

City of Cotati
Basic Financial Statements
June 30, 2016

**CITY OF COTATI, CALIFORNIA
Basic Financial Statements
Fiscal Year Ended June 30, 2016
Table of Contents**

	<u>Page</u>
FINANCIAL SECTION	
Report of Independent Accountants	1
Management's Discussion and Analysis Basic Financial Statements:	3
Government-wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet Governmental Funds	17
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	18
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities	19
Statement of Net Position- Major Proprietary Funds	20
Statement of Revenues, Expenses, and Changes in Fund Net Position Major Proprietary Funds	21
Statement of Cash Flows- Major Proprietary Funds	22
Statement of Fiduciary Net Position – Private Purpose Trust Successor Agency	24
Statement of Changes in Fiduciary Net Position – Private Purpose Trust Successor Agency	25
Notes to the Basic Financial Statements	26
REQUIRED SUPPLEMENTAL INFORMATION SECTION	
Budgetary Comparison Schedule - General Fund	47
Note to RSI: Note A - Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures	48
Budgetary Comparison Schedule - Inclusionary Housing Fund	49
Budgetary Comparison Schedule – Grants Fund	50
Schedule of Funding Progress-Other Post -Employment Benefits (OPEB)	51
Schedule of the City's Proportionate Share of Net Pension Liability Last Ten Years	52
Schedule of the City's Contributions Public Employee Retirement Plans – Last Ten Years	53

**CITY OF COTATI, CALIFORNIA
Basic Financial Statements
Fiscal Year Ended June 30, 2016
Table of Contents**

	<u>Page</u>
SUPPLEMENTAL SECTION	
Combining Balance Sheet Nonmajor Governmental Funds	54
Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds	56
Schedule of Measure G Revenues and Uses	57

FINANCIAL SECTION
MANAGEMENT'S DISCUSSION AND ANALYSIS,
BASIC FINANCIAL STATEMENTS
AND
NOTES TO THE FINANCIAL STATEMENTS



Terry E. Krieg, CPA
Certified Public Accountant

Independent Auditor's Report

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

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cotati, California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Cotati's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Cotati, California as of June 30, 2016, and the respective changes in its 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.

Emphasis of Matter

As discussed in Note 16 to the financial statements, the City in the June 30, 2016 fiscal year adopted the accounting guidance set forth in Governmental Accounting Standards Board (GASB) Statement Number 72, *Fair Value Measurements and Application*. My opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 14, the Budgetary Comparison Schedules on pages 47 through 50, the schedule of funding progress on page 51, and the schedules of proportionate share of net pension liability and retirement plan contributions on pages 52 and 53, 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.

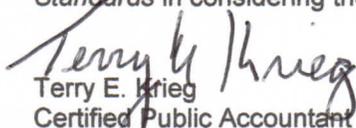
I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cotati's basic financial statements. The accompanying nonmajor fund combining financial statements and the schedule of Measure G revenues and uses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The nonmajor fund combining financial statements and the schedule of Measure G revenues and uses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 my opinion, the nonmajor fund combining financial statements and schedule of Measure G revenues and uses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report, dated November 14, 2016, on my consideration of the City of Cotati's internal control over financial reporting and on my 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 my 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 of Cotati's internal control over financial reporting and compliance.


Terry E. Krieg
Certified Public Accountant
Santa Rosa, California
November 14, 2016

Management Discussion and Analysis

This section of the City of Cotati's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS



Government-Wide Financial Statements

- At the close of the fiscal year, the assets of the City exceeded liabilities by \$37.1 million (Total net position in the government-wide.)
- As of June 30, 2016, the City's governmental activities reported a net position of \$20.8 million (See Table 2).
- As of June 30, 2016, the City's business-type activities reported a net position of \$16.3 million (See Table 2).

Fund Financial Statements

- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$10.3 million.
- Within the governmental funds, ending fund balance \$1.1 million was restricted for capital projects, \$3.1 million is reserved for housing, and \$3.7 million is unassigned. (See Governmental Funds Balance Sheet June 30, 2016).

Governmental fund statements utilize the current financial resources measurement focus and modified accrual basis of accounting, which focuses on transactions and events that affect the financial resources available for current spending during the period, and reflect near-term inflows or outflows of cash. Government-wide statements and proprietary fund statements use the economic resources measurement focus and accrual basis of accounting, which focuses on transactions and events that affect total economic resources; i.e., increase or decrease in net position during the period regardless of the timing of the related cash inflows or outflows.

Governmental fund statements do not include capital or other long-term assets that are not available to finance current period expenditures, nor do they include long-term liabilities that will not use current resources. These items must be added (assets) or deducted (liabilities) to/from the fund balances of governmental funds to obtain the net position of the governmental activities for government-wide reporting.

Management Discussion and Analysis

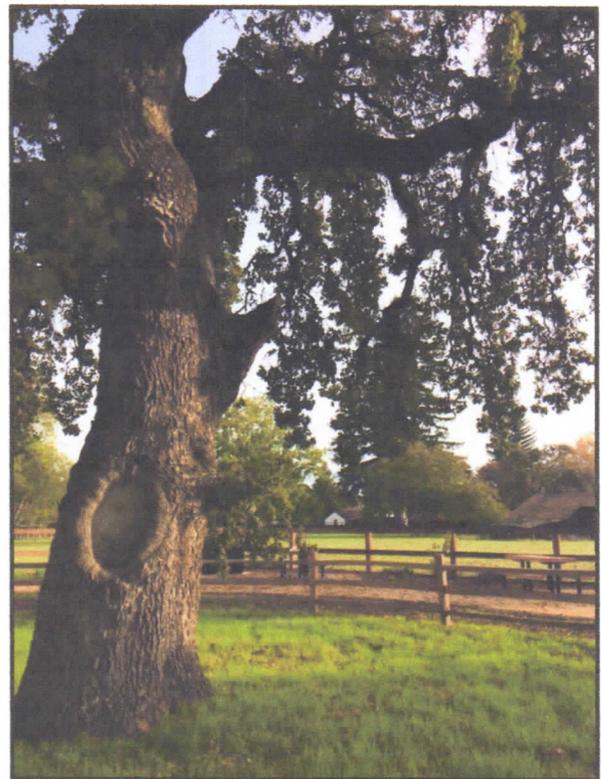
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – management’s discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional supplemental informational section that presents combining statements for non-major governmental funds as well as the schedule of Measure G Revenues and Uses. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses, such as the water and wastewater system.

The financial statements also include notes that explain some of the information in the financial statements and provide data that are more detailed. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about the City’s non-major funds, each of which are added together and presented in single columns in the basic financial statements.

Table 1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.



Management Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENT *continued*:

TABLE 1
Major Features of City of Cotati's Government-Wide and Fund Financial Statements

	Fund Statements		
	Government-Wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government	The activities of the City that are not proprietary or fiduciary, such as police, fire, and parks.	Activities the City operates similar to private businesses: the water and wastewater systems.
Required financial statements	<ul style="list-style-type: none"> · Statement of Net Position · Statement of activities 	<ul style="list-style-type: none"> · Balance sheet · Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> · Statement of net position · Statement of revenues expenses, and changes in net position · Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included.	All assets and liabilities, both financial and capital, and short-term and long-term.
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid.

Government-Wide Statements:

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and its respective changes. Net position – the difference between the City's assets and liabilities – is one way to measure the City's financial health, or position. Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the City are divided into two categories:

- **Governmental activities** – Most of the City's basic services are included here, such as police, streets, parks, community development, and general administration. Property taxes, sales taxes, and state and federal grants finance most of these activities.
- **Business-type activities** – The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and wastewater system are included here.

Fund Financial Statements

The fund financial statements provide detailed information about the City's significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. The more significant governmental funds in fiscal year 2015-2016 were.

Management Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS *continued*:

Fund Financial Statements, *continued*:

The City's General Fund, Inclusionary Housing fund, South Sonoma Business Park Debt Service fund, and the Grant fund. All other governmental type funds are aggregated and are presented in a separate single column in the fund financial statements.

The City's water and wastewater enterprise funds are also presented as major funds in separate columns in the fund financial statements.

The City has two kinds of funds:

- Governmental funds – Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- Proprietary funds – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information.



In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

Management Discussion and Analysis

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

This section provides analysis of the government-wide financial statements including long-term and short-term information about the City's overall financial condition. The following tables address the financial results of the City as a whole.

TABLE 2
CITY OF COTATI'S NET POSITION
Summary of Net Position
As of June 30, 2015 and 2016
(in million dollars)

	Governmental Activities			Business Type Activities			TOTAL		Change	
	2016	2015	\$ Change	2016	2015	\$ Change	2016	2015	%	\$
ASSETS										
Current and Other Assets	\$ 11.8	\$ 10.1	\$ 1.7	\$ 9.0	\$ 10.1	\$ (1.1)	\$ 20.8	\$ 20.2	3.0%	\$ 0.6
Long Term Receivables	5.3	5.4	(0.1)	-	-	-	5.3	5.4	-1.9%	(0.1)
Capital Assets	16.5	13.9	2.6	9.0	7.5	1.5	25.5	21.4	19.2%	4.1
Total Assets	33.6	29.4	4.2	18.0	17.6	0.4	51.6	47.0	9.8%	4.6
DEFERRED OUTFLOWS OF RESOURCES										
Pension plan related items										
Timing Differences	1.5	0.8	0.7	0.3	0.1	0.2	1.8	0.9	100.0%	0.9
LIABILITIES										
Current Liabilities	1.7	1.2	0.5	0.5	0.3	0.2	2.2	1.5	46.7%	0.7
Noncurrent Liabilities	11.9	11.4	0.5	1.4	1.1	0.3	13.3	12.5	6.4%	0.8
Total Liabilities	13.6	12.6	1.0	1.9	1.4	0.5	15.5	14.0	10.7%	1.5
DEFERRED INFLOWS OF RESOURCES										
Pension plan related items	0.7	1.2	(0.5)	0.1	0.2	(0.1)	0.8	1.4	-42.9%	(0.6)
NET POSITION										
Investment in Capital Assets	16.5	13.8	2.7	9.0	7.5	1.5	25.5	21.3	19.7%	4.2
Restricted	5.7	5.3	0.4	4.5	6.1	(1.6)	10.2	11.4	-10.5%	(1.2)
Unrestricted	(1.4)	(2.7)	1.3	2.8	2.5	0.3	1.4	(0.2)	-800.0%	1.6
Total Net Position	\$ 20.8	\$ 16.4	\$ 4.4	\$ 16.3	\$ 16.1	\$ 0.2	\$ 37.1	\$ 32.5	14.2%	\$ 4.6

Analysis of the total net position: (Refer to Table 2 above for all balances discussed.)

The combined net position for all City activities, governmental and business like, has increased by \$4.6 million or 14.2% over the prior year. Total assets for all activities increased by \$4.6 million in the current year. This increase is primarily due to increased investments in capital assets of \$4.1 million or 19.2% over prior year. Total liabilities increased by \$1.5 million or 10.7% primarily due to increases in current accrued liabilities and long term net pension adjustments in the current year. Deferred outflows of resources increased \$0.9 million and deferred inflows of resources decreased \$0.6 million due to changes in pension plan contributions and future liabilities.

Management Discussion and Analysis

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE continued:

Governmental activities:

Net position of the City's governmental activities increased by \$4.4 million to \$20.8 million in the current year. This increase is primarily due to one-time capital grants and capital contributions from other governmental agencies.

Business-type activities:

The net position of the business-type activities was \$16.3 million as of June 30, 2016. This is an increase of \$0.2 million over the prior fiscal year. These additional resources cannot be used for governmental activities, as they are restricted to finance the continuing operations of the water and wastewater systems and for capital improvements to those systems. The City embarked on a metering upgrade system for its water utility system in order to save time, money and provide better service to its citizens. City management and Council members made the choice to save the City money by financing these improvements without need to hire outside bankers, lawyers and financing firms. Instead, the City arranged to have its wastewater system lend \$1.4 million to the water enterprise and proceeded to make the improvements.

