



# CITY OF DEL REY OAKS

## Staff Report

**DATE:** May 23, 2023

**TO:** Honorable Mayor and City Council

**FROM:** John Guertin, City Manager

**SUBJECT:** Audited Financial Statements for fiscal year ended June 30, 2022

**CEQA:** This action does not constitute a "project" as defined by the California Environmental Quality Act (CEQA) guidelines section 15378 as it is an organizational activity of the City that will not result in direct or indirect physical changes in the environment.

### Recommendation

Staff recommends that the Council receive the audited financial statements for the fiscal year ended June 30, 2022.

### Background

The City's financial statements were audited by Chavan & Associates, LLP. The audit of the financial statements is an annual requirement.

### Summary & Discussion

#### Auditor's Opinion

The auditors, Chavan & Associates, state on page 1 of the Annual Financial Report ("Report") (Attachment 1), that the financial statements in the Report "present fairly, in all material respects" the City's financial position and results of operations for the fiscal year ended June 30, 2022. This is an unqualified opinion, meaning that the financial statements can be relied upon.

A summary of the City's finances can be found in the section titled "Management Discussion and Analysis" beginning at page 5 of the Report. Staff will highlight some of the most important numbers in the financial statements in this Staff Report.

#### Statement of Net Position of \$20,456,144, page 11

The Statement of Net Position shows a total Net Position of \$20,456,144. Readers of the financial statements should keep in mind that the Statement of Net Position treats the City as if it was a business using full accrual accounting. This statement therefore takes into account all assets, including those that cannot be sold or used by anyone else, and all the liabilities, including those that will be paid in the distant future. It then divides the Net Position (assets and deferred outflows, minus liabilities and deferred inflows) into seven major categories. "Net invested in capital assets" is the total of all fixed assets less any debt on those assets. Restricted for land held for resale represents funds that cannot be used for budget purposes. The Net Position of \$20,456,144 shows that the City's finances are in a positive position.

Positive Change in Net Position of \$1,341,659 page 12

The Statement of Activities, like the Statement of Net Position, is prepared on a full accrual basis, like a business. It includes depreciation, interest expense accruals, and net gains on sale of property which are not typically reported in Government Funds Statements.

Balance Sheet – Unassigned unappropriated fund balance of \$1,102,408 in the General Fund, page 13

The Balance Sheet is prepared on a modified accrual basis, which is how the City budgets. It considers only current assets (assets that can be readily converted to cash) and current liabilities (liabilities that will be paid within the next year). It shows the General Fund with an “Unassigned Unappropriated” fund balance of \$1,102,408. This represents funds available to spend at June 30, 2022 that have not been appropriated for a specific purpose. In addition to this amount the City has \$1,652,182 in monies set-aside for economic uncertainties.

All other funds reported have restrictions as to what the monies can be spent on as shown on the Balance Sheet.

Statement of Revenues, Expenditures, and Changes in General Fund Fund Balances of \$831,848, page 15

The Statement of Revenues, Expenditures and Changes in Fund Balance is prepared on the same basis as the budget. It shows excess revenues over expenditures in the General Fund of \$831,848.

Note 5 – Long-Term Debt \$2,171,128, page 33

Page 33 shows the long-term debt of the City as of June 30, 2022, which is an important number. The Federal Group debt totals \$1,538,528 which is not due and payable until sales or development takes place on the former Fort Ord land. It is expected that any development or sales should cover this debt.

Auditor’s Report on Internal Controls

As part of the audit, the auditor issued an Independent Auditor’s Report on Internal Control over Financial Reporting, which states on page 55 of the Report that there are no findings. The report noted “no instances of noncompliance.”

**Fiscal Impacts**

This item has no fiscal impact. It reports the results of the 2021-22 fiscal year’s operations.

**Recommended Action**

Receive the audited financial statements for the fiscal year ended June 30, 2022.

**ATTACHMENTS:**

1. Annual Financial Report for the fiscal year ended June 30, 2022

Respectfully Submitted,

---

John Guertin  
City Manager

# City of Del Rey Oaks

## Annual Financial Report

June 30, 2022



**Chavan & Associates, LLP**

Certified Public Accountants

15105 Concord Circle, Ste. 130

Morgan Hill, CA 95037

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**City of Del Rey Oaks**  
**Annual Financial Report**  
**For the year ended June 30, 2022**

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**TABLE OF CONTENTS**

**FINANCIAL SECTION**

|                                                                                                                                                                      |    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| Independent Auditor's Report.....                                                                                                                                    | 1  |
| Management's Discussion and Analysis (Required Supplementary Information) .....                                                                                      | 5  |
| Basic Financial Statements:                                                                                                                                          |    |
| <i>Government-Wide Financial Statements:</i>                                                                                                                         |    |
| Statement of Net Position .....                                                                                                                                      | 11 |
| Statement of Activities .....                                                                                                                                        | 12 |
| <i>Fund Financial Statements</i>                                                                                                                                     |    |
| <i>Governmental Funds:</i>                                                                                                                                           |    |
| Balance Sheet.....                                                                                                                                                   | 13 |
| Reconciliation of the Governmental Funds Balance Sheet<br>to the Government-Wide Statement of Net Position.....                                                      | 14 |
| Statement of Revenues, Expenditures and Changes in Fund Balances.....                                                                                                | 15 |
| Reconciliation of the Governmental Funds Statement of Revenues,<br>Expenditures and Changes in Fund Balances to the Government-Wide<br>Statement of Activities ..... | 16 |
| Notes to the Basic Financial Statements .....                                                                                                                        | 17 |

**REQUIRED SUPPLEMENTARY INFORMATION**

|                                                                                                                          |    |
|--------------------------------------------------------------------------------------------------------------------------|----|
| Schedule of Revenues, Expenditures and Changes in Fund Balances –<br>Budget and Actual (GAAP Basis) – General Fund ..... | 44 |
| Schedule of Pension Plan Contributions.....                                                                              | 45 |
| Schedule of Proportionate Share of Net Pension Liabilities .....                                                         | 46 |
| Schedule of Changes in Total OPEB Liability .....                                                                        | 47 |
| Notes to the Required Supplementary Information .....                                                                    | 48 |

**SUPPLEMENTARY INFORMATION**

|                                                                                                                 |    |
|-----------------------------------------------------------------------------------------------------------------|----|
| Combining Statements - Nonmajor funds:                                                                          |    |
| Combining Balance Sheet - Nonmajor Governmental Funds.....                                                      | 50 |
| Combining Schedule of Revenues, Expenditures and Changes in Fund<br>Balances - Nonmajor Governmental Funds..... | 52 |

**OTHER INDEPENDENT AUDITOR'S REPORT**

|                                                                                                                                                                                                                                           |    |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| Independent Auditor's Report on Internal Control over Financial Reporting and on<br>Compliance and Other Matters Based on an Audit of the Financial Statements<br>Performed in Accordance with <i>Government Auditing Standards</i> ..... | 55 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|

**FINDINGS AND RESPONSES**

|                                         |    |
|-----------------------------------------|----|
| Schedule of Findings and Responses..... | 57 |
|-----------------------------------------|----|

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## **FINANCIAL SECTION**





**Chavan and Associates, LLP**  
Certified Public Accountants

## **INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and Members of the  
City Council of the City of Del Rey Oaks  
Del Rey Oaks, California

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

#### *Opinion*

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Del Rey Oaks, as of June 30, 2022, 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.

#### **Basis for Opinion**

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

#### **Emphasis of a Matter**

##### *New Accounting Standards*

During the year, the District implemented GASB Statement No. 87, *Leases*. As a result, the District recorded lease receivables of \$83,562 and net deferred inflows of resources of \$61,401, increasing beginning fund balance and net position by \$24,167. See note 1 for additional information. Our opinion was not modified for this matter.

#### **Responsibilities of Management for the Financial Statements**

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



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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and 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

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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 introductory section, combining individual non-major fund schedules, statistical data, 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.

The introductory, budgetary and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2023, 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*

April 10, 2023  
Morgan Hill, California



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

## INTRODUCTION

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

## FINANCIAL HIGHLIGHTS

- On a government-wide basis the assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the year ended June 30, 2022 by \$20.46 million. However, \$1.74 million is a net investment in capital assets, restricted net position of \$19.30 million, leaving an unrestricted deficit net position of \$587 thousand.
- The City's total net position increased by \$1.37 million from current year operations.
- The City's governmental funds reported combined ending fund balance of \$21.90 million. The net change in fund balances was an increase of \$862 thousand.
- The General Fund reported a fund balance of \$12.03 million. The net change was an increase of \$856 thousand.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

**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 fund financial statements provide detail information about the most significant funds, not the City as a whole. The City, like other local

governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the City's funds are governmental fund types. Fund financial statements report essentially the same functions as those reported in the government-wide financial statements. However, unlike the government-wide financial statements, fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

Because the focus of the governmental fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide financial statements. 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 the governmental fund and government-wide statements.

The City maintains eleven individual governmental funds. Information is presented in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund and the nonmajor governmental funds.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. The City's net position increased by \$1.37 million in fiscal year 2022 from fiscal year 2021. The City's net investment in assets of \$1.74 million is used to provide services to citizens; consequently, these assets are not available for future spending, leaving the City with a deficit for operating purposes.

**Summary of Net Position  
As of June 30**

|                                       | 2022                 | 2021                 | Increase<br>(Decrease) |
|---------------------------------------|----------------------|----------------------|------------------------|
| <b>Assets</b>                         |                      |                      |                        |
| Current and other assets              | \$ 22,498,949        | \$ 21,403,828        | \$ 1,095,121           |
| Capital assets                        | 2,396,689            | 2,332,998            | 63,691                 |
| <b>Total Assets</b>                   | <u>\$ 24,895,638</u> | <u>\$ 23,736,826</u> | <u>\$ 1,158,812</u>    |
| <b>Deferred Outflows of Resources</b> | <u>\$ 554,039</u>    | <u>\$ 441,269</u>    | <u>\$ 112,770</u>      |
| <b>Liabilities</b>                    |                      |                      |                        |
| Current and other liabilities         | \$ 549,172           | \$ 377,267           | \$ 171,905             |
| Noncurrent liabilities                | 3,572,766            | 4,502,300            | (929,534)              |
| <b>Total Liabilities</b>              | <u>\$ 4,121,938</u>  | <u>\$ 4,879,567</u>  | <u>\$ (757,629)</u>    |
| <b>Deferred Inflows of Resources</b>  | <u>\$ 871,595</u>    | <u>\$ 208,210</u>    | <u>\$ 663,385</u>      |
| <b>Net Position</b>                   |                      |                      |                        |
| Net investment in capital assets      | \$ 1,739,312         | \$ 1,594,980         | \$ 144,332             |
| Restricted                            | 19,303,354           | 19,113,651           | 189,703                |
| Unrestricted                          | (586,522)            | (1,618,313)          | 1,031,791              |
| <b>Total Net Position</b>             | <u>\$ 20,456,144</u> | <u>\$ 19,090,318</u> | <u>\$ 1,365,826</u>    |

