b>\$ 33,671,349</b>	<b>\$ 1,153,182</b>

**Certificates of Participation - Sunset Center COP**

In 2010, the Carmel Public Improvement Authority, a component unit of the City, refunded previously issued Certificates of Participation in the amount of \$7,485,000, bearing an average interest rate of 4.73%, secured by general revenues of the City, and matures in October 2031. The original proceeds were used to remodel the Sunset Cultural Center property. Interest is payable semi-annually on October 1st and April 1st with principal payments due each October 1st.

The annual debt service requirements were as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 315,000	\$ 190,375	\$ 505,375
2020	325,000	181,563	506,563
2021	335,000	171,663	506,663
2022	345,000	161,463	506,463
2023	355,000	150,963	505,963
2024-2028	1,985,000	566,257	2,551,257
2029-2033	1,870,000	152,400	2,022,400
<b>Total</b>	<b>\$ 5,530,000</b>	<b>\$ 1,574,684</b>	<b>\$ 7,104,684</b>

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

---

**Countywide Radio Project**

In 2009, the City entered into a participation agreement with Monterey County to provide funding related to the "Next Generation Radio Project," a Federal Communications Commission mandated alteration of public safety and local government radio systems. Estimated payments will change should individual local jurisdictions elect out of the project.

The annual debt service requirements were as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 20,645	\$ 9,019	\$ 29,664
2020	21,460	8,204	29,664
2021	22,308	7,356	29,664
2022	23,189	6,475	29,664
2023	24,105	5,559	29,664
2024-2028	95,575	12,331	107,906
Total	<u>\$ 207,282</u>	<u>\$ 48,944</u>	<u>\$ 256,226</u>

**Pension Obligation Bond**

On November 29, 2012, the City issued \$6,280,000 in 2012 Taxable Pension Obligation Bonds, the purpose of which was to fund certain PERS side fund obligations. The bonds bear an interest rate of 0.55% to 3.1% and mature on June 1, 2023.

The annual debt service requirements were as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 615,000	\$ 85,618	\$ 700,618
2020	625,000	73,010	698,010
2021	640,000	57,698	697,698
2022	660,000	40,428	700,428
2023	680,000	21,080	701,080
Total	<u>\$ 3,220,000</u>	<u>\$ 277,834</u>	<u>\$ 3,497,834</u>

**Compensated Absences**

The City records employee absences, such as vacation, illness, and holidays, for which it is expected that employees will be paid as compensated absences.

**Net Pension Liability**

In accordance with GASB Statement No. 68, the City has recorded its net pension liability of CalPERS benefits for retirees. See Note 8 for further discussion on the net pension liability.

**Claims Liability**

The City has recorded a liability for potential claims in excess of amounts covered by the insurance pool. See Note 7 for further discussion on the City's risk management activities.

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**Net OPEB Obligation**

A net OPEB obligation is the cumulative differences between annual OPEB cost and an employer's contributions to a plan. See Note 9 for further discussion on OPEB.

**NOTE 7 - RISK MANAGEMENT**

The City of Carmel-by-the-Sea (City) is a member of CSAC-EIA (California State Association of Counties Excess Insurance Authority) which is a shared risk pool. CSAC-EIA covers claims for City for both Workers Compensation and General Liability. The City's Liability SIR is pre-funded through CSAC-EIA for 8 quarters of payments made on behalf of City. Currently, the SIR fund for the City with CSAC-EIA is maintained at \$8,183. If the pre-funded SIR balance drops below this amount, the City is billed by CSAC-EIA to replenish the fund to the \$8,183 level. The City does not make claim payments, they are all issued by the city's third party administrator from a CSA-EIA account.

The City has two layers of Liability coverage through CSAC-EIA and under the first layer, the Primary General Liability layer, there is an SIR (Self Insured Retention) of \$10,000 per claim. Thereafter, the next layer of coverage kicks in (General Liability 1 program) which carries an SIR of \$100,000 which is satisfied by exhausting the coverage limit of \$100,000 under the Primary Liability program. The maximum limit of coverage under the primary General Liability 1 program is \$25 million. The City retains the risk of loss above \$25 million.

For Workers Compensation, the City is a member of both the CSAC-EI Primary Workers Compensation program and then, the CSAC-EIA Excess Workers Compensation program. The Primary Workers compensation program provides dollar 1 coverage to the City for Workers Compensation claims. In other words, City has no deductible or SIR. This layer of Workers Compensation coverage carries a maximum limit o \$125,000 per occurrence. Thereafter, CSAC EIA's excess coverage steps in and the SIR (Self Insured Retention) is \$125,000 which again, is satisfied by exhausting the limits of coverage under the Primary Workers Compensation program. The upper limit of coverage under the Excess Workers Compensation program is "statutory". What this means is that regardless of the total cost of the claim, it is covered under the CSAC-EIA Excess Workers Compensation program. There is absolutely no monetary exposure to the City under these two Workers Compensation programs except for the premium costs to purchase this coverage. The City has had no settlements which exceeded insurance coverage in the last three fiscal years and no significant changes or reductions in insurance coverage during the current year.