TABLE 3
CITY OF COTATI
Changes in Net Position
For the Fiscal Years Ended June 30, 2015 and 2016
(in million dollars)

	Governmental Activities				Business Type Activities				TOTAL			
	2016	2015	% Change	\$ Change	2016	2015	% Change	\$ Change	2016	2015	% Change	\$ Change
REVENUES												
Program Revenues												
Charges for Services	\$ 1.1	\$ 1.3		\$ (0.2)	\$ 3.7	\$ 3.4		\$ 0.3	\$ 4.8	\$ 4.7	2.1%	\$ 0.1
Operating Grants and Contributions	0.4	0.3		0.1	-	-		-	0.4	0.3	33.3%	0.1
Capital Grants and Contributions	4.1	0.1		4.0	0.1	0.1		0.0	4.2	0.2	2110.5%	4.0
General Revenues												
Property Taxes	1.7	1.3		0.4	-	-		-	1.7	1.3	30.8%	0.4
Other Taxes	4.7	4.2		0.5	-	-		-	4.7	4.2	11.9%	0.5
Other	-	0.2		(0.2)	-	(0.1)		0.1	-	0.1	-100.0%	(0.1)
Total Revenues	12.0	7.4	61.9%	4.6	3.8	3.4	11.8%	0.4	15.8	10.8	46.2%	5.0
EXPENSES												
General Government	1.7	1.8		(0.1)	-	-		-	1.7	1.8	-5.6%	(0.1)
Public Safety	2.7	3.0		(0.3)	-	-		-	2.7	3.0	-10.0%	(0.3)
Public Works	1.8	1.3		0.5	-	-		-	1.8	1.3	38.5%	0.5
Community Development	1.1	0.6		0.5	-	-		-	1.1	0.6	83.3%	0.5
Water	-	-		-	1.4	1.3		0.1	1.4	1.3	7.7%	0.1
Sewer	-	-		-	2.2	2.1		0.1	2.2	2.1	4.8%	0.1
Interest	0.3	0.3		-	-	-		-	0.3	0.3	-	-
Total Expenses	7.6	7.0	8.6%	0.6	3.6	3.4	5.9%	0.2	11.2	10.4	7.7%	0.8
Revenue over (under) expenses	4.4	0.4		4.0	0.2	-		0.2	4.6	0.4	1022.0%	4.2
Special Items	-	-		-	-	-		-	-	-	-	-
Transfers	-	-		-	-	-		-	-	-	-	-
Change in net position	4.4	0.4	973.2%	4.0	0.2	-	100.0%	0.2	4.6	0.4	1022.0%	4.2
Net position, beginning of period,	16.4	16.0		0.4	16.1	16.1		-	32.5	32.1	1.3%	0.4
Net position, end of period	\$ 20.8	\$ 16.4	26.8%	\$ 4.4	\$ 16.3	\$ 16.1	1.2%	\$ 0.2	\$ 37.1	\$ 32.5	14.1%	\$ 4.6

Management Discussion and Analysis

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE continued:

Analysis of the changes in net position

Total government-wide revenues of the primary government increased \$4.6 million, a 61.9% increase from prior year and total expenses increased by \$0.6 million, an 8.6% increase. These changes are discussed in more detail.

Governmental activities

Total revenues for governmental activities increased \$4.6 million from the prior year, a 61.9% increase. The primary reason for the increase in revenue was due to the full year of Measure G as well as increased receipts of grants to support community projects.

Total expenses for governmental activities increased \$0.6 million from the prior year, an 8.6% increase. Primary reasons for these increases were due to increased number and scope of local improvement projects as well as increased community programs through the recreation department.

Revenues

Capital grants and contributions revenue increased \$4.0 million from the prior year largely due to the work performed during the current year on the Downtown Specific Plan Project and the Old Redwood Highway Revitalization Project.

Property Tax revenue in 2016 is slightly higher in 2016 as compared to 2015 due to a one-time property tax residual distribution received by the City in 2016 for approximately \$250,000. Without this one time distribution in 2016, property tax revenue increased slightly because of the continued recovering real estate market and increasing property assessed valuations.

Other taxes increased by \$0.5 million, a 12% increase from prior year due largely to the City's Measure G, one percent (1%) transactions and use tax, which generated \$2.0 million in additional sales tax.

Expenses

Total governmental expenses increased by \$0.6 million due to increase in city services, various capital projects and improvements.

Business Type Activities

Total revenues for business-type activities increased \$0.4 million or 11.8% from the prior year. Total expenses for business-type activities increased \$0.2 million or 5.9% from the prior year.

Revenues

Charges for services increased slightly due to the rate increase for water usage within the City.

Expenses

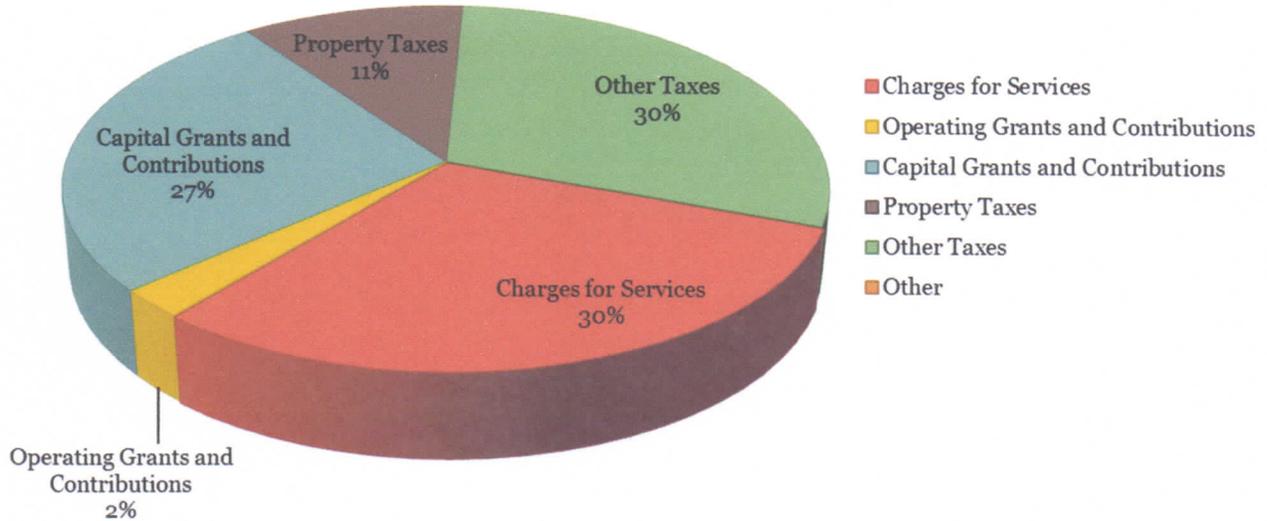
Water expense increased due to increased fees the City paid for water production.

Management Discussion and Analysis

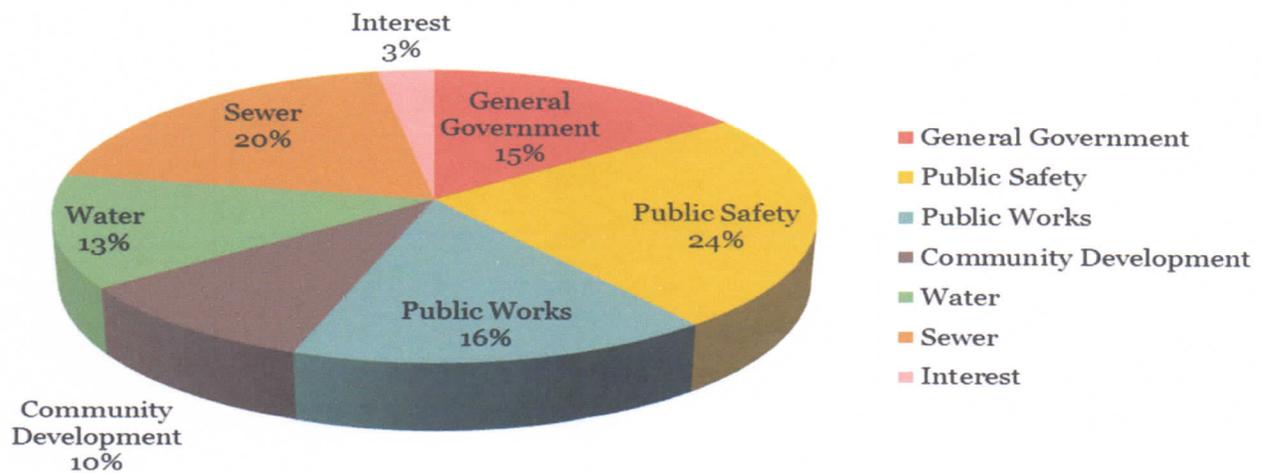
FINANCIAL ANALYSIS OF THE CITY AS A WHOLE continued:

TABLE 4
Government Wide – Percentage of Revenues and Expenses by Account Type

Government-Wide Revenues by Source - \$15.8 Million



Government-Wide Expenses by Source - \$11.2 Million



Management Discussion and Analysis

FINANCIAL ANALYSIS OF THE CITY'S FUND STATEMENTS

TABLE 5
CITY OF COTATI
GOVERNMENTAL ACTIVITIES
 For the Fiscal Years Ended June 30, 2015 and 2016
 (in million dollars)

	TOTAL		Change	
	2016	2015	%	\$
General Government	\$ 1.7	\$ 1.8	-5.6%	\$ (0.1)
Public Safety	2.7	3.0	-10.0%	(0.3)
Public Works	1.8	1.3	38.5%	0.5
Community Development	1.1	0.6	83.3%	0.5
Interest	0.3	0.3	0.0%	-
TOTAL	\$ 7.6	\$ 7.0	8.6%	\$ 0.6

Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. The fund financial statement focus on individual parts of the City government, reporting City operations in more detail than the government-wide statements.

Governmental Funds

The City's governmental funds provide information on near-term inflows, outflows and balances of spendable resources. The City's governmental funds reported a combined fund balance at June 30, 2016, of \$10.4 million, an increase of \$1.1 million over the end of the previous fiscal year. (See Statement of Revenues Expenditures and Changes in Fund Balance Government Funds for the year ending June 30, 2016)

The General Fund is the chief operating fund of the City and reflects a slight increase of \$1.0 million in fund balance. This increase is mostly attributed to the increased sales tax from Measure G.

The City's other major funds includes Inclusionary Housing Fund with a year-end fund balance of \$3.1 million, South Sonoma Business Park with a year-end fund balance of approximately \$0.9 million, and Grants Fund with a year ending fund balance of approximately \$0.3 million. (See Statement of Revenues Expenditures and Changes in Fund Balance Government Funds for the year ending June 30, 2016)

The City's non-major funds ended the fiscal year 2015-2016 with a fund balance of \$2.0 million, an increase of \$0.2 million over the prior fiscal year. Most of these resources are restricted for use on street projects, community development projects, and other special purposes. (See Statement of Revenues Expenditures and Changes in Fund Balance Government Funds for the year ending June 30, 2016)

Management Discussion and Analysis

FINANCIAL ANALYSIS OF THE CITY'S FUND STATEMENTS *continued:*

Proprietary Funds

The City's proprietary funds provide the same type of information found in the Government-Wide Financial Statements, but in more detail. Factors concerning these funds have been previously addressed in the discussion of business-type activities under the Government-Wide Statements.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the City budget several times. These budget amendments fall into two categories:

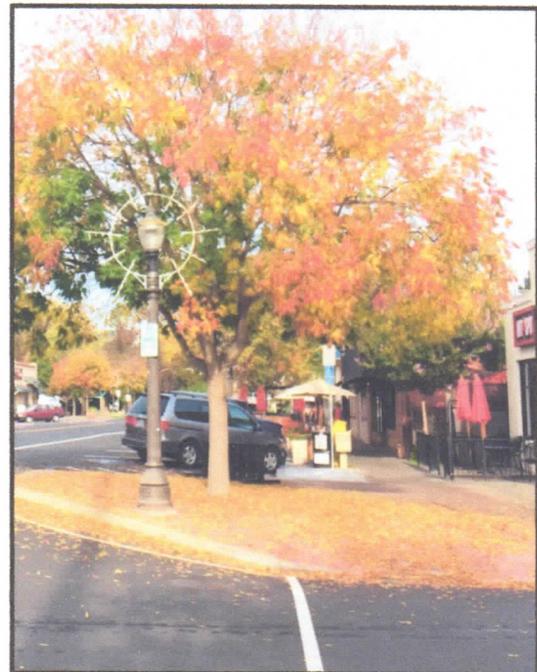
- Changes made at the midyear budget review for unanticipated revenues and costs.
- Increases in appropriations to prevent budget overruns.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of 2016, the City had invested \$25.5 million (net of accumulated depreciation) in a broad range of capital assets, including equipment, vehicles, buildings, park facilities, and water and wastewater systems (See Table 6).

