NOTE 8 – NET POSITION AND FUND BALANCES (Continued)

E. Fund Balances

Fund balances for all the major and non-major governmental funds as of June 30, 2018 were distributed as follows:

Fund Balance Classifications	General	In Lieu Park Land	Capital Projects	Other Governmental Funds	Total
Nonspendables:					
Inventory and prepaids	$26,760				$26,760
Notes receivable	1,895,206				1,895,206
Veteran Memorial	9,986				9,986
Total Nonspendable Fund Balances	1,931,952				1,931,952
Restricted for:					
Debt service				$364,179	364,179
Special revenue programs and projects		$5,253,528		4,490,006	9,743,534
Total Restricted Fund Balances		5,253,528		4,854,185	10,107,713
Assigned to:					
Emergency and operating	7,250,645				7,250,645
OPEB	1,500,000				1,500,000
PERS reserve	4,000,000				4,000,000
Technology reserve	2,403,554				2,403,554
Capital and equipment (Note 8I)	23,432,734			1,335,148	24,767,882
Total Assigned Fund Balances	38,586,933			1,335,148	39,922,081
Unassigned	4,874,898		($823,098)		4,051,800
Total Unassigned Fund Balances	4,874,898		(823,098)		4,051,800
Total Fund Balances	$45,393,783	$5,253,528	($823,098)	$6,189,333	$56,013,546

F. Net Deficit

The funds listed in the table below had fund balance deficits at June 30, 2018. These deficits are expected to be eliminated by future revenues.

Fund	Fund Deficit
Capital Projects Fund	$823,098
Storm Drain Enterprise Fund	23,938

G. OPEB Reserves

As of June 30, 2018, $1,500,000 million in General Fund reserves have been assigned in recognition of existing Post-Retirement Health Actuarial Liability noted above.

NOTE 8 – NET POSITION AND FUND BALANCES (Continued)

H. Restatements of Net Position

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (OPEB), which became effective during the year ended June 30, 2018. In June 2015, GASB issued Statement No. 75 and the intention of this Statement is to improve the usefulness of information for decisions made by the various users of the financial reports of governments whose employees – both active employees and inactive employees – are provided with postemployment benefits other than pensions by requiring recognition of the entire net OPEB liability and a more comprehensive measure of OPEB expense.

The implementation of the Statement required the City to make prior period adjustments. As a result, the beginning net positions as of July 1, 2017 of the Governmental Activities, Business□Type Activities, Sewer Enterprise Fund, Solid Waste Enterprise Fund and Storm Drain Enterprise Fund were restated and reduced by $403,249, $35,189, $2,193 and $4,384, respectively. See Note 12 for additional information.

I. Capital Projects Reserves

As of June 30, 2018 the City had set-aside $23,432,734 for the construction of a new community center that is financed by resources other than proprietary funds. This amount includes $10,520,361 from the City's Real Property Proceeds Fund and $12,912,373 in the City's Community Facilities Renewal Fund, which are presented with the General Fund in the financial statements. While these funds are not restricted by outside funding sources, the fund balance is assigned for the new community center.

	Real Property Proceeds Fund	Community Facilities Renewal Fund
Beginning Fund Balance as of July 1, 2017	**$10,470,200**	**$13,350,992**
Revenues		
Interest Income	50,161	
Total Revenues	**50,161**	
Other Financing Sources (Uses)		
Transfers out		(438,619)
Total Other Financing Sources (Uses)		**(438,619)**
Ending Fund Balance as of June 30, 2018	**$10,520,361**	**$12,912,373**

J. Encumbrances

The City utilized an encumbrance system during fiscal year 2018 to assist in controlling expenditures. Under this system, governmental funds are encumbered when purchase orders, contracts, or other commitments are signed or approved. The General fund had an encumbrance balance at June 30, 2018, of $256,296 that will be carried over to fiscal year 2019.