- Current assets and capital assets increased by \$1.16 million, while current and noncurrent liabilities also decreased by \$758 thousand.
- Increases in capital assets were mainly due to vehicle and equipment purchases, as well as a slurry seal project.
- Decreases in noncurrent liabilities were mainly the result of GASB 68 and GASB 75 adjustments to the City's pension and OPEB plans.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Statement of Activities  
As of June 30

| Functions/Programs                                     | 2022                 | 2021                 | Increase<br>(Decrease) |
|--------------------------------------------------------|----------------------|----------------------|------------------------|
| <b>Revenue:</b>                                        |                      |                      |                        |
| Program Revenues:                                      |                      |                      |                        |
| Charges for services                                   | \$ 1,397,489         | \$ 1,216,346         | \$ 181,143             |
| Operating grants and contributions                     | 248,668              | 229,252              | 19,416                 |
| Capital grants and contributions                       | 272,685              | 72,495               | 200,190                |
| General Revenues:                                      |                      |                      |                        |
| Property tax                                           | 740,530              | 717,621              | 22,909                 |
| Sales tax                                              | 675,929              | 491,759              | 184,170                |
| Transaction tax                                        | 1,092,247            | 689,351              | 402,896                |
| Franchise tax                                          | 175,643              | 169,716              | 5,927                  |
| Business license tax                                   | 161,659              | 250,352              | (88,693)               |
| Other taxes                                            | 227,207              | 264,245              | (37,038)               |
| Investment earnings                                    | 12,073               | 60,567               | (48,494)               |
| Other revenue                                          | 102,860              | 20,147               | 82,713                 |
| <b>Total Revenue</b>                                   | <b>5,106,990</b>     | <b>4,181,851</b>     | <b>925,139</b>         |
| <b>Expenses:</b>                                       |                      |                      |                        |
| General government                                     | 1,014,782            | 1,183,067            | (168,285)              |
| Public safety                                          | 2,200,621            | 2,386,032            | (185,411)              |
| Public works                                           | 297,202              | 294,575              | 2,627                  |
| Community development                                  | 112,972              | 79,619               | 33,353                 |
| Parks                                                  | 37,032               | 43,918               | (6,886)                |
| Interest on long-term debt                             | 105,442              | 70,502               | 34,940                 |
| <b>Total Expenses</b>                                  | <b>3,768,051</b>     | <b>4,057,713</b>     | <b>(289,662)</b>       |
| <b>Special and Extraordinary Items:</b>                |                      |                      |                        |
| Special item - gain/loss on disposal of capital assets | 2,720                | (1,815)              | 4,535                  |
| Special item - release of obligation due to FORA       | -                    | -                    | -                      |
| <b>Total Special and Extraordinary Items</b>           | <b>2,720</b>         | <b>(1,815)</b>       | <b>4,535</b>           |
| Change in Net Position                                 | 1,341,659            | 122,323              | 1,219,336              |
| Prior Period Adjustments                               | 24,167               | -                    | 24,167                 |
| <b>Net Position, Beginning of Year</b>                 | <b>19,090,318</b>    | <b>18,967,995</b>    | <b>122,323</b>         |
| <b>Net Position, End of Year</b>                       | <b>\$ 20,456,144</b> | <b>\$ 19,090,318</b> | <b>\$ 1,365,826</b>    |

- The increase in capital grants and contributions is mainly due to contributions received from federal grants in 2022.
- The increase in transaction tax is due to recovery from the effects of the pandemic.
- The increase in sales tax is due to increased business and activities after recovering from the pandemic.



**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets** - The City's investment in capital assets as of June 30, 2022, amounted to \$2.40 million (net of accumulated depreciation). This amount included land, buildings, improvements, furniture, equipment, and vehicles.

**Debt Administration** - At fiscal year end, the City had \$2.20 million in debt. Additions to debt were due to compounding interest from the Federal Group International loan, while deletions were due to principal payments on the TAMC Measure X loan and lease purchase agreement.

**FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS**

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

At the end of the current fiscal year, the City's governmental funds reported a total fund balance of \$21.90 million. During the current fiscal year, the fund balance of the City's total governmental funds increased \$861,815.

**FUND BUDGETARY HIGHLIGHTS**

**General Fund** - The original budgeted general fund revenues increased \$407 thousand. General Fund estimated budgeted revenues exceeded the actuals by \$148 thousand. The original budgeted general fund expenditures increased by \$237 thousand. Actual expenditures were \$206 thousand less than final budgeted expenditures.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Fiscal year 2021-22 was a good year for the City with an above normal increase in Sales Tax due to the sales tax deferrals from the pandemic being paid back. For FY 22-23 Sales Tax is expected to level off but still be healthy. Cannabis Tax revenue is expected to decrease as cannabis sales continue to decline due to the proliferation of cannabis establishments on the Monterey Peninsula. However, that decrease will be off-set by an increase in transient occupancy tax from the City's short-term rentals. The City is expecting to maintain a balanced budget.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Del Rey Oaks, 650 Canyon Del Rey Road, Del Rey Oaks, California 93940.



## **BASIC FINANCIAL STATEMENTS**

**City of Del Ray Oaks**  
**Statement of Net Position**  
**June 30, 2022**

**ASSETS**

|                                              |                      |
|----------------------------------------------|----------------------|
| Current Assets:                              |                      |
| Cash and investments                         | \$ 4,332,005         |
| Restricted cash and investments              | 8,685,795            |
| Receivables:                                 |                      |
| Taxes                                        | 360,482              |
| Other receivables                            | 6,247                |
| Land held for resale                         | 8,904,673            |
| Total Current Assets                         | <u>22,415,387</u>    |
| Noncurrent Assets:                           |                      |
| Leases receivable                            | 83,562               |
| Capital Assets:                              |                      |
| Nondepreciable                               | 549,500              |
| Depreciable, net of accumulated depreciation | 1,847,189            |
| Total Capital Assets - Net                   | <u>2,396,689</u>     |
| Total Noncurrent Assets                      | <u>2,480,251</u>     |
| Total Assets                                 | <u>\$ 24,895,638</u> |

**DEFERRED OUTFLOWS OF RESOURCES**

|                                      |                   |
|--------------------------------------|-------------------|
| OPEB Adjustments                     | \$ 143,347        |
| Pension Adjustments                  | 410,692           |
| Total Deferred Outflows of Resources | <u>\$ 554,039</u> |

**LIABILITIES**

|                                            |                     |
|--------------------------------------------|---------------------|
| Current Liabilities:                       |                     |
| Accounts payable                           | \$ 371,095          |
| Payroll related liabilities                | 14,187              |
| Prepaid business licenses                  | 147,001             |
| Prepaid developer deposits                 | 9,063               |
| Long-term debt - due within one year       | 7,826               |
| Total Current Liabilities                  | <u>549,172</u>      |
| Noncurrent Liabilities:                    |                     |
| Long-term debt - due in more than one year | 2,188,076           |
| Compensated absences                       | 104,629             |
| Net pension liability                      | 851,727             |
| Total OPEB liability                       | 428,334             |
| Total Noncurrent Liabilities               | <u>3,572,766</u>    |
| Total Liabilities                          | <u>\$ 4,121,938</u> |

**DEFERRED INFLOWS OF RESOURCES**

|                                     |                   |
|-------------------------------------|-------------------|
| Leases                              | \$ 61,401         |
| Pension Adjustments                 | 810,194           |
| Total Deferred Inflows of Resources | <u>\$ 871,595</u> |

**NET POSITION**

|                                     |                      |
|-------------------------------------|----------------------|
| Net investment in capital assets    | \$ 1,739,312         |
| Restricted for land held for resale | 8,904,673            |
| Restricted for pension              | 351,751              |
| Restricted for streets and roads    | 7,552,346            |
| Restricted for habitat management   | 932,586              |
| Restricted for capital projects     | 1,561,998            |
| Unrestricted                        | (586,522)            |
| Total Net Position                  | <u>\$ 20,456,144</u> |

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

**City of Del Ray Oaks**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2022**

| Functions/Programs          | Expenses            | Program Revenues        |                                          |                                        |                     | Net (Expense)<br>Revenue and<br>Change in Net<br>Position |
|-----------------------------|---------------------|-------------------------|------------------------------------------|----------------------------------------|---------------------|-----------------------------------------------------------|
|                             |                     | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Total               |                                                           |
| General government          | \$ 1,014,782        | 387,196                 | \$ -                                     | \$ 272,685                             | \$ 659,881          | \$ (354,901)                                              |
| Public safety               | 2,200,621           | 839,659                 | 205,489                                  | -                                      | 1,045,148           | (1,155,473)                                               |
| Public works                | 297,202             | 113,399                 | 43,179                                   | -                                      | 156,578             | (140,624)                                                 |
| Community development       | 112,972             | 43,105                  | -                                        | -                                      | 43,105              | (69,867)                                                  |
| Parks                       | 37,032              | 14,130                  | -                                        | -                                      | 14,130              | (22,902)                                                  |
| Interest and fiscal charges | 105,442             | -                       | -                                        | -                                      | -                   | (105,442)                                                 |
| <b>Total</b>                | <b>\$ 3,768,051</b> | <b>\$ 1,397,489</b>     | <b>\$ 248,668</b>                        | <b>\$ 272,685</b>                      | <b>\$ 1,918,842</b> | <b>(1,849,209)</b>                                        |

**General Revenues and Special Item:**

Taxes:

|                      |           |
|----------------------|-----------|
| Property taxes       | 740,530   |
| Sales tax            | 675,929   |
| Transaction tax      | 1,092,247 |
| Franchise tax        | 175,643   |
| Business license tax | 161,659   |
| Other taxes          | 227,207   |
| Investment earnings  | 12,073    |
| Other revenues       | 102,860   |

Special item:

|                                                 |                  |
|-------------------------------------------------|------------------|
| Gain (loss) on disposal of capital assets       | 2,720            |
| <b>Total General Revenues and Special Items</b> | <b>3,190,868</b> |

|                        |           |
|------------------------|-----------|
| Change in Net Position | 1,341,659 |
|------------------------|-----------|

|                                                      |                   |
|------------------------------------------------------|-------------------|
| Net Position - Beginning of Year                     | 19,090,318        |
| Prior Period Adjustments - GASB 87 Leases            | 24,167            |
| <b>Net Position - Beginning of Year, as Adjusted</b> | <b>19,114,485</b> |

|                                   |                      |
|-----------------------------------|----------------------|
| <b>Net Position - End of Year</b> | <b>\$ 20,456,144</b> |
|-----------------------------------|----------------------|

