

CITY OF ADELANTO, CALIFORNIA

ANNUAL AUDIT REPORT

Year Ended June 30, 2016

City of Adelanto, California
Annual Audit Report
Year Ended June 30, 2016

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	i - iii
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	1
Statement of Activities	2 - 3
Fund Financial Statements:	
Balance Sheet - Governmental Funds	4
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	5
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund	
Balances of Governmental Funds to the Statement of Activities	7
Statement of Net Position - Proprietary Funds	8
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	9
Statement of Cash Flows - Proprietary Funds	10 - 11
Statement of Fiduciary Net Position - Fiduciary Funds	12
Statement of Changes in Fiduciary Net Position - Fiduciary Funds	13
Notes to Financial Statements	14 - 63
Required Supplementary Information:	
Schedule of the City's Proportionate Share of the Net Pension Liability - CalPERS Pension Plan	64
Schedule of Contributions - CalPERS Pension Plan	65
Schedule of Funding Progress for CARHP	66
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual:	
General Fund	67 - 68
Notes to Required Supplementary Information	69
Supplementary Schedules:	
Non-major Governmental Funds:	
Combining Balance Sheet	70 - 74
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	75 - 79
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual:	
Capital Improvement Projects Capital Projects Fund	80
Mavericks Stadium Special Revenue Fund	81
Park Development Impact Special Revenue Fund	82
Drainage Impact Special Revenue Fund	83
Traffic Impact Special Revenue Fund	84
Fire Mitigation Impact Special Revenue Fund	85
Gas Tax Special Revenue Fund	86
TDA Article 8 Special Revenue Fund	87
TDA Article 4 Special Revenue Fund	88
Federal Grants Special Revenue Fund	89
State/Local Grants Special Revenue Fund	90
Community Development Block Grant Special Revenue Fund	91
AQMD/California AB Distributions Special Revenue Fund	92

City of Adelanto, California
Annual Audit Report
Year Ended June 30, 2016

TABLE OF CONTENTS - Continued

	<u>PAGE</u>
Supplementary Schedules - Continued:	
CLEEP Special Revenue Fund	93
Police Asset Seizure Special Revenue Fund	94
Public Safety 1/2 Cent Special Revenue Fund	95
Traffic Offender Special Revenue Fund	96
COPS Grant Special Revenue Fund	97
Measure I 1990-2010 Special Revenue Fund	98
Measure I 70% Local Special Revenue Fund	99
Community Facilities District Special Revenue Fund	100
LLMD Annexation Special Revenue Fund	101
Statement of Changes in Fiduciary Assets and Liabilities:	
Assessment District 1A	102
CFD 2006-2 Bond Fund	103
Total Agency Funds	104

INDEPENDENT AUDITORS' REPORT

Members of the City Council of the
City of Adelanto
Adelanto, California

Report on Financial Statements

We 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 Adelanto, California (the "City") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City'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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Adelanto, California, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Change in Accounting Principle

As described in Note 1 to the basic financial statements, in 2016, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information on pages 64-69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standard 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedules are the responsibility of management and were derived from and relate 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 our opinion, the supplementary schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Teaman Ramirez & Smith, Inc.

Riverside, California
December 10, 2019

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BASIC FINANCIAL STATEMENTS

City of Adelanto, California
Statement of Net Position
June 30, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Investments	\$ 23,621,930	\$ 8,504,661	\$ 32,126,591
Cash and Investments with Fiscal Agents	199,427	19,377,694	19,577,121
Accounts Receivable, Net	1,007,901	2,361,171	3,369,072
Interest Receivable		5,976	5,976
Internal Balances	12,819,389	(12,819,389)	0
Due from Fiduciary Funds	699,180		699,180
Deposits	403,237		403,237
Advances to Fiduciary Funds	2,524,243		2,524,243
Successor Agency Loans Receivable		13,303,734	13,303,734
Net Pension Asset		8,794	8,794
Capital Assets, Not Being Depreciated	17,564,152	4,033,099	21,597,251
Capital Assets, Net of Depreciation	58,736,738	56,183,852	114,920,590
	<hr/>	<hr/>	<hr/>
Total Assets	117,576,197	90,959,592	208,535,789
	<hr/>	<hr/>	<hr/>
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Items	208,513	10,017	218,530
Deferred Loss on Bond Refunding		5,859,809	5,859,809
	<hr/>	<hr/>	<hr/>
Total Deferred Outflows of Resources	208,513	5,869,826	6,078,339
	<hr/>	<hr/>	<hr/>
LIABILITIES			
Accounts Payable and Accrued Liabilities	322,295	418,033	740,328
Interest Payable		2,648,435	2,648,435
Due to Fiduciary Funds	236,537		236,537
Unearned Revenue	461,646		461,646
Deposits	692,096	958,294	1,650,390
Long-term Liabilities:			
Due Within One Year	58,557	2,077,062	2,135,619
Due in More Than One Year	548,051	82,719,591	83,267,642
	<hr/>	<hr/>	<hr/>
Total Liabilities	2,319,182	88,821,415	91,140,597
	<hr/>	<hr/>	<hr/>
DEFERRED INFLOWS OF RESOURCES			
Pension Related Items	523,792	26,327	550,119
	<hr/>	<hr/>	<hr/>
Total Deferred Inflows of Resources	523,792	26,327	550,119
	<hr/>	<hr/>	<hr/>
NET POSITION			
Net Investment in Capital Assets	76,300,890	3,682,364	79,983,254
Restricted for:			
Development	6,336,811		6,336,811
Streets and Roads	9,974,343		9,974,343
Community Development	384,089		384,089
Other Purposes	516,835	29,812	546,647
Unrestricted	21,428,768	4,269,500	25,698,268
	<hr/>	<hr/>	<hr/>
Total Net Position	\$ 114,941,736	\$ 7,981,676	\$ 122,923,412
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of this statement.

City of Adelanto, California
Statement of Activities
Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 3,145,870	\$ 819,699	\$ 501,678	\$
Public Safety	8,285,052	311,579	198,132	4,935
Public Works	4,740,111	1,198,961	1,533,393	8,346,738
Community Development	550,124	703,392		
Parks and Recreation	361,031	60		57,800
Total Governmental Activities	17,082,188	3,033,691	2,233,203	8,409,473
Business-type Activities:				
Adelanto Community Benefit Corporation	53,054		56,907	
Public Utility Authority	12,103,480	14,312,798		593,430
Total Business-type Activities	12,156,534	14,312,798	56,907	593,430
Total Primary Government	\$ 29,238,722	\$ 17,346,489	\$ 2,290,110	\$ 9,002,903

General Revenues:

Sales Taxes
Property Taxes
Franchise Taxes
Real Property Transfer Tax
Transient Occupancy Taxes
Motor Vehicle in Lieu Tax, Unrestricted
Investments Earnings
Miscellaneous
Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning, As Previously Reported

Prior Period Adjustment

Net Position - Beginning, As Restated

Net Position - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (1,824,493)	\$	\$ (1,824,493)
(7,770,406)		(7,770,406)
6,338,981		6,338,981
153,268		153,268
(303,171)		(303,171)
<u>(3,405,821)</u>	<u>0</u>	<u>(3,405,821)</u>
	3,853	3,853
	<u>2,802,748</u>	<u>2,802,748</u>
<u>0</u>	<u>2,806,601</u>	<u>2,806,601</u>
<u>(3,405,821)</u>	<u>2,806,601</u>	<u>(599,220)</u>
1,380,450		1,380,450
310,180		310,180
1,368,443		1,368,443
90,971		90,971
25,444		25,444
2,306,347		2,306,347
19,626	1,148,722	1,168,348
51,516		51,516
818,389	(818,389)	0
<u>6,371,366</u>	<u>330,333</u>	<u>6,701,699</u>
<u>2,965,545</u>	<u>3,136,934</u>	<u>6,102,479</u>
92,468,228	3,171,269	95,639,497
<u>19,507,963</u>	<u>1,673,473</u>	<u>21,181,436</u>
<u>111,976,191</u>	<u>4,844,742</u>	<u>116,820,933</u>
<u>\$ 114,941,736</u>	<u>\$ 7,981,676</u>	<u>\$ 122,923,412</u>

The accompanying notes are an integral part of this statement.

City of Adelanto, California
Balance Sheet
Governmental Funds
June 30, 2016

	General Fund	Capital Projects Capital Improvement Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 6,200,423	\$	\$ 17,421,507	\$ 23,621,930
Cash and Investments with Fiscal Agent		199,427		199,427
Accounts Receivable, Net	760,952		246,949	1,007,901
Due from Other Funds	934,634		32,499	967,133
Due from Fiduciary Funds	699,180			699,180
Deposits with Other Agencies	403,237			403,237
Advances to Other Funds	16,819,370		279,792	17,099,162
Advances to Fiduciary Funds	2,524,243			2,524,243
Total Assets	<u>\$ 28,342,039</u>	<u>\$ 199,427</u>	<u>\$ 17,980,747</u>	<u>\$ 46,522,213</u>
LIABILITIES				
Accounts Payable	\$ 176,129	\$	\$ 111,563	\$ 287,692
Accrued Liabilities	34,603			34,603
Due to Other Funds	32,499		924,725	957,224
Due to Fiduciary Funds	236,537			236,537
Unearned Revenue	461,646			461,646
Deposits	631,776		60,320	692,096
Advances from Other Funds	1,194,829		3,094,853	4,289,682
Total Liabilities	<u>2,768,019</u>	<u>0</u>	<u>4,191,461</u>	<u>6,959,480</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Taxes	95,778		33,596	129,374
Unavailable Revenue - Intergovernmental			38,003	38,003
Total Deferred Inflows of Resources	<u>95,778</u>	<u>0</u>	<u>71,599</u>	<u>167,377</u>
FUND BALANCES				
Nonspendable	19,746,850			19,746,850
Restricted For:				
Development		199,427	6,137,384	6,336,811
Streets and Roads			9,940,747	9,940,747
Air Quality Management			210,161	210,161
Law Enforcement			165,435	165,435
Public Safety			63,500	63,500
Community Development			346,086	346,086
Lighting and Landscape Maintenance			77,739	77,739
Unassigned	5,731,392		(3,223,365)	2,508,027
Total Fund Balances	<u>25,478,242</u>	<u>199,427</u>	<u>13,717,687</u>	<u>39,395,356</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 28,342,039</u>	<u>\$ 199,427</u>	<u>\$ 17,980,747</u>	<u>\$ 46,522,213</u>

The accompanying notes are an integral part of this statement.

City of Adelanto, California
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2016

Fund Balances of Governmental Funds	\$ 39,395,356
Amounts reported for Governmental Activities in the Statement of Net Position are different because:	
Capital assets, net of depreciation, have not been included as financial resources in governmental fund activity.	76,300,890
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	167,377
Deferred outflows and inflows of resources related to pensions that are required to be recognized over a defined closed period.	
Pension Related Deferred Outflows of Resources	208,513
Pension Related Deferred Inflows of Resources	(523,792)
Liabilities that are not due and payable in the current period and are not reported in the funds.	
Compensated Absences	(157,188)
Net Pension Liability	(13,082)
Net OPEB Obligation	(184,007)
Claims Payable	<u>(252,331)</u>
Net Position of Governmental Activities	<u><u>\$ 114,941,736</u></u>

The accompanying notes are an integral part of this statement.

City of Adelanto, California
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2016

	General Fund	Capital Projects Capital Improvements Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 5,507,933	\$	\$ 1,074,051	\$ 6,581,984
Licenses and Permits	503,134			503,134
Fines, Forfeitures and Penalties	111,281		13,216	124,497
Investment Earnings	19,626	364	7,671	27,661
Charges for Current Services	2,086,087			2,086,087
Developer Fees			221,999	221,999
Intergovernmental Revenues	337,226		1,027,370	1,364,596
Contributions from Property Owners		8,187,110		8,187,110
Miscellaneous	251,864		9,504	261,368
	<u>8,817,151</u>	<u>8,187,474</u>	<u>2,353,811</u>	<u>19,358,436</u>
Total Revenues				
EXPENDITURES				
Current:				
General Government	2,739,725			2,739,725
Public Safety	8,131,182		20,925	8,152,107
Public Works	1,634,219		354,043	1,988,262
Community Development	220,087		67,800	287,887
Parks and Recreation	103,957		128,640	232,597
Capital Outlay	465,027	7,988,047	332,067	8,785,141
	<u>13,294,197</u>	<u>7,988,047</u>	<u>903,475</u>	<u>22,185,719</u>
Total Expenditures				
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(4,477,046)</u>	<u>199,427</u>	<u>1,450,336</u>	<u>(2,827,283)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	2,641,765		154	2,641,919
Transfers Out	<u>(154)</u>		<u>(1,823,376)</u>	<u>(1,823,530)</u>
Total Other Financing Sources (Uses)	<u>2,641,611</u>	<u>0</u>	<u>(1,823,222)</u>	<u>818,389</u>
Net Change in Fund Balances	(1,835,435)	199,427	(372,886)	(2,008,894)
Fund Balances - Beginning	<u>27,313,677</u>		<u>14,090,573</u>	<u>41,404,250</u>
Fund Balances - Ending	<u>\$ 25,478,242</u>	<u>\$ 199,427</u>	<u>\$ 13,717,687</u>	<u>\$ 39,395,356</u>

The accompanying notes are an integral part of this statement.

City of Adelanto, California
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds	\$	(2,008,894)
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Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlay as an expenditure in the full amount as current financial resources are used. However, in the Statement of Activities the cost of these assets is allocated over the estimated useful life as depreciation expense.

Capital Outlay		8,299,652
Depreciation		(2,964,232)

In the Statement of Activities, only the loss on the sale of capital assets is reported.		(22,696)
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Governmental funds report activity of long-term liabilities as revenues and expenditures, but they are included as increases and reductions on the long-term liabilities in the Statement of Net Position.

Compensated Absences		43,431
Net Change in the Net Pension Liability (Asset)		(115,174)
Net Change in the Net OPEB Obligation		(35,841)
Net Change in the Net Claims Payable		(101,609)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.