NOTE 9 – RISK MANAGEMENT

A. Bay Cities Joint Powers Insurance Authority

The City is exposed to various risks of loss related to torts; theft of damage to and destruction of assets; errors and omissions; and floods for which the City is insured through Bay Cities Joint Powers Insurance Authority (Bay Cities).

The City has joined Bay Cities for general liability, property, errors and omissions, crimes and automobile physical damage coverage in the current year. Bay Cities is a public agency created in 1986 by and among various municipalities in Northern California to provide a pooled approach to liability insurance pursuant to the California Government Code. It is governed by a Board of Directors comprised of appointed officials from the member entities. The purpose of the pool is to provide various levels of liability coverage, claims administration, and loss control support to member agencies. Annually, each member pays an actuarially determined premium based on a formula which takes into account the prior three years' loss experience, annual payroll, and population.

Bay Cities provides coverage for its Members in excess of the member's retained limit, or self-insured retention (SIR), up to $1,000,000 per occurrence. Each Member retains the portion of every loss that falls within their SIR, ranging from $2,500 to $1,000,000. Bay Cities is also a member of the California Affiliated Risk Management Authorities (CARMA), a risk sharing joint powers authority. When losses exceed the $1,000,000 per occurrence limit, CARMA provides coverage up to $28,000,000.

The City self-insures the first $100,000 of each liability loss. Once the City's deductible is met, Bay Cities becomes responsible for payment of all claims up to the upper limit. During the year ended June 30, 2018, the City contributed $65,849 for current year coverage.

The City continues to carry excess insurance policy for Workers' Compensation claims through the CSAC Excess Insurance Authority JPA up to the statutory limits and does so using the services of a contracted third-party administrator. The City has a $250,000 deductible as of June 30, 2018. During the year, the City contributed $812,120 for current year coverage.

As of June 30, 2018, $31,828 of revolving funds was held in trust on behalf of the City by the workers' compensation third-party claims administrator. $20,000 is also being held by Bay Cities in the procurement of liability and claims coverage. The City will receive these funds upon termination of services subject to final withdrawal adjustments.

The Bay Cities financial statements may be obtained from Bay Cities Joint Powers Insurance Authority, Bickmore, 1750 Creekside Oaks Drive Suite 200, Sacramento, CA 95833. CSAC Excess Insurance Authority financial statements may be obtained from CSAC Excess Insurance Authority, 75 Iron Point Circle Suite 200, Folsom, CA 95630.

NOTE 9 – RISK MANAGEMENT (Continued)

B. Liability for Uninsured Claims

The GASB requires municipalities to record their liability for uninsured claims and to reflect the current portion of this liability as an expenditure in their financial statements. As discussed in the section above, the City has coverage for such claims, but it has retained the risk for the deductible or uninsured portion, of these claims. The current accounting standards require that this amount be separately identified and recorded as a liability. Changes in the balances of claims liabilities during the past three years were as follows:

	June 30,		
	2018	2017	2016
Unpaid claims, beginning of year	$3,433,475	$3,937,000	$4,146,000
Incurred claims and changes in estimates	779,259	463,328	106,548
Claim payments	(632,734)	(966,853)	(315,548)
Unpaid claims, end of year	$3,580,000	$3,433,475	$3,937,000
Current Portion	$831,733	$643,503	$650,101
Long-Term Portion	$2,748,267	$2,789,972	$3,286,899

In conformance with current accounting standards the City obtained an independent actuarial valuation of all outstanding Workers Compensation and Liability claims. The for Workers Compensation the report presented a valuation as of June 30, 2017 and projected values through fiscal years 2018 and 2019. The fiscal year 2017-2018 values presented above reflect the estimated present value of open claims as developed in this actuarial report. The General Liability report presented a valuation as of June 30, 2017 and projected values through fiscal year 2019. The estimated amount of claims and judgments due within one year is $831,733.