The following summarizes the change in the estimated liability over the last two fiscal years:

	Year Ended June 30, 2018	Year Ended June 30, 2017
Beginning of year	\$ 460,000	\$ 460,000
Increase (Decrease) in current year claims and changes in estimates	147,052	-
Claims paid	(32,052)	-
Ending balance	575,000	460,000
Current portion	(57,500)	-
Non-current portion	<u>\$ 517,500</u>	<u>\$ 460,000</u>



**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**NOTE 8 - RETIREMENT PLANS**

*General Information about the Pension Plans*

**Plan Description**

All qualified permanent and probationary employees are eligible to participate in the City's Miscellaneous and Safety Employee Pension Plans (the 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. The cost of living adjustments for the Plans are applied as specified by the Public Employees' Retirement Law. The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	<b>Miscellaneous</b>		
	Tier 1	Tier 2	PEPRA
Hire date	< 4/15/2012	>= 4/15/2012	>= 1/1/2013
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 Years	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	55	60	62
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	2.00%	2.00%
Required employee contribution rates	7.000%	7.000%	6.250%
Required employer contribution rates	8.921%	7.200%	6.533%
Contractual employee contribution rates	10.000%	10.000%	9.250%
Contractual employer contribution rates	5.921%	4.200%	3.533%
	<b>Safety</b>		
	Tier 1	Tier 2	PEPRA
Hire date	< 4/15/2012	>= 4/15/2012	>= 1/1/2013
Benefit formula	3% @ 50	2% @ 50	2.7% @ 57
Benefit vesting schedule	5 Years	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	50	50	57
Monthly benefits as a % of eligible compensation	2.00%	2.00%	2.00%
Required employee contribution rates	9.000%	9.000%	11.500%
Required employer contribution rates	19.723%	14.971%	11.990%
Contractual employee contribution rates	12.000%	12.000%	14.500%
Contractual employer contribution rates	16.723%	11.971%	8.990%

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**Employees Covered**

At June 30, 2018, the following employees were covered by the benefit terms for the Plans:

	<u>Miscellaneous</u>	<u>Safety</u>
Active	54	20
Transferred	18	22
Separated	31	10
Retired	102	49
<b>Total</b>	<u>205</u>	<u>101</u>

**Contributions**

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rates are 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, 2018, the following contributions were made:

Miscellaneous	\$ 616,416
Safety	700,965
<b>Total</b>	<u>\$ 1,317,381</u>

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

As of June 30, 2018, the City reported net pension liabilities for its proportionate shares of the net pension liability as follows:

	<b>Proportionate Share of Net Pension Liability/(Asset)</b>
Miscellaneous	\$ 10,191,234
Safety	9,717,249
<b>Total</b>	<u>\$ 19,908,483</u>

The City's net pension liability for the Plans is measured as the proportionate share of the net pension liability. The net pension liability of the Plans are measured as of June 30, 2017, and the total pension liability for the Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 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.

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

The City's proportionate share of the net pension liability for the Plans as of June 30, 2017 and 2017 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>	<u>Total</u>
Proportion - June 30, 2017	0.25000%	0.16379%	0.19840%
Proportion - June 30, 2018	0.25853%	0.16263%	0.20075%
Change - Increase/(Decrease)	<u>0.00853%</u>	<u>-0.00116%</u>	<u>0.00235%</u>

For the year ended June 30, 2018, the City recognized pension expense of \$2,180,815.

At June 30, 2018, 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>
Changes of Assumptions	\$ 3,149,261	\$ 240,819
Differences between Expected and Actual Experience	113,846	222,010
Differences between Projected and Actual Investment Earnings	700,437	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	1,087,438
Change in Employer's Proportion	325,493	663,463
Pension Contributions Made Subsequent to Measurement Date	1,317,381	-
<b>Total</b>	<u>\$ 5,606,418</u>	<u>\$ 2,213,730</u>

The City reported \$1,317,381 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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>Fiscal Year</u> <u>Ending June 30:</u>	<u>Deferred Outflows/(Inflows) of Resources</u>		<u>Total</u>
	<u>Miscellaneous</u>	<u>Safety</u>	
2019	\$ (273,416)	\$ 188,039	\$ (85,377)
2020	789,736	843,057	1,632,793
2021	441,302	499,731	941,033
2022	(227,797)	(185,345)	(413,142)
2023	-	-	-
Thereafter	-	-	-
<b>Total</b>	<u>\$ 729,825</u>	<u>\$ 1,345,482</u>	<u>\$ 2,075,307</u>

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**Actuarial Assumptions**

The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

- (1) Varies by age and service
- (2) Net of pension plan investment expenses, including inflation
- (3) Derived using CalPERS' membership data for all funds

**Discount Rate**

The discount rate used to measure the total pension liability was 7.15 percent for the Plans. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plans, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 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. According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The table below reflects the long-term expected real rate of return by asset class.

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	100.00%		

- (a) An expected inflation of 2.5% used for this period.  
(b) An expected inflation of 3.0% used for this period.

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

The following presents the City's proportionate share of the net pension liability for the Plans, calculated using the discount rate for the Plans, 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:

	Miscellaneous	Safety
1% Decrease	6.15%	6.15%
Net Pension Liability	\$ 15,783,395	14,516,558
Current	7.15%	7.15%
Net Pension Liability	\$ 10,191,234	9,717,249
1% Increase	8.15%	8.15%
Net Pension Liability	\$ 5,559,704	5,794,054

**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 9 - OTHER POSTEMPLOYMENT BENEFITS PLAN**

**Plan Description and Benefits**

The City of Carmel-by-the-Sea Retiree Healthcare Plan (Plan) is a single-employer defined benefit healthcare plan administered by the City. The Plan provides access to lifetime healthcare benefits to eligible retirees and their dependents. The City provides retiree medical benefits through the California Public Employees' Retirement System healthcare program (PEMHCA). For eligible retirees, the City contributes not less than 5% of the active contribution times years in PEMHCA (max \$100/month increase). For purposes of its contract with PEMHCA, the City uses a statutory schedule to determine its monthly contribution on behalf of each active employee. The statutory amount is \$128.00 for 2017 and \$133.00 for 2018 and will be indexed by the Medical CPI each year thereafter.

The City offers the same medical plans to its retirees and surviving spouses as to its active employees, with the exception that once a retiree becomes eligible for Medicare, he or she must join a Medicare HMO or a Medicare Supplement plan, with Medicare becoming the primary payer. Employees become eligible to retire and receive City-paid healthcare benefits upon attainment of age 50 and 5 years of service (age 52 for Miscellaneous PEPRA employees). The City contribution towards retiree health benefits is determined under the "equal contribution method" under PEMHCA, whereby the contribution is 100% of the City's statutory minimum contribution for active employees (\$128.00/month for 2017 and \$133/month for 2018 and scheduled to be indexed by medical inflation for years after 2018).

