

Recommended for Chapter 15:

Financial Condition Analysis of City of Ponderosa¹

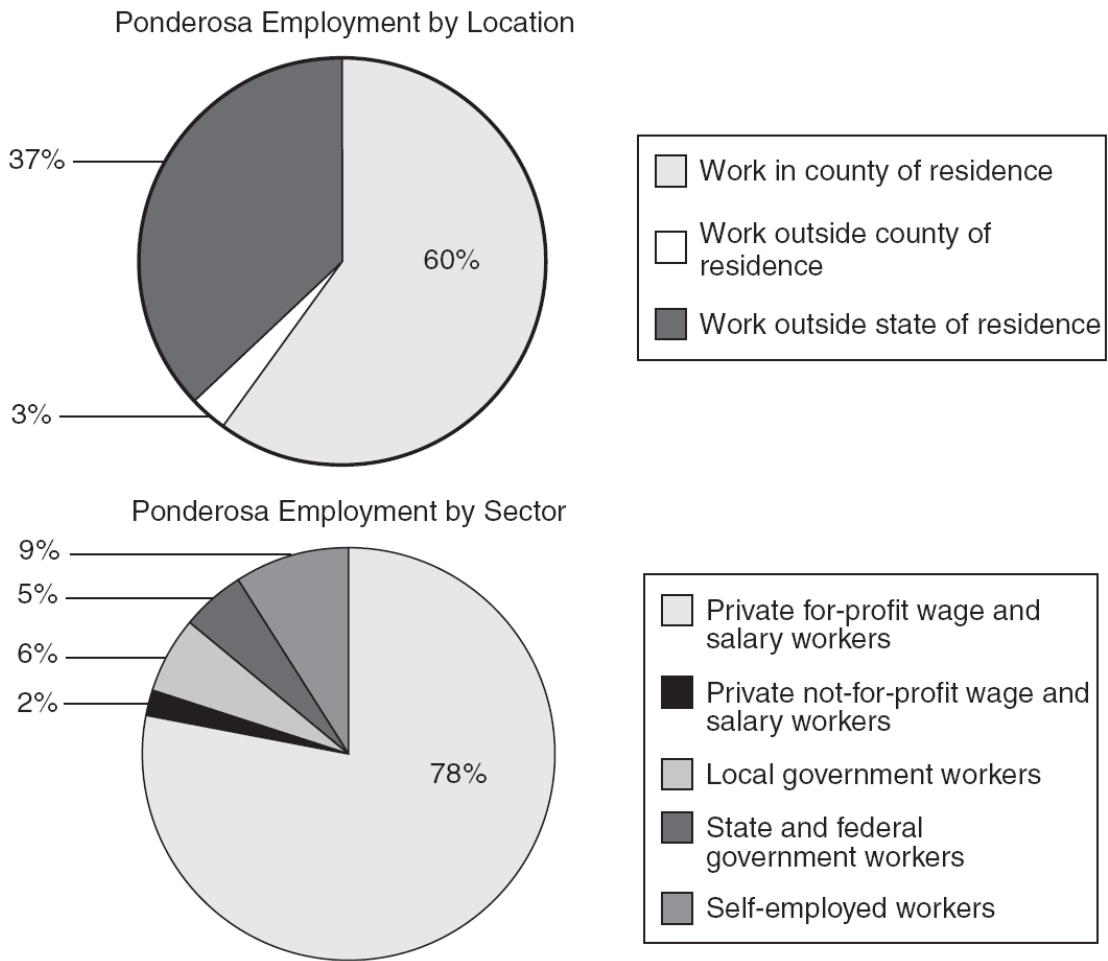
Background and Comparative Statistics

The City of Ponderosa, California, is a resort town along the shore of Lake Pristine nestled in the Sierra Mountains. The major industry is tourism, which peaks in the summer as tourists come to swim, boat, and fish the lake or hike and bike the scenic trails. During the winter, tourists are drawn to the local ski resorts, cross-country ski trails, and snowmobile areas. In addition, the tourism industry is helped in that the City of Ponderosa borders the state of Nevada, and a “gaming corridor” of five major casinos and restaurants has emerged just across the state line.

Nearly 80 percent of all jobs in Ponderosa are tied to the tourism industry. Many of the jobs are seasonal, but the tourism industry is diverse enough to provide year-round employment for a large number of residents. The largest employer for the residents is the gaming industry located just across the state line. A regional hospital and the three major ski resorts are the other major employers.

¹This case was prepared by Dwight V. Denison, Martin School of Public Policy and Administration at University of Kentucky. The case data are intended only for analysis in context of this case. The city name has been changed and some data have been modified from the original sources. Copyright June 1998, revised January 2000, March 2004, April 2008, April 2012, January 2016—All rights reserved. Reprinted with permission. Send comments and suggestions to dwight.denison@uky.edu.

The town lies at an elevation of about 6,223 feet above sea level in the Sierra Mountains. A single state highway provides the main access to Ponderosa. This road winds through a high mountain pass and therefore is frequently impassable during inclement winter weather. However, access to the city improved when the city built a small airport that provides commercial flights to major airline connections in Las Vegas and San Francisco.



A city council and an appointed city manager govern the City of Ponderosa. The number

of permanent residents in the city and encompassing county is about 30,000. The city provides public safety (police and fire), highways and streets, recreation, public improvements, and other administration. Citizens expect public services to be flexible enough to accommodate population increases during the tourism peaks. In addition to the general community services, the city operates a small municipal airport and a local public bus system called LUGE. The community offers all the basic shopping, entertainment, education, and services of most small cities.

The local unified school district is one of the largest in the region, with five elementary schools, one middle school, and two high schools. The district’s student population is currently approaching 6,000. In addition, two private schools serve kindergarten through eighth grade. The community college has a growing enrollment of students pursuing degrees in higher education, and new facilities and improvements have begun to attract students from outside the area.