Unavailable Revenues		(129,092)
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Change in Net Position of Governmental Activities	\$	2,965,545
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City of Adelanto, California
Statement of Net Position
Proprietary Funds
June 30, 2016

	Enterprise Funds		
	Adelanto Community Benefit Corporation	Public Utility Authority	Totals
ASSETS			
Current Assets:			
Cash and Investments	\$ 42,372	\$ 8,462,289	\$ 8,504,661
Cash and Investments with Fiscal Agent		19,377,694	19,377,694
Accounts Receivable, Net		2,361,171	2,361,171
Interest Receivable		5,976	5,976
Total Current Assets	42,372	30,207,130	30,249,502
Noncurrent Assets:			
Advances to Other Funds		1,091,964	1,091,964
Successor Agency Loans Receivable		13,303,734	13,303,734
Net Pension Asset		8,794	8,794
Land and Water Rights, Not Being Depreciated		4,033,099	4,033,099
Capital Assets, Net of Depreciation		56,183,852	56,183,852
Total Noncurrent Assets	0	74,621,443	74,621,443
Total Assets	42,372	104,828,573	104,870,945
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Items		10,017	10,017
Deferred Loss on Bond Refunding		5,859,809	5,859,809
Total Deferred Outflows of Resources	0	5,869,826	5,869,826
LIABILITIES			
Current Liabilities:			
Accounts Payable and Accrued Liabilities	2,651	415,382	418,033
Due to Other Funds	9,909		9,909
Interest Payable		2,648,435	2,648,435
Deposits		958,294	958,294
Current Portion of Advances from Other Funds		1,631,657	1,631,657
Current Portion of Compensated Absences and Bonds Payable		2,077,062	2,077,062
Total Current Liabilities	12,560	7,730,830	7,743,390
Noncurrent Liabilities:			
Advances from Other Funds		12,269,787	12,269,787
Compensated Absences		6,187	6,187
Bonds Payable		82,713,404	82,713,404
Total Noncurrent Liabilities	0	94,989,378	94,989,378
Total Liabilities	12,560	102,720,208	102,732,768
DEFERRED INFLOWS OF RESOURCES			
Pension Related Items		26,327	26,327
Total Deferred Inflows of Resources	0	26,327	26,327
NET POSITION			
Net Investment in Capital Assets		3,682,364	3,682,364
Restricted for Community Benefits	29,812		29,812
Unrestricted		4,269,500	4,269,500
Total Net Position	\$ 29,812	\$ 7,951,864	\$ 7,981,676

The accompanying notes are an integral part of this statement.

City of Adelanto, California
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
Year Ended June 30, 2016

	Enterprise Funds		
	Adelanto Community Benefit Corporation	Public Utility Authority	Totals
OPERATING REVENUES			
Service Charges	\$	\$ 13,052,175	\$ 13,052,175
Availability Charges		825,538	825,538
Connection Fees		346,006	346,006
Other Revenue	56,907	89,079	145,986
Total Operating Revenues	56,907	14,312,798	14,369,705
OPERATING EXPENSES			
Salaries and Benefits		105,847	105,847
Contractual Services		45,270	45,270
Sewer Operations		1,146,176	1,146,176
Water Operations		2,703,110	2,703,110
Utilities		857,204	857,204
Community Events	38,790		38,790
Administration	14,264	127,063	141,327
Depreciation		1,465,738	1,465,738
Total Operating Expenses	53,054	6,450,408	6,503,462
Operating Income (Loss)	3,853	7,862,390	7,866,243
NONOPERATING REVENUES (EXPENSES)			
Investment Earnings		1,148,722	1,148,722
Gain (Loss) on Capital Assets Disposal		(5,085)	(5,085)
Amortization Expense		(347,163)	(347,163)
Interest Expense and Fiscal Charges		(5,300,824)	(5,300,824)
Total Nonoperating Revenues (Expenses)	0	(4,504,350)	(4,504,350)
Income (Loss) before Capital Contributions and Transfers	3,853	3,358,040	3,361,893
Capital Contributions		593,430	593,430
Transfers Out		(818,389)	(818,389)
Change in Net Position	3,853	3,133,081	3,136,934
Total Net Position - Beginning, As Previously Reported	25,959	3,145,310	3,171,269
Prior Period Adjustment		1,673,473	1,673,473
Total Net Position - Beginning, As Restated	25,959	4,818,783	4,844,742
Total Net Position - Ending	\$ 29,812	\$ 7,951,864	\$ 7,981,676

The accompanying notes are an integral part of this statement.

City of Adelanto, California
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2016

	Enterprise Funds		
	Adelanto Community Benefit Corporation	Public Utility Authority	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$	\$ 14,431,376	\$ 14,431,376
Other Receipts	56,907	(5,085)	51,822
Payments to Suppliers for Goods and Services	(50,434)	(4,684,657)	(4,735,091)
Payments to Employees for Services		(106,102)	(106,102)
Net Cash Provided by (Used for) Operating Activities	6,473	9,635,532	9,642,005
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to Other Funds		(818,389)	(818,389)
Advances from Other Funds	2,533		2,533
Advances to and Payments on Interfund Advances		(1,536,611)	(1,536,611)
Net Cash Provided by (Used for) Noncapital Financing Activities	2,533	(2,355,000)	(2,352,467)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of Capital Assets		(295,706)	(295,706)
Payment on Interfund Advances		(665,000)	(665,000)
Principal Payments on Capital Debt		(1,315,000)	(1,315,000)
Interest Paid on Capital Debt		(5,347,383)	(5,347,383)
Net Cash Provided by (Used for) Capital and Related Financing Activities	0	(7,623,089)	(7,623,089)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Earnings		1,376,675	1,376,675
Net Cash Provided by (Used for) from Investing Activities	0	1,376,675	1,376,675
Net Increase (Decrease) in Cash and Cash Equivalents	9,006	1,034,118	1,043,124
Cash and Cash Equivalents - Beginning of the Year	33,366	26,805,865	26,839,231
Cash and Cash Equivalents - End of the Year	<u>\$ 42,372</u>	<u>\$ 27,839,983</u>	<u>\$ 27,882,355</u>
Reconciliation to Statement of Net Position:			
Cash and Investments	\$ 42,372	\$ 8,462,289	\$ 8,504,661
Cash and Investments with Fiscal Agent		19,377,694	19,377,694
Cash and Cash Equivalents	<u>\$ 42,372</u>	<u>\$ 27,839,983</u>	<u>\$ 27,882,355</u>

The accompanying notes are an integral part of this statement.

City of Adelanto, California
Statement of Cash Flows - Continued
Proprietary Funds
Year Ended June 30, 2016

	Enterprise Funds		
	Adelanto Community Benefit Corporation	Public Utility Authority	Totals
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Operating Income (Loss)	\$ 3,853	\$ 7,862,390	\$ 7,866,243
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation		1,465,738	1,465,738
Other Receipts		(5,085)	(5,085)
Changes in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable		(123,693)	(123,693)
(Increase) Decrease in Prepaids		137,007	137,007
(Increase) Decrease in Net Pension Asset		25,686	25,686
(Increase) Decrease in Pension Related Deferred Outflows of Resources		(9,540)	(9,540)
Increase (Decrease) in Accounts Payable	2,620	57,159	59,779
Increase (Decrease) in Accrued Liabilities		158	158
Increase (Decrease) in Deposit Payables		242,271	242,271
Increase (Decrease) in Compensated Absences		(1,554)	(1,554)
Increase (Decrease) in Pension Related Deferred Inflows of Resources		(15,005)	(15,005)
Total Adjustments	2,620	1,773,142	1,775,762
TOTAL CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 6,473</u>	<u>\$ 9,635,532</u>	<u>\$ 9,642,005</u>
Schedule of Non-cash Capital and Related Financing Activities:			
Capital Contributions		\$ 593,430	

The accompanying notes are an integral part of this statement.

City of Adelanto, California
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

	Private-Purpose Trust Funds		
	Luetke Foundation	Successor Agency	Agency Funds
ASSETS			
Cash and Investments	\$ 33,693	\$ 5,740,309	\$ 1,446,021
Cash and Investments with Fiscal Agent		5,221,489	950,412
Accounts Receivable			5,438
Due from Other Funds		236,537	
Notes Receivable		825,970	
Land Held for Development		494,274	
Total Assets	33,693	12,518,579	2,401,871
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Loss on Debt Refunding		551,493	
Total Deferred Outflows of Resources	0	551,493	0
LIABILITIES			
Accounts Payable		5,134	
Due to Other Funds	10,565	688,615	
Due to Bondholders			2,401,871
Bonds and Other Loans Interest Payable		753,087	
San Bernardino County Loan Interest Payable		17,752,519	
Advances from Other Funds		2,524,243	
Bonds Payable		10,381,110	
Loans Payable		28,485,269	
Other Long-term Liabilities		15,346,076	
Total Liabilities	10,565	75,936,053	\$ 2,401,871
NET POSITION			
Net Position (Deficit) Held in Trust for Redevelopment & Other Purposes	23,128	(62,865,981)	
Total Net Position	\$ 23,128	\$ (62,865,981)	

The accompanying notes are an integral part of this statement.

City of Adelanto, California
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2016

	Private-Purpose Trust Funds	
	Luetke Foundation	Successor Agency
ADDITIONS		
Taxes	\$	\$ 2,623,579
Investment Earnings		143,487
Other Revenues		66,593
Total Additions	0	2,833,659
DEDUCTIONS		
Administration		440,300
Loss on Sale of Land Held for Development		455,026
Interest Expense		4,714,624
Total Deductions	0	5,609,950
Change in Net Position	0	(2,776,291)
Net Position - Beginning	23,128	(60,089,690)
Net Position - Ending	\$ 23,128	\$ (62,865,981)

The accompanying notes are an integral part of this statement.

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City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

<u>NOTE</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
1	Reporting Entity and Summary of Significant Accounting Policies	15 - 29
2	Stewardship, Compliance and Accountability	30
3	Cash and Investments	31 - 34
4	Fair Value Measurements	34 - 35
5	Interfund Activity	36 - 39
6	Successor Agency Loans Receivable	39
7	Capital Assets	40 - 41
8	Long-term Liabilities	42 - 44
9	Conduit Debt	44 - 45
10	Net Position	45
11	City Employees' Retirement Plan (Defined Benefit Pension Plan)	46 - 51
12	Other Post Employment Benefits	51 - 54
13	Risk Management	54 - 55
14	Commitments and Contingencies	55 - 56
15	Successor Agency	56 - 63
16	Subsequent Events	63
17	Prior Period Adjustments	63

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

The City of Adelanto, California, was incorporated on December 22, 1970, under the laws of the State of California and enjoys all the rights and privileges applicable to a general law city. It is governed by an elected five member City Council.

As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization's governing body and the City is either able to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable if an organization is fiscally dependent upon the City (i.e., it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the City). In certain cases, other organizations are included as component units if the nature and significance of their relationship with the City are such that their exclusion would cause the City's financial statements to be misleading or incomplete.

The City's component units are considered to be blended component units because the City Council serves as the governing body. The blended components units, although legally separate are, in substance, part of the City's operations, therefore data from the units are reported with the interfund data of the primary government.

The Adelanto Public Utility Authority issues separate component unit financial statements. The other component units do not have separately issued financial statements. The financial statements of the component units can be obtained at City Hall.

The City of Adelanto is a reporting entity which includes the following components units:

Adelanto Public Financing Authority

The Adelanto Public Financing Authority was established pursuant to a Joint Powers Agreement dated September 12, 1989, by and between the City of Adelanto and the now dissolved Adelanto Redevelopment Agency in accordance with the provisions of the laws of the State of California. The Authority was created for the purpose of providing financing for public capital improvements for the City and the Agency through the acquisition by the Authority of such public capital improvements and/or the purchase by the Authority of local obligations.

Adelanto Public Utility Authority

The Adelanto Public Utility Authority was formed by action of the City Council on October 22, 1996. The Utility Authority was formed for the purpose of purchasing and operating the City's wastewater operations. In conjunction with that purchase, the Utility Authority issued bonds to finance the down payment to the City and the construction of a wastewater treatment plant. The Utility Authority also issued a note payable to the City to finance the purchase of the existing wastewater assets. During February of 2000, the Adelanto Public Utility Authority entered into a purchase agreement with the Adelanto Water Authority to purchase the Adelanto Water Authority's water system. The purchase price consisted of amounts sufficient to refund all the outstanding prior water bonds and assumptions of the Adelanto Water Authority's obligations under the original agreement dated January 9, 1996, under which the Water Authority was formed by the City of Adelanto.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A) Reporting Entity - Continued

The Adelanto Community Benefit Corporation

The Adelanto Community Benefit Corporation (the "Corporation") was incorporated on April 13, 2009. The Corporation was formed as a nonprofit public benefit corporation under Section 501(c)(3) of the Internal Revenue Code. The specific and primary purpose of this corporation is to coordinate beautification and other community enhancement opportunities in the City of Adelanto, California. The governing body of the Corporation is comprised of the City Council. Upon dissolution, any assets remaining shall be distributed to the City of Adelanto or a designated nonprofit fund, foundation or corporation by the governing body.

B) Implementation of Governmental Accounting Standards Board (GASB) Pronouncements

Governmental Accounting Standard Board Statement No. 72

In February of 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Statement No. 72 is effective for periods beginning after June 15, 2015. The City has implemented GASB No. 72 which is reflected on the City's financial statements.

Governmental Accounting Standard Board Statement No. 73

In June of 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement was issued to improve the usefulness of information about pensions for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68 and also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes.

Statement No. 73 requirements that addresses accounting and financial reporting by employers and governmental nonemployer contributing entities is effective for fiscal years beginning after June 15, 2016, except those provisions that address financial reporting for assets accumulated for purposes of providing those pensions which are effective for fiscal years beginning after June 15, 2015. Statement No. 73 requirements for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68, are effective for fiscal years beginning after June 15, 2015. Currently, this Statement has no effect on the City's financial statements.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B) Implementation of Governmental Accounting Standards Board (GASB) Pronouncements - Continued

Governmental Accounting Standard Board Statement No. 74

In June of 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement was issued to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) for making decisions and assessing accountability. This Statement replaces Statements no. 43, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. Statement No. 74 is effective for fiscal years beginning after June 15, 2016. The City has elected not to early implement GASB No. 74 and has not determined its effect on the City's financial statements.

Governmental Accounting Standard Board Statement No. 75

In June of 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement was issued to improve accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. Statement No. 75 is effective for fiscal years beginning after June 15, 2017. The City has elected not to early implement GASB No. 75 and has not determined its effect on the City's financial statements.

Governmental Accounting Standard Board Statement No. 76

In June of 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement was issued to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements for state and local governmental entities in conformity with GAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Statement No. 76 is effective for periods beginning after June 15, 2015 and should be applied retroactively. Currently, this Statement has no effect on the City's financial statements.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B) Implementation of Governmental Accounting Standards Board (GASB) Pronouncements - Continued

Governmental Accounting Standard Board Statement No. 77

In August of 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement is intended to provide financial statement users needed information about certain limitations on a government's ability to raise resources and for financial reporting purposes requires disclosure on tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments that reduce the reporting government's tax revenues. Statement No. 77 is effective for periods beginning after December 15, 2015. The City has elected not to early implement GASB No. 77 and has not determined its effect on the City's financial statements.