This year's major capital assets additions included:

- Downtown Specific Revitalization \$1.6 million
- SCEIF Water Meter Upgrades \$1.7 million
- Veronda-Falletti Park \$0.2 million.
- Train Depot Finalization \$0.4 million
- Water Tank Upgrades \$0.1 million
- Police Vehicles approximately \$28,000
- Land from the Successor Agency \$1.4 million



Management Discussion and Analysis

CAPITAL ASSETS AND DEBT ADMINISTRATION, continued

Below is a table of the City's Capital Assets as of June 30, 2015 and 2016. Additional information relative to capital assets is contained in Note D of the general-purpose financial statements.

TABLE 6
CITY OF COTATI
Capital Assets*
 As of June 30, 2015 and 2016
 (in million dollars)

	Governmental		Business Type		TOTAL			
	2016	2015	2016	2015	2016	2015	% Change	\$ Change
Capital assets								
Land	\$ 5.9	\$ 4.7	\$ -	\$ -	\$ 5.9	\$ 4.7	26%	\$ 1.2
Construction in progress	2.0	3.0	0.4	1.3	2.4	4.3	-44%	(1.9)
Buildings	8.6	5.4	-	-	8.6	5.4	58%	3.2
Vehicles	0.8	0.8	0.6	0.6	1.4	1.4	1%	0.0
Equipment	1.0	1.0	0.4	0.4	1.4	1.4	3%	0.0
Water and Sewer Lines	-	-	12.8	10.8	12.8	10.8	18%	2.0
Improvements	10.6	10.4	1.2	0.4	11.8	10.8	9%	1.0
Total Capital Assets	\$ 28.9	\$ 25.3	\$ 15.4	\$ 13.5	\$ 44.3	\$ 38.8	14%	\$ 5.6

* This table does not include accumulated depreciation. For further financial data see footnote 7 within the basic financial statements.

Long-term Obligations

South Sonoma Business Park

As of June 30, 2016, special assessment bonds for \$4.7 million were outstanding, of which approximately \$145,000 is considered a current liability. The purpose of these bonds is to facilitate a wetlands mitigation project and is secured by assessments levied against property owners within the assessment districts.

Compensated absences:

As of June 30, 2016, approximately \$0.4 million was owed to government employees for vacation leave and other compensated absences. These benefits are recorded as a liability to the City as the benefits are earned by the employees if the leave is attributable to past service and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

Net Pension Liability

GASB Statement No. 68 significantly revamped the accounting and financial reporting for government employers that provide pension benefits and requiring a "net pension liability" on the statement of net position. A net pension liability of \$8.4 million is reported as of June 30, 2016. (See Statement of Net Position)

Management Discussion and Analysis

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City annually prepares a multi-year financial plan, which focuses on the long-term financial viability and allows decision makers to understand the future impact of policy decisions made today. Multi-year planning provides both an early warning of adverse financial trends and more time to implement changes to ensure better outcomes. Budget development is guided by a series of policies adopted by the City Council, which guides long-term planning, minimum reserve levels, employee compensation, cash and debt management, information technology and utility rates. The budget was based on these key assumptions:

- Property Tax-The budget projection for 2016-17 assumes decreased property tax collections, due to not receiving the one-time payment from the county for the dissolved redevelopment project areas.
- Sales Tax-The budget projection for 2016-17 assumes continued growth in the area due to higher collections from the Measure G transactions and use tax. Measure G replaced the Measure A tax and set the sales tax rate at 9.25% for nine years ending 2023. Measure G supports the full range of municipal services.



CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Norm Veloso, Director of Admin Services, City of Cotati, 201 W. Sierra Ave, Cotati, CA 94931.

CITY OF COTATI
Statement of Net Position
June 30, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 7,957,819	\$ 3,647,176	\$ 11,604,995
Net receivables	2,448,094	548,826	2,996,920
Inetnal balances	(271,729)	271,729	-
Prepayments	42,311	-	42,311
Total current assets	<u>10,176,495</u>	<u>4,467,731</u>	<u>14,644,226</u>
Noncurrent assets:			
Cash and cash equivalents	1,619,528	4,535,027	6,154,555
Long-term notes receivable	589,797	-	589,797
Other long-term receivables	4,690,000	-	4,690,000
Delinquent assessments	1,062	-	1,062
Net capital assets	16,517,962	9,001,287	25,519,249
Total noncurrent assets	<u>23,418,349</u>	<u>13,536,314</u>	<u>36,954,663</u>
Total assets	<u>33,594,844</u>	<u>18,004,045</u>	<u>51,598,889</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension plan related items	1,521,606	256,801	1,778,407
LIABILITIES			
Current liabilities:			
Accounts payable	899,253	102,275	1,001,528
Accrued liabilities	472,189	88,201	560,390
Due to other governments	64,426	-	64,426
Compensated absences	60,000	198,905	258,905
Deposits	23,437	70,685	94,122
Accrued interest payable	101,617	-	101,617
Bonds due within one year	145,000	-	145,000
Total current liabilities	<u>1,765,922</u>	<u>460,066</u>	<u>2,225,988</u>
Long-term liabilities due in more than one year:			
Special assessment bonds	4,545,000	-	4,545,000
Compensated absences	322,230	-	322,230
Net pension liability	6,995,018	1,411,965	8,406,983
Net other post employment benefit obligation	64,357	-	64,357
Total long-term liabilities	<u>11,926,605</u>	<u>1,411,965</u>	<u>13,338,570</u>
Total liabilities	<u>13,692,527</u>	<u>1,872,031</u>	<u>15,564,558</u>
DEFERRED INFLOWS OF RESOURCES:			
Pension plan related items	650,176	98,883	749,059
NET POSITION			
Net investment in capital assets	16,517,962	9,001,287	25,519,249
Restricted for:			
Capital projects	701,184	4,535,027	5,236,211
Housing	3,101,038	-	3,101,038
Debt service	919,278	-	919,278
Public safety	141,656	-	141,656
Parks	439,903	-	439,903
Recycling	5,310	-	5,310
Streets	332,857	-	332,857
Public communications	7,214	-	7,214
Unrestricted	(1,392,655)	2,753,618	1,360,963
Total net position	<u>\$ 20,773,747</u>	<u>\$ 16,289,932</u>	<u>\$ 37,063,679</u>

See accompanying notes to the basic financial statements

CITY OF COTATI
Statement of Activities
For the Fiscal Year Ended June 30, 2016

	Program Revenues				Net (Expenses) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	City Government			
					Governmental Activities	Business-type Activities	Total	
Functions/Programs								
City government								
Governmental activities:								
General government	\$ 1,729,742	\$ 112,018	\$ 25,165	\$ -	\$ (1,592,559)	\$ -	\$ (1,592,559)	
Public safety	2,676,142	121,292	232,839	-	(2,322,011)	-	(2,322,011)	
Community development	1,070,087	783,105	-	2,845,724	2,558,742	-	2,558,742	
Public works	1,844,032	94,862	173,464	1,268,100	(307,606)	-	(307,606)	
Interest on long-term debt	306,313	-	-	-	(306,313)	-	(306,313)	
Total governmental activities	7,626,316	1,111,277	431,468	4,113,824	(1,969,747)	-	(1,969,747)	
Business-type activities:								
Water	1,422,854	1,371,858	-	38,075	-	(12,921)	(12,921)	
Wastewater	2,224,574	2,360,902	-	74,840	-	211,168	211,168	
Total business-type activities	3,647,428	3,732,760	-	112,915	-	198,247	198,247	
Total City government	\$ 11,273,744	\$ 4,844,037	\$ 431,468	\$ 4,226,739	(1,969,747)	198,247	(1,771,500)	
General revenues:								
Taxes:								
Property taxes					1,652,877	-	1,652,877	
Sales taxes					4,075,204	-	4,075,204	
Other taxes					603,792	-	603,792	
Interest and rents					44,094	-	44,094	
Total general revenues					6,375,967	-	6,375,967	
Change in net position					4,406,220	198,247	4,604,467	
Net position, beginning					16,367,527	16,091,685	32,459,212	
Net position, ending					\$ 20,773,747	\$ 16,289,932	\$ 37,063,679	

See accompanying notes to the basic financial statements

CITY OF COTATI
Balance Sheet
Governmental Funds
June 30, 2016

	General Fund	Inclusionary Housing Fund	South Sonoma Business Park Debt Service Fund	Grant Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$ 2,632,223	\$ 3,090,277	\$ 918,344	\$ 622,908	\$ 2,313,595	\$ 9,577,347
Taxes receivable	1,351,754	-	-	-	-	1,351,754
Due from other governments	-	-	-	776,256	320,084	1,096,340
Assessments receivable	-	-	4,690,000	-	-	4,690,000
Deliquent assessments receivable	-	-	1,062	-	-	1,062
Notes receivable	28,000	-	-	-	561,797	589,797
Prepayments	42,311	-	-	-	-	42,311
Due from other funds	469,683	-	-	-	-	469,683
Total assets	\$ 4,523,971	\$ 3,090,277	\$ 5,609,406	\$ 1,399,164	\$ 3,195,476	\$ 17,818,294
LIABILITIES						
Liabilities:						
Accounts payable	\$ 150,733	\$ -	\$ 128	\$ 578,066	\$ 170,326	\$ 899,253
Accrued liabilities	117,727	-	-	67,405	287,057	472,189
Due to other funds	271,729	-	-	396,335	73,348	741,412
Due to other governments	-	-	-	-	64,426	64,426
Deposits	23,437	-	-	-	-	23,437
Total liabilities	563,626	-	128	1,041,806	595,157	2,200,717
DEFERRED INFLOWS OF RESOURCES:						
Long-term receivables	-	-	4,690,000	-	561,797	5,251,797
Fund balances:						
Nonspendable	42,311	-	-	-	-	42,311
Restricted for affordable housing	-	3,090,277	-	-	10,761	3,101,038
Restricted for public safety	-	-	-	-	141,656	141,656
Restricted for streets	-	-	-	-	332,857	332,857
Restricted for parks	-	-	-	-	2,317	2,317
Restricted public education	-	-	-	-	7,214	7,214
Restricted for debt service	-	-	919,278	-	-	919,278
Restricted for recycling	-	-	-	-	5,310	5,310
Restricted for capital projects	-	-	-	-	1,141,087	1,141,087
Committed for special projects	45,000	-	-	357,358	397,320	799,678
Committed for emergencies	120,000	-	-	-	-	120,000
Unassigned	3,753,034	-	-	-	-	3,753,034
Total fund balances	3,960,345	3,090,277	919,278	357,358	2,038,522	10,365,780
Total liabilities, deferred inflows of resources and fund balances	\$ 4,523,971	\$ 3,090,277	\$ 5,609,406	\$ 1,399,164	\$ 3,195,476	\$ 17,818,294
Total Governmental Fund Balances						\$ 10,365,780
Amounts reported for governmental activities in the statement of net position are different because:						
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds						16,517,962
Other long-term assets are not available to pay for current-period expenditures and are therefore reported as deferred inflows of resources in the funds						5,251,797
The net pension liability does not require the use of current financial resources and is therefore not reported in the funds						(6,995,018)
The deferred inflows and outflows related to the net pension liability do not require the use of current financial resources and are not reported in the funds						871,430
Interest payable is accrued as a liability in the statement of net position but is reported as a liability in the funds only when due						(101,617)
The net obligation for other post employment benefits does not require the use of current financial resources and is therefore not reported in the funds						(64,357)
Some liabilities including bonds, claims and compensated absences are not due and payable in the current period and therefore are not reported in the funds						(5,072,230)
Net Position of Governmental Activities						\$ 20,773,747