About 34 percent of the residents in Ponderosa are between the ages of 25 and 40 years. The region tends to attract people with a passion for outdoor activities and the environment, many coming to the area to escape metropolitan life. Incorporated in 1965 with a population of less than 10,000, the city has experienced substantial population growth during the recent decade, approaching 30,000 residents. Some residents express concern over the ability of the city to sustain such growth without upsetting the ecological balance of the area.

Ponderosa Census Data Statistics	
Total Persons	29,652
Total Families	9,884

Total Households	16,389
Average Persons per Family	3
Total Male	15,336
Total Female	14,316
Race	
White	26,284
Black	255
American Indian, Eskimo, or Aleut	284
Asian or Pacific Islander	1,481
Other Race	1,348

Select Statistics for Ponderosa and Four Cities of Similar Size—Fiscal Year 2018

	Ponderosa	City 1	City 2	City 3	City 4
Population	29,652	29,563	38,961	26,167	27,757
Percent change in population growth over 10 years	61.0%	56.2%	12.3%	8.3%	14.9%
Median income	\$ 25,596	\$ 22,168	\$ 42,019	\$ 54,658	\$21,812
Median housing value	\$114,000	\$ 71,500	\$294,600	\$407,500	\$82,100
School enrollment	5,667	7,677	7,977	4,088	\$6,973
Retail sales (000)	\$282,920	\$ 315,613	\$569,107	\$296,785	\$358,168
Federal grants	\$481,195	\$4,305,077	\$556,454	\$139,443	\$3,250,757
Unemployment	6.1%	15.4%	4.0%	2.8%	13.2%
Percent of families below poverty	5.8%	22.1%	3.8%	1.7%	14.6%
Outstanding municipal debt (per capita)	\$ 615	\$ 549	\$ 3,347	\$ 2,032	\$1,059

Per Capita Expenditures in Dollars by Function for FY 2018 with Comparative Data for FY 2017

	FY 2018	FY 2017			
	Ponderosa	City 1	City 2	City 3	City 4
Total expenditures	946	711	550	973	823
Police	167	108	117	140	104
Fire	98	43	66	191	92

Highways	54	80	63	136	68
Sewer	104	206	44	114	56

**Per Capita Revenues in Dollars by Source for FY 2018
with Comparative Data for FY 2017**

	FY 2018	FY 2017			
	Ponderosa	City 1	City 2	City 3	City 4
Total revenues	803	806	728	928	1,092
Intergovernmenta	170	151	117	119	170
Total taxes	532	288	337	478	533
Property taxes	329	147	212	411	344
Charges	91	286	207	207	199

Assignment

The financial officer for Ponderosa is now preparing the management discussion and analysis (MD&A) to go with the basic financial statements (BFS) that follow. She has asked you to put together some information that will aid in that preparation. Use the background material, the financial statements, and notes to the financial statements to answer the following problems to provide information to aid the financial officer in writing the MD&A:

1. Cash solvency refers to the ability of the government to generate enough cash in the short term to meet its current liabilities. Calculate the current ratio for the governmental activities and total primary government. Explain what these ratios suggest about the condition of Ponderosa's cash solvency. Most of the city's cash is invested in financial instruments. What policies are in place to monitor these investments?
2. Long-run solvency refers to the ability of a government to generate revenues sufficient to meet all regular operating costs as well as unusual costs that occur in specific years. These unusual costs might include payments for capital asset replacement and acquisition and pension obligations. Consider how the following questions help assess the long-run solvency of Ponderosa:
 - a. For governmental activities and total primary government presented on the statement of net position and the statement of activities, calculate debt to total assets ratio, debt to net position ratio, return on net position, and times-interest-earned. Do these ratios raise any red flags?

- b. Examine the statement of revenues, expenditures, and changes in fund balances—governmental funds to do the following:
 - Calculate the common size ratios by revenue sources and the revenue per capita for the government funds. Identify the major revenue sources for Ponderosa. How do these compare with those of the other cities referenced in the background section?
 - Calculate and interpret the common size ratios for expenditures. Find the expenditures per capita for the major expenditure items in the governmental funds. How do these compare with those of the other cities referenced in the background section?
 - c. Examine the statement of activities to determine which government function generates the most program revenue. Which government function is most subsidized by taxes and other general revenues?
 3. Budgetary solvency refers to whether a city can generate enough revenues to meet its expenditure obligations and not incur deficits over the normal budgetary period. Review the budgetary comparison schedule for general fund. What do you observe? Comment on the budget solvency of Ponderosa.
 4. Consider the financial health of the business activities or enterprise funds.
 - a. Calculate and interpret the following ratios for the combined enterprise funds:
 - Liquidity ratios (FY 2017 and 2018): current and quick ratios;
 - Profitability (FY 2017 and 2018): total margin and return on net position; and
 - Leverage (FY 2017 and 2018): debt ratio, debt to net position, and times- interest-earned ratio.
 - b. What is your assessment of the business activities of the City of Ponderosa? How material are the business activities relative to the primary government activities? In what ways might the business activities be important to the governmental activities of Ponderosa?
 5. Considering your analysis in the preceding questions, what are the major strengths and vulnerabilities in the overall financial condition of the City of Ponderosa?