Governmental Accounting Standard Board Statement No. 78

In December of 2015, GASB issued Statement No. 78, *Pensions provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. Statement No. 78 is effective for periods beginning after December 15, 2015. The City has elected not to early implement GASB No. 78 and has not determined its effect on the City's financial statements.

Governmental Accounting Standard Board Statement No. 79

In December of 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015. Currently, this Statement has no effect on the City's financial statements.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B) Implementation of Governmental Accounting Standards Board (GASB) Pronouncements - Continued

Governmental Accounting Standard Board Statement No. 80

In January of 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. This statement was issued to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The City has elected not to early implement GASB No. 80 and has not determined its effect on the City's financial statements.

Governmental Accounting Standard Board Statement No. 81

In March of 2016, GASB issued Statement No. 81, *Irrevocable Split Interest Agreements*. This statement was issued to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. The City has elected not to early implement GASB No. 81 and has not determined its effect on the City's financial statements.

Governmental Accounting Standard Board Statement No. 82

In March of 2016, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement was issued to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B) Implementation of Governmental Accounting Standards Board (GASB) Pronouncements - Continued

Governmental Accounting Standard Board Statement No. 82 - Continued

an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. This Statement also clarifies the term deviation used in Actuarial Standards of Practice and payments made by the employer to satisfy contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The City has elected not to early implement GASB No. 82 and has not determined its effect on City's financial statements.

Governmental Accounting Standard Board Statement No. 83

In November of 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement was issued to address the criteria for the recognition and measurement of the liability and corresponding deferred outflows of resources associated with certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Statement No. 83 is effective for reporting periods beginning after June 15, 2018. The City has elected not to early implement GASB No. 83 and has not determined its effect on the City's financial statements.

Governmental Accounting Standard Board Statement No. 84

In January of 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement was issued to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes. This Statement establishes the criteria for identifying fiduciary activities which should be reported in a fiduciary fund in the basic financial statements. The fiduciary funds that should be reported, if applicable: a) pensions trust funds, b) investment trust funds, c) private purpose trust funds, d) custodial funds. Statement No. 84 is effective for reporting periods beginning after December 15, 2018. The City has elected not to early implement GASB No. 84 and has not determined its effect on the City's financial statements.

Governmental Accounting Standard Board Statement No. 85

In March of 2017, GASB issued Statement No. 85, *Omnibus 2017*. This Statement addresses practice issues that have risen from the implementation of certain GASB Statements; primarily pension and OPEB related measurement, recognition, timing, and reporting issues. Other issues include blending of component units for governments whose primary activity is business-type, goodwill reporting, classifying real estate held by insurance

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B) Implementation of Governmental Accounting Standards Board (GASB) Pronouncements - Continued

Governmental Accounting Standard Board Statement No. 85 - Continued

entities and measuring particular investments at amortized cost. This Statement is effective for reporting periods beginning after June 15, 2017. The City has elected not to early implement GASB No. 85 and has not determined its effect on the City's financial statements.

Governmental Accounting Standard Board Statement No. 86

In May of 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This Statement expands upon GASB No. 7 *Advance Refundings Resulting in Defeasance of Debt* which defines debt defeased in substance and the criteria for the trusts used to extinguish debt. This Statement establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt. This Statement is effective for reporting periods beginning after June 15, 2017. The City has elected not to early implement GASB No. 86 and has not determined its effect on the City's financial statements.

Governmental Accounting Standard Board Statement No. 87

In June of 2017, GASB issued Statement No. 87, *Leases*. The intent of this Statement is to improve accounting and financial reporting for government leases by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement is effective for reporting periods beginning after December 15, 2019. The City has elected not to early implement GASB No. 87 and has not determined its effect on the City's financial statements.

Governmental Accounting Standard Board Statement No. 88

In March of 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement was issued to improve the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. Statement No. 88 is effective for fiscal years beginning after June 15, 2018. The City has elected not to early implement GASB No. 88 and has not determined its effect on the City's financial statements.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B) Implementation of Governmental Accounting Standards Board (GASB) Pronouncements - Continued

Governmental Accounting Standard Board Statement No. 89

In June of 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement was issued to (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Statement No. 89 is effective for fiscal years beginning after December 15, 2019. The City has elected not to early implement GASB No. 89 and has not determined its effect on the City's financial statements.

Governmental Accounting Standard Board Statement No. 90

In August of 2018, GASB issued Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*. This Statement was issued to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Statement No. 90 is effective for fiscal years beginning after December 15, 2018. The City has elected not to early implement GASB No. 90 and has not determined its effect on the City's financial statements.

Governmental Accounting Standard Board Statement No. 91

In May of 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. This statement was issued to improve financial reporting for certain debt obligations. It allowed entities to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Statement No. 91 is effective for fiscal years beginning December 15, 2020. The City has elected not to early implement GASB No. 91 and has not determined its effect on the City's financial statements.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C) Basis of Presentation

The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These statements require that the financial statements described below be presented:

Government-wide Statements: The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund 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 expenses that are clearly identifiable with a specific program, project, function or segment. Program revenues of the City 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 that are not included among program revenues are reported instead as general revenues.

Fund Financial Statements: Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining funds are aggregated and reported as non-major funds.

D) 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 and fiduciary 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 providers have been met. The agency funds have no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities. Agency funds only report assets and liabilities and therefore have no measurement focus.

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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City 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 Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D) Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

Taxes, intergovernmental revenues, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual, and are therefore 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 City.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another funds.

The *Capital Improvement Project Fund* is used to account for miscellaneous improvement projects.

The City reports the following major proprietary funds:

The *Adelanto Community Benefit Corporation Enterprise Fund* is used to account for the activities of the City's nonprofit public benefit corporation.

The *Public Utility Authority Enterprise Fund* is used to account for the operation and maintenance of the wastewater and water system within the City's boundaries.

Additionally, the City reports the following fund types:

The *Private-Purpose Trust Funds* are used to account for assets and activities restricted to a specific purpose in accordance with a trust agreement on behalf of individuals, private organizations, other governments, or other funds.

The *Agency Funds* are used to account for money received by the City as an agent for individuals, other governments and other entities.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's proprietary fund function and various other functions of the government. 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.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D) Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

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 a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds and the Internal Service Fund are charges to customers for sales and services. Operating expenses for the Enterprise Funds and the Internal Service Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then use unrestricted as they are needed.

E) Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers cash and cash equivalents as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changed in interest rates. Cash equivalents have an original maturity date of three months or less from the date of purchase.

F) Investments

As a governmental entity other than an external investment pool in accordance with GASB 31, the City's investments are stated at fair value except for interest-earning investment contracts and external investment pool.

In applying GASB 31, the City utilized the following methods and assumptions:

- 1) Fair value is based on quoted market prices as of the valuation date;
- 2) The portfolio did not hold investments in any of the following:
 - a) Items required to be reported at amortized cost,
 - b) Items in external pools that are not SEC-registered,
 - c) Items subject to involuntary participation in an external pool,
 - d) Items associated with a fund other than the fund to which the income is assigned;
- 3) Aside from investments clearly identified as belonging to a specific fund, any unrealized gain/loss resulting from the valuation will be recognized within the General Fund to the extent its cash and investments' balance exceeds the cumulative value of those investments subject to GASB 31;
- 4) The gain/loss resulting from valuation will be reported within the revenue account "Investment Earnings" on the Statement of Activities and the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

G) Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as interfund receivables/interfund payables (i.e., the current portion of interfund loans) or advances to/from other funds (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as interfund receivables or interfund payables. Any residual balances outstanding between the governmental activities and the 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 nonspendable fund balance account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and tax receivables are shown net of an allowance for uncollectible accounts, if applicable, and estimated refunds due.

H) Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financials statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

I) Land Held for Development

Costs of project land and improvements held for development are recorded at the lower of acquisition cost or net realizable value.

J) Restricted Assets

Certain proceeds of the City's long-term debt, as well as certain resources set aside for its repayment, are classified as restricted assets on the financial statements because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

In the absence of specific statutory provisions governing the issuance of bonds, certificates, or leases, these bond monies may be invested in accordance with the ordinance, resolutions, and indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances, resolutions, and indentures are generally more restrictive than the City's general investment policy. In no instance have additional types of investments been authorized that are not permitted by the City's general investment policy.

K) Capital Assets

Capital assets are reported in the government-wide financial statements. Capital assets are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Assets purchased in excess of \$5,000 are capitalized if they have an expected useful life of 2 years or more. Capital assets acquired through lease obligations are valued at the present value of future lease payments at the date acquired. Donated capital assets are valued at their estimated fair market value at the date of donation.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

K) Capital Assets - Continued

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

Buildings and Improvements	20-50 years
Machinery and Equipment	10-30 years
Vehicles	8 years
Infrastructure	15-65 years

L) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expenses/expenditure) until then. The City has two items that qualifies for reporting in this category. The City has deferred outflows related to pensions, which arises only under a full accrual basis of accounting. Accordingly, this item (*pension related items*), is reported only in the government-wide statement of net position and proprietary funds statement of net position. This includes pension contributions subsequent to the measurement date of the net pension liability and other amounts (see Note 11), which are amortized by an actuarial determined period. The City also has a deferred loss on bond refunding that resulted from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two types of deferred inflows of resources. One item arises only under a modified accrual basis of accounting. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes, special assessments, and intergovernmental revenues. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also has deferred inflows of resources related to pensions, which arises only under a full accrual basis of accounting. Accordingly, this item (*pension related items*), is reported only in the government-wide statement of net position and proprietary funds statement of net position. These amounts (see Note 11) are amortized by an actuarial determined period.

M) Claims and Judgments

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

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

N) Compensated Absences

It is the City's policy to permit employees to accumulate earned, but unused vacation benefits, which will be paid to employees upon separation from City service. Governmental fund types recognize the cost of vacation benefits when payments are made to employees. Since these unused vacation benefits will not be liquidated with available financial resources, a long-term liability for accrued vacation benefits is recorded. Proprietary fund types accrue vacation benefits in the period they are earned.

O) Net Position

In the government-wide and proprietary fund financial statements, net position is reported in three categories: net investment in capital assets; restricted net position, and unrestricted net position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any related debt excluding unspent debt proceeds. Restricted net position represents net position restricted by parties outside the City (such as creditors, grantors, contributions, and laws and regulations of other governments). All other amounts are considered unrestricted.

P) Fund Balance

Fund balance in governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The City considers restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the City considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable Fund Balance - Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact.

Restricted Fund Balance - Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions or enabling legislation).

Committed Fund Balance - Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the government's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance or resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance or resolution remains in place until a similar action is taken to remove or revise the limitation.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

P) Fund Balance - Continued

Assigned Fund Balance - Amounts that are constrained by the City's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body, or by an official to whom the authority has been given.

Unassigned Fund Balance - These are either residual positive net resources of the General Fund in excess of what can properly be classified in one of the other categories, or negative balances in all other funds.

Q) Property Tax Calendar

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien Date	January 1 st	
Levy Date	July 1 st to June 30 th	
Due Date	November 1 st	- 1st Installment
	February 1 st	- 2nd Installment
Delinquent Date	December 10 th	- 1st Installment
	April 10 th	- 2nd Installment

Under California Law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the cities based on complex formulas prescribed by the state statutes. A delinquency penalty of 6 percent is assessed by the County of Riverside. If taxes become delinquent, subject properties may be deeded to the State and may be sold by the County for taxes plus a 1 percent per month redemption fee.

R) Pensions

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

S) Use of Estimates

Management of the City uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, deferred outflows/inflows of resources and the reported revenues and expenditures/expenses. Actual results could vary from the estimates that management uses.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Encumbrances

Encumbrances accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund types.

Fund Deficits

The following funds contained a deficit fund balance or net position as of June 30, 2016.

Nonmajor Funds:		
Mavericks Stadium	\$	3,223,365
Private-Purpose Trust Fund:		
Successor Agency		62,865,981

The above deficit fund balance or net position is expected to be eliminated through future revenues.

Excess of Expenditures over Appropriations

Excess of expenditures over appropriations in individual funds are as follows:

	Final Appropriations	Expenditures	Difference
Major Funds			
General Fund			
Finance	\$ 371,670	\$ 385,452	\$ (13,782)
City Attorney	270,000	381,331	(111,331)
Human Resources	92,555	113,402	(20,847)
Police	5,224,022	5,276,493	(52,471)
LLMD	125,953	126,423	(470)
Building and Safety	194,990	240,680	(45,690)
Capital Outlay - Non Department	0	465,027	(465,027)
Capital Improvement Projects			
Capital Projects Fund	0	7,988,047	(7,988,047)
Nonmajor Funds			
Special Revenue Funds:			
Mavericks Stadium	\$ 73,700	\$ 128,640	\$ (54,940)
State/Local Grants	0	4,024	(4,024)
Police Asset Seizure	0	7,500	(7,500)
Community Facilities District	8,000	39,052	(31,052)

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

3) CASH AND INVESTMENTS

Cash and Investments are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Investments	\$ 32,126,591
Cash and Investments with Fiscal Agent	19,577,121
Statement of Fiduciary Net Position:	
Cash and Investments	7,220,023
Cash and Investments with Fiscal Agent	<u>6,171,901</u>
Total Cash and Investments	<u>\$ 65,095,636</u>

Cash and Investments consist of the following:

Petty Cash	\$ 4,350
Deposits with Financial Institutions	28,886,417
Investments	<u>36,204,869</u>
Total Cash and Investments	<u>\$ 65,095,636</u>

Investments Authorized by the California Government Code and the City's Investment Policy

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
Local Agency Investment Fund (State Pool)	N/A	None	\$50 million
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	25%	10%
Certificate of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities			
Lending Agreements	92 days	20%	None
Medium-term Corporate Notes	5 years	30%	None
Mutual Funds and Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None
Supranational Obligations	5 years	30%	None

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

3) CASH AND INVESTMENTS - Continued

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rates risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distributions of the City's investments by maturity:

Investment Type	Remaining Maturity (in Months)			
	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
State Investment Pool	\$ 4,392,502	\$ 4,392,502	\$	\$
Money Market Mutual Funds	6,029,652	6,029,652		
California Community Foundation Investment Pool ⁽¹⁾	33,693	33,693		
Held by Bond Trustee:				
Money Market Mutual Funds	24,288,522	24,288,522		
Investment Agreements	1,460,500			1,460,500
Total	\$ 36,204,869	\$ 34,744,369	\$ 0	\$ 1,460,500

⁽¹⁾ This investment was approved by the City Council for the Adelanto Community Benefit Corporation but is not specifically authorized by the City's investment policy.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

3) CASH AND INVESTMENTS - Continued

Disclosures Relating to Credit Risk - Continued

Presented below is the minimum rating required by (where applicable) the California Government Code or the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Investment Type		Minimum Legal Rating	Exempt From Disclosure	Ratings as of Year End	
				AAA	Not Rated
State Investment Pool	\$ 4,392,502	N/A	\$	\$	\$ 4,392,502
Money Market Mutual Funds	6,029,652	AAA		6,029,652	
California Community Foundation Investment Pool	33,693				33,693
Held by Bond Trustee:					
Money Market Mutual Funds	24,288,522	N/A		24,288,522	
Investment Agreements	1,460,500	N/A			1,460,500
Total	<u>\$ 36,204,869</u>		<u>\$ 0</u>	<u>\$ 30,318,174</u>	<u>\$ 5,886,695</u>

Concentration of Credit Risk

The investment policy of the City contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

3) CASH AND INVESTMENTS - Continued

Custodial Credit Risk - Continued

As of June 30, 2016, all of the City's deposits with financial institutions were either under federal depository insurance limits or are held in collateralized accounts. City investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the City to buy securities:

<u>Investment Type</u>	<u>Report Amount</u>
Money Market Mutual Funds	\$ 6,029,652
Held by Bond Trustee:	
Money Market Mutual Funds	24,288,522
Investment Agreements	1,460,500

Local Agency Investment Fund (LAIF)

The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The City may invest up to \$50,000,000 in the fund for the City and \$50,000,000 for each eligible component unit. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of interest. Investments with LAIF are secured by the full faith and credit of the State of California. The yield of LAIF during the quarter ended June 30, 2016 was 0.55%. The carrying value and estimated market value of the LAIF Pool at June 30, 2016 was \$75,395,751,048 and \$75,442,588,513, respectively. The City's share of the Pool at June 30, 2016 was approximately 0.0058 percent.