See accompanying notes to the basic financial statements

CITY OF COTATI
Statements of Revenues, Expenditures, and
Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General Fund	Inclusionary Housing Fund	South Sonoma Business Park Debt Service Fund	Grants Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	\$ 1,652,877	\$ -	\$ -	\$ -	\$ -	\$ 1,652,877
Sales taxes	4,075,204	-	-	-	53,296	4,128,500
Other taxes	46,314	-	-	-	-	46,314
Licenses and permits	502,033	-	-	-	-	502,033
Fines and forfeits	121,293	-	-	-	114,258	235,551
Intergovernmental	82,679	-	-	699,047	568,640	1,350,366
Interest and rents	58,615	15,661	1,099	1,973	8,573	85,921
Charges for services	418,300	-	460,910	-	322,558	1,201,768
Miscellaneous	10	-	99,710	-	7,662	107,382
Total revenues	6,957,325	15,661	561,719	701,020	1,074,987	9,310,712
EXPENDITURES						
Current:						
General government	1,419,651	166,987	48,600	-	-	1,635,238
Public safety	2,896,268	-	-	-	19,313	2,915,581
Community development	458,672	-	-	-	17,811	476,483
Public works	1,056,584	-	-	-	31,557	1,088,141
Capital outlay	-	-	-	1,655,600	664,864	2,320,464
Debt service:						
Principal	-	-	135,000	-	-	135,000
Interest	-	-	309,238	-	-	309,238
Total expenditures	5,831,175	166,987	492,838	1,655,600	733,545	8,880,145
Excess (deficiency) of revenues over expenditures	1,126,150	(151,326)	68,881	(954,580)	341,442	430,567
OTHER FINANCING SOURCES (USES)						
Contribution from successor agency	-	-	-	-	701,184	701,184
Transfers in	318,000	-	-	956,553	337,596	1,612,149
Transfers out	(447,993)	-	-	-	(1,164,156)	(1,612,149)
Total other financing sources (uses)	(129,993)	-	-	956,553	(125,376)	701,184
Net change in fund balances	996,157	(151,326)	68,881	1,973	216,066	1,131,751
Fund balances, July 1	2,964,188	3,241,603	850,397	355,385	1,822,456	9,234,029
Fund balances, June 30	<u>\$ 3,960,345</u>	<u>\$ 3,090,277</u>	<u>\$ 919,278</u>	<u>\$ 357,358</u>	<u>\$ 2,038,522</u>	<u>\$ 10,365,780</u>

See accompanying notes to the basic financial statements

CITY OF COTATI
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds	<u><u>\$ 1,131,751</u></u>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays(\$ 2,038,367) exceeded depreciation (\$934,707) in the current period.	1,103,660
Contributions of capital assets do use or provide current financial resources and are therefore not reported in the funds	2,144,540
Declines in the fair value of capital assets do not use current financial resources and are not reported in the funds	(580,650)
Disposals of capital assets do not use current financial resources and are not reported in the funds	(12,954)
Governmental funds report long-term receivables but defer revenue from them until collections are actually received. In the statement of activities, principal collections on receivables are not reported as revenues. Disbursements made for long-term loans are recorded as expenditures in the funds, but are not recorded as additions to receivables in the statement of activities	(123,900)
Changes in the net pension liability and related deferred inflows and deferred outflows do not use or provide current financial resources and are therefore nor reported in the funds	660,201
Governmental funds report payments on long-term debt as expenditures, but such payments reduce liabilities in the statement of net position and therefore are not recorded as expenses in the statement of activities	135,000
The net obligation for other postemployment benefits does not require the use of current financial resources and is therefore not reported in the funds	(769)
Governmental funds report interest expenditures when payment is due, but interest expense is accrued in the statement of activities	2,925
Long-term obligations such as claims and compensated are recorded in the governmental funds only when due, but are recorded as liabilities in the statement of net position when incurred	<u>(53,584)</u>
Net adjustment to reconcile to changes in net position	<u><u>3,274,469</u></u>
Change in Net Position of Governmental Activities	<u><u>\$ 4,406,220</u></u>

See accompanying notes to the basic financial statements

CITY OF COTATI
Statement of Net Position
Proprietary Funds
June 30, 2016

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 755,256	\$ 2,891,920	\$ 3,647,176
Accounts receivable	220,532	291,727	512,259
Due from other funds	-	271,729	271,729
Due from other governments	-	36,567	36,567
Total current assets	975,788	3,491,943	4,467,731
Noncurrent assets:			
Other assets:			
Internal balances	(1,338,089)	1,338,089	-
Cash and cash equivalents	829,679	3,705,348	4,535,027
Net other assets	(508,410)	5,043,437	4,535,027
Capital assets:			
Reservoirs	1,650,971	-	1,650,971
Pipelines and meters	4,968,386	4,714,242	9,682,628
Water wells	1,462,219	-	1,462,219
Improvements	989,203	235,538	1,224,741
Equipment	294,677	704,655	999,332
Less accumulated depreciation	(3,574,564)	(2,837,450)	(6,412,014)
Capital assets net of accumulated depreciation	5,790,892	2,816,985	8,607,877
Construction in progress	242,947	150,463	393,410
Net capital assets	6,033,839	2,967,448	9,001,287
Total noncurrent assets	5,525,429	8,010,885	13,536,314
Total assets	6,501,217	11,502,828	18,004,045
DEFERRED OUTFLOWS OF RESOURCES			
Pension plan deferrals	150,731	106,070	256,801
LIABILITIES			
Current liabilities:			
Accounts payable	99,447	2,828	102,275
Accrued liabilities	88,201	-	88,201
Compensated absences	114,307	84,598	198,905
Deposits	70,685	-	70,685
Total current liabilities	372,640	87,426	460,066
Long-term Liabilities			
Net Pension Liability	828,762	583,203	1,411,965
Total liabilities	1,201,402	670,629	1,872,031
DEFERRED INFLOWS OF RESOURCES			
Pension plan deferrals	58,040	40,843	98,883
NET POSITION			
Net investment in capital assets	6,033,839	2,967,448	9,001,287
Restricted	829,679	3,705,348	4,535,027
Unrestricted	(1,471,012)	4,224,630	2,753,618
Total net position	\$ 5,392,506	\$ 10,897,426	\$ 16,289,932

See accompanying notes to the basic financial statements

CITY OF COTATI

Statement of Revenues, Expenses, and Changes in Fund Net Position
 Proprietary Funds
 For the Fiscal Year Ended June 30, 2016

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for services	\$ 1,260,006	\$ 2,303,274	\$ 3,563,280
Other operating revenues	103,728	2,122	105,850
Total operating revenues	<u>1,363,734</u>	<u>2,305,396</u>	<u>3,669,130</u>
OPERATING EXPENSES			
Personnel services	526,784	358,124	884,908
Contractual services	30,905	6,773	37,678
Intergovernmental treatment costs	-	1,601,571	1,601,571
Utilities	44,864	5,643	50,507
Purchased water	378,820	-	378,820
Supplies and materials	176,027	80,017	256,044
Insurance, claims, and expenses	13,240	9,516	22,756
Depreciation	229,114	162,930	392,044
Total operating expenses	<u>1,399,754</u>	<u>2,224,574</u>	<u>3,624,328</u>
Operating income (loss)	<u>(36,020)</u>	<u>80,822</u>	<u>44,802</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	8,124	55,506	63,630
Interest expense	(23,100)	-	(23,100)
Net non-operating revenues (expenses)	<u>(14,976)</u>	<u>55,506</u>	<u>40,530</u>
Income before contributions and transfers	<u>(50,996)</u>	<u>136,328</u>	<u>85,332</u>
Contributions and transfers			
Capital contributions	38,075	74,840	112,915
Transfers out	-	-	-
Total contributions and transfers	<u>38,075</u>	<u>74,840</u>	<u>112,915</u>
Change in net position	(12,921)	211,168	198,247
Total net position, July 1	<u>5,405,427</u>	<u>10,686,258</u>	<u>16,091,685</u>
Total net position, June 30	<u>\$ 5,392,506</u>	<u>\$ 10,897,426</u>	<u>\$ 16,289,932</u>

See accompanying notes to the basic financial statements

CITY OF COTATI
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2016

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,328,904	\$ 2,305,899	\$ 3,634,803
Payments to suppliers	(625,789)	(1,709,921)	(2,335,710)
Payments to employees	(463,011)	(348,212)	(811,223)
Net cash provided by (used for) operating activities	<u>240,104</u>	<u>247,766</u>	<u>487,870</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Advances from (to) to other funds	1,400,916	(1,400,916)	-
Interfund interest	(23,100)	23,100	-
Repayment inerfund balance	(62,827)	94,848	32,021
Net cash provided by noncapital financing activities	<u>1,314,989</u>	<u>(1,282,968)</u>	<u>32,021</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital contributions	38,075	38,273	76,348
Purchases of capital assets	(1,825,501)	(5,581)	(1,831,082)
Net cash provided by (used for) capital and related financing activities	<u>(1,787,426)</u>	<u>32,692</u>	<u>(1,754,734)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest receipts	<u>8,124</u>	<u>32,406</u>	<u>40,530</u>
Net cash provided by investing activities	<u>8,124</u>	<u>32,406</u>	<u>40,530</u>
Net increase (decrease) in cash and cash equivalents	(224,209)	(970,104)	(1,194,313)
Cash and cash equivalents-beginning of the year	<u>1,809,144</u>	<u>7,567,372</u>	<u>9,376,516</u>
Cash and cash equivalents-end of the year	<u>\$ 1,584,935</u>	<u>\$ 6,597,268</u>	<u>\$ 8,182,203</u>

See accompanying notes to the basic financial statements

CITY OF COTATI
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2016

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (36,020)	\$ 80,822	\$ 44,802
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	229,114	162,930	392,044
Change in assets and liabilities:			
Receivables, net	(30,325)	503	(29,822)
Accounts payable	18,955	(6,401)	12,554
Net pension liability	54,090	3,500	57,590
Other liabilities	4,290	6,412	10,702
	<u>4,290</u>	<u>6,412</u>	<u>10,702</u>
Net cash provided by (used for) operating activities	<u>\$ 240,104</u>	<u>\$ 247,766</u>	<u>\$ 487,870</u>

Noncash capital financing activities:
None.

See accompanying notes to the basic financial statements

CITY OF COTATI
Statement of Fiduciary Net Position
June 30, 2016

	<u>Private Purpose Trust</u>
ASSETS:	
Cash and cash equivalents	\$ 829,908
Cash with trustees	696,511
Notes receivable	1,315,071
Capital assets: Land	287,048
Discount on sale bonds	<u>92,219</u>
Total assets	<u><u>3,220,757</u></u>
LIABILITIES:	
Accounts payable	869
Interest payable	158,338
Tax allocation bonds	<u>9,615,000</u>
Total liabilities	<u>9,774,207</u>
NET POSITION (DEFICIT)	
Held in trust for successor agency	<u>(6,553,450)</u>
Total Net Position (deficit)	<u><u>\$ (6,553,450)</u></u>

See accompanying notes to the basic financial statements

CITY OF COTATI
Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended June 30, 2016

	Private Purpose Trust
ADDITIONS:	
Net investment income (loss)	\$ 2,185
Interest on long-term notes	25,500
Reimbursements	3,900
Distributions for enforceable obligations	1,109,716
Total additions	1,141,301
DEDUCTIONS:	
Bond interest	482,634
Administrative costs	247,064
Decline in fair value of capital assets	1,458,680
Distributions to City of Cotati	2,845,724
Payments on pass through agreements	47,130
Total deductions	5,081,232
Increase (decrease) in net position	(3,939,931)
Total net position, July 1	(2,613,519)
Total net position (deficit), June 30	\$ (6,553,450)

See accompanying notes to the basic financial statements

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2016

1. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Cotati is a municipal corporation governed by an elected five member City Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The city has no component units that are blended or discretely presented in these financial statements. The City's former redevelopment agency was dissolved by law effective February 1, 2012. The City elected to serve as the successor custodian of the residual assets and obligations of the former Agency. Accordingly, the assets, liabilities and financial transactions of the former Agency were transferred on the effective date to a fiduciary fund (private purpose trust) and are accounted for in these financial statements as a fiduciary fund. These fiduciary funds are excluded from the City's government-wide statement of net position, statement of activities and fund statements because fiduciary funds are not available for use by the City.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. 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 statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general* revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Property taxes, sales taxes, other taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The *City's Inclusionary Housing Fund* is a special revenue fund used to account for in lieu impact fees restricted in use to inclusionary housing purposes. The *South Sonoma Business Park* special assessment debt service fund used to charge landowners for the financing provided to develop the business park. The *Grant Fund* is a special revenue fund used to account for grants restricted for specific purposes.