**Employees Covered by Benefit Terms**

At June 30, 2018, the benefit terms covered the following employees:

Active employees	68
Inactive employees	38
<b>Total employees</b>	<u><u>106</u></u>

**Contributions**

The City makes contributions based on a pay-as-you go basis as approved by the authority of the City's Board. Total benefit payments included in the measurement period were \$145,196. The actuarially determined contribution for the measurement period was \$457,725. The City's contributions and benefit payments were 2.34% of payroll during the measurement period June 30, 2018 (reporting period June 30, 2018). Employees are not required to contribute to the plan. There have been no assets accumulated in a trust to provide for the benefits of this plan.

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**Actuarial Assumptions**

The following summarized the actuarial assumptions for the OPEB plan included in this fiscal year:

<b>Valuation Date:</b>	July 1, 2017
<b>Measurement Date:</b>	June 30, 2018
<b>Actuarial Cost Method:</b>	Entry-Age Level Percent of Pay
<b>Amortization Period:</b>	20 years
<b>Actuarial Assumptions:</b>	
<b>Discount Rate</b>	3.90%
<b>Inflation</b>	2.25%
<b>Salary Increases</b>	3.00%
<b>Healthcare Trend Rate</b>	8% 2018 to 5% 2021
<b>Mortality</b>	RP-2014 Employee and Healthy Annuitant Mortality
<b>Retirement</b>	RP-2014 Employee and Healthy Annuitant Mortality

**Discount Rate**

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

**Total OPEB Liability**

The City's total OPEB liability was measured as of June 30, 2017 (measurement date) and was determined by an actuarial valuation as of June 30, 2018 (valuation date) for the fiscal year ended June 30, 2018 (reporting date).

**Changes in the Total OPEB Liability**

The following summarizes the changes in the net OPEB liability during the year ended June 30, 2018:

<b>Fiscal Year Ended June 30, 2018</b>	<b>Total OPEB Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net OPEB Liability (Asset)</b>
<b>Balance at June 30, 2017</b>	\$ 3,602,744	\$ -	\$ 3,602,744
Service cost	199,013	-	199,013
Interest in Total OPEB Liability	134,202	-	134,202
Employer contributions	-	-	-
Benefit payments	(145,196)	-	(145,196)
Other	-	-	-
<b>Net changes</b>	47,695	-	47,695
<b>Balance at June 30, 2018</b>	\$ 3,650,439	\$ -	\$ 3,650,439
Covered Payroll at Measurement Date	\$ 6,207,949		
Total OPEB Liability as a % of covered payroll	58.80%		
Service cost as a % of covered payroll	3.21%		
Contribution in measurement period % cov. payroll	2.34%		

The City's plan is nonfunded, meaning there have not been assets placed into an irrevocable trust, therefore the plan fiduciary net position is zero.

**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**Deferred Inflows and Outflows of Resources**

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between actual and expected experience	\$ -	\$ (2,127)
Difference between actual and expected earnings	-	-
Change in assumptions	-	(111,586)
OPEB contribution subsequent to measurement date	-	-
<b>Totals</b>	<b>\$ -</b>	<b>\$ (113,713)</b>

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

Year Ended June 30,	
2019	\$ (26,611)
2020	(26,611)
2021	(26,611)
2022	(26,611)
2023	(7,268)
Thereafter	-
<b>Total</b>	<b>\$ (113,713)</b>

**OPEB Expense**

The following summarizes the OPEB expense by source during the year ended June 30, 2018:

Service cost	\$ 199,013
Interest in TOL	134,202
Change in assumptions	(26,113)
<b>OPEB Expense</b>	<b>\$ 306,604</b>

The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2018:

Total OPEB liability ending	\$ 3,650,439
Total OPEB liability beginning	(3,602,744)
Change in total OPEB liability	47,695
Changes in deferred inflows	113,713
Employer contributions and implicit subsidy	145,196
<b>OPEB Expense</b>	<b>\$ 306,604</b>



**City of Carmel-by-the-Sea**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**Sensitivity to Changes in the Discount Rate**

The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher, is as follows:

	<u>Municipal Bond Rate</u>		
	<u>(1% Decrease )</u>	<u>(Current Rate)</u>	<u>(1% Increase )</u>
Total OPEB Liability	\$ 4,142,961	\$ 3,650,439	\$ 3,244,275

**Sensitivity to Changes in the Healthcare Cost Trend Rates**

The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than current healthcare cost trend rates, is as follows:

	<u>Trend Rate</u>		
	<u>(1% Decrease )</u>	<u>(Current Rate)</u>	<u>(1% Increase )</u>
Total OPEB Liability	\$ 3,489,183	\$ 3,650,439	\$ 3,838,618

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

***A. Lawsuits***

The City may be involved in certain matters of litigation that have arisen in the normal course of conducting City business. City management believes, based upon consultation with the City Attorney, that any cases, in the aggregate, are not expected to result in a material adverse financial impact on the City. Additionally, City management believes that the City's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize.

***B. Federal and State Grant Programs***

The City participates in Federal, State and County grant programs. These programs are audited by the City's independent accountants, if required, in accordance with the provisions of the Federal Single Audit Act Amendments of 1996 and applicable State requirements. For Federal programs, the City did not reach the level of qualifying expenditures during the current fiscal year that would require a single audit. Expenditures which may be disallowed, if any, by the granting agencies, cannot be determined at this time. The City expects such amounts, if any, to be immaterial.