Independent Auditor's Report

To the City Council of the City of Ponderosa, California

We have audited the financial statements of the City of Ponderosa, California, as of the year ended September 30, 2018. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards. Those standards require that we plan and perform the audits to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on test basis evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly in all material respects the financial position of the City of Ponderosa, California, at September 30, 2018, and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

Scrupulous and Germane Associates, Inc.
December 30, 2018

Exhibit 15-C-1

Exhibit 15-C-2

Exhibit 15-C-3

Exhibit 15-C-4

Exhibit 15-C-5

Exhibit 15-C-6

Exhibit 15-C-7

Exhibit 15-C-8

City of Ponderosa Notes to Financial Statements
Note 1. Significant Accounting Policies
A. Reporting Entity

A five-member council elected by City residents governs the City. The City is legally separate and fiscally independent, which means it can issue debt, set and modify budgets and fees, and sue or be sued. These financial statements present the governmental and business-type activities of Ponderosa for which the City is considered to be financially accountable.

B. Fund Accounting

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. Government resources are allocated to and accounted for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. These various funds are grouped as follows, in the basic financial statements:

- Governmental fund types: General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes. Debt Service Funds are used to account for financial resources to be used for payment of principal and interest on the 2016 Refunding Revenue Bonds and the 2017 Certificates of Participation. Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary fund types).
- Proprietary fund types: Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs and expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.
- Segment information for enterprise funds: The City has two enterprise funds, each of which represents a separate business activity of the City:

Airport: The City owns and operates the Ponderosa Airport, which is used by scheduled commercial carriers and others.

LUGE: Lakefront Unified Ground Express provides transit service in and around the City.

C. Contributed Capital

Contributed capital represents grants and other funds contributed to Enterprise Funds to acquire capital assets, reduced by accumulated depreciation related to such assets. Changes in contributed capital were as follows:

	Airport	LUGE	Total
Balance, September 30, 2017	\$7,565,577	\$2,040,689	\$9,606,266
Capital contributions	36,799	178,806	215,605
Depreciation of contributed assets	<u>(664,475)</u>	<u>(115,265)</u>	<u>(779,740)</u>
Balance, September 30, 2018	<u>\$6,937,900</u>	<u>\$2,104,230</u>	<u>\$9,042,130</u>

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statement of net position and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange like transactions are recognized when the exchange takes place. Nonexchange transactions are recognized when a government gives or receives value without directly receiving or giving something equal in value in the exchange in accordance with GASB Statement No. 33.

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets.

Those revenues susceptible to accrual are taxes, special assessments, intergovernmental revenues, use of money and property, charges for services, fines and penalties, and license and permit revenues.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is principal and interest on general long-term debt, which is recognized when due. Financial resources usually are appropriated in other funds for transfer to a debt service fund in the period in which maturing debt principal and interest must be paid. Such amounts thus are not liabilities of the debt service fund, as their settlement will not require expenditure of existing fund assets.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. The interfund receivables and payables are eliminated to minimize the “grossing-up” effect on assets and liabilities with the governmental and business-type activities columns of the primary government.

The total fund balances reported in the city’s governmental funds (\$16,116,524) are different from the total net position (\$87,255,171) reported in the statement of net position because of differences in bases of accounting used to prepare each report. The differences result primarily from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheets.

**Explanation of Differences Between Governmental Funds
Balance Sheet and Statement of Net Position**

	Total Governmental Funds	Long- Term Assets, Liabilities	Enterprise Funds	Reclassifications and Eliminations	Statement of Net Position Totals
<i>Assets</i>					
Cash and investments available (Note 3)	\$ 6,340,526		\$ 37,418	\$ —	\$ 6,377,944
Restricted cash and investments (Note 3)	10,470,997		208,400		10,679,397
Receivables, net	1,486,403		136,856	831,070	2,454,329

Due from other governments	836,962		—	(836,962)	—
Due from other funds (Note 4B)	2,814,155		—	(2,814,155)	—
Advance to other funds (Note 4C)	525,244		—	(525,244)	—
Loans receivable (Note 5)	1,931,687		—	—	1,931,687
Prepays	1,018		35,931	—	36,949
Parts and supplies, at cost	256,075		—	—	256,075
Capital assets less depreciation	<u>—</u>	<u>\$129,114,607</u>	<u>10,763,121</u>	<u>—</u>	<u>139,877,728</u>
Total Assets	<u>\$24,663,067</u>	<u>\$129,114,607</u>	<u>\$11,181,726</u>	<u>\$(3,345,291)</u>	<u>\$161,614,109</u>
<i>Deferred outflows of assets</i>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,892</u>	<u>\$ 5,892</u>
<i>Total assets and deferred outflows of assets</i>	<u>\$24,663,067</u>	<u>\$129,114,607</u>	<u>\$11,181,726</u>	<u>\$(3,339,399)</u>	<u>\$161,620,001</u>
<i>Liabilities</i>					
Accounts payable and accrued expenses	\$1,132,672		\$8,090	\$ —	\$1,140,762

Wages payable and compensated absences	263,566		44,849		308,415
Other current liabilities	709,832		13,380	—	723,212
Deposits	802,629		27,219	—	829,848
Uninsured losses payable (Note 10B)	857,034		—	—	857,034
Due to other funds (Note 4B)	2,655,094		159,061	(2,814,155)	—
Advances from other funds (Note 4C)	194,029		331,215	(525,244)	—
Long-term liabilities		<u>\$ 66,241,279</u>	<u>2,328,380</u>		<u>68,569,659</u>
Total Liabilities	<u>\$6,614,856</u>	<u>\$ 66,241,279</u>	<u>\$2,912,194</u>	<u>\$(3,339,399)</u>	<u>\$72,428,930</u>
<i>Total deferred inflows of resources</i>	<u>\$1,931,687</u>	<u>\$ —</u>	<u>\$4,213</u>	<u>\$ —</u>	<u>\$1,935,900</u>
<i>Fund Equity</i>					
Total Fund Balances/Net Position	<u>\$16,116,524</u>	<u>\$ 62,873,328</u>	<u>\$8,265,319</u>	<u>\$ —</u>	<u>\$87,255,171</u>
Total Liabilities, Deferred Inflows					

of Resources,
and Fund
Balances/

Net Position	<u>\$24,663,067</u>	<u>\$129,114,607</u>	<u>\$11,181,726</u>	<u>\$(3,339,399)</u>	<u>\$161,620,001</u>
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E. Measurement Focus

The government-wide statements are reported on an economic resources measurement focus, which takes into account both the long-term and current assets and liabilities. The statement of net position reports all financial and capital resources of the primary government, including business-like activities. Fiduciary activities are not reported in the government-wide statements, as they are not resources available to the primary government.