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

**City of Del Ray Oaks**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2022**

|                                                                                   | General<br>Fund      | Prop 68 Grant<br>Fund | SBR Construction<br>Fund | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|-----------------------------------------------------------------------------------|----------------------|-----------------------|--------------------------|-----------------------------------|--------------------------------|
| <b>ASSETS</b>                                                                     |                      |                       |                          |                                   |                                |
| Cash and investments                                                              | \$ 2,635,139         | \$ -                  | \$ -                     | \$ 2,753,034                      | \$ 5,388,173                   |
| Restricted cash and investments                                                   | 360,814              | -                     | 7,268,813                | -                                 | 7,629,627                      |
| Receivables:                                                                      |                      |                       |                          |                                   |                                |
| Taxes                                                                             | 333,214              | -                     | -                        | 27,268                            | 360,482                        |
| Other receivables                                                                 | 6,247                | -                     | -                        | -                                 | 6,247                          |
| Leases receivable                                                                 | 83,562               | -                     | -                        | -                                 | 83,562                         |
| Land held for resale                                                              | 8,904,673            | -                     | -                        | -                                 | 8,904,673                      |
| <b>Total assets</b>                                                               | <u>\$ 12,449,834</u> | <u>\$ -</u>           | <u>\$ 7,268,813</u>      | <u>\$ 2,780,302</u>               | <u>\$ 22,498,949</u>           |
| <b>LIABILITIES, DEFERRED INFLOW<br/>OF RESOURCES AND FUND BALANCES</b>            |                      |                       |                          |                                   |                                |
| <b>Liabilities:</b>                                                               |                      |                       |                          |                                   |                                |
| Accounts payable                                                                  | \$ 185,007           | \$ 183,903            | \$ -                     | \$ 2,185                          | \$ 371,095                     |
| Payroll related liabilities                                                       | 14,187               | -                     | -                        | -                                 | 14,187                         |
| Prepaid business licenses                                                         | 147,001              | -                     | -                        | -                                 | 147,001                        |
| Prepaid developer deposits                                                        | 9,063                | -                     | -                        | -                                 | 9,063                          |
| <b>Total liabilities</b>                                                          | <u>355,258</u>       | <u>183,903</u>        | <u>-</u>                 | <u>2,185</u>                      | <u>541,346</u>                 |
| <b>Deferred Inflows of Resources:</b>                                             |                      |                       |                          |                                   |                                |
| Leases                                                                            | 61,401               | -                     | -                        | -                                 | 61,401                         |
| <b>Total Deferred Inflows of Resources</b>                                        | <u>61,401</u>        | <u>-</u>              | <u>-</u>                 | <u>-</u>                          | <u>61,401</u>                  |
| <b>Fund Balances:</b>                                                             |                      |                       |                          |                                   |                                |
| Nonspendable                                                                      |                      |                       |                          |                                   |                                |
| Leases receivable                                                                 | 22,161               | -                     | -                        | -                                 | 22,161                         |
| Restricted:                                                                       |                      |                       |                          |                                   |                                |
| Land held for resale                                                              | 8,904,673            | -                     | -                        | -                                 | 8,904,673                      |
| Pension                                                                           | 351,751              | -                     | -                        | -                                 | 351,751                        |
| Streets and roads                                                                 | -                    | -                     | 7,268,813                | 283,533                           | 7,552,346                      |
| Habitat management                                                                | -                    | -                     | -                        | 932,586                           | 932,586                        |
| Capital projects                                                                  | -                    | -                     | -                        | 1,561,998                         | 1,561,998                      |
| Unassigned:                                                                       |                      |                       |                          |                                   |                                |
| Economic uncertainties                                                            | 1,652,182            | -                     | -                        | -                                 | 1,652,182                      |
| Unappropriated                                                                    | 1,102,408            | (183,903)             | -                        | -                                 | 918,505                        |
| <b>Total fund balances</b>                                                        | <u>12,033,175</u>    | <u>(183,903)</u>      | <u>7,268,813</u>         | <u>2,778,117</u>                  | <u>21,896,202</u>              |
| <b>Total Liabilities, Deferred Inflows<br/>    of Resources and Fund Balances</b> | <u>\$ 12,449,834</u> | <u>\$ -</u>           | <u>\$ 7,268,813</u>      | <u>\$ 2,780,302</u>               | <u>\$ 22,498,949</u>           |

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

**City of Del Ray Oaks**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Position**  
**June 30, 2022**

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**Total Fund Balances - Total Governmental Funds** **\$ 21,896,202**

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                 | \$ 3,429,401 |           |
| Less: accumulated depreciation | (1,032,712)  |           |
| Total Capital Assets           |              | 2,396,689 |

Contributions made to pension plans will not be included in the calculation of the City's net pension liability of the plan year included in this report and have been deferred and reported as deferred outflows of resources.

OPEB adjustments:

|                                                   |  |        |
|---------------------------------------------------|--|--------|
| Difference between actual and expected experience |  | 75,641 |
| Change in assumptions                             |  | 66,226 |
| Contribution subsequent to measurement date       |  | 1,480  |

Pension adjustments:

|                                                                                           |  |           |
|-------------------------------------------------------------------------------------------|--|-----------|
| Net difference between expected and actual experience                                     |  | 133,087   |
| Net difference between projected and actual investment earnings                           |  | (565,746) |
| Net differences between employer's contributions and proportionate share of contributions |  | (224,295) |
| Net change in employer's proportion                                                       |  | 7,154     |
| Contribution subsequent to measurement date                                               |  | 250,298   |

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              | \$ (2,195,902) |             |
| Compensated absences        | (104,629)      |             |
| Net pension liability       | (851,727)      |             |
| Total OPEB liability        | (428,334)      |             |
| Total Long-Term Obligations |                | (3,580,592) |

**Net Position of Governmental Activities** **\$ 20,456,144**

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

**City of Del Ray Oaks**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2022**

|                                                   | General<br>Fund  | Prop 68 Grant<br>Fund | SBR Construction<br>Fund | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---------------------------------------------------|------------------|-----------------------|--------------------------|-----------------------------------|--------------------------------|
| <b>REVENUES</b>                                   |                  |                       |                          |                                   |                                |
| Taxes:                                            |                  |                       |                          |                                   |                                |
| Property taxes                                    | \$ 740,530       | \$ -                  | \$ -                     | \$ -                              | \$ 740,530                     |
| Sales tax                                         | 565,679          | -                     | -                        | 110,250                           | 675,929                        |
| Transaction tax                                   | 998,484          | -                     | -                        | -                                 | 998,484                        |
| Franchise tax                                     | 175,643          | -                     | -                        | -                                 | 175,643                        |
| Business license tax                              | 161,659          | -                     | -                        | -                                 | 161,659                        |
| Other taxes                                       | 286,790          | -                     | -                        | 34,180                            | 320,970                        |
| Licenses and permits                              | 94,632           | -                     | -                        | -                                 | 94,632                         |
| Fines, forfeits and penalties                     | 3,668            | -                     | -                        | -                                 | 3,668                          |
| Charges for current services                      | 1,202,130        | -                     | -                        | -                                 | 1,202,130                      |
| Intergovernmental revenues                        | 280,338          | -                     | -                        | 241,014                           | 521,352                        |
| Interest, rents and concessions                   | 107,127          | -                     | -                        | -                                 | 107,127                        |
| Other revenues                                    | 104,866          | -                     | -                        | -                                 | 104,866                        |
| <b>Total Revenues</b>                             | <b>4,721,546</b> | <b>-</b>              | <b>-</b>                 | <b>385,444</b>                    | <b>5,106,990</b>               |
| <b>EXPENDITURES</b>                               |                  |                       |                          |                                   |                                |
| Current:                                          |                  |                       |                          |                                   |                                |
| General government                                | 1,110,005        | -                     | -                        | 3,537                             | 1,113,542                      |
| Public safety                                     | 2,327,130        | -                     | -                        | -                                 | 2,327,130                      |
| Public works                                      | 221,158          | -                     | -                        | 24,593                            | 245,751                        |
| Community development                             | 81,340           | -                     | -                        | 31,632                            | 112,972                        |
| Parks                                             | 26,536           | -                     | -                        | -                                 | 26,536                         |
| Capital outlay                                    | 82,919           | 183,903               | -                        | 39,959                            | 306,781                        |
| Debt service                                      |                  |                       |                          |                                   |                                |
| Principal                                         | 7,826            | -                     | -                        | 72,815                            | 80,641                         |
| Interest and fiscal charges                       | 32,784           | -                     | -                        | 23,205                            | 55,989                         |
| <b>Total Expenditures</b>                         | <b>3,889,698</b> | <b>183,903</b>        | <b>-</b>                 | <b>195,741</b>                    | <b>4,269,342</b>               |
| Excess (Deficiency) of Revenues over Expenditures | 831,848          | (183,903)             | -                        | 189,703                           | 837,648                        |
| <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>                          | <b>-</b>                       |
| Net Change in Fund Balances                       | 831,848          | (183,903)             | -                        | 189,703                           | 837,648                        |
| Fund Balances Beginning                           | 11,177,160       | -                     | 7,268,813                | 2,588,414                         | 21,034,387                     |
| Prior Period Adjustments - GASB 87, Leases        | 24,167           | -                     | -                        | -                                 | 24,167                         |
| Fund Balances - Beginning of Year, as Adjusted    | 11,201,327       | -                     | 7,268,813                | 2,588,414                         | 21,058,554                     |
| Fund Balances Ending                              | \$ 12,033,175    | \$ (183,903)          | \$ 7,268,813             | \$ 2,778,117                      | \$ 21,896,202                  |

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

**City of Del Ray Oaks**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures**  
**and Changes in Fund Balances to the Government-Wide Statement of Activities**  
**For the Fiscal Year Ended June 30, 2022**

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|                                                                                                                                                                                                                                                                                                                                                                                      |                     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| <b>Net Change in Fund Balances - Total Governmental Funds</b>                                                                                                                                                                                                                                                                                                                        | <b>\$ 837,648</b>   |
| 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                                                                                                                                                                                                                                                                                                                                                                       | 223,861             |
| Depreciation expense                                                                                                                                                                                                                                                                                                                                                                 | (162,890)           |
| Gain (loss) on disposal of capital assets                                                                                                                                                                                                                                                                                                                                            | 2,720               |
| 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.                                                                                                                                        | (2,570)             |
| In governmental funds, actual contributions to pension plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year pension expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.                                       | 319,641             |
| In governmental funds, actual contributions to the OPEB plan is reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year OPEB expense as noted in the plan's valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.                                           | 92,061              |
| The governmental funds report debt proceeds as an other financing source, while repayment of debt principal is reported as an expenditure. The net effect of these differences in the treatment of long-term debt and related items is as follows:                                                                                                                                   |                     |
| Repayment of debt principal                                                                                                                                                                                                                                                                                                                                                          | 80,641              |
| 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 compound interest from current year to prior year. | (49,453)            |
| <b>Change in Net Position of Governmental Activities</b>                                                                                                                                                                                                                                                                                                                             | <b>\$ 1,341,659</b> |

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



**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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

The basic financial statements of the City of Del Rey Oaks, 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 Del Rey Oaks, California was incorporated as a general law city on September 3, 1953. The City operates under a city council-manager form of government and provides a wide range of municipal services.

As required by GAAP, these basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City Council acts as the governing board. In addition, the City staff performs all administrative and accounting functions for these entities and these entities provide their services entirely to the City. Blended component units, although legally separate entities are, in substance, part of the City's operations and data from these units are combined with data of the City. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize their legal separateness from the City. The City had no component units as of June 30, 2022.

The City applies all applicable GASB pronouncements for certain accounting and financial reporting guidance. In December of 2010, GASB issued *GASBS No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. This includes pronouncements by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and the Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, unless those pronouncements conflict with or contradict with GASB pronouncements.

**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 a summary of the governmental 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 have any business-type activities during the year.

**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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

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

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. The following interfund activities have been eliminated:

- Transfers in/Transfers out

**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 and current liabilities 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 (up to 90 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 tax, intergovernmental revenues, other taxes, interest revenue, rental revenue and certain charges for services. Fines, forfeitures, and licenses and permits 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

**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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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.

Major individual governmental funds are reported as separate columns in the fund financial statements.

The following funds are major funds:

*General Fund* - The General Fund is the general operating fund of the City. It accounts for the City's primary services (Public Safety, Public Works, Park, etc.) and is the primary operating unit of the City.

*Prop 68 Parks Grant Fund* - This capital project fund was established to account for the financial resources received from the state to be used for park improvements.

*SBR Construction Fund* - This capital project fund was established to account for the financial resources received as a result of the dissolution of FORA to be used for the completion of construction services for the South Boundary Roadway project that were initiated by FORA.

The following funds are nonmajor funds:

*Gas Tax Fund* - This special revenue fund was established to account for the financial resources required to be used on street/road projects.

*SB 1 Fund* - This special revenue fund was established to account for the financial resources received for transportation purposes.

*Measure X Fund* - This special revenue fund was established to account for the financial resources received as part of the Measure X retail transactions and use tax. The funds are to be used to fund transportation safety and mobility projects in Monterey County.

*CARES Act Fund* - This special revenue fund was established to account for the financial resources received from the Federal Coronavirus Aid, Relief, and Economic Security Act through the Department of Finance. The funds are to be used to respond to or mitigate COVID-19.

*Fora Habitat Management Fund* - This special revenue fund was established to account for the financial resources received as a result of the dissolution of FORA to be used maintenance and management of properties that were previously under the purview of FORA.

*American Rescue Plan Act (ARPA) Fund* - This special revenue fund was established to account for the financial resources received in federal grants as part of the Covid-19 recovery.

*SBR Engineering Fund* - This capital project fund was established to account for the financial resources received as a result of the dissolution of FORA to be used for the completion of engineering services for the South Boundary Roadway that were initiated by FORA.

*SBR/GJM Intersection Fund* - This capital project fund was established to account for the financial resources received as a result of the dissolution of FORA to be used for the completion of an intersection construction project that was initiated by FORA.