## **REQUIRED SUPPLEMENTARY INFORMATION**

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**City of Carmel-by-the-Sea**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (GAAP Basis)**  
**General Fund**  
**For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Property taxes	\$ 6,104,167	\$ 6,204,167	\$ 6,192,126	\$ (12,041)
Sales and use taxes	2,371,231	2,371,231	2,588,004	216,773
Transient occupancy taxes	6,212,508	6,212,508	6,329,074	116,566
Franchise fees	825,751	825,751	637,136	(188,615)
Motor vehicle in-lieu	451,336	451,336	462,989	11,653
Business license tax	586,128	586,128	544,392	(41,736)
Intergovernmental revenues	25,494	25,494	42,846	17,352
License and permits	690,423	727,284	1,087,953	360,669
Fines and forfeitures	108,298	108,298	91,813	(16,485)
Charges for services	702,840	765,175	1,056,205	291,030
Interest	42,686	42,686	22,483	(20,203)
Rents and concessions	130,024	130,024	100,899	(29,125)
Other revenues	331,967	331,967	211,153	(120,814)
<b>Total Revenues</b>	<b>18,582,853</b>	<b>18,782,049</b>	<b>19,367,073</b>	<b>585,024</b>
<b>EXPENDITURES</b>				
Current:				
General government	4,502,409	4,842,409	4,693,813	148,596
Community Planning and Building	1,241,541	1,241,541	1,128,977	112,564
Public Safety	7,379,521	7,513,767	7,024,092	489,675
Public Works	3,266,485	3,306,485	2,769,129	537,356
Library	1,144,883	1,144,883	894,197	250,686
Community Activities	219,204	219,204	141,378	77,826
Economic Revitalization	1,089,857	1,110,857	1,095,636	15,221
<b>Total Expenditures</b>	<b>18,843,900</b>	<b>19,379,146</b>	<b>17,747,222</b>	<b>1,631,924</b>
Excess (Deficiency) of Revenues over Expenditures	(261,047)	(597,097)	1,619,851	2,216,948
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	6,329,108	7,390,956	7,507,522	116,566
Transfers out	(9,022,574)	(7,265,511)	(10,436,475)	(3,170,964)
<b>Total Other Financing Sources (Uses)</b>	<b>(2,693,466)</b>	<b>125,445</b>	<b>(2,928,953)</b>	<b>(3,054,398)</b>
Net Change in Fund Balance	(2,954,513)	(471,652)	(1,309,102)	(837,450)
Fund Balance Beginning	9,315,496	9,315,496	9,315,496	-
Fund Balance Ending	\$ 6,360,983	\$ 8,843,844	\$ 8,006,394	\$ (837,450)

**City of Carmel-by-the-Sea**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (GAAP Basis)**  
**Measure D Sales Tax Fund**  
**For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Sales and use taxes	\$ -	\$ 2,843,414	\$ 2,898,445	\$ 55,031
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	-	(5,234,366)	(5,234,366)	-
Net Change in Fund Balance	-	(2,390,952)	(2,335,921)	55,031
Fund Balance Beginning	2,541,547	2,541,547	2,541,547	-
Fund Balance Ending	<u>\$ 2,541,547</u>	<u>\$ 150,595</u>	<u>\$ 205,626</u>	<u>\$ 55,031</u>

# City of Carmel-by-the-Sea

## Schedule of Pension Contributions June 30, 2018

	Fiscal Year			
	2018	2017	2016	2015
Contractually Required Contributions (Actuarially Determined)	\$ 1,317,381	\$ 1,279,565	\$ 1,124,785	\$ 725,205
Contributions in Relation to Actuarially Determined Contributions	1,317,381	1,279,565	1,124,785	725,205
<b>Contribution Deficiency (Excess)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Covered Payroll</b>	<b>\$ 5,897,326</b>	<b>\$ 5,725,559</b>	<b>\$ 5,193,071</b>	<b>\$ 4,894,966</b>
<b>Contributions as a Percentage of Covered Payroll</b>	<b>22.34%</b>	<b>22.35%</b>	<b>21.66%</b>	<b>14.82%</b>

### Notes to Schedule:

Valuation Date: June 30, 2016  
 Assumptions Used: Entry Age Method used for Actuarial Cost Method  
 Level Percentage of Payroll (Closed) Used Amortization Method  
 3.7 to 3.8 Years Remaining Amortization Period  
 Inflation Assumed at 2.75%  
 Investment Rate of Returns set at 7.5%  
 CalPERS mortality table using 20 years of membership data for all funds

Fiscal year 2015 was the first year of implementation, therefore only four years are shown.  
 There were no changes in benefit terms  
 PERS discount rates were reduced from 7.5 to 7.65 in 2017 and then again to 7.15 in 2018.

# City of Carmel-by-the-Sea

## Schedule of Proportionate Share of Net Pension Liability June 30, 2018

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	Fiscal Year			
	2018	2017	2016	2015
Proportion of Net Pension Liability	0.20075%	0.19840%	0.19035%	0.18745%
Proportionate Share of Net Pension Liability	\$ 19,908,483	\$ 17,167,636	\$ 13,065,617	\$ 11,664,146
Covered Payroll	\$ 5,725,559	\$ 5,193,071	\$ 4,894,966	\$ 4,748,117
<b>Net Pension Liability as a % of Covered Payroll</b>	<b>347.71%</b>	<b>330.59%</b>	<b>266.92%</b>	<b>245.66%</b>
<b>Plan's Fiduciary Net Position as a % of the TPL</b>	<b>73.44%</b>	<b>74.70%</b>	<b>80.34%</b>	<b>81.90%</b>

### Notes to Schedule:

Fiscal year 2015 was the first year of implementation, therefore only four years are shown.

There were no changes in benefit terms

PERS discount rates were reduced from 7.5 to 7.65 in 2017 and then again to 7.15 in 2018.