The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of structured notes totaling \$400,000,000 and asset-backed securities totaling \$1,718,918,000. LAIF's and the City's exposure to risk (credit, market or legal) is not currently available.

The LAIF has oversight by the Local Investment Advisory Board. The LAIF Board consists of five members as designated by Statute. LAIF is also regulated by California Government Code Section 16429.

4) FAIR VALUE MEASUREMENTS

Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurements and Application, provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value with Level 1 given the highest priority and Level 3 the lowest priority. The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the organization has the ability to access at the measurement date.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

4) FAIR VALUE MEASUREMENTS - Continued

Level 2 inputs are inputs other than quoted prices included within *Level 1* that are observable for the asset or liability, either directly or indirectly. *Level 2* inputs include the following:

- a. Quoted prices for similar assets or liabilities in active markets.
- b. Quoted prices for identical or similar assets or liabilities in markets that are not active.
- c. Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
- d. Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

Level 3 inputs are unobservable inputs for the asset or liability.

Fair value of assets measured on a recurring basis at June 30, 2016, are as follows:

	<u>Fair Value</u>	<u>Uncategorized</u>
Investments:		
State Investment Pool	\$ 4,392,502	\$ 4,392,502
Money Market Mutual Funds	6,029,652	6,029,652
California Community Foundation		
Investment Pool	33,693	33,693
Held by Bond Trustee:		
Money Market Funds	24,288,522	24,288,522
Investment Agreements	<u>1,460,500</u>	<u>1,460,500</u>
Total Investments	<u>\$ 36,204,869</u>	<u>\$ 36,204,869</u>

Fair values for investments are determined by using a matrix pricing technique. Matrix pricing is used to value securities based on the security's relationship to benchmark quoted prices. Uncategorized investments do not fall under the fair value hierarchy as there is no active market for the investments. Land held for development was acquired for the purpose of redevelopment rather than for income and profit. Therefore, land held for development is exempt under GASB 72 fair value measurements.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

5) INTERFUND ACTIVITY

Due to/from Other Funds

Amounts due to/from other funds represent short-term loans between funds to assist in covering current fiscal year expenditures (expenses). Due to/from other funds are as follows:

Funds	Receivable (Due from)	Payable (Due to)
Major Governmental Funds:		
General Fund	\$ 1,633,814 ⁽¹⁾	\$ 269,036 ⁽¹⁾
Non-Major Governmental Funds:		
Mavericks Stadium		113,576
Gas Tax		811,149
Measure I 2010-2040	32,499	
Major Enterprise Funds:		
Adelanto Community Benefit Corporation		9,909
Fiduciary Funds		
Luetke Foundation		10,565
Successor Agency	236,537	688,615
	<u>\$ 1,902,850</u>	<u>\$ 1,902,850</u>
Totals		

⁽¹⁾ The General Fund receivable amounts include \$934,634 due from governmental and enterprise funds, and \$699,180 from fiduciary funds. The payable amounts include \$32,499 due to governmental and enterprise funds, and \$236,537 to fiduciary funds.

Advances to/from Other Funds

The funds below have made/received advances that were not expected to be repaid within one year:

Funds	Receivable (Advances to)	Payable (Advances from)
Major Governmental Funds:		
General Fund	\$ 19,343,613 ⁽¹⁾	\$ 1,194,829
Non-major Governmental Funds:		
Maveriks Stadium		3,094,853
Drainage Impact	279,792	
Major Enterprise Funds:		
Public Utility Authority	1,091,964	13,901,444 ⁽²⁾
Fiduciary Funds:		
Successor Agency		2,524,243
	<u>\$ 20,715,369</u>	<u>\$ 20,715,369</u>
Totals		

⁽¹⁾ This amount includes \$2,524,243 of advances to the Successor Agency.

⁽²⁾ The current portion of \$1,631,657 is separated in the Proprietary Funds Statement of Net Position.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

5) INTERFUND ACTIVITY - Continued

Advances to/from Other Funds - Continued

General Fund Advances

The advances between the City of Adelanto and the Successor Agency were to provide the Successor Agency with funding for projects and have no stated interest rate. There is no future minimum debt service requirement as repayment will be made when funds are available. The outstanding balance of the advance was \$2,524,243 as of June 30, 2016.

The Maverik Stadium Special Revenue Fund has an operating loan of \$3,094,853 and the Public Utility Authority has an operating loan of \$1,393,353 from the General Fund. The operating loans are not expected to be repaid within a year and have no minimum required repayments.

Water System Purchase Note. As part of the original purchase of the City's water operation by the Adelanto Water Authority, which was acquired by the Adelanto Public Utility Authority on February 1, 2000, the Adelanto Water Authority issued a note payable in the amount of \$34,113,079 with minimum annual payments of \$500,000 plus any additional funds available after payment of operating and debt service requirements of the Water Authority plus the establishment of a reasonable reserve. The original purchase note accrued interest at 7.5% per annum. On January 26, 1998, the Governing Board of the Water Authority and the City Council agreed to amend the purchase note on a retroactive basis to eliminate the accrual of interest from July 1, 1996 until such time as all outstanding bonds are repaid, which at that time was scheduled for September 1, 2028. As per this agreement, the unpaid balance of this note at that time will accrue interest at 7.5%. Interest accrued through June 30, 1996 amounting to \$1,219,659 was unaffected by the purchase note amendment. In September 2005, the interest rate was amended to accrue on the unpaid balance at the rate of 5.0% per annum. Payments on the note payable are due quarterly each year. The outstanding balance on the Water System Purchase Note is \$5,899,995 at June 30, 2016.

The future debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 1,613,442	\$ 246,592	\$ 1,860,034
2018	1,694,114	153,958	1,848,072
2019	1,778,820	50,669	1,829,489
2020	813,619		813,619
Total	<u>\$ 5,899,995</u>	<u>\$ 451,219</u>	<u>\$ 6,351,214</u>

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

5) INTERFUND ACTIVITY - Continued

Advances to/from Other Funds - Continued

Wastewater System Purchase Note. On November 1, 1996, the Adelanto Public Utility Authority entered into a purchase agreement with the City to purchase the City's wastewater operations. The Authority issued a note payable in the amount of \$10,267,874, with accrued interest at 7.5% per annum. On January 26, 1998, the governing Board of the Authority and the City Council agreed to amend the purchase note on a retroactive basis to eliminate any accrual of interest payable to the City until such time as all outstanding bonds are repaid, which at that time was scheduled for November 1, 2026. As per this agreement, any unpaid balance at that time will accrue interest at 7.5%. In September 2005, the interest rate was amended to accrue on the unpaid balance at the rate of 5.0% per annum. Payments on the note payable are due quarterly each year. The outstanding balance on the Wastewater System Purchase Note is \$6,431,169 at June 30, 2016.

The future debt service requirements are as of follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$	\$ 369,966	\$ 369,966
2018		381,929	381,929
2019		400,511	400,511
2020	1,054,141	362,239	1,416,380
2021-2023	5,377,028	507,479	5,884,507
Total	\$ 6,431,169	\$ 2,022,124	\$ 8,453,293

Drainage Impact Special Revenue Fund Advances

On November 12, 2013, an inter-fund loan agreement of \$300,000 was approved by the City. The Drainage Impact Special Revenue Fund loaned the General Fund \$114,000 and the Public Utility Authority \$186,000 for their respective portion on the purchase of financial and billing software. Interest on the loans accrues at an interest rate of 0.26% (LAIF interest rate as of the effective date). Payments are due annually of \$5,857 from the General Fund and \$9,556 from the Public Utility Authority. The outstanding balances are \$102,865 from the General Fund and \$176,927 from the Public Utility Authority as of June 30, 2016.

Public Utility Authority Advances

The General Fund has an operating loan of \$1,091,964 from the Public Utility Authority. This operating loan is not expected to be repaid within a year and has no minimum required repayments or interest accrued on the loan.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

5) INTERFUND ACTIVITY - Continued

Transfers

Transfers to/from other funds have been made in the normal course of business to assist the receiving fund in covering costs. Inter-fund transfers are as follows:

Funds	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	\$ 2,641,765	\$ 154
Non-Major Governmental Funds:		
Park Development Impact		135,000
Drainage Impact	154	
Gas Tax		900,000
TDA Article 8		206,826
Federal Grants		45,849
State/Local Grants		4,798
Community Development Block Grant		75,903
Public Safety ½ Cent		125,000
Traffic Offender		5,000
COPs Grant		100,000
Community Facilities District		100,000
LLMD Annexation		125,000
Major Enterprise Funds:		
Public Utility Authority		818,389 ⁽¹⁾
Totals	\$ 2,641,919	\$ 2,641,919

⁽¹⁾ Included in the Public Utility Authority transfers out is approximately \$693,389 of interest paid to the General Fund on the water and wastewater systems note payable.

⁽²⁾ The remaining transfers were used to provide services and finance various programs which were mostly for street and public safety related expenditures.

6) SUCCESSOR AGENCY LOANS RECEIVABLE

The Adelanto Public Utility Authority purchased the Adelanto Public Financing Authority (“PFA”) Local Agency Third Subordinated Revenue Bonds, 1995 Series C. These bonds are considered conduit debt (See Note 9) of the Adelanto PFA since the bond is secured from the loans with the Adelanto Improvement Agency. As of February 1, 2012, the Adelanto Improvement Agency was dissolved and the Successor Agency of the Adelanto Improvement Agency oversees the remaining activities of the former Adelanto Improvement Agency (See Note 15). Since the Adelanto PFA bonds are considered conduit debt, these amounts are reflected as loans receivable with the Successor Agency. The outstanding balance of these loans is \$13,303,734. This amount includes \$10,287,419 of accreted interest.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

7) CAPITAL ASSETS

The following is a summary of changes in Capital Assets for the year:

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Governmental Activities:					
Capital Assets, Not Depreciated:					
Land and Rights of Way	\$ 19,087,852	\$ 585,000	\$	\$ (2,108,700) ⁽¹⁾	\$ 17,564,152
Total Capital Assets, Not Depreciated	19,087,852	585,000	0	(2,108,700)	17,564,152
Capital Assets, Being Depreciated:					
Buildings and Improvements	12,645,301	348,242	(76,036)	1,026,752 ⁽²⁾	13,944,259
Machinery and Equipment	1,781,202	40,370	(79,832)		1,741,740
Vehicles	2,202,510		(301,000)		1,901,510
Infrastructure	68,276,276	7,326,040		21,978,119 ⁽²⁾	97,580,435
Total Capital Assets, Being Depreciated	84,905,289	7,714,652	(456,868)	23,004,871	115,167,944
Less Accumulated Depreciation:					
Buildings and Improvements	(7,096,837)	(268,637)	55,381	(61,605) ⁽²⁾	(7,371,698)
Machinery and Equipment	(1,404,922)	(114,065)	79,832		(1,439,155)
Vehicles	(1,986,215)	(73,724)	298,959		(1,760,980)
Infrastructure	(42,024,964)	(2,507,806)		(1,326,603) ⁽²⁾	(45,859,373)
Total Accumulated Depreciation	(52,512,938)	(2,964,232)	434,172	(1,388,208)	(56,431,206)
Total Capital Assets, Being Depreciated, Net	32,392,351	4,750,420	(22,696)	21,616,663	58,736,738
Governmental Activities Capital Assets, Net of Depreciation	\$ 51,480,203	\$ 5,335,420	\$ (22,696)	\$ 19,507,963	\$ 76,300,890

⁽¹⁾ This adjustment reflects deletions of properties owned by the Successor Agency. See Note 17.

⁽²⁾ These adjustments reflect developer contributions from prior years. See Note 17.

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General Government	\$ 246,240
Public Safety	118,088
Public Works	2,472,392
Parks and Recreation	127,512
Total Depreciation Expense - Governmental Activities	<u>\$ 2,964,232</u>

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

7) CAPITAL ASSETS - Continued

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Business-type Activities:					
Capital Assets, Not Depreciated:					
Land	\$ 908,300	\$	\$	\$	\$ 908,300
Water Rights	3,124,799				3,124,799
Total Capital Assets, Not Depreciated	4,033,099	0	0	0	4,033,099
Capital Assets, Being Depreciated:					
Buildings and Improvements	20,774,142	39,559		120,000 ⁽¹⁾	20,933,701
Machinery and Equipment	8,611,333	262,474		(121,242) ⁽¹⁾	8,752,565
Vehicles	134,299		(134,299)		0
Infrastructure	46,470,334	593,430		1,780,290 ⁽²⁾	48,844,054
Total Capital Assets, Being Depreciated	75,990,108	895,463	(134,299)	1,779,048	78,530,320
Less Accumulated Depreciation:					
Buildings and Improvements	(6,565,618)	(421,067)			(6,986,685)
Machinery and Equipment	(2,986,970)	(294,137)			(3,281,107)
Vehicles	(129,214)		129,214		0
Infrastructure	(11,221,325)	(750,534)		(106,817) ⁽²⁾	(12,078,676)
Total Accumulated Depreciation	(20,903,127)	(1,465,738)	129,214	(106,817)	(22,346,468)
Total Capital Assets, Being Depreciated, Net	55,086,981	(570,275)	(5,085)	1,672,231	56,183,852
Business-type Activities Capital Assets, Net of Depreciation	<u>\$ 59,120,080</u>	<u>\$ (570,275)</u>	<u>\$ (5,085)</u>	<u>\$ 1,672,231</u>	<u>\$ 60,216,951</u>

⁽¹⁾ These amounts reflect a \$120,000 reclassification between buildings and improvements, and, machinery and equipment. The remaining \$1,242 is for a cost adjustment on the value of a well.