The City reports the following major proprietary funds:

The *water fund* accounts for the operations of the City's water treatment and distribution system. The *wastewater fund* accounts for the operation of the City's wastewater collection activities.

The City reports a private purpose trust fund, a fiduciary fund type, to account for all of the assets, liabilities and financial activity of the successor agency to the City's former redevelopment agency that was dissolved effective February 1, 2012.

The City applies all applicable Financial Accounting Standards Board (FASB) Pronouncements applicable to reporting for the operation of its proprietary operations and the provisions of GASB Statement Number 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 pronouncements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and wastewater function and other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include ;1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the costs of sales and services, administration costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The City is authorized by its most recent investment policy to invest in the State of California Local Agency Investment Fund, U.S. Treasury bonds, bills, and notes, obligations issued by US Government agencies, banker's acceptances, repurchase agreements, and time deposits and savings and demand accounts.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition.

Investments for the City are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable government funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are not shown net of an allowance for uncollectibles.

Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate be limited generally to one percent of market value, be levied by only the County, and be shared by applicable jurisdictions. The County of Sonoma collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due on November 1 and March 1, and become delinquent on December 10 and April 10. The City receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the City. The City recognizes property tax revenues in the fiscal year in which they are due to the City.

3. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when used or consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental-type or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$ 1,000 (\$50,000 for infrastructure type assets) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Under the GASB 34 Implementation Rules, the City is a Phase 3 entity and was not required to record infrastructure assets existing or acquired prior to July 1, 2002 at the date these new financial reporting standards were implemented; and the City has not recorded such assets. The costs of normal maintenance and repairs that do not add to the value of asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of the business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	30
Public domain infrastructure	50
System infrastructure	10-40
Vehicles and equipment	7 - 10

5. Compensated Absences and Other Post-Employment Benefits

It is the government's policy to permit employees to accumulate earned but unused leave bank (vacation and sick pay benefits). There is a liability for a portion of unpaid accumulated sick leave since the City does have a policy to pay certain amounts when employees separate from service with the City. All leave bank pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The City's obligation for post-employment benefits other than pensions (OPEB) is reported as a liability in the government-wide financial statements.

6. Long-term Obligations

In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

7. Fund Balances – Governmental Funds

Fund balances for governmental funds are reported in classifications based primarily on the extent to which the City is bound to honor constraints about the specific purposes for which amounts in those funds can be spent. These classifications include (1) nonspendable, (2) restricted, (3) committed, (4) assigned and (5) unassigned amounts.

Nonspendable amounts generally are items not expected to be converted into cash such as inventories, prepaid items and long-term receivables not offset by deferred revenue accounts. Restricted amounts include those where constraints placed on the uses of the resources are externally imposed by grantors, contributors, other governments or by laws or regulations. Committed amounts are those that can only be used for a specific purpose as determined by the City Council. Such committed amounts may be redeployed for other uses only by the direction of the City Council. Assigned amounts are fund balance amounts constrained by the City's intent to be used for specific purposes as determined by the City Manager or Director of Administrative Services. Unassigned amounts are the residual amounts reported only in the general fund or amounts in funds reporting deficit fund balances. When expenditures are incurred for which both restricted and unrestricted (committed, assigned or unassigned) amounts are available, the City considers restricted amounts to have been spent first. When expenditures are incurred for which any class of unrestricted fund balance could be used, the City considers committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

8. Comparative Data

Comparative total data for the prior year have been presented in order to provide an understanding of the changes in net assets. Also, certain amounts presented in the prior year data have been reclassified to be consistent with the current years' presentation.

9. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of California Public Employees Retirement System (PERS) and additions to or deductions from the PERS fiduciary net position have been determined on the same basis as they are reported by the PERS. 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.

Note 2. Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that "capital assets are not financial resources and are not reported in the funds." The details of this \$ 16,517,962 difference are as follows:

Capital assets	\$ 28,909,414
Less: Accumulated depreciation	<u>(12,391,452)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$ 16,517,962</u>

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2016

Note 2. Reconciliation of Government-Wide and Fund Financial Statements (Continued)

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position (Continued)

Another element of the reconciliation explains that "long-term liabilities" are not due and payable in the current period and are therefore not reported in the funds. The details of this \$5,072,230 difference are as follows:

Long-Term Debt Obligations:	
Special assessment bonds	\$ (4,690,000)
Compensated absences	<u>(382,230)</u>
Net adjustment to decrease fund balance total governmental funds to arrive at net position - governmental activities	<u>\$ (5,072,230)</u>

B. Explanation of Certain differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$3,274,469 difference and other significant components of the difference are as follows:

Capital outlay	\$ 2,038,367
Depreciation expense	(934,707)
Decline in fair value of capital assets	(580,650)
Changes in net pension liability and related items	660,201
Repayment of long-term debt principal	135,000
Capital assets contributed by successor agency	2,144,540
Other items	<u>(188,282)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 3,274,469</u>

Note 3. Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis of consistent with generally accepted accounting principles for all governmental funds. Appropriations lapse at fiscal year end. The appropriated budget is prepared by fund, function and department. The City Manager may make transfers of appropriations within a department. Transfers between departments and other changes require City Council approval. The legal level of control is the department and fund level. The Council made supplemental appropriations during the fiscal year. Encumbrance accounting is not employed in governmental funds.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2016

Note 4. Cash and Investments

Deposits and investments at June 30, 2016 consisted of the following:

Pooled demand deposits	\$ 1,658,417
Pooled investments (includes \$829,908 in fiduciary funds)	16,468,722
Investments with trustees (includes \$696,511 in fiduciary funds)	<u>1,158,830</u>
 Total deposits and investments	 <u>\$ 19,285,969</u>

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's policy for deposits is that they will be made only in institutions in California, they shall be insured or collateralized with United States backed securities, and time certificates of deposit shall have a maturity of less than three years. At June 30, 2016, \$1,533,936 of the City's bank balances of \$ 1,783,936 was exposed to credit risk as follows:

Uninsured and collateral held by pledging banks agent but not in the City's name:	<u>\$ 1,533,936</u>
--	---------------------

Investments at June 30, 2016 consisted of the following:

Investment	Maturities	Fair Value
State Investment Pool(LAIF)	Average 167 days	\$ 15,169,869
Sonoma County Investment Pool	Average 766 days	452,448
BlackRock Provident T-Fund Shares	Average 120 days	1,158,830
Prime Money Market Fund RBC Investor	Average 120 days	15,337
Negotiable Certificates of Deposit	Average 778 days	<u>831,068</u>
 Totals		 <u>\$ 17,627,552</u>

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the City's investment portfolio to maturities prescribed in Sections 53600 through 53609 of the California Government Code which for the City is securities with a maturity of five years or less at the time of purchase.

Credit Risk - State law limits investments in various securities to certain level of risk ratings issued by nationally recognized statistical rating organizations. It is the City's policy to comply with State law as regards securities ratings. The City's investment in mutual funds was rated AAA by Moody's Investor Service. The State and County Investment Pools are unrated.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of a 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. Of the City's \$831,068 investment made in other than the Pools and mutual funds, the entire \$831,068 in underlying securities are held by the investment's counterparty in the name of the City. The City's investment policy specifies that securities are to be held by a third party, other than the counterparty, in the City's name, whenever possible. The investment in the State and County Pool and mutual funds are not subject to custodial credit risk because the investments are not evidenced by specific securities.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2016

Note 4. Cash and Investments (Continued)

Fair Value Measurements. The City categorizes its fair value measurements within the hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs, and Level 3 inputs are other significant unobservable inputs. The City's investments are valued using Level 1 inputs for both the negotiable certificates of deposit; and the Sonoma County investment Pool and in the State of California Local Agency Investment Fund pool are valued using Level 1 pricing methods. Contributed capital assets and declines in capital asset values are based upon the use of Level 2 inputs.

Noncurrent Cash and Cash Equivalents – The \$1,619,528 restricted in the governmental activities statement of net position represents resources in the City's debt service fund (\$918,344) and unexpended bond proceeds (\$701,184). The \$4,535,027 in the business-type activities statement of net position represents capital improvement funds to be used for funding major capital assets and facilities.

Note 5. Receivables

Receivables as of year-end for the government's individual major and nonmajor funds in the aggregate, net of the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Other Major Funds	Nonmajor Funds	Total Governmental	Water	Wastewater
Accounts	\$ -	\$ -	\$ -	\$ -	\$220,532	\$ 291,727
Taxes	1,351,754	-	-	1,351,754	-	-
Governments	-	776,256	320,084	1,096,340	-	36,567
Delinquencies	-	1,062	-	1,062	-	-
Notes and loans	28,000	-	561,797	589,797	-	-
Assessments	-	4,690,000	-	4,690,000	-	-
Totals	\$1,379,754	\$ 5,467,318	\$ 881,881	\$ 7,728,953	\$220,532	\$ 328,294

Note 6. Interfund Transfers, Receivables and Payables

1. The composition of interfund transfers of June 30, 2016, is as follows:

	General Fund	Grants Fund	Other Governmental Funds	Totals
Transfers In:				
Transfers Out:				
General fund	\$ -	\$ 447,993	\$ -	\$ 447,993
Other funds	318,000	508,560	337,596	1,164,156
Totals	\$ 318,000	\$ 956,553	\$ 697,493	\$ 1,612,149

The primary transfers out of the nonmajor funds were made to provide funds to the City's general fund for projects carried out by the general fund. The \$956,553 transfers into the grants fund were made for the purpose of providing City matching funds for certain grants.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2016

Note 6. Interfund Transfers, Receivables and Payables (Continued)

2. The composition of interfund balances as of June 30, 2016 was as follows:

Receivable Fund	Nonmajor Payable Fund	Amount
General fund	Grant fund	\$ 396,335
	CDBG fund	73,348
Wastewater	General fund	271,729
	Water fund	1,338,089
	Total	<u>\$ 2,079,501</u>

The internal amounts was made for temporary cash flow purposes and to finance a meter upgrade system for the City's water fund. The \$1,338,089 payable to the wastewater fund is due in quarterly payments of \$26,117 through September 30, 2030.