**City of Carmel-by-the-Sea**  
**Retiree Healthcare Plan**  
**Schedule of Total OPEB Liability**  
**June 30, 2018**

	<b>Ended June 30, 2018</b>
<b>Total OPEB liability</b>	
Service cost	\$ 199,013
Interest	134,202
Changes of benefit terms	-
Differences between expected and actual experience	(2,625)
Changes of assumptions	(137,699)
Benefit payments	(145,196)
Implicit subsidy fulfilled	-
Net change in Total OPEB Liability	<u>47,695</u>
Total OPEB Liability - beginning	3,602,744
Total OPEB Liability - ending	<u><u>\$ 3,650,439</u></u>
 <b>Plan fiduciary net position</b>	
Employer contributions	\$ -
Employer implicit subsidy	-
Employee contributions	-
Net investment income	-
Difference between estimated and actual earnings	-
Benefit payments	-
Implicit subsidy fulfilled	-
Other	-
Administrative expense	-
Net change in plan fiduciary net position	<u>-</u>
Plan fiduciary net position - beginning	-
Plan fiduciary net position - ending	<u><u>\$ -</u></u>
 Net OPEB liability (asset)	 \$ 3,650,439
 Plan fiduciary net position as a percentage of the total OPEB liability	  0.00%
 Covered payroll for the plan	 \$ 6,207,949
 Net OPEB Liability as a percentage of covered payroll	 58.80%
 Total OPEB Liability as a percentage of covered payroll	 58.80%

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.





## **SUPPLEMENTARY INFORMATION**

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## COMBINING NONMAJOR GOVERNMENTAL FUNDS

Fund Title	Fund Description
Gast Tax	This fund is used to account for revenues collected in accordance with the Streets and Highway Code.
Transportation Safety	This fund accounts for the expenditures related to resources provided for transportation safety as required by Measure X.
COPS Grant	This fund accounts for the expenditures related to the COP's grant for public safety.
Parking in Lieu	This fund is used to account for activities associate with parking in-lieu fees.
Asset Seizure	This fund accounts for the expenditures related to asset seizures.
Harrison Memorial Library	This fund is used to account for activities associated with the Harrison Memorial Library.
Debt Service	This fund is used to account for activities related to the repayment of the Certificate of Participation, Pension Obligation Bond, and capital lease obligations.

# City of Carmel-by-the-Sea

## Combining Balance Sheet

### Nonmajor Governmental Funds

June 30, 2018

	Special Revenue Funds			
	Gas Tax Fund	Transportation Safety Fund	COPS Grant Fund	Parking In-Lieu Fund
<b>ASSETS</b>				
Cash and investments	\$ -	\$ 40,614	\$ 77,096	\$ 714,396
Receivables:				
Due from other governments	-	-	16,667	-
<b>Total assets</b>	<b>-</b>	<b>40,614</b>	<b>93,763</b>	<b>714,396</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	483	-	-	-
<b>Total liabilities</b>	<b>483</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balances:</b>				
Restricted:				
Transportation	-	40,614	-	-
Public safety	-	-	93,763	-
Debt service	-	-	-	-
Library	-	-	-	-
Asset seizure	-	-	-	-
Public parking	-	-	-	714,396
Unassigned	(483)	-	-	-
<b>Total fund balances</b>	<b>(483)</b>	<b>40,614</b>	<b>93,763</b>	<b>714,396</b>
<b>Total liabilities and fund balances</b>	<b>\$ -</b>	<b>\$ 40,614</b>	<b>\$ 93,763</b>	<b>\$ 714,396</b>

Cont'd

# City of Carmel-by-the-Sea

## Combining Balance Sheet

### Nonmajor Governmental Funds

June 30, 2018

	Special Revenue Funds		Debt Service	
	Asset Seizure Fund	Harrison Memorial Library Fund	Debt Service Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 906	\$ 1,268,695	\$ 319,845	\$ 2,421,552
Receivables:				
Due from other governments	-	-	-	16,667
<b>Total assets</b>	<u>906</u>	<u>1,268,695</u>	<u>319,845</u>	<u>2,438,219</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ 15,607	\$ -	\$ 15,607
Due to other funds	-	-	-	483
<b>Total liabilities</b>	<u>-</u>	<u>15,607</u>	<u>-</u>	<u>16,090</u>
<b>Fund Balances:</b>				
Restricted:				
Transportation	-	-	-	40,614
Public safety	-	-	-	93,763
Debt service	-	-	319,845	319,845
Library	-	1,253,088	-	1,253,088
Asset seizure	906	-	-	906
Public parking	-	-	-	714,396
Unassigned	-	-	-	(483)
<b>Total fund balances</b>	<u>906</u>	<u>1,253,088</u>	<u>319,845</u>	<u>2,422,129</u>
<b>Total liabilities and fund balances</b>	<u>\$ 906</u>	<u>\$ 1,268,695</u>	<u>\$ 319,845</u>	<u>\$ 2,438,219</u>

Concluded

**City of Carmel-by-the-Sea**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2018**

	Special Revenue Funds			
	Gas Tax Fund	Transportation Safety Fund	COPS Grant Fund	Parking In-Lieu Fund
<b>REVENUES</b>				
Intergovernmental revenues	\$ 92,155	\$ 180,580	\$ 139,416	\$ -
Contributions	-	-	-	-
Charges for services	-	-	-	-
Interest	368	4,034	1,273	12,923
<b>Total Revenues</b>	<b>92,523</b>	<b>184,614</b>	<b>140,689</b>	<b>12,923</b>
<b>EXPENDITURES</b>				
Current:				
General government	3,110	-	-	-
Library	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total Expenditures</b>	<b>3,110</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess (Deficiency) of Revenues over Expenditures	89,413	184,614	140,689	12,923
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	69,674	-
Transfers out	(120,012)	(144,000)	(116,600)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(120,012)</b>	<b>(144,000)</b>	<b>(46,926)</b>	<b>-</b>
Net Change in Fund Balances	(30,599)	40,614	93,763	12,923
Fund Balances Beginning	30,116	-	-	701,473
Fund Balances Ending	\$ (483)	\$ 40,614	\$ 93,763	\$ 714,396