**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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

The City pools its cash and investments of all funds. Interest earned as a result of pooling is distributed to the appropriate funds utilizing a formula based on the average daily balance of cash of each fund. The City'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
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentrations of Credit Risk
- 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). Under Federal Law, the State of California cannot declare bankruptcy; therefore, deposits in the LAIF shall not be subject to either of the following: (a) transfer or loan pursuant to Government Code Section 16310, 16312, or 16313, or (b) impoundment or seizure by any state official or state agency.

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.

The following is a summary of the definition of fair value:

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.

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.

**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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***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***

Billed, but unpaid, services provided to individuals or non-governmental entities are recorded as accounts receivable. Revenues earned but not collected by year-end are accrued. No allowance for uncollectible accounts receivable has been provided as management has determined that uncollectible accounts have historically been immaterial and the direct write-off method does not result in a material difference from the allowance method.

***F. Assets Held for Sale***

Property that has been classified as held for sale have met the following criteria:

- Management has committed to a plan to sell the asset;
- An active program to locate a buyer and other actions required to complete the plan of sale have been initiated;
- The sale of the property or asset within one year is probable and will qualify for accounting purposes as a sale;
- The asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- Actions required to complete the plan of sale indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

***G. Capital Assets***

Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the Government-Wide Financial Statements to the extent the City's capitalization threshold is met.

Capital assets, which include property, facilities, equipment, and infrastructure purchased or acquired are carried at historical cost or estimated historical cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Infrastructure fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have been capitalized on a prospective basis, from July 1, 2003. Prior to July 1, 2003, infrastructure assets were not capitalized. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 for equipment, \$25,000 for facilities and improvements, \$150,000 for infrastructure, all land, and an estimated useful life in excess of one year.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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Interest is capitalized on the construction or acquisition of major assets using debt proceeds. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. No interest was capitalized during the year ended June 30, 2022.

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

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

***H. Deferred Outflows/Deferred Inflows***

In addition to assets, the Statement of Net Position includes a separate section for deferred outflow of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expenses/expenditure) until then. The City has recognized deferred outflows of resources related to the recognition of the net pension liability and OPEB liability reported in the Statement of Net Position.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The City has recognized deferred inflows of resources related to the recognition of the lease revenue, pension liability and OPEB liability reported in the Statement of Net Position.

***I. 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.

***J. Deferred Compensation Plan***

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 distributed to them; distributions may be made only at termination, retirement, and death or in an emergency as defined by the Plan. Member contributions for the fiscal year ending June 30, 2022 totaled \$11,400.

**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

***K. Compensated Absences***

Compensated absences comprise of unpaid vacation, which are accrued as earned. Unused vacation may be accumulated up to 160 hours and is paid at the time of termination from City employment. The liability for compensated absence is determined annually. The long-term portion is recorded in the Statement of Net Position and represents a reconciling item between the fund and government-wide presentations. The following is a summary of the changes in compensated absences for the fiscal year ended June 30, 2022:

| Description           | June 30, 2020 | Earned   | Taken | June 30, 2021 | Due Within<br>One Year |
|-----------------------|---------------|----------|-------|---------------|------------------------|
| Government Activities | \$ 92,224     | \$ 9,835 | \$ -  | \$ 102,059    | \$ 31,290              |

***L. Long-Term Liabilities***

In the government-wide financial statements, long-term liabilities are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. 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.

***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 are amounts that cannot be spent because they are either (a) not in spendable form, such as long term receivables or (b) legally or contractually required to be maintained intact, such as a trust that must be retained in perpetuity.

***Restricted***

Restricted fund balance are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

***Committed***

Committed fund balance 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.

**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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**Assigned**

Assigned fund balance are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by 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.

**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 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, 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.

***O. Property Taxes***

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



**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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Monterey County is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions. Property taxes are levied in equal installments on November 1 and February 1. They become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year.

Property taxes are accounted for in the General Fund. Property tax revenues are recognized when they become measurable and available to finance current liabilities. The City considers property taxes as available if they are collected within 90 days after year end. Property tax on the unsecured roll are due on the January 1 lien date and become delinquent if unpaid on August 31. However, unsecured property taxes are not susceptible to year end accrual.

The City is permitted by Article XIII A of the State of California Constitution (known as Proposition 13) to levy a maximum tax of \$1.00 per \$100 of full cash value.

***P. Unearned Revenue***

Unearned revenue arises when assets (such as cash) are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements (such as qualified expenditures) are met are recorded as liabilities from unearned revenue.

***Q. Unavailable 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 as unavailable revenue.

***R. 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.

***S. Benefit Plans***

**Pensions**

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

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* (GASB Statement No. 68) requires that the reported results pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes were used:

|                               |                                |
|-------------------------------|--------------------------------|
| Valuation Date (VD) .....     | June 30, 2020                  |
| Measurement Date (MD) .....   | June 30, 2021                  |
| Measurement Period (MP) ..... | June 30, 2020 to June 30, 2021 |

**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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**Other Postemployment Benefits Other Than Pensions (OPEB)**

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources, and OPEB expense, information about the City's Retiree Benefits Plan (the Plan) and additions to/deductions are based on when they are due and payable in accordance with the benefit terms for the measurement period included in the OPEB plan's actuarial reports.

Valuation Date (VD) ..... June 30, 2019  
Measurement Date (MD) ..... June 30, 2021  
Measurement Period (MP) ..... June 30, 2020 to June 30, 2021

***T. Implementation of New Accounting Pronouncements***

**GASB 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. As of June 30, 2022, the management did not identify any material leases that were required to be reported under GASB 87.

As of June 30, 2022, the City recognized one contract as a lease and implemented the applicable accounting and reporting requirements of a lessor under GASB 87. The following schedule summarizes the lease balances and the impact on beginning net position and fund balance:

| Description                 | Lease<br>Receivable | Deferred Inflows<br>of Resources | Prior Period<br>Adjustment |
|-----------------------------|---------------------|----------------------------------|----------------------------|
| Initial Net Present Value   | \$ 307,003          | \$ 307,003                       | \$ -                       |
| Accumulated Amortization    | -                   | (214,902)                        | 214,902                    |
| Principal Payments          | (190,735)           | -                                | (190,735)                  |
| Beginning Balances 7/1/2021 | 116,268             | 92,101                           | 24,167                     |
| Current Amortization        | -                   | (30,700)                         | -                          |
| Current Principal Payments  | (32,706)            | -                                | -                          |
| Ending Balances 6/30/2022   | \$ 83,562           | \$ 61,401                        | \$ 24,167                  |

**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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***U. Upcoming New Accounting Pronouncements***

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements of the following recent GASB Statements:

*GASB Statement No. 91, Conduit Debt Obligations*

The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement also clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitment and voluntary commitments extended by issuers and arrangements associated with the debt obligations; and improving required note disclosures. The requirements of this Statement were initially to be effective for financial statements for periods beginning after December 15, 2020 but have been delayed to periods beginning after December 15, 2021, pursuant to GASB Statement No. 95. Earlier application is encouraged.

*GASB Statement No. 94, Public-Private Partnerships and Public-Public Partnerships and Availability Payment Arrangements*

The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are to be effective for financial statements for periods beginning after June 15, 2022. Earlier application is encouraged.

*GASB Statement No. 96, Subscription-Based Information Technology Arrangements*

GASB 96 provides guidance on accounting for Subscription-Based Information Technology Arrangements (SBITA) where the government contracts for the right to use another party's software. The standards for SBITAs are based on the standards established in GASB Statement No. 87, *Leases*. *GASB 96 is effective for fiscal years beginning after June 15, 2022.*

**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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GASB Statement No. 99, *Omnibus 2022*

Omnibus statements are issued by GASB to address practice issues identified after other standards have been approved for implementation. Omnibus statements “clear up the loose ends” for recent prior statements GASB has issued. This Omnibus addresses recent pronouncements, including GASB 87 – Leases, GASB 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, and GASB 96 – *Subscription-Based Information Technology Arrangements*.

Effective Date: The requirements of this Statement are effective as follows:

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

Earlier application is encouraged and is permitted by topic.

GASB Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*

This Statement defines *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. This Statement also prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections in previously issued financial statements. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101, *Compensated Absences*

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee’s pay rate as of the date of the financial statements. A liability for leave that has been

**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.

**NOTE 2 - CASH AND INVESTMENTS**

As of June 30, 2022, cash and investments were reported in the financial statements as follows:

|                              | Statement of Net Position |                     | Total                |
|------------------------------|---------------------------|---------------------|----------------------|
|                              | Unrestricted              | Restricted          | Cash and Investments |
| Cash in bank                 | \$ 577,814                |                     | \$ 577,814           |
| Cash with fiscal agent       | -                         | 8,685,795           | 8,685,795            |
| Local Agency Investment Fund | 3,754,191                 |                     | 3,754,191            |
| Total cash and investments   | <u>\$ 4,332,005</u>       | <u>\$ 8,685,795</u> | <u>\$ 13,017,800</u> |

**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 Deposits Insurance Corporation (FDIC).

The bank balances before reconciling items totaled \$766,231 at June 30, 2022 and were different from carrying amounts due to deposits in transit and outstanding checks. As of June 30, 2022, the City's cash balances exceeded insurance by \$516,231 but were collateralized as discussed above.

**B. Restricted Cash with Fiscal Agent**

For the year ended June 30, 2022, the City had a balance of \$351,751 in a Public Agency Retirement Services (PARS) Pension Rate Stabilization Program (PRSP) 115 irrevocable trust for pensions. Participating agencies maintain oversight of investment management and control over the risk tolerance level. Assets in the plan can be accessed to offset unexpected rate increases or be used as a rainy-day fund related to their pension plan (CalPERS). These assets are not dedicated to providing plan benefits to plan participants and are not directly used to pay benefits until such time as the City transfers the funds from the PARS trust to the pension plan (CalPERS). The trust restricts the use of the assets to be used solely for pension related expenses. Amounts held in Trust for FORA Dissolution Administration and Successor Agency obligations are also reported as restricted cash and investments.

**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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**C. Fair Value Measurements**

GASB 72 established a hierarchy of inputs to the valuation techniques. 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.

The City has the following recurring fair value measurements as of June 30, 2022:

- California Local Agency Investment Fund (LAIF) of \$3,754,191; valued using Level 2 inputs.

**D. Investment Policies**

**City Investment Policy**

The City has an investment policy, which is in accordance with the California Government Code, the following investments are authorized:

| Authorized Investment Type          | Maximum<br>Maturity (1) | Maximum<br>Total of<br>Portfolio | Maximum<br>Investment in<br>Anyone Issuer |
|-------------------------------------|-------------------------|----------------------------------|-------------------------------------------|
| Local Agency Bonds                  | 5 years                 | None                             | None                                      |
| U.S. Treasury Obligations           | 5 years                 | None                             | None                                      |
| U.S. Agency Securities              | 5 years                 | None                             | None                                      |
| Banker's Acceptances                | 180 days                | 40%                              | 30%                                       |
| Commercial Paper                    | 270 days                | 25%                              | 10%                                       |
| Negotiable Certificates of Deposit  | 5 years                 | 30%                              | None                                      |
| Repurchase Agreements               | 1 year                  | 20%                              | None                                      |
| Reverse Repurchase Agreements       | 92 days                 | 20%                              | None                                      |
| Medium-Term Notes                   | 5 years                 | 30%                              | None                                      |
| Mutual Funds                        | N/A                     | 20%                              | 10%                                       |
| Money Market Mutual Funds           | N/A                     | 20%                              | 10%                                       |
| Mortgage Pass-Through Securities    | 2 years                 | 20%                              | None                                      |
| County Pooled Investment Funds      | 1 year                  | 20%                              | None                                      |
| Local Agency Investment Fund (LAIF) | N/A                     | None                             | None                                      |
| JPA Pools (other investment pools)  | N/A                     | None                             | None                                      |

**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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***E. External Investment Pool***

The City's investments with LAIF at June 30, 2022, 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/laif/index.asp>.