All governmental funds are accounted for on a spending or financial flows measurement focus, which means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is their net current assets, which is considered only to be a measure of available spendable resources. Governmental fund operating statements present a summary of sources and uses of available spendable resources during a period by presenting increases and decreases in net current assets.

All proprietary fund types are accounted for on an economic resources measurement focus, which means that all assets and all liabilities associated with their activity are included on their statement of net position. Proprietary fund-type operating statements present increases (revenue) and decreases (expenses) in total net position.

F. Materials, Parts, and Supplies

Materials, parts, and supplies are held for consumption and are valued at cost on a first-in, first-out basis. General fund supplies are recorded as an expenditure at the time individual supply items are used.

G. Property Tax

The County assesses properties and bills, and collects and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and March 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31.

The term “unsecured” refers to taxes on personal property other than real estate, land, and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed provided they become available as defined previously.

Note 2. Budgets and Budgetary Accounting

A. Budget Process

The City follows these procedures in establishing the budgetary data on a modified accrual basis, reflected in the accompanying financial statements:

- The department heads prepare a budget request based upon the previous year’s expenditures and current year estimates for the fiscal year commencing the following October 1.
- The City Manager submits his or her proposed City budget the first week in September each year to the City Council, which makes decisions regarding department budgets.
- The budget is legally enacted through passage of an appropriation resolution at the first regular City Council meeting in October.
- The approved budget is placed in the city accounting system and monitored by the Accounting Division of the General Services Department.
- The City Manager is authorized to transfer budgeted amounts between expenditure categories within any department. Revisions that alter the total expenditure of any department above \$5,000 must be approved by the City Council.
- Budgets for governmental funds, except the Disaster Relief Special Revenue Fund, are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted and as further amended by the City Council.
- Capital projects are primarily “long-term” in nature; however, the budgets are established on a year-by-year basis; and appropriations lapse at the close of the fiscal year to the extent they have not been expended or encumbered.

Encumbrance accounting requires that purchase orders, contracts, and other commitments for the expenditures of monies be recorded in the books in order to reserve that portion of the applicable appropriation. The City’s encumbrance

accounting is an extension of the formal budgetary process. It reports encumbrances outstanding at year-end as reservations of fund balance, since they are not expenditures. Unencumbered appropriations lapse at year-end.

B. Comparisons with Budget

The following funds incurred expenditures in excess of their budgets in the following amounts as the result of unanticipated expenses. Sufficient resources were available within each fund to finance these excesses.

	Amount of Excess
<i>General Funds</i>	\$149,710
<i>Special Revenue Funds</i>	
Community redevelopment	47,184
Snow removal	26,619
Park special activities	11,696
Art programs	13,499
<i>Capital Projects Funds</i>	
Redevelopment	3,909

Note 3. Cash and Investments

The City's dependence on tax receipts, which are seasonal, requires it to maintain significant cash reserves to finance operations during the remainder of the year. The City pools cash from all sources and all funds except Cash and Investments with Fiscal Agents so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

Cash and investments maturing in three months or less are considered to be liquid assets for purposes of measuring cash flows.

The City invests in individual securities and in investment pools. Individual securities are evidenced by specific identifiable pieces of paper called securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system.

Cash and investments comprised the following at September 30, 2018:

	Available for Operations	Restricted	Total Market Value
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<i>Securities</i>			
U.S. Treasury bills, bonds, and notes		\$ 4,026,440	\$ 4,026,440
Mortgage-backed securities	\$ 292,606		292,606
<i>Pooled Investments</i>			
California Local Agency Investment Fund	5,160,645	355,811	5,516,456
Mutual funds (U.S. securities)	1,000,000	6,100,318	7,100,318
County treasury		111,997	111,997
<i>Cash Deposits (overdraft)</i>	<u>(75,307)</u>	<u>84,831</u>	<u>9,524</u>
Total cash and investment	<u>\$6,377,944</u>	<u>\$10,679,397</u>	<u>\$17,057,341</u>

A. Cash Deposits

Cash deposits are entirely insured or collateralized by the institution holding the deposit. California law requires banks and savings and loan institutions to pledge government securities with a market value of 110 percent of the deposit or first trust deed mortgage notes with a value of 150 percent of the deposit as collateral for all municipal deposits. This collateral is considered to be held in the City's name and places the City ahead of general creditors of the institution. The City has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

B. Authorized Investments

The City may invest excess funds only in the following securities:

- insured or collateralized certificates of deposit issued by a nationally or state chartered bank or state or federal association;
- prime bankers acceptances with maturities less than 270 days, which are eligible for purchase by the Federal Reserve System and are issued by the top 15 U.S. banks or the top 100 banks in the world;
- securities of the U.S. government or its agencies such as the Federal Home Loan Bank, Federal Farm Credit, and Federal National Mortgage Association;
- repurchase Agreements with maturities not exceeding 30 days purchased through the top 15 U.S. banks;
- prime commercial paper with A1/P1 rating;

- medium-term corporate notes with a maximum maturity of five years issued by corporations doing business in the United States that are rated “A” or its equivalent or better by one of the national rating agencies;
- State of California Local Agency Investment Fund;
- passbook savings account demand deposits;
- domestic money market mutual funds registered with the Federal Securities and Exchange Commission (SEC), rated in the highest rating category by a nationally recognized rating service, or that only invest in the following:
 - U.S. Government or federal agency securities and repurchase agreements,
 - Tax-exempt obligations, or
 - Other instruments as authorized under Section 53601 and 53634 of the California Government Code.