Cont'd

**City of Carmel-by-the-Sea**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2018**

	Special Revenue Funds			
	Asset Seizure Fund	Harrison Memorial Library Fund	Traffic Safety Fund	Road Impact Fees Fund
<b>REVENUES</b>				
Intergovernmental revenues	\$ -	\$ -	\$ -	\$ -
Contributions	-	318,398	-	-
Charges for services	-	14,794	-	-
Interest	16	12,722	-	-
<b>Total Revenues</b>	<b>16</b>	<b>345,914</b>	<b>-</b>	<b>-</b>
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	-
Library	-	323,490	-	-
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total Expenditures</b>	<b>-</b>	<b>323,490</b>	<b>-</b>	<b>-</b>
Excess (Deficiency) of Revenues over Expenditures	16	22,424	-	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	890	-	-	-
Transfers out	-	-	(40,537)	(64,503)
<b>Total Other Financing Sources (Uses)</b>	<b>890</b>	<b>-</b>	<b>(40,537)</b>	<b>(64,503)</b>
Net Change in Fund Balances	906	22,424	(40,537)	(64,503)
Fund Balances Beginning	-	1,230,664	40,537	64,503
Fund Balances Ending	\$ 906	\$ 1,253,088	\$ -	\$ -

Cont'd

**City of Carmel-by-the-Sea**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2018**

	Special Revenue Funds		Debt Service	Total Nonmajor Governmental Funds
	Grants Fund	Forest Theater Fund	Debt Service Fund	
<b>REVENUES</b>				
Intergovernmental revenues	\$ -	\$ -	\$ -	\$ 412,151
Contributions	-	-	-	318,398
Charges for services	-	-	-	14,794
Interest	-	-	4,236	35,572
<b>Total Revenues</b>	<b>-</b>	<b>-</b>	<b>4,236</b>	<b>780,915</b>
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	3,110
Library	-	-	-	323,490
Debt service				
Principal	-	-	934,860	934,860
Interest and fiscal charges	-	-	302,202	302,202
<b>Total Expenditures</b>	<b>-</b>	<b>-</b>	<b>1,237,062</b>	<b>1,563,662</b>
Excess (Deficiency) of Revenues over Expenditures	-	-	(1,232,826)	(782,747)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	1,242,581	1,313,145
Transfers out	(95,174)	(51,206)	-	(632,032)
<b>Total Other Financing Sources (Uses)</b>	<b>(95,174)</b>	<b>(51,206)</b>	<b>1,242,581</b>	<b>681,113</b>
Net Change in Fund Balances	(95,174)	(51,206)	9,755	(101,634)
Fund Balances Beginning	95,174	51,206	310,090	2,523,763
Fund Balances Ending	\$ -	\$ -	\$ 319,845	\$ 2,422,129
				Concluded



**City of Carmel-by-the-Sea**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances**  
**Budget and Actual (GAAP Basis)**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2018**

	Gas Tax Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental revenues	\$ 112,150	\$ 112,150	\$ 92,155	\$ (19,995)
Contributions	-	-	-	-
Charges for services	-	-	-	-
Interest	-	-	368	368
<b>Total Revenues</b>	<u>112,150</u>	<u>112,150</u>	<u>92,523</u>	<u>(19,627)</u>
<b>EXPENDITURES</b>				
Current:				
General government	-	-	3,110	(3,110)
Library	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total Expenditures</b>	<u>-</u>	<u>-</u>	<u>3,110</u>	<u>(3,110)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>112,150</u>	<u>112,150</u>	<u>89,413</u>	<u>(22,737)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	(162,150)	(192,265)	(120,012)	72,253
<b>Total Other Financing Sources (Uses)</b>	<u>(162,150)</u>	<u>(192,265)</u>	<u>(120,012)</u>	<u>72,253</u>
Net Change in Fund Balances	(50,000)	(80,115)	(30,599)	49,516
Prior Period Adjustment	-	-	-	-
Fund Balances Beginning	<u>30,116</u>	<u>30,116</u>	<u>30,116</u>	<u>-</u>
Fund Balances Ending	<u>\$ (19,884)</u>	<u>\$ (49,999)</u>	<u>\$ (483)</u>	<u>\$ 49,516</u>

Cont'd

Expenditures in excess of appropriations were covered by budgets in other objects/functions or beginning fund balance.

**City of Carmel-by-the-Sea**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances**  
**Budget and Actual (GAAP Basis)**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2018**

	Transportation Safety Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental revenues	\$ 144,000	\$ 144,000	\$ 180,580	\$ 36,580
Contributions	-	-	-	-
Charges for services	-	-	-	-
Interest	-	-	4,034	4,034
<b>Total Revenues</b>	<u>144,000</u>	<u>144,000</u>	<u>184,614</u>	<u>40,614</u>
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	-
Library	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total Expenditures</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	<u>144,000</u>	<u>144,000</u>	<u>184,614</u>	<u>40,614</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	632,000	-	-	-
Transfers out	-	(144,000)	(144,000)	-
<b>Total Other Financing Sources (Uses)</b>	<u>632,000</u>	<u>(144,000)</u>	<u>(144,000)</u>	<u>-</u>
Net Change in Fund Balances	776,000	-	40,614	40,614
Prior Period Adjustment	-	-	-	-
Fund Balances Beginning	-	-	-	-
Fund Balances Ending	<u>\$ 776,000</u>	<u>\$ -</u>	<u>\$ 40,614</u>	<u>\$ 40,614</u>

Cont'd

Expenditures in excess of appropriations were covered by budgets in other objects/functions or beginning fund balance.

**City of Carmel-by-the-Sea**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances**  
**Budget and Actual (GAAP Basis)**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2018**

	COPS Grant Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental revenues	\$ 116,600	\$ 116,600	\$ 139,416	\$ 22,816
Contributions	-	-	-	-
Charges for services	-	-	-	-
Interest	-	-	1,273	1,273
<b>Total Revenues</b>	<b>116,600</b>	<b>116,600</b>	<b>140,689</b>	<b>24,089</b>
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	-
Library	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total Expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess (Deficiency) of Revenues over Expenditures	116,600	116,600	140,689	24,089
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	69,674	69,674
Transfers out	(116,600)	116,600	(116,600)	(233,200)
<b>Total Other Financing Sources (Uses)</b>	<b>(116,600)</b>	<b>116,600</b>	<b>(46,926)</b>	<b>(163,526)</b>
Net Change in Fund Balances	-	233,200	93,763	(139,437)
Prior Period Adjustment	-	-	-	-
Fund Balances Beginning	-	-	-	-
Fund Balances Ending	<b>\$ -</b>	<b>\$ 233,200</b>	<b>\$ 93,763</b>	<b>\$ (139,437)</b>

Cont'd

Expenditures in excess of appropriations were covered by budgets in other objects/functions or beginning fund balance.