NOTE 10 – SELF-FUNDED REIMBURSEMENT DENTAL PLAN

The City provides a self-funded reimbursement based dental plan. The City's contribution for this plan is accounted for in the Dental Reimbursement Fund. The City contributed $75 per month for each fulltime budgeted position. The funds accumulated are used to reimburse full-time salaried employees and their dependents, as well as council members for covered dental claims. There are no administrative charges for this plan. The Dental Reimbursement Fund maintains a positive fund balance of $57,161 with contributions and reimbursements for the past five fiscal years as follows:

Fiscal year ended June 30,	Contribution Amount	Reimbursement Amount
2014	$110,284	$119,137
2015	123,225	128,498
2016	122,400	155,793
2017	121,350	125,208
2018	127,800	177,094
Total	$605,059	$705,730

The dental plan year commences January 1st of each calendar year. An annual maximum dental reimbursement of $1,804 is provided for each employee and $1,202 for each of their dependents. Any remaining balance in the fund for each dental year is carried forward to the following year. In subsequent dental years, the maximum dental coverage for both employees and dependents is increased annually based on the Consumer Price Index but not to exceed 3%.

NOTE 11 – PENSION PLAN

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

A. General Information about the Pension Plan

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the City's Miscellaneous and Safety Tier I, Tier II and PEPRA Employee Pension Rate Plan. The City's Miscellaneous Rate Plan is part of the public agency cost-sharing multiple-employer defined benefit pension plan (PERF C), which is administered by the California Public Employees' Retirement System (CalPERS). PERF C consists of a miscellaneous pool and a safety pool (also referred to as "risk pools"), which are comprised of individual employer miscellaneous and safety rate plans, respectively. Individual employers may sponsor more than one miscellaneous and safety rate plan. The employer participates in one cost-sharing multiple-employer defined benefit pension plan regardless of the number of rate plans the employer sponsors. The City sponsors three miscellaneous and three safety rate plans. Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

NOTE 11 – PENSION PLAN (Continued)

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

The Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous - Tier 1
Hire date	Prior to January 1, 2012
Benefit formula	2.7% @ 55
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50-67
Monthly benefits, as a % of eligible compensation	2.00% - 2.7%
Required employee contribution rates	7.951%
Required employer contribution rates	11.675%

	Miscellaneous - Tier 2
Hire date	January 1, 2012 - December 31, 2012
Benefit formula	2% @ 60
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50-67
Monthly benefits, as a % of eligible compensation	1.092% - 2.418%
Required employee contribution rates	7.000%
Required employer contribution rates	7.200%

	Miscellaneous - PEPRA
Hire date	On or after January 1, 2013
Benefit formula	2% @ 62
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	52-67
Monthly benefits, as a % of eligible compensation	1.00% - 2.50%
Required employee contribution rates	6.250%
Required employer contribution rates	6.533%

NOTE 11 – PENSION PLAN (Continued)

	Safety - Tiers 1 and 2
Hire date	Prior to January 1, 2012
Benefit formula	3% @ 50
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50-55
Monthly benefits, as a % of eligible compensation	3.00%
Required employee contribution rates	8.988%
Required employer contribution rates	19.723%

	Safety - Tier 3
Hire date	January 1, 2012 - December 31, 2012
Benefit formula	3% @ 55
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50-55
Monthly benefits, as a % of eligible compensation	2.400-3.000%
Required employee contribution rates	8.982%
Required employer contribution rates	16.842%

	Safety - PEPRA
Hire date	On or after January 1, 2013
Benefit formula	2.7% @ 57
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50-57
Monthly benefits, as a % of eligible compensation	2.000% - 2.700%
Required employee contribution rates	11.500%
Required employer contribution rates	11.990%

Beginning in fiscal year 2017, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as dollar amount for contributions toward the unfunded liability and side fund. The dollar amounts are billed on a monthly basis. The City's required contribution for the unfunded liability and side fund was $1,543,970 in fiscal year 2018.