These investments are also subject to other limitations as stated in the City’s investment policies.

C. Cash and Investments with Fiscal Agents

The City had \$10,043,133 in cash and investments at September 30, 2018, held by fiscal agents, which are pledged for the payment or security of certain bonds or for payment of project expenditures. The California Government Code allows these funds to be invested in accordance with any applicable City ordinance resolution or bond indenture, unless there are specific state statutes governing their investment. All these funds have been invested as permitted under the preceding Code.

The mortgage-backed securities valued at \$292,606 are susceptible to custodial credit risk in that the securities are held by the City’s agent but are not registered in the City’s name.

D. Market Risk and Investment Maturities

The City limits market risk by limiting the types and maturities of its investments and by not borrowing against its investments. Investment yield is ranked after safety and liquidity in making investment decisions. All investments are held to maturity, and maturities are matched to the City’s projected cash flow needs. Cash and investments matured as follows at September 30, 2018:

Maturity	2018
Up to one year	\$15,413,482
One to five years	1,890,307

Greater than five years	<u>292,606</u>
Total	<u>\$17,596,395</u>

Investments with maturities greater than five years represent the City's investments in mortgage-backed securities purchased in 2003.

E. Return on Investments

The City's return on investments comprises only interest income; there were no gains or losses on sales of securities since all were held to maturity. Interest income of \$912,614 and \$1,407,197 earned during fiscal 2018 and 2017 represented a return of 5.4 percent and 7.8 percent on the City's month-end average investment balances. This income is allocated to funds in which interest is legally required to be allocated and the general fund on the basis of their average month-end cash and investment balances.

Note 4. Interfund Transactions

A. Operating Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers, called operating transfers, is to reimburse a fund that has made an expenditure on behalf of another fund. Less often, a residual equity transfer may be made to open or close a fund.

Operating transfers between funds during the fiscal year ended September 30, 2018, were as follows:

	Transfers In	Transfers Out
General Fund	\$ 1,118,956	\$ 1,417,287
Special Reserve Funds	1,845,782	5,470,773
Debt Service Funds	3,537,705	3,160,827
Capital Projects Funds	<u>3,231,128</u>	<u>23,784</u>
Totals for Governmental Funds	\$ 9,733,571	\$10,072,671
Totals for Enterprise Funds	<u>339,100</u>	
Total all Funds	<u>\$10,072,671</u>	<u>\$10,072,671</u>

B. Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At September 30, 2018, current interfund balances were as follows:

	Receivable	Payable
General Fund	\$1,180,052	
Special Revenue Funds		
Community Redevelopment		\$ 800,698
Debt Service Funds		
Redevelopment	800,698	665,300
Capital Projects Funds		
City	168,105	
Redevelopment	665,300	1,189,096
Enterprise Funds		
Airport		<u>159,061</u>
Total all Funds	<u>\$2,814,155</u>	<u>\$2,814,155</u>

C. Long-Term Interfund Advances

As of September 30, 2018, the General Fund had advanced \$331,215 to the Airport Enterprise Fund, which was used to cover airport cash flow shortages. The advance will be repaid with future airport operating revenues, but not within the next fiscal year.

As of September 30, 2018, the Low and Moderate Income Housing Special Revenue Fund had advanced \$194,026 to the Redevelopment Capital Projects Fund. The advance is expected to be repaid from future Redevelopment Capital Project Fund revenues.

Note 5. Loans Receivable and Deferred Revenue

Housing Rehabilitation and Affordable Housing Loans

The City engages in programs designed to encourage construction or improvement in low to moderate-income housing or other projects. Under these programs, grants or loans are provided under favorable terms to homeowners or developers who agree to spend these funds in accordance with the City's terms. Although these loans are expected to be repaid in full, their balance has been offset by a deferred inflow of resources called deferred loan revenue in the amount of \$1,931,713, as they are not

expected to be repaid during fiscal year 2019. The balance of the loans receivable arising from these programs at September 30, 2018, was \$1,931,687.

Note 6. Capital Assets

General capital assets used for governmental activities include streets and sidewalks, bridges, curbs and gutters, drainage systems, and lighting systems, which have been capitalized. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated. All general capital assets are depreciated except for land, which is reported at cost. Current depreciation of general capital assets is reported as an expense to governmental activities in the statement of activities.

Proprietary fund capital assets are recorded at cost and depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of proprietary fund capital assets equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of proprietary fund capital assets.

Depreciation of all proprietary fund capital assets is charged as an expense against operations each year, and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the proprietary funds' statement of net position as a reduction in the book value of the capital assets.