***F. 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.

**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. As of June 30, 2022, 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, 2022, the City had no investments in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) 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 does 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).

**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

**NOTE 3 - INTERFUND TRANSACTIONS**

**A. Transfers In/Out**

With Council approval resources may be transferred from one fund to another. Transfers routinely reimburse funds that have made an expenditure on behalf of another fund. Transfers may also be made to pay for capital projects or capital outlays, lease or debt service payments, and operating expenses. The City transferred \$50,000 from the General Fund to the CARES Act Fund during the fiscal year ended June 30, 2022.

**B. Interfund Receivables and Payables**

The timing of when cash is received and paid can result in a negative cash balance in a fund as of fiscal year end. At year-end, a liability, "Due To Other Funds" is created to eliminate any negative cash balances along with a corresponding asset, "Due From Other Funds." In the following fiscal year, the liabilities are settled and the assets are liquidated. The City did not have any interfund receivables and payables as of June 30, 2022.

**NOTE 4 - CAPITAL ASSETS**

Capital assets consisted of the following as of June 30, 2022:

|                                           | Balance<br>June 30, 2021 | Additions        | Deletions/<br>Adjustments | Balance<br>June 30, 2022 |
|-------------------------------------------|--------------------------|------------------|---------------------------|--------------------------|
| <b>Non-depreciable:</b>                   |                          |                  |                           |                          |
| Land                                      | \$ 549,500               | \$ -             | \$ -                      | \$ 549,500               |
| Total Non-Depreciable                     | <u>549,500</u>           | <u>-</u>         | <u>-</u>                  | <u>549,500</u>           |
| <b>Depreciable:</b>                       |                          |                  |                           |                          |
| Buildings and Improvements                | 691,438                  | -                | -                         | 691,438                  |
| Furniture, Equipment, and Vehicles        | 791,891                  | 5,284            | (44,688)                  | 752,487                  |
| Structure and Improvements                | 1,217,399                | 218,577          | -                         | 1,435,976                |
| Total Depreciable                         | <u>2,700,728</u>         | <u>223,861</u>   | <u>(44,688)</u>           | <u>2,879,901</u>         |
| <b>Less Accumulated Depreciation for:</b> |                          |                  |                           |                          |
| Buildings and Improvements                | (418,254)                | (18,340)         | -                         | (436,594)                |
| Furniture, Equipment, and Vehicles        | (376,996)                | (83,680)         | 47,408                    | (413,268)                |
| Structure and Improvements                | (121,980)                | (60,870)         | -                         | (182,850)                |
| Total Accumulated Depreciation            | <u>(917,230)</u>         | <u>(162,890)</u> | <u>47,408</u>             | <u>(1,032,712)</u>       |
| Total Depreciable Capital Asset - Net     | <u>1,783,498</u>         | <u>60,971</u>    | <u>2,720</u>              | <u>1,847,189</u>         |
| Total Capital Assets - Net                | <u>\$ 2,332,998</u>      | <u>\$ 60,971</u> | <u>\$ 2,720</u>           | <u>\$ 2,396,689</u>      |

During fiscal year ended June 30, 2019, the City reclassified \$8,904,673 in land to "held for resale" as the City is in the process of selling the land, which the City originally received as part of an Economic Development Conveyance through the Fort Ord Reuse Authority (FORA). The land remained classified as held for sale as of June 30, 2022.



**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

Depreciation expense was charged to the functions of the government as follows:

|                            |                   |
|----------------------------|-------------------|
| General Government         | \$ 13,099         |
| Police Department          | 61,502            |
| Parks                      | 10,496            |
| Public Works               | 77,793            |
| Total depreciation expense | <u>\$ 162,890</u> |

**NOTE 5 - LONG-TERM LIABILITIES**

The City's long-term liabilities consisted of the following as of June 30, 2022:

| Description                                           | Balance<br>June 30, 2021 | Additions        | Retirements      | Balance<br>June 30, 2022 | Due Within<br>One Year |
|-------------------------------------------------------|--------------------------|------------------|------------------|--------------------------|------------------------|
| Capital Leases:                                       |                          |                  |                  |                          |                        |
| Software                                              | \$ 32,603                | \$ -             | \$ 7,826         | \$ 24,777                | \$ 8,039               |
| Subtotal leases                                       | 32,603                   | -                | 7,826            | 24,777                   | 8,039                  |
| Loans payable:                                        |                          |                  |                  |                          |                        |
| Federal Group International, LLC                      | 1,200,000                | -                | -                | 1,200,000                | -                      |
| Federal Group International, LLC<br>Compound Interest | 289,074                  | 49,454           | -                | 338,528                  | -                      |
| TAMC Measure X Loan                                   | 705,415                  | -                | 72,815           | 632,600                  | -                      |
| Subtotal loans payable                                | 2,194,489                | 49,454           | 72,815           | 2,171,128                | -                      |
| Total                                                 | <u>\$ 2,227,092</u>      | <u>\$ 49,454</u> | <u>\$ 80,641</u> | <u>\$ 2,195,905</u>      | <u>\$ 8,039</u>        |

The following is a summary of the City's long-term debt as of June 30, 2022:

**Records Management Software Lease Purchase Agreement**

The City entered into a software and service agreement with Sun Ridge System, Inc. to receive computer software and services from Sun Ridge System, Inc. The lease qualifies as a leases purchase agreement for accounting purposes and therefore have been recorded at the present value of future minimum lease payments at the date of the inception of the lease. The principal and interest payments on the lease are \$8,713 with the interest rate of 2.721%.

As of June 30, 2022, the annual debt service requirements on the Records Management Software Lease Purchase Agreement are as follows:

| Year Ending June 30, | Principal        | Interest        | Total            |
|----------------------|------------------|-----------------|------------------|
| 2023                 | 8,039            | 674             | 8,713            |
| 2024                 | 8,258            | 455             | 8,713            |
| 2025                 | 8,480            | 231             | 8,711            |
| Total                | <u>\$ 24,777</u> | <u>\$ 1,360</u> | <u>\$ 26,137</u> |

**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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**Federal Group International, LLC Loan Payable**

The City has a promissory note with Federal Group International, LLC in the amount of \$1,200,000, \$700,000 of the note is the City's obligation to pay for funds loaned by Federal/JER Associates I, LLC to the former Redevelopment Agency of the City of Del Rey Oaks, the remaining \$500,000 of the note evidences the City's obligation to pay the holder as settlement of claims between the City and Bellmont Rock Holdings, LLC. Interest is accrued at 5% per annum on the \$700,000 beginning June 1, 2014, until the entire outstanding loan amount, plus interest, is paid in full. Payments on the note, once they commence, shall be for a five-year period, however if the note is not paid in full at the end of the five-year term it shall automatically renew, once, for an additional five-year term. No payment shall be due under this loan until commencement of construction on the Fort Ord property and are based on an increase of 50% of City revenue associated with the development of the entire property. The full balance of the loan, including accrued interest, totaling \$1,590,454 will come due in the fiscal year ending June 30, 2023.

**TAMC Measure X Loan Payable**

In December 2018, the City entered into an agreement with the Transportation Agency for Monterey County (TAMC) for the purpose of receiving advance funding for the Del Rey Oaks Slurry Seal (the project). As of June 30, 2021, the TAMC had advanced \$817,659 to the City. The loan is payable from Measure X revenue, which can only be estimated year to year, so no amortization schedule has been established at this time. An interest rate of 2.5% is fixed until such time as the Monterey County Pool Quarterly Rate rises above 2.0%, at which point the interest rate will be variable, tied to the Monterey County Pool Quarterly Rate plus 50 basis points, only becoming fixed again at 2.5% when the Monterey County Pool Quarterly Rate drops below 2.0%. The outstanding balance on the loan at June 30, 2022, was \$632,600.

**NOTE 6 - RISK MANAGEMENT**

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

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

Financial statements for the Authority may be obtained from [www.mbasia.org](http://www.mbasia.org).

**NOTE 7 - CALPERS PENSION PLAN**

***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

**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**Benefits Provided** - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 55 with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after 10 years of service. The death benefit is the Optional Settlement 2W Death Benefit. The cost-of-living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

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

|                                      | <b>Miscellaneous</b> |                  | <b>Safety</b>    |                       |
|--------------------------------------|----------------------|------------------|------------------|-----------------------|
|                                      | <b>Tier 1</b>        | <b>PEPRA</b>     | <b>Police</b>    | <b>Police - PEPRA</b> |
| Benefit formula                      | 2% @ 60              | 2% @ 62          | 2.0% @ 55        | 2.0% @ 57             |
| Benefit vesting schedule             | 5 Years              | 5 Years          | 5 Years          | 5 Years               |
| Benefit payments                     | Monthly for Life     | Monthly for Life | Monthly for Life | Monthly for Life      |
| Retirement age                       | 60                   | 62               | 55               | 57                    |
| Monthly benefits as a                |                      |                  |                  |                       |
| % of eligible compensation           | 2.00%                | 2.00%            | 3.00%            | 2-2.70%               |
| Required employee contribution rates | 7.000%               | 6.750%           | 7.000%           | 10.000%               |
| Required employer contribution rates | 8.794%               | 7.732%           | 14.810%          | 11.114%               |

**Employees Covered** - At June 30, 2022 (fiscal year), June 30, 2020 (the valuation date), the following employees were covered by the benefit terms for the Plans:

|             | <b>Miscellaneous</b> | <b>Safety</b> |
|-------------|----------------------|---------------|
| Active      | 4                    | 11            |
| Transferred | 3                    | 1             |
| Separated   | 2                    | 1             |
| Retired     | 6                    | 15            |
| Total       | 15                   | 28            |

**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, 2022, the City's contributions were \$125,005 and \$125,293 for miscellaneous and safety, respectively.

**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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

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

|               | <b>Proportionate Share of<br/>Net Pension<br/>Liability/(Asset)</b> |
|---------------|---------------------------------------------------------------------|
| Miscellaneous | \$ 211,716                                                          |
| Safety        | 640,010                                                             |
| <b>Total</b>  | <b>\$ 851,727</b>                                                   |

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, 2021, 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, 2020 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for the Plans as of June 30, 2021 and 2022 was as follows:

|                              | <b>Miscellaneous</b> | <b>Safety</b> | <b>Combined Plans</b> |
|------------------------------|----------------------|---------------|-----------------------|
| Proportion - June 30, 2021   | 0.01069%             | 0.01850%      | 0.01548%              |
| Proportion - June 30, 2022   | 0.01115%             | 0.01824%      | 0.01575%              |
| Change - Increase/(Decrease) | 0.00046%             | -0.00027%     | 0.00027%              |

For the year ended June 30, 2022, the City recognized pension credit of \$69,341 for the plans.

At June 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|                                                                                          | <b>Misc and Safety</b>                        |                                              |
|------------------------------------------------------------------------------------------|-----------------------------------------------|----------------------------------------------|
|                                                                                          | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred<br/>Inflows of<br/>Resources</b> |
| Changes of Assumptions                                                                   | \$ -                                          | \$ -                                         |
| Differences between Expected and Actual Experience                                       | 133,087                                       | -                                            |
| Differences between Projected and Actual Investment Earnings                             | -                                             | 565,746                                      |
| Differences between Employer's Contributions and<br>Proportionate Share of Contributions | -                                             | 224,295                                      |
| Change in Employer's Proportion                                                          | 27,307                                        | 20,153                                       |
| Pension Contributions Made Subsequent to Measurement Date                                | 250,298                                       | -                                            |
| <b>Total</b>                                                                             | <b>\$ 410,692</b>                             | <b>\$ 810,194</b>                            |

The City reported \$250,298 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, 2023.