Note 7. Capital Assets

Capital asset activity relating to governmental activities for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 4,701,960	\$ 1,742,589	\$ (580,650)	\$ 5,863,899
Construction in progress	<u>3,000,635</u>	<u>1,906,982</u>	<u>(2,930,840)</u>	<u>1,976,777</u>
Total capital assets, not being depreciated	<u>7,702,595</u>	<u>3,649,571</u>	<u>(3,511,490)</u>	<u>7,840,676</u>
Capital assets, being depreciated:				
Buildings	5,440,189	3,154,892	-	8,595,081
Machinery and equipment	949,701	108,078	(1,976)	1,055,803
Vehicles	825,339	28,933	-	854,272
Improvements	<u>10,404,265</u>	<u>159,317</u>	<u>-</u>	<u>10,563,582</u>
Total capital assets being depreciated	<u>17,619,494</u>	<u>3,451,220</u>	<u>(1,976)</u>	<u>21,068,738</u>
Less accumulated depreciation for:				
Buildings	(1,940,152)	(214,877)	-	(2,155,029)
Machinery and equipment	(791,273)	(44,862)	1,976	(834,159)
Vehicles	(639,068)	(43,253)	-	(682,321)
Improvements	<u>(8,088,228)</u>	<u>(631,715)</u>	<u>-</u>	<u>(8,719,943)</u>
Total accumulated depreciation	<u>(11,458,721)</u>	<u>(934,707)</u>	<u>-</u>	<u>(12,391,452)</u>
Total capital assets, being depreciated, net	<u>6,160,775</u>	<u>2,516,513</u>	<u>-</u>	<u>8,677,286</u>
Governmental activities capital assets, net	<u>\$ 13,863,368</u>	<u>\$ 6,166,084</u>	<u>\$ (3,511,490)</u>	<u>\$ 16,517,962</u>

Construction in progress, at June 30, 2016, represents primarily cost incurred related to construction improvements to the city's street system.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2016

Note 7. Capital Assets (Continued)

Capital asset activity relating to business-type activities for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated				
Construction in progress	\$ 1,259,907	\$ 28,517	\$ (895,014)	\$ 393,410
Total capital assets, not being depreciated	<u>1,259,907</u>	<u>28,517</u>	<u>(895,014)</u>	<u>393,410</u>
Capital assets, being depreciated:				
Water wells	1,462,219	-	-	1,462,219
Reservoirs	1,650,971	-	-	1,650,971
Improvements	413,820	810,921	-	1,224,741
Pipelines and collection system	7,713,254	1,969,374	-	9,682,628
Equipment	<u>993,847</u>	<u>5,485</u>	<u>-</u>	<u>999,332</u>
Total capital assets being depreciated	<u>12,234,111</u>	<u>2,785,780</u>	<u>-</u>	<u>15,019,891</u>
Less accumulated depreciation for:				
Water wells	(888,826)	(33,182)	-	(922,008)
Reservoirs	(679,359)	(78,081)	-	(757,440)
Improvements	(299,626)	(54,021)	-	(353,647)
Pipelines and collection system	(3,513,913)	(184,442)	-	(3,698,355)
Equipment	<u>(638,246)</u>	<u>(42,318)</u>	<u>-</u>	<u>(680,564)</u>
Total accumulated depreciation	<u>(6,019,970)</u>	<u>(392,044)</u>	<u>-</u>	<u>(6,412,014)</u>
Total capital assets, being depreciated, net	<u>6,214,141</u>	<u>2,393,736</u>	<u>-</u>	<u>8,607,877</u>
Business-type activities capital assets, net	<u>\$ 7,474,048</u>	<u>\$ 2,422,253</u>	<u>(895,015)</u>	<u>\$ 9,001,287</u>

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2016

Note 7. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:			
General government	\$	324,805	
Public safety		136,108	
Infrastructure -Streets		473,794	
Total depreciation expense-governmental activities	\$	<u>943,707</u>	
Business-type activities:			
Water	\$	229,114	
Wastewater		162,930	
Total depreciation expense-governmental activities	\$	<u>392,044</u>	

Note 8. Long-Term Debt

Special Assessment Bonds with Governmental Commitment

The special assessment bonds were issued in an original amount of \$5,875,000 for the purpose of facilitating a wetlands mitigation project. The bonds are secured solely by assessments levied against property owners within the assessment district and from monies on deposit in a reserve fund. The City has no obligation to advance funds for payment of bond debt service. The City has indicated, however, that it may at its own option and in its sole discretion elect to advance funds to pay bond debt service to the extent of delinquencies. The bonds consist of 6.50 percent term bonds due September 2, 2033. The term bonds are subject to mandatory redemption prior to maturity commencing September 2, 2004. Future debt service is scheduled as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 145,000	\$ 300,138	\$ 445,138
2018	155,000	292,699	447,699
2019	165,000	279,988	444,988
2020	175,000	268,938	443,938
2021	185,000	257,238	442,238
2022-2026	1,130,000	1,081,600	2,211,600
2027-2031	1,550,000	650,005	2,200,005
2032-2034	1,185,000	118,788	1,303,788
Totals	<u>\$ 4,690,000</u>	<u>\$ 3,249,394</u>	<u>\$ 7,937,394</u>

Long-term debt activity for the 2016 fiscal year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Special assessment bonds	\$ 4,825,000	\$ -	\$ 135,000	\$ 4,690,000	\$ 145,000
Compensated absences	328,646	113,584	60,000	382,230	60,000
Total	<u>\$ 5,153,646</u>	<u>\$ 113,584</u>	<u>\$ 195,000</u>	<u>\$ 5,072,230</u>	<u>\$ 205,000</u>

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2016

Note 9. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries insurance. The City, due to the costs of available coverage, participates as a member of the Redwood Empire Municipal Insurance Fund (REMIF). REMIF provides joint protection programs for public entities covering automobile, general liability, errors and omissions, property and workers compensation claims. Under the program, the City has a \$5,000 retention limit similar to a deductible with the REMIF being responsible for losses above that amount up to \$500,000 for liability losses, \$1,000,000 for workers compensation claims, and \$25,000 for property damage. The Fund carries purchased excess commercial liability insurance of \$39.5 million in excess of its \$500,000 limit, and a commercial property policy for \$300 million. Financial information pertaining to REMIF can be obtained from its administrative offices at 414 W.Napa Street, Sonoma, California 95476.

Liabilities of the City are reported in the statement of net assets for the when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The City's only exposure to claim liabilities would be for losses, if any, not covered by REMIF. There have been no significant changes in insurance coverages in fiscal 2016. Settlements have not exceeded coverage for each of the past three fiscal years. The City has no material claim liabilities at June 30, 2016.

Note 10. Contingencies and Commitments

Litigation. The City is involved in litigation incurred in the normal course of conducting City business. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Grants and allocations. Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2016

Note 11. Jointly Governed Organizations and Operating Agreements

Jointly governed organizations are legal entities or other organizations that result from a contractual arrangement and that are owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. The City is a participant in the following organizations other than the insurance authority described in the preceding notes. The City is a party to the following agreement agreements:

Santa Rosa Subregional Wastewater System. The City has an agreement with System for the treatment of wastewater as the City does not own or operate its own wastewater treatment plant. The City's obligations under the agreement are to pay to the System its share of the costs of operating the system and treatment of wastewater. The City records these payments as operating expenses in its wastewater enterprise fund

Note 12. Public Employee Pension Plans

Plan Description - The plans are a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees Retirement System (CalPERS). The CalPERS is governed by a 13 member Board of Administration with six elected members, three appointed members and four ex officio members which include the State Treasurer, the State Controller, the Director of the California Department of Human Services and a designee of the State Personnel Board.

Benefits Provided - The CalPERS provides retirement, disability and death benefits. Retirement benefits are defined as 2.7 percent of the employees final 12 months average compensation times the employee's years of service (2.0 percent for safety employees) Employees with 10 years of continuous service are eligible to retire at age 55 (age 50 for safety employees) Employees are eligible for service-related disability benefits regardless of the length of service. Five years of service is required for non-service-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Pre-retirement death benefits equal an employee's final full-year salary. Both plans provide for a 2 percent Cost of Living Adjustment (COLA). The public safety plan is closed to new entrants.

Contributions - Section 20814 of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employees 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. The total plan contributions are determined through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ending June 30, 2015 (the measurement date), the active employee contribution rate to the PERF-C cost sharing plan ranged from 2 percent to 15.25 percent of annual pay, and the employer contribution rates ranged from 3.8 percent to 310 percent of annual pay.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2016

Note 12. Public Employee Pension Plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred inflows of Resources Related to Pensions - At June 30, 2016 the City reported a liability of \$8,406,983 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. 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 plan relative to the projected contributions of all participating governments, actuarially determined. At June 30, 2016, the City's proportion was 0.122481 percent compared to 0.119831 percent at June 30, 2015.

For the measurement period ending June 30, 2015 (June 30, 2016 fiscal year), the City recognized pension expense of \$402,131. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (40,908)
Changes in assumptions	-	(470,661)
Net difference between projected and actual earnings on pension plan investments	-	(237,490)
Changes in proportions and differences between City contributions and proportionate share of contributions	773,665	-
City contributions subsequent to the measurement period	1,004,742	-
Totals	\$ 1,778,407	\$ (749,059)

City contributions subsequent to the measurement period of \$1,004,742 are reported as deferred outflows of resources related to pensions from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Fiscal Year Ended June 30	Deferred Outflows (Inflows) of Resources
2017	(75,485)
2018	(80,448)
2019	(115,823)
2020	296,362
Thereafter	-

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2016

Note 12. Public Employee Pension Plans (Continued)

Actuarial Assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	3.0 percent
Investment rate of return	7.65 percent, net of pension plan investment expense, including inflation

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at the CalPERS website under Forms and Publications.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension cash flows. The expected rate of return was then set equivalent to a single equivalent rate calculated by CalPERS and rounded down to the nearest one quarter of one percent.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	New Strategic Allocation	Real Return Years 1-10	Real Return Years 11+
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0	.99	2.43
Inflation Sensitive	6.0	.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure & Forestland	2.0	4.50	5.09
Liquidity	2.0	(.55)	(1.05)

Discount Rate – The discount rate used to measure the total pension liability was 7.65 percent. 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 likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 percent will be applied to all plans in the Public Employee Retirement Fund.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2016

Note 12. Public Employee Pension Plans (Continued)

Sensitivity of the City's 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 calculated using the discount rate of 7.65 percent, 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 (6.65percent) or 1-percentage higher (8.65 percent) than the current rate:

	-1% Decrease (6.65%)	Current Discount Rate (7.65%)	+1% Increase (8.65%)
City's proportionate share of the net pension liability	\$12,203,709	\$8,406,983	\$5,282,188
Totals	\$12,203,709	\$8,406,983	\$5,282,188

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

Note 13. Restricted Net Position and Nonspendable Fund Balances

The \$ 5,648,440 restricted amount in the governmental activities and the \$4,535,027 in the business-type activities statement net position represent amounts to be used only for specific purposes which restrictions are imposed by laws, formal agreements or other governments.

Nonspendable fund balances consisted of the following:

Purpose	General Fund	Other Funds
Prepayments	\$ 42,311	\$ -
	\$ 42,311	\$ -

Note 14. Post- Employment Benefits Other than Pensions

Plan Description. The City administers the city's retired employees health care plan, a single employer defined benefit health care plan. The plan provides medical benefits to a limited number of eligible retired employees. The plan is closed to current and future City employees. City resolutions and agreements assign the authority to establish and amend benefit provisions to the City. A separate OPEB trust account has not been established by the City for the OPEB Plan.

Funding Policy. The contribution requirements of plan members and the City are established and may be amended by the City. The required contribution is based on a projected pay as you go financing requirement, with additional amounts to prefund benefits determined annually by the City Council. For the fiscal year ended June 30, 2016, the City contributed \$22,949 of current premiums (100% of total premiums) and zero to prefund benefits. Plan members receiving benefits contributed no amounts of total premiums.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2016

Note 14. Post- Employment Benefits Other Than Pensions (Continued)

Annual OPEB Costs and Net OPEB Obligation. The city's annual other post employment benefit cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board Statement Number 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB costs for the year, the amounts actually contributed to the Plan, and changes in the City's net OPEB obligation to the Plan:

Annual required contribution (ARC)	\$	23,701
Interest on net OPEB obligation		2,544
Adjustments to the ARC		<u>(2,527)</u>
Annual OPEB expense		23,718
Contributions made		<u>(22,949)</u>
Change in net OPEB obligation		769
Net OPEB Obligation , beginning of year		<u>63,588</u>
Net, OPEB obligation, end of year	\$	<u>64,357</u>

The City's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for the last two fiscal years was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
June 30, 2014	\$30,514	68.6%	\$57,459
June 30, 2015	\$31,136	80.3%	\$63,588
June 30, 2016	\$23,718	96.8%	\$64,357

Funding status and Funding Progress. As of June 30, 2016, the most recent actuarial valuation date, the plan was zero funded. The actuarial accrued liability for benefits was \$331,633 and the actuarial value of plan assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$331,633. The covered payroll (the annual payroll of active employees covered by the plan) was \$2,929,270 and the UAAL as a percentage of covered payroll was 11.3 percent.

Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and health care trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplemental information, following the notes to these financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to actuarial liabilities for benefits.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2016

Note 14. Post- Employment Benefits Other Than Pensions (Continued)

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) includes the types of benefits provided at the time of each valuation and the historical pattern of sharing costs between the employer and the plan members to that point in time. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial liabilities and the actuarial value of plan assets, consistent with the long-term perspective of the calculations.