⁽²⁾ These adjustments reflect developer contributions from prior years. See Note 17.

Depreciation was charged to functions/programs as follows:

Business-type Activities:	
Public Utility Authority	<u>\$ 1,465,738</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 1,465,738</u>

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

8) LONG-TERM LIABILITIES

Activities relating to long-term liabilities for the year are presented as follows:

Description	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental Activities:					
Compensated Absences (Note 1.N)	\$ 200,619	\$ 226,820	\$ 270,251 ⁽¹⁾	\$ 157,188	\$ 39,297
Net Pension Liability (Note 11)	0	234,689	221,607	13,082	
Net OPEB Obligation (Note 12)	148,166	131,416	95,575 ⁽¹⁾	184,007	
Claims Payable (Note 13)	150,722	164,244	62,635 ⁽¹⁾	252,331	19,260
Governmental Activities Long-term Liabilities	<u>\$ 499,507</u>	<u>\$ 757,169</u>	<u>\$ 650,068</u>	<u>\$ 606,608</u>	<u>\$ 58,557</u>
Business-type Activities:					
Compensated Absences (Note 1.N)	\$ 9,803	\$	\$ 1,554 ⁽¹⁾	\$ 8,249	\$ 2,062
Fixed Rate Refunding Bonds,					
2009 Series A	73,190,000		1,315,000	71,875,000	1,375,000
Unamortized Discount	(919,961)		(38,328)	(881,633)	
Fixed Rate Revenue Bonds,					
2014 Series A	14,130,000		665,000	13,465,000	700,000
Unamortized Premium	343,789		13,752	330,037	
Business-type Activities Long-term Liabilities	<u>\$ 86,753,631</u>	<u>\$ 0</u>	<u>\$ 1,956,978</u>	<u>\$ 84,796,653</u>	<u>\$ 2,077,062</u>

⁽¹⁾ Each governmental or proprietary funds' liability for compensated absences is liquidated by the respective fund. The net OPEB obligation and claims payable is currently being liquidated by the General Fund.

Fixed Rate Refunding Revenue Bonds, 2009 Series A

On or about December 22, 2009, the Adelanto Public Utility Authority issued \$76,825,000 Fixed Rate Revenue Refunding Bonds, 2009 Series A, to refund a portion of the Authority's Variable Rate Refunding Bonds, 2005 Series A, Taxable Variable Rate Refunding Bonds, 2005 Series B and to finance certain capital improvements. Interest on the bonds is payable July 1st and January 1st of each year. Interest on the bonds accrues at rates varying from 4.00% to 6.25% per annum. Principal on the serial bonds are payable in annual installments, ranging from \$1,165,000 to \$5,770,000, commencing July 1, 2012 through July 1, 2039. The 2009A and 2014A Revenue Bonds debt service reserve accounts have been combined into one account. The balance in the combined debt service reserve account as of June 30, 2016, is \$7,411,981, which is sufficient to cover the Bond Indenture Reserve Requirement. At June 30, 2016 the Authority has \$2,100,000 in its rate stabilization account, which is sufficient to cover the rate stabilization requirement.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

8) LONG-TERM LIABILITIES - Continued

Fixed Rate Refunding Revenue Bonds, 2009 Series A - Continued

The future debt service requirements for the bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 1,375,000	\$ 4,589,244	\$ 5,964,244
2018	1,445,000	4,518,744	5,963,744
2019	1,525,000	4,443,541	5,968,541
2020	1,605,000	4,361,328	5,966,328
2021	1,695,000	4,271,581	5,966,581
2022-2026	10,125,000	19,705,178	29,830,178
2027-2031	13,855,000	15,974,447	29,829,447
2032-2036	19,330,000	10,495,834	29,825,834
2037-2040	20,920,000	2,943,000	23,863,000
Total	<u>\$ 71,875,000</u>	<u>\$ 71,302,897</u>	<u>\$ 143,177,897</u>

Revenues Pledged

The Adelanto Public Utility Authority has pledged a portion of water and wastewater revenues to repay the 2009 Series A Fixed Rate Refunding Revenue Bonds. The bond is secured solely by water and wastewater operating revenues. Total principal and interest remaining on the bond is \$143,177,897 payable through fiscal year 2040. For the current year, principal and interest paid by the water and wastewater operating revenues was \$1,315,000 and \$4,651,563.

Fixed Rate Revenue Bonds, 2014 Series A

On or about December 30, 2014, the Adelanto Public Utility Authority issued \$14,130,000 Fixed Rate Revenue Bonds, 2014 Series A, to pay costs related to a legal settlement with Ambac Assurance Corporation and to finance certain capital improvements. Interest on the bonds is payable July 1st and January 1st of each year. Interest on the bonds accrues at rates of 4.00% and 5.00% per annum. Principal on the serial bonds are payable in annual installments, ranging from \$265,000 to \$1,045,000, commencing July 1, 2015 through July 1, 2039. The 2009A and 2014A Revenue Bonds debt service reserve accounts have been combined into one account. The balance in the combined debt service reserve account as of June 30, 2016, is \$7,411,981, which is sufficient to cover the Bond Indenture Reserve Requirement.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

8) LONG-TERM LIABILITIES - Continued

Fixed Rate Revenue Bonds, 2014 Series A - Continued

The future debt service requirements for the bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 700,000	\$ 655,750	\$ 1,355,750
2018	735,000	619,875	1,354,875
2019	775,000	582,125	1,357,125
2020	815,000	542,375	1,357,375
2021	855,000	500,625	1,355,625
2022-2026	4,140,000	1,820,500	5,960,500
2027-2031	1,525,000	1,178,125	2,703,125
2032-2036	1,955,000	745,125	2,700,125
2037-2040	1,965,000	202,875	2,167,875
Total	<u>\$ 13,465,000</u>	<u>\$ 6,847,375</u>	<u>\$ 20,312,375</u>

Revenues Pledged

The Authority has pledged a portion of water and wastewater revenues to repay the 2014 Series A Fixed Rate Revenue Bonds. The bond is secured solely by water and wastewater operating revenues. Total principal and interest remaining on the bond is \$20,312,375 payable through fiscal year 2040. For the current year, principal and interest paid by the water and wastewater operating revenues was \$665,000 and \$691,838.

9) CONDUIT DEBT

Community Facilities District Bonds

Bonds issued for improvements in certain special assessment districts in accordance with the provisions of the Mello-Roos Community Facilities Act of 1982, as amended, are liabilities of the property owners and are secured by liens against the assessed property. The City acts as an agent for collection of principal and interest payments by the property owners and remittance of such monies to the bondholders.

Neither the faith and credit, nor the general taxing power, of the City of Adelanto have been pledged to the payment of the bonds. Therefore, none of the following special assessment bonds have been included in the accompanying financial statements.

District Bonds	Amount of Issue	Outstanding at End of Year
Community Facilities District No. 2006-2 IA1, 2015 Special Tax Bonds	\$ 3,575,000	\$ 3,575,000
Community Facilities District No. 2006-2 IA2, 2015A Special Tax Bonds	3,715,000	3,715,000
Community Facilities District No. 2006-2 IA2, 2015B Special Tax Bonds	<u>2,480,000</u>	<u>2,480,000</u>
	<u>\$ 9,770,000</u>	<u>\$ 9,770,000</u>

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

9) CONDUIT DEBT - Continued

Adelanto Public Financing Authority Bonds

The Adelanto Public Financing Authority (the “PFA”) issued local agency subordinated revenue bonds to provide loans to the former Adelanto Improvement Agency. The loans were used to finance various redevelopment activities which include refunding previous long-term liabilities. The bonds are secured from the former Adelanto Improvement Agency (Successor Agency) loan payments (tax revenues). See Note 15. The Adelanto PFA also issued local agency revenue bonds which were used to purchase or refund Assessment District bonds. The local agency revenue bonds are secured from payments on the Assessment District bonds (special assessments on property owners).

Neither the faith and credit, nor the general taxing power, of the City of Adelanto have been pledged to the payment of the bonds. The Adelanto PFA has no taxing power. Therefore, none of the following bonds have been included in the accompanying financial statements.

Local Agency Subordinated Revenue Bonds - Successor Agency	Amount of Issue	Outstanding at End of Year
Local Agency Taxable Subordinated Revenue Bonds, 1995 Series A	\$ 7,400,000	\$ 2,525,000
Local Agency 2 nd Subordinated Revenue Bonds, 1995 Series B	17,560,000	12,730,000
Local Agency 3 rd Subordinated Revenue Bonds, 1995 Series C	11,786,856	13,303,734 ⁽¹⁾
	<u>\$ 36,746,856</u>	<u>\$ 28,558,734</u>

⁽¹⁾ This amount includes \$10,287,419 of accreted interest.

10) NET POSITION

The details of restricted net position for other purposes, in the Statement of Net Position, are presented below:

Description	Statement of Net Position	
	Governmental Activities	Business-type Activities
Air Quality Management	\$ 210,161	\$
Law Enforcement	165,435	
Public Safety	63,500	
Lighting and Landscape Maintenance	77,739	
Community Benefits		29,812
	<u>516,835</u>	<u>29,812</u>
Total	<u>\$ 516,835</u>	<u>\$ 29,812</u>

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

11) CITY EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN)

A) General Information about the Pension Plans

Plan Description - All qualified permanent and probationary employees are eligible to participate in the City's Cost-Sharing Multiple Employer Defined Benefit Pension Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The City sponsors two rate plans (one miscellaneous and one safety). 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 provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of fulltime 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 Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or After January 1, 2013 ⁽¹⁾
Hire Date		
Benefit Formulas	2.0% at 60	2.0% at 62
Benefit Vesting Schedule	5 Years Service	5 Years Service
Benefit Payments	Monthly for Life	Monthly for Life
Retirement Age	50-63+	52-67+
Monthly Benefits, as a % of Eligible Compensation	2.0% to 2.418%	1.0% to 2.5%
Required Employee Contribution Rates	7%	6.25%
Required Employer Contribution Rates	6.771%	6.555%
	Safety⁽²⁾	
	Prior to January 1, 2013	On or After January 1, 2013 ⁽¹⁾
Hire Date		
Benefit Formulas	2.0% at 55	N/A
Benefit Vesting Schedule	5 Years Service	N/A
Benefit Payments	Monthly for Life	N/A
Retirement Age	50-55+	N/A
Monthly Benefits, as a % of Eligible Compensation	1.426% to 2.0%	N/A
Required Employee Contribution Rates	N/A	N/A
Required Employer Contribution Rates	N/A	N/A

⁽¹⁾ For employees hired on or after January 1, 2013, they are included in their respective PEPPRA (California Public Employees' Pension Reform Act) Plans with the above provisions and benefits.

⁽²⁾ Note the City currently does not have any safety employees. The Safety Plan represents former safety employees.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

11) CITY EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) - Continued

A) General Information about the Pension Plans - Continued

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 is 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.

The contributions to the Plan for the year ended June 30, 2016 were \$230,018.

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

As of June 30, 2016, the City reported a net pension liability (asset) for its proportionate shares of the net pension liability of the Plan of \$4,288. This was the net of governmental activities having a net pension liability of \$13,082 and the business-type activities have a net pension asset of \$(8,794).

The City net pension liability (asset) 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, 2015 rolled forward to June 30, 2016 using standard updated procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The City's proportionate share of the net pension liability (asset) for the Plan as of June 30, 2015 and 2016 was as follows:

Proportion		Change Increase (Decrease)
June 30, 2016	June 30, 2015	
0.00005%	(0.00747)%	0.00752%

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

11) CITY EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) - Continued

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

For the year ended June 30, 2016, the City recognized pension expense of \$116,315. At June 30, 2016, 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	\$	\$
Differences between actual and expected experience	4,185	(1,267)
Changes in assumptions		(40,937)
Change in employer's proportion and differences between the employer's contributions and the employer's Proportionate share of contributions	1,668	(507,915)
Net differences between projected and actual earnings on plan investments	212,677	
Total	<u>\$ 218,530</u>	<u>\$ (550,119)</u>

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

Year Ended June 30	
2017	\$ (249,975)
2018	(194,290)
2019	57,578
2020	55,098

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

11) CITY EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) - Continued

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

Actuarial Assumptions - The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.65%
Mortality	CalPERS Membership Data ⁽¹⁾

⁽¹⁾The Mortality Rate 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 2014 experience study report from the CalPERS website.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report may be accessed on the CalPERS website at www.calpers.ca.gov under Forms and Publications.

Change of Assumptions - There were no changes of assumptions.

Discount Rate - The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the 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 7.65 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 Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS website under the GASB 68 section.

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.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

11) CITY EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) - Continued

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions - 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 (PERF) cash flows. Taking into account historical returns of all the Public Employee's Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) 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 PERF 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 the 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. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2015.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 ^(a)	Real Return Years 11+ ^(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
Total	100%		

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

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

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

11) CITY EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) - Continued

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

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 position 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:

	CalPERS Pension Plan
	<hr/>
1% Decrease	6.65%
Net Pension Liability (Asset)	\$ 1,181,196
Current Discount Rate	7.65%
Net Pension Liability (Asset)	\$ 4,288
1% Increase	8.65%
Net Pension Liability (Asset)	\$ (968,042)

Note: The discount rate was subsequently lowered to 7.15% in the 2018 fiscal year.

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

C. Payable to the Pension Plan

At June 30, 2016, the City reported a payable of \$2,808, which is included in accrued liabilities, for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

12) OTHER POST EMPLOYMENT BENEFITS

Plan Description

The City's defined benefit post employment healthcare plan, (City of Adelanto Retiree Healthcare Plan, CARHP), provides medical benefits to eligible retired employees and qualified dependents. CARHP is part of the Public Agency portion of the California Employers' Retiree Benefit Trust Fund (CERBT), an agent multiple-employer plan administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statute within the Public Employees' Retirement Law. CARHP selects optional benefit provisions from the benefit menu by contract with CalPERS. CalPERS issues a Comprehensive Annual Financial Report (CAFR). The CAFR is issued in aggregate and includes the sum of all CalPERS plans. Copies of the CalPERS CAFR may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

12) OTHER POST EMPLOYMENT BENEFITS - Continued

Funding Policy

The contribution requirements of plan members and the City are established and may be amended by the City Council. These benefits are for employees who have worked for the City for a period of ten years and are at least 50 years of age when they separate from the service of the City, and were employed by the City on July 1, 2004. Employees hired after July 1, 2004 are not eligible for the retiree medical benefits under the plan. The table below is a summary of the retiree medical benefits.