**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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

| <b>Fiscal Year</b><br><b>Ending June 30:</b> | <b>Deferred Outflows/(Inflows) of Resources</b> |                     |                     |
|----------------------------------------------|-------------------------------------------------|---------------------|---------------------|
|                                              | <b>Miscellaneous</b>                            | <b>Safety</b>       | <b>Total</b>        |
| 2023                                         | \$ (56,857)                                     | \$ (124,991)        | \$ (181,848)        |
| 2024                                         | (53,425)                                        | (110,707)           | (164,132)           |
| 2025                                         | (49,265)                                        | (98,655)            | (147,920)           |
| 2026                                         | (51,074)                                        | (104,826)           | (155,899)           |
| 2027                                         | -                                               | -                   | -                   |
| Thereafter                                   | -                                               | -                   | -                   |
| <b>Total</b>                                 | <b>\$ (210,621)</b>                             | <b>\$ (439,179)</b> | <b>\$ (649,799)</b> |

**Actuarial Assumptions** - The total pension liabilities in the June 30, 2020 actuarial valuations were determined using the following actuarial assumptions:

|                               |                        |
|-------------------------------|------------------------|
| Valuation Date                | June 30, 2020          |
| Measurement Date              | June 30, 2021          |
| Actuarial Cost Method         | Entry-Age Normal       |
| Asset Valuation Method        | Market Value of Assets |
| <b>Actuarial Assumptions:</b> |                        |
| Discount Rate                 | 7.15%                  |
| Inflation                     | 2.50%                  |
| Projected Salary Increase     | (1)                    |
| Investment Rate of Return     | 7.15% (2)              |
| Retirement Age                | (3)                    |
| 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 each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS' website.

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

**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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 rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

| Asset Class (a)     | Assumed Asset Allocation | Real Return Years 1 - 10 (b) | Real Return Years 11+ (c) |
|---------------------|--------------------------|------------------------------|---------------------------|
| Global Equity       | 50.00%                   | 4.80%                        | 5.98%                     |
| Fixed Income        | 28.00%                   | 1.00%                        | 2.62%                     |
| Inflation Sensitive | 0.00%                    | 0.77%                        | 1.81%                     |
| Private Equity      | 8.00%                    | 6.30%                        | 7.23%                     |
| Real Estate         | 13.00%                   | 3.75%                        | 4.93%                     |
| Liquidity           | 1.00%                    | 0.00%                        | -0.92%                    |
| Total               | 100.00%                  |                              |                           |

- (a) In the System's ACFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.
- (b) An expected inflation of 2.0% used for this period.
- (c) An expected inflation of 2.92% used for this period.

**Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate -** The following presents the City's proportionate share of the net pension liability for 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 \$ | 505,624       | 1,294,833 |
| Current                  | 7.15%         | 7.15%     |
| Net Pension Liability \$ | 211,716       | 640,010   |
| 1% Increase              | 8.15%         | 8.15%     |
| Net Pension Liability \$ | (31,253)      | 102,154   |

**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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**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 8 - OTHER POSTEMPLOYMENT BENEFITS PLAN**

**Plan Description** - The City of Del Rey Oaks has contracted with the Public Employees Retirement System (PERS) under the PERS Care Health Plan to provide benefits of the Meyers-Geddes State Employees' Medical and Hospital Care Act per Government Code Section 22850. The Plan provides for continuation of medical insurance benefits for certain retirees or annuitants and their dependents. The Plan can be amended by action of the City Council on passing a resolution.

**Benefits Provided** - The City contributes toward post-retirement benefits for employees who retire after age 50 with at least 5 years of service. The City will pay the minimum CalPERS PEMHCA contribution. The monthly payment is \$139 in 2020 and \$143 in 2021 and is expected to increase further in future years. Payments are made for as long as the retired employee or dependent spouse is living.

**Employees Covered by Benefit Terms** - At June 30, 2019 (the valuation date), the benefit terms covered the following employees:

|                        |                  |
|------------------------|------------------|
| Active employees       | 15               |
| Inactive employees     | <u>2</u>         |
| <b>Total employees</b> | <b><u>17</u></b> |

**Contributions** - The City makes contributions based on an actuarially determined rate and are approved by the authority of the City's Council. Total contributions to the OPEB plan during the year were \$1,480. Total benefit payments included in the measurement period were \$1,668. The actuarially determined contribution for the measurement period was \$92,162. The City's contributions were 0.13% of covered employee payroll during the measurement period June 30, 2021 (reporting period June 30, 2022). 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.

**Actuarial Assumptions**

|                               |                                                                                                    |
|-------------------------------|----------------------------------------------------------------------------------------------------|
| <b>Valuation Date:</b>        | June 30, 2019                                                                                      |
| <b>Measurement Date:</b>      | June 30, 2021                                                                                      |
| <b>Actuarial Cost Method:</b> | Entry-Age Normal Cost Method                                                                       |
| <b>Amortization Period:</b>   | 8.8 years                                                                                          |
| <b>Actuarial Assumptions:</b> |                                                                                                    |
| Discount Rate                 | 2.16%                                                                                              |
| Inflation                     | 2.75%                                                                                              |
| Salary Increases              | 3.25%                                                                                              |
| Healthcare Trend Rate         | 4.00%                                                                                              |
| Mortality                     | 2017 CalPERS OPEB Assumptions Model for miscellaneous                                              |
| Retirement                    | 2017 CalPERS OPEB Assumptions Model for miscellaneous public employees with 2.0% at 55 retirement. |

**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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

**Changes in the Total OPEB Liability** - The following summarizes the changes in the total OPEB liability during the year ended June 30, 2022, for the measurement date of June 30, 2021:

| <b>Fiscal Year Ended June 30, 2022</b><br><b>(Measurement Date June 30, 2021)</b> | <b>Total OPEB</b><br><b>Liability</b> | <b>Plan</b><br><b>Fiduciary</b><br><b>Net Position</b> | <b>Net OPEB</b><br><b>Liability</b><br><b>(Asset)</b> |
|-----------------------------------------------------------------------------------|---------------------------------------|--------------------------------------------------------|-------------------------------------------------------|
| <b>Balance at June 30, 2021</b>                                                   | \$ 497,144                            | \$ -                                                   | \$ 497,144                                            |
| Service cost                                                                      | 70,745                                | -                                                      | 70,745                                                |
| Interest in Total OPEB Liability                                                  | 10,865                                | -                                                      | 10,865                                                |
| Changes of benefit terms                                                          | (183,330)                             | -                                                      | (183,330)                                             |
| Balance of diff between actual and exp experience                                 | 38,296                                | -                                                      | 38,296                                                |
| Balance of changes in assumptions                                                 | 5,630                                 | -                                                      | 5,630                                                 |
| Benefit payments                                                                  | (11,016)                              | -                                                      | (11,016)                                              |
| <b>Net changes</b>                                                                | <b>(68,810)</b>                       | <b>-</b>                                               | <b>(68,810)</b>                                       |
| <b>Balance at June 30, 2022</b>                                                   | <b>\$ 428,334</b>                     | <b>\$ -</b>                                            | <b>\$ 428,334</b>                                     |

|                                                         |              |
|---------------------------------------------------------|--------------|
| Covered Employee Payroll                                | \$ 1,313,110 |
| Total OPEB Liability as a % of Covered Employee Payroll | 32.62%       |
| Plan Fid. Net Position as a % of Total OPEB Liability   | 0.00%        |
| Service Cost as a % of Covered Employee Payroll         | 5.39%        |
| Net OPEB Liability as a % of Covered Employee Payroll   | 32.62%       |

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.

**Deferred Inflows and Outflows of Resources** - At June 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|                                                   | <b>Deferred</b><br><b>Outflows of</b><br><b>Resources</b> | <b>Deferred</b><br><b>Inflows of</b><br><b>Resources</b> |
|---------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------------|
| Difference between actual and expected experience | \$ 75,641                                                 | \$ -                                                     |
| Change in assumptions                             | 66,226                                                    | -                                                        |
| OPEB contribution subsequent to measurement date  | 1,480                                                     | -                                                        |
| <b>Totals</b>                                     | <b>\$ 143,347</b>                                         | <b>\$ -</b>                                              |

Of the total amount reported as deferred outflows of resources related to OPEB, \$1,480 resulting from City contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the total OPEB liability in the year ended June 30, 2023.



**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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, |           |                |
| 2023                | \$        | 18,722         |
| 2024                |           | 18,722         |
| 2025                |           | 18,722         |
| 2026                |           | 18,720         |
| 2027                |           | 19,066         |
| Thereafter          |           | 47,915         |
| <b>Total</b>        | <b>\$</b> | <b>141,867</b> |

**OPEB Expense** - The following summarizes the OPEB expense by source during the year ended June 30, 2022, for the measurement date of June 30, 2021:

|                                                   |           |                 |
|---------------------------------------------------|-----------|-----------------|
| Service cost                                      | \$        | 70,745          |
| Interest in TOL                                   |           | 10,865          |
| Difference between actual and expected experience |           | 11,667          |
| Change in assumptions                             |           | 7,055           |
| <b>OPEB Expense</b>                               | <b>\$</b> | <b>(82,998)</b> |

The following summarizes changes in the total OPEB liability as reconciled to OPEB expense during the year ended June 30, 2022, for the measurement date of June 30, 2021:

|                                             |           |                 |
|---------------------------------------------|-----------|-----------------|
| Total OPEB liability ending                 | \$        | 428,334         |
| Total OPEB liability beginning              |           | (497,144)       |
| Change in total OPEB liability              |           | (68,810)        |
| Changes in deferred outflows                |           | (25,204)        |
| Changes in deferred inflows                 |           | -               |
| Employer contributions and implicit subsidy |           | 11,016          |
| <b>OPEB Expense</b>                         | <b>\$</b> | <b>(82,998)</b> |

**Sensitivity to Changes in the Municipal Bond Rate** - The total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a municipal bond rate (used to determine the discount rate) that is one percentage point lower or one percentage point higher, is as follows:

| <b>Municipal Bond Rate</b> |                       |              |                       |  |
|----------------------------|-----------------------|--------------|-----------------------|--|
|                            | <b>(1% Decrease )</b> | <b>2.16%</b> | <b>(1% Increase )</b> |  |
| Total OPEB Liability       | \$ 546,932            | \$ 428,334   | \$ 340,749            |  |

**City of Del Rey Oaks**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

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**Sensitivity to Changes in the Healthcare Cost Trend Rates** - The total OPEB liability of the City, as well as what the City's total 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:

|                      |    | <b>Trend Rate</b>     |              |                       |
|----------------------|----|-----------------------|--------------|-----------------------|
|                      |    | <b>(1% Decrease )</b> | <b>4.00%</b> | <b>(1% Increase )</b> |
| Total OPEB Liability | \$ | 345,186               | \$ 428,334   | \$ 538,152            |

**NOTE 9 - COMMITMENTS AND CONTINGENCIES**

***A. Lawsuits***

The City is presently 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 these 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 and State grant programs. These programs are audited by the City's independent accountants if required by and 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.

**NOTE 10 - INTERGOVERNMENTAL AGREEMENTS**

The City has an agreement with the City of Seaside for fire protection and related services to be provided by Seaside pursuant to Government Code Section 55632. The annual fee for these services for fiscal year ending June 30, 2022 was \$214,321. Either party may cancel the agreement with at least 90 days written notice.