In the June 30, 2016 valuation, the projected unit credit actuarial cost method was used under the Alternate Measurement Method. The actuarial assumptions include a 4 percent rate of return based on assumed long-term returns on employer assets. An annual health care trend rate of 9.0 percent initially decreasing to 5 percent in year 2025. There were no plan assets at the valuation date. The UAAL is being amortized as a level percentage of payrolls over 30 years, the remaining amortization period at June 30, 2016.

Note 15. Successor Agency Trust For Assets of Former Redevelopment Agency

A. The Dissolution Process

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X26 (the Bill) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the financial reporting entity of the City of Cotati that previously had reported a redevelopment agency within the financial reporting entity of the city as a blended component unit. The bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the successor agency to hold assets until they are distributed to other units of State and local government. The City Council of Cotati elected to have the City become the Successor Agency for the former redevelopment agency.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations, or commitments. Subject to the control of a newly established oversight Board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenues in the amount that is necessary to pay the annual estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior agency have been paid in full and all assets have been liquidated.

The bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City and others are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on these issues is not a position of settled law and there is considerable legal uncertainty regarding these issues. It is reasonable possible that a legal determination may be made at a later date by an appropriate judicial authority or other authorized body that would resolve any of the dissolution matters unfavorably to the City.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2016

Note 15. Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012. After the date of dissolution, the assets and financial activities of the dissolved redevelopment agency are reported in a fiduciary fund (the private –purpose trust fund) in the financial statements of the City of Cotati. The assets and liabilities of the private purpose trust are excluded from the government-wide statement of net position of the City of Cotati and the Statement of Activities of the City of Cotati because fiduciary fund assets are not available in any fashion for use by the City.

B. Enforceable Obligations

Tax Allocation Refunding Bonds 2004-Series A

In June, 2004, the Cotati Facilities Financing Authority issued \$5,610,000 in its 2004 Series A tax allocation refunding bonds. The Authority entered into a loan agreement with the City's Redevelopment Agency wherein the Agency in substance is to pay the principal and interest on the bonds.

Future debt service requirements are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 255,000	\$ 161,559	\$ 416,559
2018	265,000	149,596	414,596
2019	280,000	136,855	416,855
2020	290,000	123,388	413,388
2021	270,000	109,750	379,750
2022-2026	830,000	370,250	1,200,250
2027-2031	-	307,500	307,500
2032-2036	1,200,000	184,500	1,384,500
Totals	<u>\$ 3,390,000</u>	<u>\$ 1,543,398</u>	<u>\$ 4,933,398</u>

Payment of bond debt service on the 2004 tax allocation bonds was secured by a first pledge and lien on all of the former Agency's revenues. Such revenues were the tax increment allocated to the project area less statutory housing obligations and the County, Library, and Fire District's share of such tax increment. Payment of interest and principal on the bonds is also insured by a financial guaranty policy. Interest and principal on the bonds is payable each March 1 and September 1 through 2036. The bonds bear interest at rates from 1.60 to 5.125 percent.

Tax Allocation Bonds 2001 Series A

On November 14, 2001, The City's former Redevelopment Agency issued \$ 6,960,000 in subordinate tax allocation bonds, series 2001A, to advance refund and retire two capital leases and provide additional project funds. The tax allocation bonds consisted of \$1,510,000 in serial bonds bearing interest at rates from 2 percent to 4.5 percent maturing each September 1 through 2021, \$2,050,000 in term bonds bearing interest at 5 percent and maturing September 1, 2026, and \$3,400,000 in 5 percent term bonds maturing September 1, 2031. The term bonds are subject to mandatory sinking fund early redemption. Future debt service requirements are as follows:

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2016

Note 15. Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

B. Enforceable Obligations (Continued)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 90,000	\$ 305,673	\$ 395,673
2018	105,000	301,330	406,330
2019	120,000	296,268	416,268
2020	135,000	290,530	425,530
2021	155,000	283,928	483,928
2022-2026	1,635,000	1,254,806	2,889,806
2027-2031	3,235,000	559,475	3,794,475
2032	750,000	18,750	768,750
Totals	<u>\$ 6,225,000</u>	<u>\$ 3,310,760</u>	<u>\$ 9,535,760</u>

Tax Allocation Bonds Pledged Revenues

The former redevelopment agency had pledged future tax increment revenues to pay debt service on the 2001 and 2004 tax allocation bonds. Total principal and interest remaining on the successor agency's bonds is \$14,469,158.

Changes in enforceable obligations for the year ended June 30, 2016 were as follows:

Private Purpose Trust Fund:	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u>	<u>Due in One Year</u>
2001 tax allocation bonds, series A	\$ 6,315,000	\$ -	\$ 90,000	\$ 6,225,000	\$ 90,000
2004 tax allocation bonds, series A	3,635,000	-	245,000	3,390,000	255,000
Total	<u>\$ 9,950,000</u>	<u>\$ -</u>	<u>\$ 335,000</u>	<u>\$ 9,615,000</u>	<u>\$ 345,000</u>

C. Cash and Investments Held in Trust

The Cash and investments of the Successor Agency at June 30, 2016 consisted of \$829,908 in funds held by the City of Cotati and primarily invested in the Local Agency Invest Fund (LAIF) of the State of California. In addition, there was \$696,511 held by a bank trustee primarily in a reserve account for the 2001 tax allocation bonds.

D. Distributions to the City

Pursuant to the approved long-range property management plan and Finding of Completion, the Successor Agency distributed \$701,184 in cash and \$2,144,540 in capital assets to the City of Cotati for governmental use. The Agency also recognized a decline of \$1,458,600 in the fair value of its capital assets as a result of the distribution and completion process.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2016

Note 16. Change in Accounting Principle

The City in fiscal 2016 adopted the financial reporting provisions of Governmental Accounting Standards Board (GASB) Statement Number 72 titled Fair Value Measurement and Application. Implementation of this reporting standard resulted in no restatement of the City's net position or fund balances. The beginning of year net position of the governmental activities and fund balances of the non-major governmental funds as originally reported were reduced by \$30,134 to correct an error in revenue reporting for fiscal 2015.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF COTATI
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund Balance, July 1	\$ 2,880,408	\$ 2,964,188	\$ 2,964,188	\$ -
Resources (inflows):				
Property taxes	1,333,247	1,333,247	1,652,877	319,630
Sales taxes	3,842,000	3,842,000	4,075,204	233,204
Other taxes	24,000	24,000	46,314	22,314
License permits	464,000	464,000	502,033	38,033
Fines and forfeits	96,610	96,610	121,293	24,683
Interest and rents	82,200	82,200	58,615	(23,585)
Intergovernmental	66,500	66,500	82,679	16,179
Charges for services	114,320	114,320	418,300	303,980
Miscellaneous	8,500	8,500	10	(8,490)
Transfers in	407,475	407,475	318,000	(89,475)
Amounts available for charges to appropriations	<u>9,319,260</u>	<u>9,403,040</u>	<u>10,239,513</u>	<u>836,473</u>
Charges to appropriations:				
General government:				
City Council	100,571	101,571	78,575	22,996
City Manager/City Clerk	364,170	365,170	330,360	34,810
Administrative services	326,888	327,888	261,716	66,172
Legal services	160,000	150,000	220,266	(70,266)
Non-Departmental	352,200	397,200	447,095	(49,895)
Public information services	38,300	39,300	1,200	38,100
Community development	424,578	325,666	458,672	(133,006)
Economic development	114,861	114,861	80,439	34,422
Public safety:				
Police	3,001,450	3,001,450	2,896,268	105,182
Public works:				
Streets	675,901	554,901	484,305	70,596
Engineering	84,572	84,572	67,712	16,860
Storm water	71,645	71,645	30,920	40,725
Park maintenance	322,582	322,582	192,818	129,764
Government buildings	449,913	449,913	280,829	169,084
Transfers out	<u>1,284,020</u>	<u>1,284,020</u>	<u>447,993</u>	<u>836,027</u>
Total charges to appropriations	<u>7,771,651</u>	<u>7,590,739</u>	<u>6,279,168</u>	<u>1,311,571</u>
Fund Balance, June 30	<u><u>\$ 1,547,609</u></u>	<u><u>\$ 1,812,301</u></u>	<u><u>\$ 3,960,345</u></u>	<u><u>\$ 2,148,044</u></u>

CITY OF COTATI
Required Supplementary Information
Notes to Budgetary Comparison Schedule - General Fund
For the Fiscal Year Ended June 30, 2016

Explanation of Difference Between Budgetary Inflows and Outflows and GAAP

Revenues and Expenditures:

Sources/inflows resources:

Actual amounts "available for appropriation" from budgetary comparison schedule:	\$ 10,239,513
Differences - budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(2,964,188)
Transfers in are a budgetary resource but are not a current year revenue for financial reporting purposes	<u>(318,000)</u>
Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 6,957,325</u></u>

Uses/outflows of resources:

Actual amounts "total charges to appropriations" from the budgetary comparison schedule	\$ 6,279,168
Differences - budget to GAAP:	
Transfers out are a budgetary use but are not a current year expenditures for financial reporting purposes	<u>(447,993)</u>
Total expenditures as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 5,831,175</u></u>

CITY OF COTATI
Required Supplementary Information
Budgetary Comparison Schedule - Inclusionary Housing Special Revenue Fund
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund Balance, July 1	\$ 3,232,853	\$ 3,241,603	\$ 3,241,603	\$ -
Resources (inflows):				
Interest	1,200	1,200	15,661	14,461
Amounts available for charges to appropriations	3,234,053	3,242,803	3,257,264	14,461
Charges to appropriations:				
Community Development:				
Current:				
Administration:				
Legal	2,000	2,000	1,001	999
Subsidy costs	249,000	249,000	165,986	83,014
Housing fee and housing element updates	25,000	25,000	-	25,000
Total charges to appropriations	276,000	276,000	166,987	109,013
Fund Balance, June 30	\$ 2,958,053	\$ 2,966,803	\$ 3,090,277	\$ 123,474

Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Actual amounts available for appropriation:	\$ 3,257,264
The fund balance at the beginning of the year is a budgetary financial resource, but is not current revenue for fi budgetary financial resource, but is not current	(3,241,603)
Total revenues as reported in the statement of revenues, expenditures and changes in fund balances	\$ 15,661

CITY OF COTATI
Required Supplementary Information
Budgetary Comparison Schedule - Grants Special Revenue Fund
For the Fiscal Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Fund Balance, July 1	\$ 443,523	\$ 355,385	\$ 355,385	\$ -
Resources (inflows):				
Intergovernmental:				
Federal grant- Old Redwood Hwy	1,095,000	1,095,000	677,650	(417,350)
Federal grant-Intermodal	245,000	245,000	(1,251)	(246,251)
Federal grant-Gateway project	50,000	50,000	-	(50,000)
County grant- State Route 116	-	-	22,648	22,647
Interest	-	-	1,973	1,973
Transfers in	1,754,020	1,754,020	956,553	(797,467)
Amounts available for charges to appropriations	<u>3,587,543</u>	<u>3,499,405</u>	<u>2,012,958</u>	<u>(1,486,448)</u>
Charges to appropriations:				
Capital outlay:				
Old Redwood Highway Revitalization	2,669,713	2,669,713	1,619,509	1,050,204
Old Redwood Highway preservation	412,586	412,586	11,365	401,221
State Route 116 landscaping	61,721	61,721	22,648	
Intermodal project	-	-	2,078	(2,078)
Total charges to appropriations	<u>3,144,020</u>	<u>3,144,020</u>	<u>1,655,600</u>	<u>1,449,347</u>
Fund Balance, June 30	<u>\$ 443,523</u>	<u>\$ 355,385</u>	<u>\$ 357,358</u>	<u>\$ (37,101)</u>

Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Actual amounts available for appropriation:	\$ 2,012,958
The fund balance at the beginning of the year is a budgetary financial resource, but is not considered revenue for financial reporting purposes	(335,385)
Transfers in are not considered revenues for financial reporting purpose	(956,553)
Total revenues as reported in the statement of revenues, expenditures and changes in fund balances	<u>\$ 721,020</u>

CITY OF COTATI
Required Supplementary Information
Other Post Employment Benefits Other Than Pensions
Schedule of Funding Progress
June 30, 2016
(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded (overfunded) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess) as a Percentage of Covered Payroll [(b-a)/c]
7/1/2009	\$ -	\$ 659,654	\$ 659,654	0.0%	\$ 2,190,328	30.1%
6/30/2013	\$ -	\$ 482,463	\$ 482,463	0.0%	\$ 2,436,709	19.8%
6/30/2016	\$ -	\$ 331,633	\$ 331,633	0.0%	\$ 2,929,270	11.3%

CITY OF COTATI
Required Supplemental Information
Schedule of The City's Proportionate Share of the Net Pension Liability
June 30, 2016
(Last Ten Fiscal Years)

	Fiscal Year End	
	2015	2016
<u>Measurement Date</u>	6/30/2014	6/30/2015
City's proportion of the net pension liability	0.11983%	0.12248%
City's proportionate share of the net pension liability	\$ 7,456,420	\$ 8,406,983
City's covered employee payroll (plan year)	\$ 2,224,998	\$ 2,789,822
City's proportionate share of the net pension liability as a percentage of its covered employee payroll	335.12%	301.34%
Plan's fiduciary net position as a percentage of the total pension liability	79.82%	78.40%

Notes to the schedule:

Benefit changes: In fiscal 2016, there were no benefit changes.