Description	
Benefit Types Provided	Medical Only
Duration of Benefits	Lifetime
Required Service	10 Years
Minimum Age	50
Dependent Coverage	No
City Contribution %	100%
City Cap	\$900 Per Month ⁽¹⁾

⁽¹⁾ Former City Correctional Facility employees have a cap of \$420 per month.

The City is required to contribute the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. ARC rate is 13.08% of the annual covered payroll. The plan is financed on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's Net OPEB obligation to the Retiree Health Plan:

Annual Required Contribution	\$ 134,072
Interest on Net OPEB Obligation	5,186
Adjustments to Annual Required Contribution	<u>(7,842)</u>
Annual OPEB Cost (Expense)	131,416
Contributions Made	<u>(95,575)</u>
Increase (Decrease) in Net OPEB Obligation	35,841
Net OPEB Obligation - Beginning of Year	<u>148,166</u>
Net OPEB Obligation - End of Year	<u>\$ 184,007</u>

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

12) OTHER POST EMPLOYMENT BENEFITS - Continued

Annual OPEB Cost and Net OPEB Obligation - Continued

For 2016, the City's annual OPEB cost (expense) of \$131,416 for CARHP was equal to the ARC less adjustments. OPEB costs are typically charged to the General fund and to the Government-wide financial statements for governmental activities. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation was as follows:

THREE YEAR TREND ⁽¹⁾ INFORMATION FOR CARHP			
Fiscal Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
6/30/15	\$ 134,273	59.93%	\$ 148,166
6/30/16	\$ 131,416	72.73%	\$ 184,007

⁽¹⁾ Currently, only two years of data is available. Future years will be presented as they become available.

The funded status of the plan as of June 30, 2016, was as follows:

Actuarial Accrued Liability (AAL)	\$ 2,104,562
Actuarial Value of Plan Assets	\$ 0
Unfunded Actuarial Accrued Liability (UAAL)	\$ 2,104,562
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll (Active Plan Members)	\$ 1,024,839
UAAL as a Percentage of Covered Payroll	205%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. 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 supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

12) OTHER POST EMPLOYMENT BENEFITS - Continued

Actuarial Methods and Assumptions - Continued

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2016
Funding Method	Entry Age Normal Level Percent of Pay
Investment Return/Discount Rate	3.50%
Payroll Increase	2.875% per year
Inflation Rate	2.50%
Mortality	CalPERS Public Agency Miscellaneous and CALSTRS Mortality Tables
Turnover	CalPERS Public Agency Miscellaneous Tables
Retirement Rates	CalPERS Public Agency Miscellaneous Tables
Health Care Trend Rate	The four initial trend rates 7%, 6.5%, 6% and 5.6% to an ultimate rate of 3.94% after 56 years.

13) RISK MANAGEMENT

The City is a member of Public Entity Risk Management Authority (PERMA), a joint powers authority formed under Section 990 of the California Government Code for the purpose of jointly funding programs of insurance coverage for its members. PERMA is comprised of thirty-two participating member agencies, twenty-two cities, three transit agencies and seven special districts. PERMA is governed by a Board of Directors which consists of one director from each member agency. The City participates in the liability, workers' compensation, employment practices liability, property insurance, auto physical damage, cyber liability, and crime coverage insurance programs of PERMA. Separate financial statements of PERMA may be obtained at 36-951 Cook Street, Suite 101, Palm Desert, California, 92211.

The liability program provides coverage up to \$50 million per occurrence for personal injury, bodily injury, property damage and public officials' errors and omissions. The City has selected a self-insured retention of \$25,000 and participates in risk sharing pools for losses up to \$1 million followed by PERMA's members in the CSAC Excess Insurance Authority for excess liability coverage.

The workers' compensation program provides statutory limits per acceded for workers' compensation and \$5 million each acceded for employers' liability. The City self-insures up to \$250,000 per accident or employee and participates in a risk sharing pool for losses up to \$500,000 followed by PERMA's membership in the Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX) for excess coverage.

The employee practices liability program provides up to \$50 million coverage for employment related lawsuits, such as wrongful termination and discrimination. The City self-insures up to \$250,000 per occurrence and participates in the Employment Risk Management Authority (ERMA) for losses up to \$1 million. Coverage above \$1 million and up to \$50 million is available through PERMA's membership in the CSAC EIA for excess liability coverage.

The property insurance, auto physical damage and cyber liability programs are group purchased under a master property insurance policy with accumulated values from all participants effecting lowers rates and broader coverage for all members. The crime coverage is also group purchased under a master insurance poly and provides up to \$5,000,000 for employee theft, forgery or alteration, computer fraud and funds transfer funds with a deductible of \$2,500.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

13) RISK MANAGEMENT - Continued

PERMA also provides a non-risk sharing "deductible", or banking, pool for claims within the SIR level. Annual contributions are deposited with the PERMA from which claims are paid. Any excess funds held by PERMA for the City at year-end are recorded as "Deposits with Other Agencies" within the General Fund. Any deficit funds are recorded as a liability within the General Fund. At June 30, 2016, the City had an excess of funds of \$379,663 for such claims.

Under the liability programs risk-sharing pool, each member's share of total claims liabilities, including IBNR's, is determined by the application of risk factors to specific characteristics of each member which provides the relative share of each member in total losses of PERMA. These losses are paid from premiums charged to the members which are established at levels to fund all claims costs. The claims liability is estimated based on actuarial studies of the liability and workers' compensation program using a 2% discount rate.

Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended June 30, 2016	Year Ended June 30, 2015
Claims Payable, Beginning of Year	\$ 150,722	\$ 427,110
Incurred Claims (Including IBNRs)	164,244	107,082
Claim Payments	(53,349)	(75,726)
Changes in Estimates	(9,286)	(307,744)
Claims Payable, End of Year	<u>\$ 252,331</u>	<u>\$ 150,722</u>

During the past three fiscal years none of the above programs of protection have had settlements or judgements that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

14) COMMITMENTS AND CONTINGENCIES

General Litigation

In the normal course of operations, the City has been subjected to certain routine litigation matters. Except for the matters noted below, the City's litigation centers around contractor/developers, former employees and other operating matters. Currently, the effect of these matters on the financial statements is unknown.

The Successor Agency is also a plaintiff in certain matters involving property in dispute. The City's management does not believe that the costs of such litigation will have significant adverse effect on the City's financial statements.

The City has received state and federal funds for specific purposes that are subject to review and audit by the grant agencies. Although such audits could result in expenditure disallowances under terms of the grants, it is management's belief that any required reimbursements will not be material.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

14) COMMITMENTS AND CONTINGENCIES - Continued

Victorville Water District

The Victorville Water District has a dispute with the City and is in discussions regarding cost claims and water entitlements by the Victorville Water District.

Victor Valley Economic Development Authority

The City of Adelanto was initially part of the Victor Valley Economic Development Authority (VVEDA), but left the VVEDA for a period of time. Adelanto became a part of VVEDA again in 2000, and up until that point, the other members of VVEDA had been contributing to VVEDA financially to keep the agency afloat. The VVEDA was dissolved as of February 1, 2012 along with all other California redevelopment agencies. There is a possibility of amounts that may be owed to the former VVEDA (Successor Agency to the VVEDA) since the City was a member agency of the former VVEDA.

15) SUCCESSOR AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Adelanto (City) that previously had reported a redevelopment agency within the reporting entity 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 the assets until they are distributed to other units of state and local government. On January 10, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution number 12-001. 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 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 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 revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs that 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.

Notes Receivable

The notes receivable consists of mostly agreements for the sale of land parcels by the former Adelanto Improvement Agency. Interest on the agreements varies from no interest to 5% per annum. The outstanding balance of notes receivable was \$825,970 as of June 30, 2016.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

15) SUCCESSOR AGENCY - Continued

Successor Agency Long-term Liabilities

The following is a summary of the changes in the Successor Agency long-term liabilities for the year:

Description	Beginning Balance	Additions	Deletions	Ending Balance
Tax Allocation Bonds:				
Adelanto Improvement Project Tax Allocation Refunding Bonds, 1993 Series B	\$ 8,300,000	\$	\$ 705,000	\$ 7,595,000
Adelanto Improvement Project No. 3 2007 Tax Allocation Bonds	3,090,000		70,000	3,020,000
Discounts	(262,090)		(28,200)	(233,890)
Total Tax Allocation Bonds	11,127,910	0	746,800	10,381,110
Loans Payable:				
Adelanto Public Financing Authority Discounts	29,234,569 (80,042)	1,015,093 ⁽¹⁾	1,690,928 (6,577)	28,558,734 (73,465)
Total Loans Payable	29,154,527	1,015,093	1,684,351	28,485,269
Other Long-term Liabilities:				
Intermountain Power Agency Settlement Agreement	1,989,390			1,989,390
San Bernardino County Tax Increment Loans	13,356,686			13,356,686
Total Other Long-term Liabilities	15,346,076	0	0	15,346,076
Total Long-term Liabilities	\$ 55,628,513	\$ 1,015,093	\$ 2,431,151	\$ 54,212,455

⁽¹⁾ This amount represents accreted interest on the loan related to the Adelanto Public Financing Authoring Local Agency Third Subordinated Revenue Bonds, 1995 Series C.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

15) SUCCESSOR AGENCY - Continued

Tax Allocations Bonds

Adelanto Improvement Project Tax Allocation Refunding Bonds, 1993 Series B

On or about December 30, 1993, the Adelanto Improvement Agency issued \$15,095,983 Tax Allocation Refunding Bonds, 1993 Series B, to advance refund a portion of the outstanding 1990 Adelanto Improvement Project Tax Allocation Bonds, 1991 Adelanto Improvement Project Tax Allocation Bonds and the 1993A Adelanto Improvement Project Subordinated Tax Allocation Bonds. Interest on the bonds is payable June 1st and December 1st of each year. Interest on the remaining term bonds accrues at a rate of 5.50% per annum. Principal on the serial bonds are payable in annual installments, ranging from \$175,000 to \$1,160,000, commencing December 1, 2002 through December 1, 2023. The balance of debt service reserve account as of June 30, 2016, is \$1,228,339, which is sufficient to cover the Bond Indenture Reserve Requirement.

The future debt service requirements for the bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 745,000	\$ 397,238	\$ 1,142,238
2018	785,000	355,162	1,140,162
2019	830,000	310,750	1,140,750
2020	940,000	262,075	1,202,075
2021	990,000	209,000	1,199,000
2022-2024	3,305,000	278,988	3,583,988
Total	\$ 7,595,000	\$ 1,813,213	\$ 9,408,213

Adelanto Improvement Project No. 3 2007 Tax Allocation Bonds

On or about December 19, 2007, the Adelanto Improvement Agency issued \$3,560,000 Adelanto Improvement Project No. 3 2007 Tax Allocation Bonds to fund redevelopment projects of the Agency, fund the reserve requirement and pay the costs of issuance on the bonds. Interest on the bonds is payable September 1st and March 1st of each year. Interest on the remaining term bonds accrues at rates between 4.00% and 6.00% per annum. Principal on the bonds are payable in annual installments ranging from \$55,000 to \$235,000, commencing September 1, 2008 through September 1, 2037. The balance of debt service reserve account as of June 30, 2016, is \$251,945, which is sufficient to cover the Bond Indenture Reserve Requirement.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

15) SUCCESSOR AGENCY - Continued

Tax Allocations Bonds - Continued

Adelanto Improvement Project No. 3 2007 Tax Allocation Bonds - Continued

The future debt service requirements for the bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 75,000	\$ 174,650	\$ 249,650
2018	75,000	170,975	245,975
2019	80,000	167,060	247,060
2020	85,000	162,810	247,810
2021	90,000	158,215	248,215
2022-2026	525,000	707,715	1,232,715
2027-2031	700,000	526,800	1,226,800
2032-2036	935,000	283,650	1,218,650
2037-2038	455,000	27,750	482,750
Total	\$ 3,020,000	\$ 2,379,625	\$ 5,399,625

Loans Payable to the Adelanto Public Financing Authority

The Adelanto Public Financing Authority (the "Authority") has issued Local Agency Subordinated Revenue Bonds for financing projects of the former Adelanto Improvement Agency (the "Successor Agency") and to provide funds for the various debt obligations of the Successor Agency. The Successor Agency has entered into loan agreements with the Authority which mirror the bonds issued by the Authority except for Local Agency Third Subordinated Revenue Bonds, 1995 Series C which require prepayments on the Authority's capital appreciation bonds. Concurrent with the execution and delivery of the loan agreements, the Authority issued the aggregate principal amount of its Local Agency Subordinated Revenue Bonds to the Successor Agency. See Note 9.

The following table represents the balance of the outstanding loans payable to the Authority:

	Amount Issued	Loans Payable End of Year
1995 Series A Issue	\$ 7,400,000	\$ 2,525,000
1995 Series B Issue	17,560,000	12,730,000
1995 Series C Issue	11,786,856	13,303,734 ⁽¹⁾
Total	\$ 36,746,856	\$ 28,558,734

⁽¹⁾ This amount includes accreted interest of \$10,287,419.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

15) SUCCESSOR AGENCY - Continued

Loans Payable to the Adelanto Public Financing Authority - Continued

Local Agency Taxable Subordinated Revenue Bonds, 1995 Series A

On or about January 9, 1996, the Adelanto Public Financing Authority (the "Authority"), issued \$7,400,000 Local Agency Taxable Subordinated Revenue Bonds, 1995 Series A, to provide funds (Agency loan) to the Successor Agency to advance refund the Adelanto Improvement Project Tax Allocation Refunding Bonds, 1993 Series B and the Adelanto Improvement Project Subordinated Tax Allocation Refunding and Improvements Bonds, 1993 Series C. Interest on the bonds is payable September 1st and March 1st of each year. Interest on the bonds accrues at rates between 5.60% and 7.20% per annum. Principal on the serial bonds are payable in annual installments, ranging from \$15,000 to \$1,275,000, commencing September 1, 1997 through September 1, 2025. The balance of debt service reserve account as of June 30, 2016, is \$740,637, which is sufficient to cover the Bond Indenture Reserve Requirement.