Depreciation of capital assets in service is provided using the straight-line method, which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the following useful lives to capital assets:

Buildings	15-30 years
Streets and runways	15 years
Vehicles and equipment	3-17 years

Changes in capital assets for the year ended September 30, 2018, were as follows:

September 30, 2017, Balance	Additions	Retirements	September 30, 2018, Balance
--	------------------	--------------------	--

<i>General Capital Assets:</i>	\$108,772,977	\$3,545,116	\$ 1,578	\$112,316,515
Land and streets				
Building	10,903,756	55,039	528	10,958,267
Vehicles	5,517,868	667,981	171,531	6,014,318
Furniture and communication	2,949,129	200,737	319,704	2,830,162
Construction in progress	<u>3,378,713</u>	<u>249,992</u>	—	<u>3,628,705</u>
Total General Capital Assets	\$131,522,443	\$4,718,865	\$ 493,341	\$135,747,967
Deduct Accumulated Depreciation	<u>(6,350,247)</u>	<u>(283,113)</u>	—	<u>(6,633,360)</u>
Net General Capital	<u>\$125,172,196</u>	<u>\$4,435,752</u>	<u>\$ 493,341</u>	<u>\$129,114,607</u>
<i>Enterprise Capital Assets:</i>	\$ 1,220,648	\$ 2,000	\$ —	\$ 1,222,648
<i>LUGE:</i>				
Buses				
Transit center buildings	435,247	1,166,196	—	1,601,443
Land	243,797	—	—	243,797
Other equipment	32,683	—	27	32,656
Construction in progress	<u>989,389</u>	<u>176,807</u>	<u>1,166,196</u>	—
Total LUGE Assets	\$ 2,921,764	\$1,345,003	\$1,166,223	\$ 3,100,544
Deduct Accumulated Depreciation	<u>(708,877)</u>	<u>(143,001)</u>		<u>(851,878)</u>
Net LUGE Capital Assets	<u>\$ 2,212,887</u>	<u>\$1,202,002</u>	<u>\$1,166,223</u>	<u>\$ 2,248,666</u>
<i>Airport:</i>	\$ 9,423,747	\$ —	\$	\$ 9,423,747
Runways and land				
Terminal building	2,925,848	—	—	2,925,848
Machinery and equipment	2,717,618	35,665	—	2,753,283
Construction in progress	<u>114,086</u>	<u>11,486</u>	<u>1</u>	<u>125,571</u>
Total Airport Assets	\$ 15,181,299	\$ 47,151	\$1	\$ 15,228,449

Deduct Accumulated Depreciation	<u>(5,864,114)</u>	<u>(849,880)</u>	<u>—</u>	<u>(6,713,994)</u>
Net Airport Capital	<u>\$ 9,317,185</u>	<u>\$(802,729)</u>	<u>\$1</u>	<u>\$ 8,514,455</u>
Enterprise Capital Assets	<u>\$ 11,530,072</u>	<u>\$ 399,273</u>	<u>\$1,166,224</u>	<u>\$ 10,763,121</u>

Note 7. Long-Term Liabilities

A. General Long-Term Debt

The City generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt maturity. The City's debt issues and transactions are summarized as follows and discussed in detail thereafter:

	September 30, 2017, Balance	Additions	Reductions	September 30, 2018, Balance
<i>General Long-Term Debt:</i>				
Refunding Lease Revenue Bonds,				
2011 Series A, 4.1%-5.75%, due 2041	\$27,150,000			\$27,150,000
Refunding Revalue Bonds,				
2011 Series B, 4.0%-6.25%, due serially until 10/1/2044	28,555,000		\$255,000	28,300,000
Subordinate Bond				
Anticipation Notes, 2017 Series A, 8% due 10/1/2018	8,295,000			8,295,000
2009 Certificates of Participation, Series B, 3.6%-6.3%, due 2024	665,000		40,000	625,000
State Revolving Fund Loan, 2.8%, due 10/1/2032				904,326
Capital lease obligations:				
Vehicle and equipment, 6.5%-8%, due 2021	<u>1,437,126</u>	<u>\$904,326</u>	<u>470,173</u>	<u>966,953</u>
Total	<u>\$66,102,126</u>	<u>\$904,326</u>	<u>\$765,173</u>	<u>\$66,241,279</u>

Enterprise Long-Term Debt:

2011 Certificates of

Participation, 4.10%-6.4%,
due 1 1/1/2025

\$ 2,040,000

\$ 95,000

\$ 1,945,000

Fuel Farm Loan, adjustable
interest due 8/10/2026

401,350

17,970

383,380

Total

\$ 2,441,350

\$112,970

\$ 2,328,380

B. Long-Term Debt Issues

During the 2016-17 fiscal year, the City drew down \$904,326 under a State Revolving Fund Loan with the State of California. Proceeds from the loan were used along with grant funds to construct the state line erosion control project. The loan is secured by the project and repayable from Transient Occupancy Taxes of the City. The City may draw up to \$1.435 million under the loan.

On November 1, 2011, Ponderosa concurrently issued \$27,150,000 principal amount Refunding Lease Revenue Bonds, 2011 Series A, and \$28,555,000 principal amount Refunding Revenue Bonds, 2011 Series B. Proceeds from these 2011 Refunding Bonds were used to advance refund the outstanding 2009 Revenue Refunding Bonds, 2009 Series A ("Refunded Bonds"). These proceeds, along with Refunded Bond reserve fund monies, were used to purchase U.S. government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Refunded Bonds. The advance refunding was required to issue the Subordinate Bond Anticipation Notes discussed next.

Interest on the 2011 Series A and B Bonds is payable semiannually on each April 1 and October 1. Principal matures annually each October 1. Principal on the 2011 Series A Bonds maturing on October 1, 2022 and 2029, is subject to mandatory redemption commencing October 1, 2019 and 2025, respectively. Principal on the 2011 Series B Bonds maturing on October 1, 2021, 2026, and 2034 is subject to mandatory redemption commencing October 1, 2018, 2023, and 2031, respectively. On April 25, 2017, Ponderosa issued the Subordinate Bond Anticipation Notes, 2017 Series A, the proceeds of which are to be used to finance the Ponderosa Redevelopment Agency's costs incurred under the development agreement discussed previously. The Notes may be redeemed prior to maturity on or after October 1, 2018, at par plus accrued interest. The Notes are subordinate to the 2011 Series B Bonds.