The City has an agreement, effective as of October 2018, with the Monterey Peninsula Airport District (Airport), a Special District, for the City to provide law enforcement services to the Airport pursuant to Government Code Sections 54981 and 55632. The City received \$774,306, a portion of the annual fee of \$1,097,408, from the Airport for the initial year, then each subsequent year the fee will be increased by 2.5% per year or 50% of known cost increases, subject to the annual true up of costs to account for actual costs incurred by the City.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

**City of Del Ray Oaks**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual (GAAP Basis)**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2022**

|                                                   | Budgeted Amounts |                  | Actual<br>Amounts | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---------------------------------------------------|------------------|------------------|-------------------|---------------------------------------------------------|
|                                                   | Original         | Final            |                   |                                                         |
| <b>REVENUES</b>                                   |                  |                  |                   |                                                         |
| Taxes:                                            |                  |                  |                   |                                                         |
| Property taxes                                    | \$ 716,300       | \$ 723,600       | \$ 740,530        | \$ 16,930                                               |
| Other taxes                                       | 1,978,500        | 2,076,500        | 2,188,255         | 111,755                                                 |
| Licenses and permits                              | 91,300           | 96,300           | 94,632            | (1,668)                                                 |
| Reimbursements                                    | 1,000            | 1,000            | 1,112             | 112                                                     |
| Fines, forfeits and penalties                     | 5,200            | 5,200            | 3,668             | (1,532)                                                 |
| Grants                                            | 128,700          | 321,879          | 280,338           | (41,541)                                                |
| Current services                                  | 1,130,250        | 1,172,250        | 1,211,443         | 39,193                                                  |
| Parks and recreation                              | 72,000           | 74,100           | 97,060            | 22,960                                                  |
| Other                                             | 42,800           | 102,700          | 104,508           | 1,808                                                   |
| <b>Total Revenues</b>                             | <b>4,166,050</b> | <b>4,573,529</b> | <b>4,721,546</b>  | <b>148,017</b>                                          |
| <b>EXPENDITURES</b>                               |                  |                  |                   |                                                         |
| Payroll and benefits                              | 2,422,710        | 2,577,010        | 2,506,392         | 70,618                                                  |
| Office and Supplies                               | 120,450          | 126,280          | 96,320            | 29,960                                                  |
| Utility and services                              | 150,300          | 153,000          | 118,461           | 34,539                                                  |
| Other services                                    | 74,800           | 74,400           | 68,599            | 5,801                                                   |
| Outside services                                  | 782,100          | 831,100          | 760,302           | 70,798                                                  |
| Auto ops                                          | 55,000           | 56,000           | 54,200            | 1,800                                                   |
| Police and fire                                   | 208,700          | 224,400          | 224,296           | 104                                                     |
| Streets and storm water                           | 23,300           | 23,300           | 20,518            | 2,782                                                   |
| Capital improvement                               | -                | -                | -                 | -                                                       |
| Debt service                                      |                  |                  |                   |                                                         |
| Principal                                         | 20,700           | 30,000           | 7,826             | 22,174                                                  |
| Interest and fiscal charges                       | -                | -                | 32,784            | (32,784)                                                |
| <b>Total Expenditures</b>                         | <b>3,858,060</b> | <b>4,095,490</b> | <b>3,889,698</b>  | <b>205,792</b>                                          |
| Excess (Deficiency) of Revenues over Expenditures | 307,990          | 478,039          | 831,848           | 353,809                                                 |
| <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                       | \$ 307,990       | \$ 478,039       | 831,848           | \$ 353,809                                              |
| Fund Balances - Beginning of Year                 |                  |                  | 11,177,160        |                                                         |
| Prior Period Adjustments - GASB 87, Leases        |                  |                  | 24,167            |                                                         |
| Fund Balance - Beginning of Year, as Adjusted     |                  |                  | 11,201,327        |                                                         |
| Fund Balances Ending                              |                  |                  | \$ 12,033,175     |                                                         |

The City employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the City Council to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the General Fund are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP. The expenditures noted above in excess of appropriations were covered by fund balance, appropriations available in other categories, or revenues in excess of budget.

**City of Del Rey Oaks**  
**Schedule of Pension Plan Contributions**  
**For the Fiscal Year Ended June 30, 2022**

| Fiscal Year Ended                                                 | 2015       | 2016       | 2017       | 2018       | 2019       | 2020       | 2021       | 2022         |
|-------------------------------------------------------------------|------------|------------|------------|------------|------------|------------|------------|--------------|
| Contractually Required Contributions                              | \$ 33,822  | \$ 44,939  | \$ 37,901  | \$ 34,721  | \$ 23,757  | \$ 25,884  | \$ 16,607  | \$ 125,005   |
| Contributions in Relation to Contractually Required Contributions | 33,822     | 44,939     | 37,901     | 34,721     | 23,757     | 25,884     | 16,607     | 125,005      |
| Contribution Deficiency (Excess)                                  | \$ -       | \$ -       | \$ -       | \$ -       | \$ -       | \$ -       | \$ -       | \$ -         |
| Covered Payroll                                                   | \$ 368,033 | \$ 374,374 | \$ 296,535 | \$ 297,685 | \$ 434,368 | \$ 322,853 | \$ 385,980 | \$ 401,325   |
| Contributions as a % of Covered Payroll                           | 9.19%      | 12.00%     | 12.78%     | 11.66%     | 5.47%      | 8.02%      | 4.30%      | 31.15%       |
| <b>Safety Plan</b>                                                |            |            |            |            |            |            |            |              |
| Plan Measurement Date                                             | 2014       | 2015       | 2016       | 2017       | 2018       | 2019       | 2020       | 2021         |
| Fiscal Year Ended                                                 | 2015       | 2016       | 2017       | 2018       | 2019       | 2020       | 2021       | 2022         |
| Contractually Required Contributions                              | \$ 121,758 | \$ 185,949 | \$ 162,246 | \$ 149,453 | \$ 79,875  | \$ 75,687  | \$ 110,590 | \$ 125,293   |
| Contributions in Relation to Contractually Required Contributions | 121,758    | 185,949    | 162,246    | 149,453    | 79,875     | 75,687     | 110,590    | 125,293      |
| Contribution Deficiency (Excess)                                  | \$ -       | \$ -       | \$ -       | \$ -       | \$ -       | \$ -       | \$ -       | \$ -         |
| Covered Payroll                                                   | \$ 483,025 | \$ 500,535 | \$ 426,293 | \$ 301,916 | \$ 803,799 | \$ 464,127 | \$ 964,824 | \$ 1,105,926 |
| Contributions as a % of Covered Payroll                           | 25.21%     | 37.15%     | 38.06%     | 49.50%     | 9.94%      | 16.31%     | 11.46%     | 11.33%       |

**Notes to Schedule:**

Valuation Date: June 30, 2020

Assumptions Used: Entry Age Method used for Actuarial Cost Method  
Level Percentage of Payroll and Direct Rate Smoothing  
3.8 Years Remaining Amortization Period  
Inflation Assumed at 2.50%

Investment Rate of Returns set at 7.00%

CalPERS mortality table based on CalPERS' experience and include 15 years of projected ongoing mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries.

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

The CalPERS discount rate was increased from 7.50% to 7.65% in fiscal year 2016, and then to 7.15% in 2018.

The CalPERS mortality assumptions was adjusted in fiscal year 2019.

**City of Del Rey Oaks**  
**Schedule of Proportionate Share of Net Pension Liabilities**  
**For the Fiscal Year Ended June 30, 2022**

| Miscellaneous and Safety Plan<br>Fiscal Year Ended       | 2015         | 2016         | 2017         | 2018         | 2019         | 2020         | 2021         | 2022         |
|----------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Proportion of Net Pension<br>Liability (Safety and Misc) | 0.02058%     | 0.01585%     | 0.01592%     | 0.01564%     | 0.01561%     | 0.01546%     | 0.01548%     | 0.01575%     |
| Proportionate Share of<br>Net Pension Liability          | \$ 1,280,369 | \$ 1,088,059 | \$ 1,377,408 | \$ 1,551,296 | \$ 1,504,158 | \$ 1,584,252 | \$ 1,683,831 | \$ 851,727   |
| Covered Payroll                                          | \$ 853,661   | \$ 851,058   | \$ 874,909   | \$ 722,828   | \$ 599,601   | \$ 1,238,167 | \$ 786,980   | \$ 1,350,804 |
| Proportionate Share of NPL<br>as a % of Covered Payroll  | 149.99%      | 127.85%      | 157.43%      | 214.61%      | 250.86%      | 127.95%      | 213.96%      | 63.05%       |
| Plan's Fiduciary Net Position<br>as a % of the TPL       | 79.31%       | 76.30%       | 75.12%       | 75.25%       | 75.63%       | 75.80%       | 75.17%       | 87.99%       |

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

The CalPERS discount rate was increased from 7.50% to 7.65% in fiscal year 2016, and then to 7.15% in 2018.

The CalPERS mortality assumptions was adjusted in fiscal year 2019.

**City of Del Rey Oaks**  
**Schedule of Changes in Total OPEB Liability**  
**For the Fiscal Year Ended June 30, 2022**

| <b>Fiscal Year Ended</b>                                                   | <b>2018</b>       | <b>2019</b>       | <b>2020</b>       | <b>2021</b>       | <b>2022</b>       |
|----------------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Total OPEB liability</b>                                                |                   |                   |                   |                   |                   |
| Service cost                                                               | \$ 9,840          | \$ 8,537          | \$ 8,242          | \$ 49,908         | \$ 70,745         |
| Interest                                                                   | 7,961             | 9,288             | 9,987             | 11,770            | 10,865            |
| Changes of benefit terms                                                   | -                 | -                 | -                 | -                 | (183,330)         |
| Differences between<br>expected and actual experience                      | -                 | -                 | 63,643            | -                 | 38,296            |
| Changes of assumptions                                                     | (33,928)          | (12,049)          | 4,378             | 103,454           | 5,630             |
| Benefit payments                                                           | (770)             | (6,774)           | (7,542)           | (8,523)           | (11,016)          |
| Implicit subsidy fulfilled                                                 | -                 | -                 | -                 | -                 | -                 |
| Net change in Total OPEB Liability                                         | (16,897)          | (998)             | 78,708            | 156,609           | (68,810)          |
| Total OPEB Liability - beginning                                           | 279,722           | 262,825           | 261,827           | 340,535           | 497,144           |
| Total OPEB Liability - ending                                              | <u>\$ 262,825</u> | <u>\$ 261,827</u> | <u>\$ 340,535</u> | <u>\$ 497,144</u> | <u>\$ 428,334</u> |
| <b>Plan fiduciary net position</b>                                         |                   |                   |                   |                   |                   |
| Net change in plan fiduciary net position                                  | \$ -              | \$ -              | \$ -              | \$ -              | \$ -              |
| Plan fiduciary net position - beginning                                    | -                 | -                 | -                 | -                 | -                 |
| Plan fiduciary net position - ending                                       | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>       |
| Net OPEB liability (asset)                                                 | \$ 262,825        | 261,827           | 340,535           | 497,144           | 428,334           |
| Plan fiduciary net position as a<br>percentage of the total OPEB liability | 0.00%             | 0.00%             | 0.00%             | 0.00%             | 0.00%             |
| Covered Employee Payroll                                                   | \$ 977,093        | \$ 953,262        | \$ 1,080,538      | \$ 1,308,070      | \$ 1,313,110      |
| Net OPEB liability as a percentage<br>of covered employee payroll          | 26.90%            | 27.47%            | 31.52%            | 38.01%            | 32.62%            |
| Total OPEB liability as a percentage<br>of covered employee payroll        | 26.90%            | 27.47%            | 31.52%            | 38.01%            | 32.62%            |

*Other Notes*

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.

There were not changes in benefit terms.

The discount rate was decrease from 3.87% to 3.50% in fiscal year 2020, down to 2.21% in 2021, and down to 2.16% in 2022.

The salary increases increased from 3.00% to 3.25% in fiscal year 2020.

The mortality rates were updated to the 2017 CalPERS OPEB Assumptions model.



**City of Del Rey Oaks**  
**Notes to the Required Supplementary Information**  
**For the Fiscal Year Ended June 30, 2022**

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**NOTE 1 - BUDGETARY DATA**

The City Council adopts an annual legal budget for the General Fund and the SBR Special Revenue Fund. All appropriations lapse at fiscal year end and then are rebudgeted for the coming fiscal year. Encumbrance accounting is not used. The budgets are prepared on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

A mid-year budget review is performed and the budget is amended by passage of a resolution. Additional appropriations or interfund transfers not included in the amended budget resolution must be approved by the City Council.