The future debt service requirements for the loans payable are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 20,000	\$ 181,080	\$ 201,080
2018	25,000	179,460	204,460
2019	20,000	177,840	197,840
2020		177,120	177,120
2021		177,120	177,120
2022-2026	2,460,000	711,720	3,171,720
Total	\$ 2,525,000	\$ 1,604,340	\$ 4,129,340

Local Agency Second Subordinated Revenue Bonds, 1995 Series B

On or about January 9, 1996, the Adelanto Public Financing Authority (the "Authority"), issued \$17,560,000 Local Agency Second Subordinated Revenue Bonds, 1995 Series B, to provide funds (Agency loan) to the Successor Agency to advance refund the Adelanto Improvement Project Tax Allocation Refunding Bonds, 1993 Series B and the Adelanto Improvement Project Subordinated Tax Allocation Refunding and Improvements Bonds, 1993 Series C. Interest on the bonds is payable September 1st and March 1st of each year. Interest on the bonds accrues at rates between 5.05% and 6.30% per annum. Principal on the serial bonds are payable in annual installments, ranging from \$160,000 to \$2,460,000, commencing September 1, 1998 through September 1, 2028. The balance of debt service reserve account as of June 30, 2016, is \$1,793,453, which is sufficient to cover the Bond Indenture Reserve Requirement.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

15) SUCCESSOR AGENCY - Continued

Loans Payable to the Adelanto Public Financing Authority - Continued

Local Agency Second Subordinated Revenue Bonds, 1995 Series B - Continued

The future debt service requirements for the loans payable are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 450,000	\$ 787,815	\$ 1,237,815
2018	475,000	758,678	1,233,678
2019	510,000	727,650	1,237,650
2020	500,000	695,835	1,195,835
2021	535,000	663,233	1,198,233
2022-2026	3,305,000	2,744,122	6,049,122
2027-2029	6,955,000	674,887	7,629,887
Total	<u>\$ 12,730,000</u>	<u>\$ 7,052,220</u>	<u>\$ 19,782,220</u>

Local Agency Third Subordinated Revenue Bonds, 1995 Series C

On or about January 9, 1996, the Adelanto Public Financing Authority (the "Authority"), issued \$11,786,856 Local Agency Taxable Third Subordinated Revenue Bonds (Capital Appreciation Bonds), 1995 Series C, to provide funds to the Successor Agency to advance refund the Adelanto Improvement Project Tax Allocation Refunding Bonds, 1993 Series B and the Adelanto Improvement Project Subordinated Tax Allocation Refunding and Improvements Bonds, 1993 Series C. Interest on the bonds is compounded September 1st and March 1st of each year and payable at maturity. Interest on the bonds accrues at a rate of 7.50% per annum. Principal on the bonds and all outstanding interest are due September 1, 2028. Principal on the Agency loans are payable vary from \$94,006 to \$1,081,968 beginning September 1, 1996 through September 1, 2028. The outstanding balance at June 30, 2016 is \$3,016,314 with accreted interest payable of \$287,419.

The future debt service requirements for the loans payable are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 278,401	\$ 1,018,464	\$ 1,296,865
2018	267,554	1,074,021	1,341,575
2019	272,074	1,197,852	1,469,926
2020	274,786	1,321,558	1,596,344
2021	263,939	1,386,635	1,650,574
2022-2026	1,165,127	7,913,399	9,078,526
2027-2029	494,433	4,585,921	5,080,354
Total	<u>\$ 3,016,314</u>	<u>\$ 18,497,850</u>	<u>\$ 21,514,164</u>

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

15) SUCCESSOR AGENCY - Continued

Other Long-term Liabilities

Intermountain Power Agency Settlement Agreement

The former Adelanto Improvement Agency entered into an agreement with the Intermountain Power Agency (IPA) in April 1993 regarding reimbursement of certain incremental property taxes generated by parcels owned by the IPA within the Agency project areas for 1992 and prior years. The IPA had filed appeals relating to the assessed value of these parcels for 1989 through 1992. As a condition of the agreement with the Agency, the IPA agreed to withdraw such appeals. The IPA filed an appeal for the 1993 assessed value, which was granted in September 1997. The IPA also filed appeals for fiscal years 1995 and 1996.

The agreement states that if the IPA seeks a reassessment of the assessed value of the parcels (i.e., the 1993 appeal) and is successful in any future claim resulting in a reduction in property taxes assessed by the County or other taxing entity, the Agency agrees to reimburse the IPA for those amounts (to a maximum of \$2,200,000) that the IPA calculates that it would have lost in refunds as a result of dismissing the appeals for 1992 and prior. The reimbursement is to be paid by the Agency each year, beginning 90 days from a final decision by the County, resulting in a reduced tax assessment, in an annual amount equal to \$78,751 multiplied by a "Fractional Amount" as defined in the agreement. The term "Fractional Amount" has been determined to be the amount of the actual reduction in the tax assessment as determined by the County divided by an amount equal to the reduction in such tax assessment sought by the IPA.

Amounts due under the agreement are payable annually beginning 90 days after the final decision and continuing on or before September 30 of each year until the obligation (\$2,200,000 multiplied by the "Fractional Amount") is paid in full. Amounts due to the IPA under this agreement are subordinate to all tax allocation bonds of the Agency, whenever incurred. Based on the assessment reduction received by the IPA for 1993, the liability that the Agency has incurred under this agreement is \$1,989,390. Scheduled payments have been deferred by the Agency due to subordination to the tax allocation bonds outstanding. Since the Agency was principal beneficiary of such property taxes, the full amount of such payments has been established as a long-term liability in the financial statements as of June 30, 2016.

San Bernardino County Tax Increment Loans

During fiscal year 1996, the former Redevelopment Agency and San Bernardino County amended the pass-through agreement for incremental property taxes in the Project Area. Under the revised agreement, the Agency is required to relinquish approximately 33% of incremental property taxes to the County, of which approximately one-half (16.26%) would be subordinate to the Agency's existing long-term debt. The County will loan to the Agency, at the rate of 7% per annum, the amount of the deferred incremental property taxes needed to meet debt service requirements on the refunding bonds plus amounts needed up to \$100,000 annually, to administer the Agency's long-term debt. Any such loans are subordinate to the 1995 Series A, B, and C of the Adelanto Public Financing Authority refunding bonds. Currently, the Successor Agency and the County of San Bernardino are in litigation over the estimated amounts outstanding. The outstanding amounts reflect the amounts owed estimated by the County of San Bernardino. The outstanding balance on the loans at June 30, 2016 was \$13,356,686 with interest payable of \$17,752,519.

City of Adelanto, California
Notes to Financial Statements
Year Ended June 30, 2016

15) SUCCESSOR AGENCY - Continued

Contingencies

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency are valid enforceable obligations payable by the Successor Agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority or other authority that would resolve this issue unfavorable to the City.

16) SUBSEQUENT EVENTS

Fixed Rate Revenue Refunding Bonds, 2017 Series A

On or about December 28, 2017, the Adelanto Public Utility Authority issued \$29,145,000 Fixed Rate Revenue Refunding Bonds, 2017 Series A, to refund a portion of the Authority's Fixed Rate Refunding Revenue Bonds, 2009 Series A. Interest on the bonds is payable July 1st and January 1st of each year. Interest on the bonds accrues at a rate of 5.00% per annum. Principal on the serial bonds are payable in annual installments, ranging from \$645,000 to \$5,150,000, commencing July 1, 2020 through July 1, 2039.

Taxable Fixed Rate Revenue Refunding Bonds, 2017 Series B

On or about December 28, 2017, the Adelanto Public Utility Authority issued \$41,710,000 Taxable Fixed Rate Revenue Refunding Bonds, 2017 Series B, to refund a portion of the Authority's Fixed Rate Refunding Revenue Bonds, 2009 Series A. Interest on the bonds is payable July 1st and January 1st of each year. Interest on the bonds accrues at rates of 3.00% and 4.75% per annum. Principal on the serial bonds are payable in annual installments, ranging from \$4,455,000 to \$3,610,000, commencing July 1, 2018 through July 1, 2035.

Other Subsequent Events

On September 22, 2016, the City approved land sales of \$636,500.

On February 27, 2019, the City entered into a settlement agreement with Main Street, California, LLC regarding the Public Facility Use Agreement dated as of August 22, 2012 for the right to occupy and use of the baseball stadium located at 12000 Stadium Way, Adelanto, California. As part of the settlement agreement, the City will pay Main Street, California, LLC \$3,800,000. Within 5 business days of the approval by the City and execution of the agreement, the City will make a payment of \$1,500,000. The remaining amounts will be paid over time with monthly payments of \$95,833 from March 1, 2019 to February 1, 2021.

17) PRIOR PERIOD ADJUSTMENTS

Included in the Government-wide Statement of Net Position and the Proprietary Funds Statement of Net Position, are prior period adjustments of \$19,507,963 and \$1,673,473. For governmental activities, the prior period adjustment includes \$21,616,663 of developer contributions (streets, storm drain, landscape and other improvements), net of accumulated depreciation, not recorded in prior years and \$2,108,700 of properties owned by the Successor Agency that should have been excluded from the City's capital assets. For business-type activities, the prior year period adjustment includes \$1,673,473 of developer contributions (water and sewer improvements), net of accumulated depreciation, not recorded in prior years.

REQUIRED SUPPLEMENTARY INFORMATION

City of Adelanto, California
Schedule of the City's Proportionate Share of the Net Pension Liability
CalPERS Pension Plan
Last Ten Years*
As of June 30, 2016

<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability (Asset)</u>	<u>Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Covered - Employee Payroll</u>	<u>Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)</u>
2015	(0.00747)%	\$ (513,066)	\$ 1,823,881	(28.13)%	(6.22)%
2016	0.00005%	\$ 4,288	\$ 1,651,349	0.26%	99.95%

Notes to Schedule:

Benefit Changes. In 2015 and 2016, there was no benefit terms modified.

Changes in Assumptions. In 2015, there was a change in assumptions regarding the discount rate. GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expenses but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

*- Fiscal year 2015 was the 1st year of implementation, therefore only two years is shown.

City of Adelanto, California
Schedule of Contributions
CalPERS Pension Plan
Last Ten Years*
As of June 30, 2016

<u>Fiscal Year</u>	<u>Contractually Required Contribution (Actuarially Determined)</u>	<u>Contributions in Relation to the Actuarially Determined Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered-Employee Payroll</u>	<u>Contributions as a Percentage of Covered-Employee Payroll</u>
2015	\$ 183,391	\$ (183,391)	\$ 0	\$ 1,823,881	10.05%
2016	\$ 230,018	\$ (230,018)	\$ 0	\$ 1,651,349	13.93%

*- Fiscal year 2015 was the 1st year of implementation, therefore only two years is shown.

City of Adelanto, California
Schedule of Funding Progress for CARHP
Year Ended June 30, 2016

Schedule of Funding Progress for CARHP

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B - A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
03/01/13	\$ 0	\$ 2,082,440	\$ 2,082,440	0%	\$ 1,454,687	143%
06/30/16	\$ 0	\$ 2,104,562	\$ 2,104,562	0%	\$ 1,024,839	205%

*The City only had two valuations performed as of 06/30/16. There were no previous actuarial valuations.

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES				
Taxes	\$ 5,127,000	\$ 5,127,000	\$ 5,507,933	\$ 380,933
Licenses and Permits	303,350	303,350	503,134	199,784
Fines, Forfeitures and Penalties	60,000	60,000	111,281	51,281
Investment Earnings	695,000	695,000	19,626	(675,374)
Charges for Current Services	1,823,100	1,823,100	2,086,087	262,987
Intergovernmental Revenues	212,500	212,500	337,226	124,726
Miscellaneous	66,300	44,300	251,864	207,564
Total Revenues	8,287,250	8,265,250	8,817,151	551,901
EXPENDITURES				
Current:				
General Government:				
City Council	101,643	101,643	99,921	1,722
Administration	311,188	311,188	283,918	27,270
City Clerk	292,822	292,822	199,007	93,815
Finance	361,003	371,670	385,452	(13,782)
City Attorney	270,000	270,000	381,331	(111,331)
Human Resources	92,555	92,555	113,402	(20,847)
Information Technology	519,424	519,424	506,651	12,773
Non-Department	797,650	797,650	670,994	126,656
Vehicle Maintenance	114,525	114,525	99,049	15,476
Total General Government	2,860,810	2,871,477	2,739,725	131,752
Public Safety:				
Police	5,189,022	5,224,022	5,276,493	(52,471)
Fire	2,314,355	2,314,355	2,305,946	8,409
Code Enforcement	420,379	420,379	317,790	102,589
Animal Control	241,509	241,509	230,953	10,556
Total Public Safety	8,165,265	8,200,265	8,131,182	69,083
Public Works:				
Streets	1,173,310	1,179,310	1,040,610	138,700
Facility Maintenance	130,553	129,053	125,310	3,743
LLMD	125,953	125,953	126,423	(470)
Building and Safety	193,290	194,990	240,680	(45,690)
Engineering	144,950	144,950	101,196	43,754
Total Public Works	1,768,056	1,774,256	1,634,219	140,037

Continued

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund - Continued
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Community Development:				
Planning and Economic Development	\$ 287,047	\$ 287,047	\$ 220,087	\$ 66,960
Total Community Development	287,047	287,047	220,087	66,960
Parks and Recreation:				
Parks and Grounds	127,335	127,335	73,256	54,079
Senior Center	23,250	23,250	13,309	9,941
Community Center	18,450	18,450	17,392	1,058
Total Parks and Recreation	169,035	169,035	103,957	65,078
Capital Outlay:				
Non-Department	10,000		465,027	(465,027)
Total Capital Outlay	10,000	0	465,027	(465,027)
Total Expenditures	13,260,213	13,302,080	13,294,197	7,883
Excess (Deficiency) of Revenues over Expenditures	(4,972,963)	(5,036,830)	(4,477,046)	559,784
OTHER FINANCING SOURCES (USES)				
Transfers In	3,275,860	3,275,860	2,641,765	(634,095)
Transfers Out			(154)	(154)
Total Other Financing Sources (Uses)	3,275,860	3,275,860	2,641,611	(634,249)
Net Change in Fund Balances	<u>\$ (1,697,103)</u>	<u>\$ (1,760,970)</u>	(1,835,435)	<u>\$ (74,465)</u>
Fund Balance - Beginning			27,313,677	
Fund Balance - Ending			<u>\$ 25,478,242</u>	

City of Adelanto, California
Notes to Required Supplementary Information
Year Ended June 30, 2016

1. BUDGETARY DATA

The City Council has the responsibility for adoption of the City's budget. Budgets are adopted for most governmental funds. From the effective date of the budget, the amounts stated as proposed expenditures become appropriations to the various City departments. The City Manager is authorized to transfer funds from one major expenditure category to another within the same department and fund. Any revisions that alter the total expenditures of any fund must be approved by the City Council.

All appropriations lapse at the end of the fiscal year to the extent that they have not been expended. Lease contracts entered into by the City are subject to annual review by the City Council. Hence, they are legally one year contracts with an option for renewal for another fiscal year.

Budgeted revenue and expenditures amounts shown represent the City's originally-adopted legal budget, adjusted for unanticipated revenues and appropriations during the course of the fiscal year. Budget amounts, as adjusted, reported for the governmental funds of the City, as adopted, on a basis consistent with accounting principles generally accepted in the United States of America.