The 2011 Series B Bonds and the Notes are repayable from incremental property tax revenues and transient occupancy tax revenues levied and collected by the Agency. Transient occupancy tax revenues levied by the Agency that are not used for debt service on the 2011 Series B Bonds or on the Notes revert to the City and will be used along with other City General Fund resources to repay debt service on the 2011 Series A Bonds.

Under the following certificates of participation (COP) issues, the City makes semiannual payments that are sufficient to pay the principal and interest. The balance of the debt evidenced by the COPs have been included in the City's financial statements, as they are in essence financing arrangements, with ownership of the financed assets reverting to the City at its conclusion.

Certificates of Participation, 2009 Series B: The City issued Certificates of Participation in the original principal amount of \$745,000 as part of an Association of Bay Area Governments (ABAG) issue to finance the relocation of a fire station. Principal payments are payable annually on July 1, and interest payments are payable semiannually on January 1 and July 1.

On November 1, 2011, the City issued \$2,040,000 principal amount of COPs. Proceeds from these COPs were used to prepay the Airport T-Hangar lease.

During fiscal 2011-12 the City entered into a loan to finance fuel tanks and related facilities, known as the "Fuel Farm," which were constructed at the airport. The loan bears interest at 6.75 percent until August 7, 2019. The loan agent may reset the interest rate on August 5, 2019 and 2021, based on a formula that uses a U.S. Treasury Index and U.S. Treasury yields.

The Certificates and Fuel Farm Loan are repayable from Airport Enterprise Fund revenues.

C. Debt Service Requirements

Principal and interest payments on all outstanding long-term debt are as follows at September 30, 2018:

Year	Primary Government Activities			Business Activities			Total
	Principal	Interest	Subtotal	Principal	Interest	Subtotal	
2019	\$ 876,259	\$ 3,462,724	\$ 4,338,983	\$ 50,849	\$ 98,914	\$ 149,763	\$ 4,488,746
2020	1,369,907	3,416,918	4,786,825	117,968	24,295	154,763	4,941,588
2021	1,432,496	3,345,307	4,777,803	125,432	21,831	159,763	4,937,566
2022	1,509,810	3,270,424	4,780,234	138,212	19,051	169,763	4,949,997

2023	9,545,437	3,191,500	12,736,937	146,536	15,727	174,763	12,911,700
2024							
-28	6,822,630	14,461,491	21,284,121	1,512,333	12,835	1,475,168	22,759,289
2029							
-33	7,453,688	13,364,252	20,817,940	237,050	5,888	242,938	21,060,878
2034							
-38	9,662,000	10,878,459	20,540,459	—	—	—	20,540,459
2038							
-42	12,220,000	7,676,650	19,896,650	—	—	—	19,896,650
2043							
-47	13,232,594	4,637,225	17,869,819	—	—	—	17,869,819
2047							
-51	<u>1,072,821</u>	<u>64,369</u>	<u>1,137,190</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,137,190</u>
Total	<u>\$65,197,642</u>	<u>\$67,769,319</u>	<u>\$132,966,96</u>	<u>\$2,328,38</u>	<u>\$198,541</u>	<u>\$2,526,92</u>	<u>\$135,493,882</u>

D. Capital Leases

The City has entered into several lease obligations to finance capital assets used in providing primary government services. Lease obligations are currently used to secure computers, police radios, vehicles, trucks, parks equipment, and snow removal equipment. Ownership of all leased property reverts to the City at the end of the lease. The future minimum payments required for the capital leases obligations are:

Year	Payment
2019	\$ 531,303
2020	376,788
2021	<u>135,546</u>
Total	<u>\$1,043,637</u>

Note 8. Fund Equity

A. Restrictions and Designations

Fund equity consists of invested in capital assets, restricted, and unrestricted amounts. Restricted fund equity represents that portion of fund balance that is restricted to specific purposes due to external creditors, legislation, or constitutional provisions. The remaining portion is unrestricted.

A portion of unrestricted fund balance may be designated to indicate plans for financial resource utilization in a future period such as for general contingencies or capital projects. Such plans are subject to change and may never be actually authorized or result in expenditures.

B. Fund Equity Deficits

The Redevelopment Administration Special Revenue Fund had a deficit of \$176,571 at September 30, 2018, which is expected to be eliminated with future tax increment revenues.

The Airport Enterprise Fund had a deficit amounting to \$1,062,181 as of September 30, 2018, which is expected to be eliminated with future revenues.

Note 9. Pension Plans

A. Deferred Compensation Plans

City employees may defer a portion of their compensation under a City-sponsored deferred compensation plan created in accordance with Internal Revenue Code Section 457. Under this plan participants are not taxed on the deferred portion of their compensation until it is distributed to them; distributions may be made only at termination, retirement, death, or in an emergency as defined by the Plan.

The Plan is established as a trust managed through contract with the International City Managers' Association (ICMA). As such the assets of the plan are not subject to claims by creditors of the city, and the assets of the plan are not reflected in the city's financial statements.

B. Post-Employment Benefits

The City provides post-retirement health, dental, and vision care benefits for retirees. The benefits vary depending upon the years of service of the retiree. All employees are eligible to participate in the plan upon retirement. At September 30, 2013, 40 retirees participated in this plan at a cost to the City of \$90,925 for insurance premiums. The City finances the plan on a pay-as-you-go basis.

C. California Public Employees Retirement System

The City contracts with the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit retirement plan that acts as a common investment and administrative agent for participating local and state governmental agencies in California.

The City participates in two plans under PERS, the Safety Employees plan and the Miscellaneous Employees plan. All permanent City employees participate in PERS. Benefits vest after five years of service and are payable monthly for life upon retirement. Employees may retire at age 50 years with five years of credited service and receive between 1.426 percent and 2 percent of their average annual salary during their three highest years of employment for each credited service year. Benefits for City employees are established by contract with PERS in accordance with provisions of the Public Employees' Retirement Law.