## **SUPPLEMENTARY INFORMATION**

**City of Del Ray Oaks**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2022**

|                                                                         | Special Revenue Funds |                   |                   |                   |                                    |
|-------------------------------------------------------------------------|-----------------------|-------------------|-------------------|-------------------|------------------------------------|
|                                                                         | Gas Tax<br>Fund       | SB 1<br>Fund      | Measure X<br>Fund | CARES Act<br>Fund | FORA Habitat<br>Management<br>Fund |
| <b>ASSETS</b>                                                           |                       |                   |                   |                   |                                    |
| Cash and investments                                                    | \$ 63,986             | \$ 97,356         | \$ 95,971         | \$ -              | \$ 744,709                         |
| Receivables:                                                            |                       |                   |                   |                   |                                    |
| Taxes                                                                   | 3,212                 | 5,488             | 18,568            | -                 | -                                  |
| <b>Total assets</b>                                                     | <u>\$ 67,198</u>      | <u>\$ 102,844</u> | <u>\$ 114,539</u> | <u>\$ -</u>       | <u>\$ 744,709</u>                  |
| <b>LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES AND FUND BALANCES</b> |                       |                   |                   |                   |                                    |
| <b>Liabilities:</b>                                                     |                       |                   |                   |                   |                                    |
| Accounts payable                                                        | \$ 1,048              | \$ -              | \$ -              | \$ -              | \$ 1,137                           |
| <b>Total liabilities</b>                                                | <u>1,048</u>          | <u>-</u>          | <u>-</u>          | <u>-</u>          | <u>1,137</u>                       |
| <b>FUND BALANCES</b>                                                    |                       |                   |                   |                   |                                    |
| Restricted:                                                             |                       |                   |                   |                   |                                    |
| Streets and roads                                                       | \$ 66,150             | \$ 102,844        | \$ 114,539        | \$ -              | \$ -                               |
| Habitat management                                                      | -                     | -                 | -                 | -                 | 743,572                            |
| Capital projects                                                        | -                     | -                 | -                 | -                 | -                                  |
| Covid-19 recovery                                                       | -                     | -                 | -                 | -                 | -                                  |
| <b>Total fund balances</b>                                              | <u>\$ 66,150</u>      | <u>\$ 102,844</u> | <u>\$ 114,539</u> | <u>\$ -</u>       | <u>\$ 743,572</u>                  |

**City of Del Ray Oaks**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2022**

|                                                          | Special Revenue   |                            |                                 |                                            |
|----------------------------------------------------------|-------------------|----------------------------|---------------------------------|--------------------------------------------|
|                                                          | Funds             | Capital Project Funds      |                                 |                                            |
|                                                          | ARPA<br>Fund      | SBR<br>Engineering<br>Fund | SBR/GJM<br>Intersection<br>Fund | Total<br>Nonmajor<br>Governmental<br>Funds |
| <b>ASSETS</b>                                            |                   |                            |                                 |                                            |
| Cash and investments                                     | \$ 189,014        | \$ 505,830                 | \$ 1,056,168                    | \$ 2,753,034                               |
| Receivables:                                             |                   |                            |                                 |                                            |
| Taxes                                                    | -                 | -                          | -                               | 27,268                                     |
| <b>Total assets</b>                                      | <u>\$ 189,014</u> | <u>\$ 505,830</u>          | <u>\$ 1,056,168</u>             | <u>\$ 2,780,302</u>                        |
| <b>LIABILITIES, DEFERRED II<br/>RESOURCES AND FUND I</b> |                   |                            |                                 |                                            |
| <b>Liabilities:</b>                                      |                   |                            |                                 |                                            |
| Accounts payable                                         | \$ -              | \$ -                       | \$ -                            | \$ 2,185                                   |
| <b>Total liabilities</b>                                 | <u>-</u>          | <u>-</u>                   | <u>-</u>                        | <u>2,185</u>                               |
| <b>FUND BALANCES</b>                                     |                   |                            |                                 |                                            |
| Restricted:                                              |                   |                            |                                 |                                            |
| Streets and roads                                        | \$ -              | \$ -                       | \$ -                            | \$ 283,533                                 |
| Habitat management                                       | 189,014           | -                          | -                               | 932,586                                    |
| Capital projects                                         | -                 | 505,830                    | 1,056,168                       | 1,561,998                                  |
| Covid-19 recovery                                        | -                 | -                          | -                               | -                                          |
| <b>Total fund balances</b>                               | <u>\$ 189,014</u> | <u>\$ 505,830</u>          | <u>\$ 1,056,168</u>             | <u>\$ 2,778,117</u>                        |

**City of Del Ray Oaks**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Fiscal Year Ended June 30, 2022**

|                                                      | Special Revenue Funds |                   |                   |                   |                                    |
|------------------------------------------------------|-----------------------|-------------------|-------------------|-------------------|------------------------------------|
|                                                      | Gas Tax<br>Fund       | SB 1<br>Fund      | Measure X<br>Fund | CARES Act<br>Fund | FORA Habitat<br>Management<br>Fund |
| <b>REVENUES</b>                                      |                       |                   |                   |                   |                                    |
| Taxes:                                               |                       |                   |                   |                   |                                    |
| Sales tax                                            | \$ -                  | \$ -              | \$ 110,250        | \$ -              | \$ -                               |
| Other taxes                                          | -                     | 34,180            | -                 | -                 | -                                  |
| Intergovernmental revenues                           | 43,179                | -                 | -                 | -                 | -                                  |
| <b>Total Revenues</b>                                | <u>43,179</u>         | <u>34,180</u>     | <u>110,250</u>    | <u>-</u>          | <u>-</u>                           |
| <b>EXPENDITURES</b>                                  |                       |                   |                   |                   |                                    |
| Current:                                             |                       |                   |                   |                   |                                    |
| General government                                   | -                     | -                 | -                 | -                 | -                                  |
| Public works                                         | 24,593                | -                 | -                 | -                 | -                                  |
| Community development                                | -                     | -                 | -                 | -                 | 31,632                             |
| Capital outlay                                       | -                     | 34,675            | -                 | -                 | -                                  |
| Debt service                                         |                       |                   |                   |                   |                                    |
| Principal                                            | -                     | -                 | 72,815            | -                 | -                                  |
| Interest and fiscal charges                          | -                     | -                 | 23,205            | -                 | -                                  |
| <b>Total Expenditures</b>                            | <u>24,593</u>         | <u>34,675</u>     | <u>96,020</u>     | <u>-</u>          | <u>31,632</u>                      |
| Excess (Deficiency) of Revenues over<br>Expenditures | <u>18,586</u>         | <u>(495)</u>      | <u>14,230</u>     | <u>-</u>          | <u>(31,632)</u>                    |
| <b>OTHER FINANCING SOURCES (USES)</b>                |                       |                   |                   |                   |                                    |
| Transfers in                                         | -                     | -                 | -                 | -                 | -                                  |
| Transfers out                                        | -                     | -                 | -                 | -                 | -                                  |
| <b>Total Other Financing Sources (Uses)</b>          | <u>-</u>              | <u>-</u>          | <u>-</u>          | <u>-</u>          | <u>-</u>                           |
| Net Change in Fund Balances                          | 18,586                | (495)             | 14,230            | -                 | (31,632)                           |
| Fund Balances Beginning                              | 47,564                | 103,339           | 100,309           | -                 | 775,204                            |
| Prior Period Adjustments - see note 12               | -                     | -                 | -                 | -                 | -                                  |
| Fund Balances - Beginning of Year, as Adjusted       | 47,564                | 103,339           | 100,309           | -                 | 775,204                            |
| Fund Balances Ending                                 | <u>\$ 66,150</u>      | <u>\$ 102,844</u> | <u>\$ 114,539</u> | <u>\$ -</u>       | <u>\$ 743,572</u>                  |

**City of Del Ray Oaks**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Fiscal Year Ended June 30, 2022**

|                                                   | Special Revenue   |                            |                                 |                                   |
|---------------------------------------------------|-------------------|----------------------------|---------------------------------|-----------------------------------|
|                                                   | Funds             | Capital Projects Funds     |                                 | Total                             |
|                                                   | ARPA<br>Fund      | SBR<br>Engineering<br>Fund | SBR/GJM<br>Intersection<br>Fund | Nonmajor<br>Governmental<br>Funds |
| <b>REVENUES</b>                                   |                   |                            |                                 |                                   |
| Taxes:                                            |                   |                            |                                 |                                   |
| Sales tax                                         | \$ -              | \$ -                       | \$ -                            | \$ 110,250                        |
| Other taxes                                       | -                 | -                          | -                               | 34,180                            |
| Intergovernmental revenues                        | 197,835           | -                          | -                               | 241,014                           |
| <b>Total Revenues</b>                             | <u>197,835</u>    | <u>-</u>                   | <u>-</u>                        | <u>385,444</u>                    |
| <b>EXPENDITURES</b>                               |                   |                            |                                 |                                   |
| Current:                                          |                   |                            |                                 |                                   |
| General government                                | 3,537             | -                          | -                               | 3,537                             |
| Public works                                      | -                 | -                          | -                               | 24,593                            |
| Community development                             | -                 | -                          | -                               | 31,632                            |
| Capital outlay                                    | 5,284             | -                          | -                               | 39,959                            |
| Debt service                                      |                   |                            |                                 |                                   |
| Principal                                         | -                 | -                          | -                               | 72,815                            |
| Interest and fiscal charges                       | -                 | -                          | -                               | 23,205                            |
| <b>Total Expenditures</b>                         | <u>8,821</u>      | <u>-</u>                   | <u>-</u>                        | <u>195,741</u>                    |
| Excess (Deficiency) of Revenues over Expenditures | <u>189,014</u>    | <u>-</u>                   | <u>-</u>                        | <u>189,703</u>                    |
| <b>OTHER FINANCING SOURCES (USES)</b>             |                   |                            |                                 |                                   |
| Transfers in                                      | -                 | -                          | -                               | -                                 |
| Transfers out                                     | -                 | -                          | -                               | -                                 |
| <b>Total Other Financing Sources (Uses)</b>       | <u>-</u>          | <u>-</u>                   | <u>-</u>                        | <u>-</u>                          |
| Net Change in Fund Balances                       | 189,014           | -                          | -                               | 189,703                           |
| Fund Balances Beginning                           | -                 | 505,830                    | 1,056,168                       | 2,588,414                         |
| Prior Period Adjustments - see note 12            | -                 | -                          | -                               | -                                 |
| Fund Balances - Beginning of Year, as Adjusted    | -                 | 505,830                    | 1,056,168                       | 2,588,414                         |
| Fund Balances Ending                              | <u>\$ 189,014</u> | <u>\$ 505,830</u>          | <u>\$ 1,056,168</u>             | <u>\$ 2,778,117</u>               |

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**OTHER INDEPENDENT  
AUDITOR'S REPORT**





Chavan and Associates, llp  
Certified Public Accountants

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

To the Honorable Mayor and Members of the  
City Council of the City of Del Rey Oaks  
Del Rey Oaks, 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 governmental activities, each major fund, and the aggregate remaining fund information of City of Del Rey Oaks (the "City") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated April 10, 2023.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control 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.

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**Chavan and Associates, LLP**  
Certified Public Accountants

**Compliance and Other Matters**

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

**Purpose of this Report**

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

*C & A LLP*

April 10, 2023  
Morgan Hill, California

**City of Del Rey Oaks**  
**Schedule of Findings and Responses**  
**For the Fiscal Year Ended June 30, 2022**

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**Current Year Findings:**

None Noted

**Status of Prior Year Findings:**

None Noted