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

NOTE 11 – PENSION PLAN (Continued)

For the year ended June 30, 2018, the contributions recognized as part of pension expense for the Plan were as follows:

	Miscellaneous	Safety
Contributions - employer	$1,769,644	$1,390,429

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

As of June 30, 2018, the City reported a net pension liability for its proportionate share of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	$20,265,838
Safety	15,919,233
Total Net Pension Liability	$36,185,071

The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for the Plan as of June 30, 2016 and 2017 was as follows:

	Miscellaneous	Safety
Proportion - June 30, 2016	0.20%	0.16%
Proportion - June 30, 2017	0.51%	0.27%
Change - Increase (Decrease)	0.31%	0.11%

NOTE 11 – PENSION PLAN (Continued)

For the year ended June 30, 2018, the City recognized pension expense of $7,898,638. At June 30, 2018, 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
Pension contributions subsequent to measurement date	$3,160,073	
Differences between actual and expected experience	193,164	($394,413)
Changes in assumptions	5,481,482	(419,122)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		(959,516)
Net differences between projected and actual earnings on plan investments	1,219,820	
Adjustments due to differences in proportion	811,050	(151,507)
Total	$10,865,589	($1,924,558)

$3,160,073 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Annual Amortization
2019	$1,398,490
2020	3,201,804
2021	1,900,315
2022	(719,651)

NOTE 11 – PENSION PLAN (Continued)

Actuarial Assumptions – For the measurement period ended June 30, 2017, the total pension liability was determined by rolling forward the June 30, 2016 total pension liability. The June 30, 2017 total pension liability is based on the following actuarial methods and assumptions:

	Miscellaneous & Safety
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.15% (1)
Mortality	Derived using CalPERS' Membership Data for all funds (2)

(1) Net of pension plan investment expenses, including inflation.

(2) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS website.

All other actuarial assumptions used in the June 30, 2017 valuation were based on the results of a January 2016 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website under Forms and Publications.

Change of Assumptions – GASB 68, paragraph 68 states that the long long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. The discount rate of 7.15% used for the June 30, 2017 measurement date was net of administrative expenses. The discount rate of 7.15% used for the June 30, 2017 measurement date is without reduction of pension plan administrative expense. All other assumptions for the June 30, 2017 measurement date were the same as those used for the June 30, 2016 measurement date.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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.

NOTE 11 – PENSION PLAN (Continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	100%		

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

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

	Miscellaneous	Safety
1% Decrease	6.15%	6.15%
Net Pension Liability	$30,269,560	$24,001,906
Current Discount Rate	7.15%	7.15%
Net Pension Liability	$20,265,838	$15,919,233
1% Increase	8.15%	8.15%
Net Pension Liability	$11,980,575	$9,312,052

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

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

A. *General Information about the City's Other Post Employment Benefit (OPEB) Plan*

Plan Description – The City's Post Employment Benefit Plan is an agent-multiple-employer defined benefit healthcare plan administered by the California Employers' Retiree Benefit Trust (CERBT).

Benefits Provided – The provisions and benefits of the City's Other Post Employment Benefit Plan in effect at June 30, 2018, are summarized as follow:

	All Bargaining Units
Eligibility	Retire directly from the City under CalPERS (age 50 and 5 years of service or disability)
Benefit	- 5% of active contribution times years in PEMHCA (increase each year not greater than $100 per month) - Joined PEMHCA in 2001 - 100% of PEMHCA minimum in 2021 - Monthly amounts: Year Actives Retirees 2017 $ 128.00 $ 102.40 2018 133.00 113.05
Surviving Spouse Benefit	Surviving spouse coverage continues based on CalPERS retirement plan election

For the year ended June 30, 2018, the City's contributions to the Plan were $143,000.

Employees Covered by Benefit Terms – Membership in the plan consisted of the following at the measurement date of June 30, 2017

Active employees	125
Inactive employees or beneficiaries currently receiving benefit payments	50
Inactive employees entitled to but not yet receiving benefit payments	74
Total	249