Benefits increase with age and credited service years up to maximums of between 2.418 percent and 2.7 percent for each credited service year. A credited service year is one year of full-time employment.

Although PERS requires City miscellaneous employees to contribute 7 percent of their annual salary and safety employees to contribute 9 percent of their annual salary, the City's labor contracts require the City to pay all PERS contributions. These benefit provisions and all other requirements are established by state statute and city ordinance. Contributions necessary to fund PERS on an actuarial basis are determined by PERS and its Board of Administration.

D. Funding Status and Progress

The amounts shown in the following table as the "pension benefit obligation" for PERS meet a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of pension plans on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions.

The PERS pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 2017. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8.5 percent a year compounded annually; (b) projected salary increases of 4.5 percent a year compounded annually, attributable to inflation; (c) no additional projected salary increases attributable to seniority/merit; and (d) no post-retirement benefit increases.

Total overfunded pension benefit obligation applicable to the City's employees as of June 30, 2017, was as follows:

Pension Benefit Obligation

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits \$17,912,350

Current employees:

Accumulated employee contributions including allocated investment earnings 12,344,209

Employer-financed vested 12,274,132

Employer-financed nonvested 189,630

Total Pension Benefit Obligation \$42,720,321

Net Position Available for Benefits,

at Smoothed Market Value (market value was \$55,075,002

at June 30, 2017) 51,285,037

Overfunded Pension Benefit Obligation \$ 8,564,716

E. Actuarially Determined Contribution Requirements and Contributions Made

PERS uses the Entry Age Normal Actuarial Cost Method, which is a projected benefit cost method that takes into account those benefits that are expected to be earned in the future as well as those already accrued. According to this cost method, the normal cost for an employee is the level amount that would fund the projected benefit if it were paid annually from date of employment until retirement. PERS uses a modification of the Entry Age Cost Method in which the employer's total normal cost is expressed as a level percentage of payroll.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation, as previously described.

Contributions to PERS are made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of year-end. Total pension contributions, reduced by PERS surplus used, were as follows for the fiscal year ended September 30, 2018:

	Amount	Percent of Covered Payroll
Covered payroll	<u>\$8,302,279</u>	
Total payroll	<u>\$9,972,636</u>	
Normal cost contributions	\$ 887,622	10.7%

Employee contributions paid by the City	<u>684,642</u>	<u>8.2</u>
Total normal cost	\$1,572,264	18.9
PERS surplus used	<u>(507,224)</u>	<u>(6.1)</u>
Net PERS contributions	<u>\$1,065,040</u>	<u>12.8</u>

F. Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. PERS systemwide 10-year end information may be found in the California PERS Annual Reports.

For the years ending June 30, 2017, 2016, 2015, 2014, and 2013, net position available for benefits funded 120 percent, 113 percent, 123 percent, 112 percent, and 107 percent of the pension benefit obligation, and the overfunded pension benefit obligation represented 95 percent, 61 percent, 92 percent, 44 percent, and 27 percent of covered payroll, respectively. For the years ending September 30, 2018, 2017, 2016, 2015, and 2014, the City's PERS contributions, made in accordance with actuarially determined requirements, were 19 percent, 17 percent, 16 percent, 17 percent, and 18 percent respectively, of covered payroll.

Note 10. Risk Management

A. Insurance Coverage

The City is a member of the Public Agency Risk Sharing Authority of California (PARSAC), a joint powers authority that provides annual general liability coverage up to \$10,000,000 in the aggregate and workers' compensation insurance coverage up to statutory limits. The City retains the risk for the first \$250,000 in both general liability claims and workers' compensation claims.

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

The City's premiums are based upon the following factors: claims history, total payroll, the City's exposure, the results of an on-site underwriting inspection, total insurable values, and employee classification ratings. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating that generally occurs in the third year after the completion of the program year.

B. Liability for Uninsured Claims

The Governmental Accounting Standards Board (GASB) requires municipalities to record their liability for uninsured claims and to reflect the current portion of this liability as an expenditure in their financial statements. As discussed previously, the City has coverage for such claims, but it has retained the risk for the deductible, or uninsured, portion of these claims. The City's liability for uninsured claims is limited to worker's compensation and general liability, and was estimated by management based on prior years' claims experience as follows:

	Worker's Compensation	General Liability	Total
Ending balance, September 30, 2017	\$ 490,000	\$ 25,000	\$515,000
Provision for current and prior fiscal year	318,873	381,345	700,218
Claims paid	<u>(318,373)</u>	<u>(39,811)</u>	<u>(358,184)</u>
Ending balance, September 30, 2018	<u>\$ 490,500</u>	<u>\$366,534</u>	<u>\$857,034</u>

The City has recorded these liabilities as repayable from available expendable resources in the General Fund. In addition to these amounts, the City has also designated \$510,000 and \$750,000 of general fund balance for worker's compensation future claims and general liability future claims to comply with requirements of PARSAC.

Note 11. Commitments and Contingencies

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

Note 12. Dependence upon Tourism Industry

Historically, 25 percent of the City's General Fund revenues comes from the collection of transient occupancy taxes, 17 percent is collected from property tax payments, and 15 percent is derived from sales tax collections.

The hotel/motel industry accounts for all the transient occupancy tax collected, in excess of 7 percent of all property taxes collected, and a significant portion of all sales taxes collected. Consequently, a downturn in the tourism industry for the City will result in a substantial reduction in General Fund revenues available to pay all of the City's obligations. In the event of a downturn in the tourism industry, the City may have insufficient revenues in its General Fund to pay all of its obligations.