**City of Carmel-by-the-Sea**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances**  
**Budget and Actual (GAAP Basis)**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2018**

	Parking In-Lieu Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental revenues	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	-	-
Charges for services	-	-	-	-
Interest	-	-	12,923	12,923
<b>Total Revenues</b>	<b>-</b>	<b>-</b>	<b>12,923</b>	<b>12,923</b>
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	-
Library	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total Expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess (Deficiency) of Revenues over Expenditures	-	-	12,923	12,923
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	-	-	12,923	12,923
Prior Period Adjustment	-	-	-	-
Fund Balances Beginning	701,473	701,473	701,473	-
Fund Balances Ending	\$ 701,473	\$ 701,473	\$ 714,396	\$ 12,923

Cont'd

Expenditures in excess of appropriations were covered by budgets in other objects/functions or beginning fund balance.

**City of Carmel-by-the-Sea**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances**  
**Budget and Actual (GAAP Basis)**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2018**

	Asset Seizure Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental revenues	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	-	-
Charges for services	-	-	-	-
Interest	-	-	16	16
<b>Total Revenues</b>	-	-	16	16
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	-
Library	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total Expenditures</b>	-	-	-	-
Excess (Deficiency) of Revenues over Expenditures	-	-	16	16
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	890	890
Transfers out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	-	-	890	890
Net Change in Fund Balances	-	-	906	906
Prior Period Adjustment	-	-	-	-
Fund Balances Beginning	-	-	-	-
Fund Balances Ending	\$ -	\$ -	\$ 906	\$ 906

Cont'd

Expenditures in excess of appropriations were covered by budgets in other objects/functions or beginning fund balance.

**City of Carmel-by-the-Sea**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances**  
**Budget and Actual (GAAP Basis)**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2018**

	Harrison Memorial Library Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental revenues	\$ -	\$ -	\$ -	\$ -
Contributions	312,500	312,500	318,398	5,898
Charges for services	16,000	16,000	14,794	(1,206)
Interest	2,500	2,500	12,722	10,222
<b>Total Revenues</b>	<b>331,000</b>	<b>331,000</b>	<b>345,914</b>	<b>14,914</b>
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	-
Library	330,996	331,796	323,490	8,306
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total Expenditures</b>	<b>330,996</b>	<b>331,796</b>	<b>323,490</b>	<b>8,306</b>
Excess (Deficiency) of Revenues over Expenditures	4	(796)	22,424	23,220
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	4	(796)	22,424	23,220
Prior Period Adjustment	-	-	-	-
Fund Balances Beginning	1,230,664	1,230,664	1,230,664	-
Fund Balances Ending	<b>\$ 1,230,668</b>	<b>\$ 1,229,868</b>	<b>\$ 1,253,088</b>	<b>\$ 23,220</b>

Cont'd

Expenditures in excess of appropriations were covered by budgets in other objects/functions or beginning fund balance.

**City of Carmel-by-the-Sea**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances**  
**Budget and Actual (GAAP Basis)**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2018**

	Debt Service Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental revenues	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	-	-
Charges for services	-	-	-	-
Interest	-	-	4,236	4,236
<b>Total Revenues</b>	<b>-</b>	<b>-</b>	<b>4,236</b>	<b>4,236</b>
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	-
Library	-	-	-	-
Debt service				
Principal	934,860	934,860	934,860	-
Interest and fiscal charges	306,797	306,797	302,202	4,595
<b>Total Expenditures</b>	<b>1,241,657</b>	<b>1,241,657</b>	<b>1,237,062</b>	<b>4,595</b>
Excess (Deficiency) of Revenues over Expenditures	(1,241,657)	(1,241,657)	(1,232,826)	8,831
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,241,657	1,241,657	1,242,581	924
Transfers out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>1,241,657</b>	<b>1,241,657</b>	<b>1,242,581</b>	<b>924</b>
Net Change in Fund Balances	-	-	9,755	9,755
Prior Period Adjustment	-	-	-	-
Fund Balances Beginning	310,090	310,090	310,090	-
Fund Balances Ending	<b>\$ 310,090</b>	<b>\$ 310,090</b>	<b>\$ 319,845</b>	<b>\$ 9,755</b>

Concluded

Expenditures in excess of appropriations were covered by budgets in other objects/functions or beginning fund balance.

## INTERNAL SERVICE FUNDS

Fund Title	Fund Description
Worker's Compensation	This fund accounts for workers compensation insurance provided to departments on a cost reimbursement basis.
OPEB Reserve Fund	This fund accounts for other postemployment benefits provided to departments on a cost reimbursement basis.
Vehicle & Equipment Replacement	This fund is to set aside financial resources for future purchases of replacement equipment essential to the operations of the City.