Changes in assumptions: In fiscal 2016, the plan's discount rate was changed from 7.5% to 7.65%

Last Ten Years: This schedule is intended to show information for 10 years. Fiscal 2015 was the first year of implementation, and additional information will be presented as it becomes available

CITY OF COTATI
Required Supplemental Information
Schedule of The City's Pension Contributions
June 30, 2016
(Last Ten Fiscal Years)

<u>Contributions for the fiscal year ending</u>	<u>June 30, 2016</u>	
	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 771,201	\$ 1,004,742
Contributions in relation to the contractually required contribution	\$ (771,201)	\$ (1,004,742)
Contribution deficiency (excess)	\$ -	\$ -
City's covered employee payroll City fiscal year)	\$ 2,789,822	\$ 2,935,345
Contributions as a percentage of covered employee payroll	27.64%	34.23%

Notes to the schedule:

Plan valuation date: June 30, 2014

Last Ten Years: this schedule is intended to show information for 10 years. Fiscal year 2015 was the first year of implementation, and additional years information will be presented as it becomes available.

OPTIONAL SUPPLEMENTARY INFORMATION
***NONMAJOR FUNDS' COMBINING FINANCIAL STATEMENTS AND
SCHEDULE OF MEASURE G REVENUES AND USES***

**City of Cotati
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2015**

	Special Revenue							Capital Projects			Total Nonmajor Governmental Funds
	Police Volunteer	Public Safety	Asset Forfeiture	K-9 Program	Police Explorer	PEG	Vehicle Replacement	City Capital Projects	Capital Projects Unspent Bond Proceeds		
Assets											
Cash and investments	\$ 1,273	\$ 48,560	\$ 143,044	\$ 10,160	\$ 3,045	\$ 2,490	\$ 47,570	\$ 515,766	\$ 701,184	\$	\$ 2,313,595
Receivables:											
Receivables from other governments	-	-	-	-	-	4,724	-	12,520	-	-	320,084
Notes receivable	-	-	-	-	-	-	-	-	-	-	561,797
Total assets	\$ 1,273	\$ 48,560	\$ 143,044	\$ 10,160	\$ 3,045	\$ 7,214	\$ 47,570	\$ 528,286	\$ 701,184	\$	\$ 3,195,476
Liabilities and Fund Balances											
Liabilities:											
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 153,352	\$ -	\$ -	\$ 170,326
Accrued liabilities	-	-	-	-	-	-	-	25,184	-	-	287,057
Due to other governments	-	-	64,426	-	-	-	-	-	-	-	64,426
Due to other funds	-	-	-	-	-	-	-	-	-	-	73,348
Total liabilities	-	-	64,426	-	-	-	-	178,536	-	-	595,157
Deferred inflows of resources:											
Long-term notes receivable	-	-	-	-	-	-	-	-	-	-	561,797
Fund balances:											
Restricted for streets	-	-	-	-	-	-	-	-	-	-	332,857
Restricted for public education	-	-	-	-	-	7,214	-	-	-	-	7,214
Restricted for parks	-	-	-	-	-	-	-	-	-	-	2,317
Restricted for recycling	-	-	-	-	-	-	-	-	-	-	5,310
Restricted for public safety	1,273	48,560	78,618	10,160	3,045	-	-	-	-	-	141,656
Restricted for housing	-	-	-	-	-	-	-	-	-	-	10,761
Restricted for capital projects	-	-	-	-	-	-	-	-	701,184	-	1,141,087
Committed for capital projects	-	-	-	-	-	-	47,570	349,750	-	-	397,320
Total fund balances	1,273	48,560	78,618	10,160	3,045	7,214	47,570	349,750	701,184		2,038,522
Total liabilities, deferred inflows of resources and fund balances	\$ 1,273	\$ 48,560	\$ 143,044	\$ 10,160	\$ 3,045	\$ 7,214	\$ 47,570	\$ 528,286	\$ 701,184	\$	\$ 3,195,476

**City of Cotati
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016**

	Special Revenue Funds									
	City Low Moderate Income Housing	Gas Tax	Parks and Recreation	Park In Lieu	Community Service	MTC Street	Traffic Mitigation	Recycling	CDBG	
Assets										
Cash and investments	\$ 168,585	\$ 10,821	\$ 53,393	\$ 2,879	\$ 439,903	\$ -	\$ 53,797	\$ 44,145	\$ 5,310	\$ 61,670
Receivables:										
from other governments	1,667	-	-	-	-	-	12,405	-	-	288,768
Notes receivable	-	561,797	-	-	-	-	-	-	-	-
Total assets	\$ 170,252	\$ 572,618	\$ 53,393	\$ 2,879	\$ 439,903	\$ -	\$ 66,202	\$ 44,145	\$ 5,310	\$ 350,438
Liabilities and Fund Balances										
Liabilities:										
Accounts payable	\$ 1,135	\$ 60	\$ -	\$ 562	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,217
Accrued liabilities	-	-	-	-	-	-	-	-	-	261,873
Due to other governments	-	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-	-	73,348
Total liabilities	1,135	60	-	562	-	-	-	-	-	350,438
Deferred inflows of resources:										
Long-term notes receivable	561,797	-	-	-	-	-	-	-	-	-
Fund balances:										
Restricted for streets	169,117	-	53,393	-	-	-	66,202	44,145	-	-
Restricted for public education	-	-	-	-	-	-	-	-	-	-
Restricted for parks	-	-	-	2,317	-	-	-	-	-	-
Restricted for recycling	-	-	-	-	-	-	-	-	5,310	-
Restricted for public safety	-	-	-	-	-	-	-	-	-	-
Restricted for housing	-	10,761	-	-	-	-	-	-	-	-
Restricted for capital projects	-	-	-	-	439,903	-	-	-	-	-
Committed for capital projects	-	-	-	-	-	-	-	-	-	-
Total fund balances	169,117	10,761	53,393	2,317	439,903	-	66,202	44,145	5,310	-
Total liabilities, deferred inflows of resources and fund balances	\$ 170,252	\$ 572,618	\$ 53,393	\$ 2,879	\$ 439,903	\$ -	\$ 66,202	\$ 44,145	\$ 5,310	\$ 350,438

CITY OF COTATI
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2016

	Special Revenue							Capital Projects			Total Nonmajor Governmental Funds
	Police Volunteer	Public Safety	Asset Forfeiture	K-9 Program	Police Explorer	PEG	Vehicle Replacement	City Capital Projects	Capital Projects Unspent Bond Proceeds		
Revenues											
Intergovernmental	-	\$ 112,083	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 588,640
Sales taxes	-	-	-	-	-	-	-	-	-	-	53,296
Fines and forfeitures	-	-	114,258	-	-	-	-	-	-	-	114,258
Charges for services	-	-	-	-	-	18,697	-	150,240	-	-	322,558
Interest	6	110	823	57	16	10	241	3,254	-	-	8,573
Miscellaneous	-	-	-	5,423	69	-	-	-	-	-	7,662
Total revenues	6	112,193	115,081	5,480	85	18,707	241	153,494	-	-	1,074,987
Expenditures											
Current:											
Public safety	-	-	5,606	2,979	-	10,728	-	-	-	-	19,313
Community development	-	-	-	-	-	-	-	-	-	-	31,557
Capital outlay	-	-	27,024	-	-	3,097	8,379	275,926	-	-	17,811
Total expenditures	-	-	32,630	2,979	-	13,825	8,379	275,926	-	-	733,545
Excess (deficiency) of revenues over (under) expenditures	6	112,193	82,451	2,501	85	4,882	(8,138)	(122,432)	-	-	341,442
Other financing sources (uses):											
Contribution from successor agency	-	-	-	-	-	-	-	-	701,184	-	701,184
Transfers in	-	-	-	-	-	-	-	275,926	-	-	337,596
Transfers out	-	(100,000)	-	-	-	-	-	(407,000)	-	-	(1,164,156)
Total other financing sources (uses)	-	(100,000)	-	-	-	-	-	(131,074)	701,184	-	(125,376)
Net change in fund balances	6	12,193	82,451	2,501	85	4,882	(8,138)	(253,506)	701,184	-	216,066
Fund balances, July 1	1,267	36,367	(3,833)	7,659	2,960	2,332	55,708	603,256	-	-	1,822,456
Fund balances, June 30	\$ 1,273	\$ 48,560	\$ 78,618	\$ 10,160	\$ 3,045	\$ 7,214	\$ 47,570	\$ 349,750	\$ 701,184	\$	2,038,522

CITY OF COTATI
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2016

	Special Revenue Funds									
	City Low Moderate Income Housing	Land Landscape and Lighting	Gas Tax	Parks and Recreation	Park in Lieu	Community Service	MTC Street	Traffic Mitigation	Recycling	CDBG
Revenues										
Intergovernmental	\$ -	\$ -	\$ 166,137	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,000	\$ 285,420
Sales taxes	-	-	-	-	-	-	53,296	-	-	-
Fines and forfeitures	-	-	-	-	-	-	-	-	-	-
Charges for services	525	46,701	-	17,236	69,940	-	-	19,219	-	-
Interest	54	-	231	-	2,861	-	224	659	27	-
Miscellaneous	-	-	-	325	-	-	-	-	-	1,845
Total revenues	579	46,701	166,368	17,561	72,801	-	53,520	19,878	5,027	287,265
Expenditures										
Current:										
Public safety	-	-	-	-	-	-	-	-	-	-
Public works	22,727	-	-	-	-	-	-	3,830	5,000	-
Community development	459	-	-	17,352	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-	350,438
Total expenditures	459	22,727	-	17,352	-	-	-	3,830	5,000	350,438
Excess (deficiency) of revenues over (under) expenditures	120	23,974	166,368	209	72,801	-	53,520	16,048	27	(63,173)
Other financing sources (uses):										
Contribution from successor agency	-	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-	61,670
Transfers out	-	-	(138,000)	-	(289,156)	-	-	(140,000)	(110,000)	-
Total other financing sources (uses)	-	-	(138,000)	-	(289,156)	-	-	(140,000)	(110,000)	61,670
Net change in fund balances	120	23,974	28,368	209	(196,355)	-	53,520	(123,952)	(109,973)	(1,503)
Fund balances, July 1	10,641	145,143	25,025	2,108	636,258	-	12,682	168,097	115,283	1,503
Fund balances, June 30	\$ 10,761	\$ 169,117	\$ 53,393	\$ 2,317	\$ 439,903	\$ -	\$ 66,202	\$ 44,145	\$ 5,310	\$ -

CITY OF COTATI
Schedule of Measure G Revenues and Uses
Fiscal Year Ended June 30, 2016

Revenues:	
Measure G revenues	<u>\$1,981,285</u>
 Total Measure G revenues	 <u>\$1,981,285</u>
Use:	
Operations and maintenance:	
Street, sidewalk and storm drain program	121,663
Public safety program	641,610
Recreation program	52,487
Park and landscape program	154,327
Public building program	185,963
Capital improvements and equipment:	
Street, sidewalk and storm drain program	733,689
Public safety program	44,023
Park and landscape program	6,944
Public building program	27,679
State administrative fees	<u>12,900</u>
	<u>\$1,981,285</u>