**City of Carmel-by-the-Sea**  
**Combining Statement of Net Position**  
**Internal Service Funds**  
**June 30, 2018**

	Workers Compensation Fund	OPEB Reserve Fund	Vehicle & Equipment Replacement Fund	Total Governmental Activities - Internal Service Funds
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 624,275	\$ 1,788,432	\$ 539,958	\$ 2,952,665
Capital assets:				
Capital assets - net	-	-	751,556	751,556
<b>Total assets</b>	<u>\$ 624,275</u>	<u>\$ 1,788,432</u>	<u>\$ 1,291,514</u>	<u>\$ 3,704,221</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accrued liabilities	\$ -	\$ -	\$ 15,965	\$ 15,965
Claims payable - current	57,500	-	-	57,500
Noncurrent liabilities:				
Claims payable	517,500	-	-	517,500
<b>Total liabilities</b>	<u>\$ 575,000</u>	<u>\$ -</u>	<u>\$ 15,965</u>	<u>\$ 590,965</u>
<b>NET POSITION</b>				
Net investment in capital assets	\$ -	\$ -	\$ 751,556	\$ 751,556
Unrestricted	49,275	1,788,432	523,993	2,361,700
<b>Total net position</b>	<u>\$ 49,275</u>	<u>\$ 1,788,432</u>	<u>\$ 1,275,549</u>	<u>\$ 3,113,256</u>

**City of Carmel-by-the-Sea**

**Combining Statement of Revenues, Expenses and Changes in Fund Net Position**

**Internal Service Funds**

**For the Year Ended June 30, 2018**

	Workers Compensation Fund	OPEB Reserve Fund	Vehicle & Equipment Replacement Fund	Total Governmental Activities - Internal Service Funds
<b>OPERATING REVENUES</b>				
Other	\$ 3,828	\$ -	\$ -	\$ 3,828
<b>Total operating revenues</b>	<b>3,828</b>	<b>-</b>	<b>-</b>	<b>3,828</b>
<b>OPERATING EXPENSES</b>				
Claims	147,052	-	-	147,052
Supplies and materials	-	-	92,502	92,502
Depreciation	-	-	187,791	187,791
<b>Total operating expenses</b>	<b>147,052</b>	<b>-</b>	<b>280,293</b>	<b>427,345</b>
Operating income (loss)	(143,224)	-	(280,293)	(423,517)
<b>NONOPERATING REVENUES(EXPENSES)</b>				
Loss on disposal of capital assets	-	-	(38,905)	(38,905)
Investment income	11,336	32,352	-	43,688
<b>Total nonoperating revenues(expenses)</b>	<b>11,336</b>	<b>32,352</b>	<b>(38,905)</b>	<b>4,783</b>
Income (loss)	(131,888)	32,352	(319,198)	(418,734)
Transfers in	181,163	1,756,080	438,500	2,375,743
Transfers out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>181,163</b>	<b>1,756,080</b>	<b>438,500</b>	<b>2,375,743</b>
Change in net position	49,275	1,788,432	119,302	1,957,009
Total net position - beginning	-	-	1,156,247	1,156,247
Total net position - ending	<b>\$ 49,275</b>	<b>\$ 1,788,432</b>	<b>\$ 1,275,549</b>	<b>\$ 3,113,256</b>

**City of Carmel-by-the-Sea**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended June 30, 2018**

	Workers Compensation Fund	OPEB Reserve Fund	Vehicle & Equipment Replacement Fund	Total Governmental Activities - Internal Service Funds
<b>Cash flows from operating activities:</b>				
Receipts from interfund services provided	\$ 3,828	\$ -	\$ -	\$ 3,828
Payments for claims	(32,052)	-	-	(32,052)
Payments for supplies and materials	-	-	(252,300)	(252,300)
Net cash provided (used) by operating activities	<u>(28,224)</u>	<u>-</u>	<u>(252,300)</u>	<u>(280,524)</u>
<b>Cash flows from noncapital financing activities:</b>				
Interfund transactions	641,163	1,756,080	438,500	2,835,743
Net cash provided (used) by noncapital financing activities	<u>641,163</u>	<u>1,756,080</u>	<u>438,500</u>	<u>2,835,743</u>
<b>Cash flows from capital financing activities:</b>				
Purchases of property and equipment	-	-	(241,355)	(241,355)
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>-</u>	<u>(241,355)</u>	<u>(241,355)</u>
<b>Cash flows from investing activities:</b>				
Investment income received	11,336	32,352	-	43,688
Net cash provided (used) by investing activities	<u>11,336</u>	<u>32,352</u>	<u>-</u>	<u>43,688</u>
Net increase (decrease) in cash and cash equivalents	624,275	1,788,432	(55,155)	2,357,552
Cash and cash equivalents - beginning	-	-	595,113	595,113
Cash and cash equivalents - ending	<u>\$ 624,275</u>	<u>\$ 1,788,432</u>	<u>\$ 539,958</u>	<u>\$ 2,952,665</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ (143,224)	\$ -	\$ (280,293)	\$ (423,517)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	-	-	187,791	187,791
Change in operating assets and liabilities:				
Accounts payable	-	-	(175,763)	(175,763)
Accrued liabilities	-	-	15,965	15,965
Claims payable	115,000	-	-	115,000
Net cash provided (used) by operating activities	<u>\$ (28,224)</u>	<u>\$ -</u>	<u>\$ (252,300)</u>	<u>\$ (280,524)</u>

## AGENCY FUNDS

Fund Title	Fund Description
Refundable Deposits	This fund accounts for monies received that are unearned and required to be returned by the City.

**City of Carmel-by-the-Sea**  
**Combining Schedule of Changes in Assets and Liabilities**  
**Agency Funds**  
**For the year ended June 30, 2018**

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<b>REFUNDABLE DEPOSITS</b>	Balance July 01, 2017	Additions	Deductions	Balance June 30, 2018
<b>ASSETS</b>				
Cash and investments	\$ -	\$ 480,848	\$ 123,047	\$ 357,801
Receivables	-	495	-	495
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 481,343</b>	<b>\$ 123,047</b>	<b>\$ 358,296</b>
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ 99,431	\$ 95,874	\$ 3,557
Interest payable	-	6,551	-	6,551
Deposits	-	445,231	97,043	348,188
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ 551,213</b>	<b>\$ 192,917</b>	<b>\$ 358,296</b>



**OTHER INDEPENDENT AUDITOR'S REPORTS**



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

To the Honorable Mayor and Members of the  
City Council of the City of Carmel-by-the-Sea  
Carmel-by-the-Sea, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Carmel-by-the-Sea (the "City") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 21, 2018.

**Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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



**Purpose of this Report**

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

C & A LLP

December 21, 2018  
San Jose, California