Budgets were adopted for all general, special revenue, capital projects, and debt service funds.

SUPPLEMENTARY SCHEDULES

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds:

Mavericks Stadium - is used to account for the operations and maintenance of Mavericks Stadium. The stadium is under lease to the High Desert Mavericks.

Park Development Impact - is used to account for the receipt and expenditures of park impact fees charged to new development.

Drainage Impact - is used to account for the drainage impact fees charged to new development. Moneys are used for new drainage facilities.

Traffic Impact - is used to account for the receipt and expenditures of traffic impact fees charged to new development.

Fire Mitigation Impact - is used to account for fire mitigation fees charged to new development. Moneys are used to pay for fire safety and prevention services.

Gas Tax - is used to account for the receipt and expenditure of State Highway Users Tax funds. The funds are to be used for street related purposes.

TDA Article 8 - is used to account for local transportation funds received from SANBAG. Funds are spent on street related purposes.

TDA Article 4 - is used to account for local transportation funds received from SANBAG Funds spent on street related purposes.

Federal Grants - is used to account for monies received for miscellaneous federal grants and expenditures.

State/Local Grants - is used to account for funds received from grants from various State of California and local government agencies. Funds are to be spent according to the relevant grant agreement.

Community Development Block Grant - is used to account for revenue allocated from the Federal Housing and Urban Development Department (through the County of San Bernardino) to be spent in low/moderate income areas of the City.

AQMD/California AB Distributions - is used to account for allocations from the Mojave Air Quality Management District. Funds are spent on air-pollution reduction programs.

CLEEP - is used to account for monies received for the California Law Enforcement Equipment Program (CLEEP) grant.

Police Asset Seizure - is used to account for state allocated funds to fund special education programs.

Public Safety ½ Cent - is used to account for the State sales tax Public Safety Augmentation Fund moneys. The money is transferred to the General Fund for increased public safety expenditures.

Traffic Offender - is used to account for the revenue received from vehicle release fees and is used for traffic patrol purposes.

COPS Grant - is used to account for the State Citizens Option for Public Safety (COPS) Grant Program and is used for police overtime purposes.

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds - Continued

Measure I 1990-2010 - is used to account for the County's 1/2 cent sales tax revenues. This portion of the funds must be spent on arterial road projects.

Measure I 70% Local - is used to account for state allocated 1/2 cent sales tax revenues. This portion is used to fund freeway and traffic congestion mitigation projects.

Community Facilities District - is used to account for the special tax levy placed on certain tracts to pay for public safety services and other improvements.

Landscaping and Lighting Maintenance District Annexation - is used to account for the special tax levy placed on certain tracts to pay for landscaping improvements and lighting expense.

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City of Adelanto, California
Combining Balance Sheet
Non-major Governmental Funds
June 30, 2016

	Special Revenue			
	Mavericks Stadium	Park Development Impact	Drainage Impact	Traffic Impact
ASSETS				
Cash and Investments	\$	\$ 1,314,514	\$ 4,346,804	\$ 3,486,728
Accounts Receivable				
Due from Other Funds				
Advances to Other Funds			279,792	
Total Assets	<u>\$ 0</u>	<u>\$ 1,314,514</u>	<u>\$ 4,626,596</u>	<u>\$ 3,486,728</u>
LIABILITIES				
Accounts Payable	\$ 14,936	\$	\$	\$
Due to Other Funds	113,576			
Deposits				
Advances from Other Funds	3,094,853			
Total Liabilities	<u>3,223,365</u>	<u>0</u>	<u>0</u>	<u>0</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Taxes				
Unavailable Revenue - Intergovernmental				
Total Deferred Inflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES				
Restricted for:				
Development		1,314,514	4,626,596	
Streets and Roads				3,486,728
Air Quality Management				
Law Enforcement				
Public Safety				
Community Development				
Lighting and Landscape Maintenance				
Unassigned	(3,223,365)			
Total Fund Balances	<u>(3,223,365)</u>	<u>1,314,514</u>	<u>4,626,596</u>	<u>3,486,728</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 0</u>	<u>\$ 1,314,514</u>	<u>\$ 4,626,596</u>	<u>\$ 3,486,728</u>

Special Revenue				
Fire Mitigation Impact	Gas Tax	TDA Article 8	TDA Article 4	Federal Grants
\$ 196,274	\$ 2,045,599 59,103	\$ 430,516	\$ 480	\$
<u>\$ 196,274</u>	<u>\$ 2,104,702</u>	<u>\$ 430,516</u>	<u>\$ 480</u>	<u>\$ 0</u>
\$	\$ 811,149	\$	\$ 215	\$
<u>0</u>	<u>811,149</u>	<u>0</u>	<u>215</u>	<u>0</u>
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
196,274	1,293,553	430,516	265	
<u>196,274</u>	<u>1,293,553</u>	<u>430,516</u>	<u>265</u>	<u>0</u>
<u>\$ 196,274</u>	<u>\$ 2,104,702</u>	<u>\$ 430,516</u>	<u>\$ 480</u>	<u>\$ 0</u>

Continued

City of Adelanto, California
Combining Balance Sheet - Continued
Non-major Governmental Funds
June 30, 2016

	Special Revenue			
	State/Local Grants	Community Development Block Grant	AQMD/ California AB Distributions	CLEEP
ASSETS				
Cash and Investments	\$	\$ 6,000	\$ 197,945	\$ 208
Accounts Receivable		38,003	12,216	
Due from Other Funds				
Advances to Other Funds				
Total Assets	<u>\$ 0</u>	<u>\$ 44,003</u>	<u>\$ 210,161</u>	<u>\$ 208</u>
LIABILITIES				
Accounts Payable	\$	\$ 6,000	\$	\$
Due to Other Funds				
Deposits				
Advances from Other Funds				
Total Liabilities	<u>0</u>	<u>6,000</u>	<u>0</u>	<u>0</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Taxes				
Unavailable Revenue - Intergovernmental		38,003		
Total Deferred Inflows of Resources	<u>0</u>	<u>38,003</u>	<u>0</u>	<u>0</u>
FUND BALANCES				
Restricted for:				
Development				
Streets and Roads				
Air Quality Management			210,161	
Law Enforcement				208
Public Safety				
Community Development				
Lighting and Landscape Maintenance				
Unassigned				
Total Fund Balances	<u>0</u>	<u>0</u>	<u>210,161</u>	<u>208</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 0</u>	<u>\$ 44,003</u>	<u>\$ 210,161</u>	<u>\$ 208</u>

Special Revenue				
Police Asset Seizure	Public Safety 1/2 Cent	Traffic Offender	COPS Grant	Measure I 1990-2010
\$ 16,122	\$ 52,541 10,959	\$ 20,825 784	\$ 149,105	\$ 2,320,076
<u>\$ 16,122</u>	<u>\$ 63,500</u>	<u>\$ 21,609</u>	<u>\$ 149,105</u>	<u>\$ 2,320,076</u>
\$	\$	\$	\$	\$
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
		21,609		2,320,076
16,122	63,500		149,105	
<u>16,122</u>	<u>63,500</u>	<u>21,609</u>	<u>149,105</u>	<u>2,320,076</u>
<u>\$ 16,122</u>	<u>\$ 63,500</u>	<u>\$ 21,609</u>	<u>\$ 149,105</u>	<u>\$ 2,320,076</u>

Continued

City of Adelanto, California
Combining Balance Sheet - Continued
Non-major Governmental Funds
June 30, 2016

	Special Revenue			Total Non-major Governmental Funds
	Measure I 70% Local	Community Facilities District	LLMD Annexation	
ASSETS				
Cash and Investments	\$ 2,350,950	\$ 408,154	\$ 78,666	\$ 17,421,507
Accounts Receivable	123,219	1,502	1,163	246,949
Due from Other Funds	32,499			32,499
Advances to Other Funds				279,792
Total Assets	<u>\$ 2,506,668</u>	<u>\$ 409,656</u>	<u>\$ 79,829</u>	<u>\$ 17,980,747</u>
LIABILITIES				
Accounts Payable	\$ 85,072	\$ 3,250	\$ 2,090	\$ 111,563
Due to Other Funds				924,725
Deposits		60,320		60,320
Advances from Other Funds				3,094,853
Total Liabilities	<u>85,072</u>	<u>63,570</u>	<u>2,090</u>	<u>4,191,461</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Taxes	33,596			33,596
Unavailable Revenue - Intergovernmental				38,003
Total Deferred Inflows of Resources	<u>33,596</u>	<u>0</u>	<u>0</u>	<u>71,599</u>
FUND BALANCES				
Restricted for:				
Development				6,137,384
Streets and Roads	2,388,000			9,940,747
Air Quality Management				210,161
Law Enforcement				165,435
Public Safety				63,500
Community Development		346,086		346,086
Lighting and Landscape Maintenance			77,739	77,739
Unassigned				(3,223,365)
Total Fund Balances	<u>2,388,000</u>	<u>346,086</u>	<u>77,739</u>	<u>13,717,687</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,506,668</u>	<u>\$ 409,656</u>	<u>\$ 79,829</u>	<u>\$ 17,980,747</u>

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City of Adelanto, California
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-major Governmental Funds
Year Ended June 30, 2016

	Special Revenue			
	Mavericks Stadium	Park Development Impact	Drainage Impact	Traffic Impact
REVENUES				
Taxes	\$	\$	\$	\$
Fines, Forfeitures and Penalties				
Investment Earnings				
Developer Fees		57,800	65,772	93,492
Intergovernmental Revenues				
Miscellaneous				
Total Revenues	0	57,800	65,772	93,492
EXPENDITURES				
Current:				
Public Safety				
Public Works				
Community Development				
Parks and Recreation	128,640			
Capital Outlay		101,674		
Total Expenditures	128,640	101,674	0	0
Excess (Deficiency) of Revenues Over Expenditures	(128,640)	(43,874)	65,772	93,492
OTHER FINANCING SOURCES (USES)				
Transfers In			154	
Transfers Out		(135,000)		
Total Other Financing Sources (Uses)	0	(135,000)	154	0
Net Change in Fund Balances	(128,640)	(178,874)	65,926	93,492
Fund Balances - Beginning	(3,094,725)	1,493,388	4,560,670	3,393,236
Fund Balances - Ending	\$ (3,223,365)	\$ 1,314,514	\$ 4,626,596	\$ 3,486,728

Special Revenue

Fire Mitigation Impact	Gas Tax	TDA Article 8	TDA Article 4	Federal Grants
\$	\$	\$	\$	\$
	6,694			
4,935	721,104			59,274
<u>4,935</u>	<u>727,798</u>	<u>0</u>	<u>0</u>	<u>59,274</u>
				13,425
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>13,425</u>
<u>4,935</u>	<u>727,798</u>	<u>0</u>	<u>0</u>	<u>45,849</u>
	(900,000)	(206,826)		(45,849)
<u>0</u>	<u>(900,000)</u>	<u>(206,826)</u>	<u>0</u>	<u>(45,849)</u>
4,935	(172,202)	(206,826)	0	0
<u>191,339</u>	<u>1,465,755</u>	<u>637,342</u>	<u>265</u>	<u>0</u>
<u>\$ 196,274</u>	<u>\$ 1,293,553</u>	<u>\$ 430,516</u>	<u>\$ 265</u>	<u>\$ 0</u>

Continued

City of Adelanto, California
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Continued
Non-major Governmental Funds
Year Ended June 30, 2016

	Special Revenue			
	State/Local Grants	Community Development Block Grant	AQMD/ California AB Distributions	CLEEP
REVENUES				
Taxes	\$	\$	\$	\$
Fines, Forfeitures and Penalties				
Investment Earnings				
Developer Fees				
Intergovernmental Revenues	8,822	100,627	34,400	
Miscellaneous				
Total Revenues	8,822	100,627	34,400	0
EXPENDITURES				
Current:				
Public Safety				
Public Works			6,000	
Community Development	4,024	24,724		
Parks and Recreation				
Capital Outlay				
Total Expenditures	4,024	24,724	6,000	0
Excess (Deficiency) of Revenues Over Expenditures	4,798	75,903	28,400	0
OTHER FINANCING SOURCES (USES)				
Transfers In				
Transfers Out	(4,798)	(75,903)		
Total Other Financing Sources (Uses)	(4,798)	(75,903)	0	0
Net Change in Fund Balances	0	0	28,400	0
Fund Balances - Beginning	0	0	181,761	208
Fund Balances - Ending	\$ 0	\$ 0	\$ 210,161	\$ 208

Special Revenue				
Police Asset Seizure	Public Safety 1/2 Cent	Traffic Offender	COPS Grant	Measure I 1990-2010
\$	\$ 135,108	\$ 13,216	\$	\$
				604
			103,143	
0	135,108	13,216	103,143	604
7,500				
				96,369
7,500	0	0	0	96,369
(7,500)	135,108	13,216	103,143	(95,765)
	(125,000)	(5,000)	(100,000)	
0	(125,000)	(5,000)	(100,000)	0
(7,500)	10,108	8,216	3,143	(95,765)
23,622	53,392	13,393	145,962	2,415,841
\$ 16,122	\$ 63,500	\$ 21,609	\$ 149,105	\$ 2,320,076

Continued

City of Adelanto, California
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Continued
Non-major Governmental Funds
Year Ended June 30, 2016

	Special Revenue			Total Non-major Governmental Funds
	Measure I 70% Local	Community Facilities District	LLMD Annexation	
REVENUES				
Taxes	\$ 628,729	\$ 162,547	\$ 147,667	\$ 1,074,051
Fines, Forfeitures and Penalties				13,216
Investment Earnings	373			7,671
Developer Fees				221,999
Intergovernmental Revenues				1,027,370
Miscellaneous	9,504			9,504
Total Revenues	638,606	162,547	147,667	2,353,811
EXPENDITURES				
Current:				
Public Safety				20,925
Public Works	314,547		33,496	354,043
Community Development		39,052		67,800
Parks and Recreation				128,640
Capital Outlay	134,024			332,067
Total Expenditures	448,571	39,052	33,496	903,475
Excess (Deficiency) of Revenues Over Expenditures	190,035	123,495	114,171	1,450,336
OTHER FINANCING SOURCES (USES)				
Transfers In				154
Transfers Out		(100,000)	(125,000)	(1,823,376)
Total Other Financing Sources (Uses)	0	(100,000)	(125,000)	(1,823,222)
Net Change in Fund Balances	190,035	23,495	(10,829)	(372,886)
Fund Balances - Beginning	2,197,965	322,591	88,568	14,090,573
Fund Balances - Ending	\$ 2,388,000	\$ 346,086	\$ 77,739	\$ 13,717,687

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Capital Improvement Projects Capital Projects Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES				
Investment Earnings	\$	\$	\$ 364	\$ 364
Contributions from Property Owners			8,187,110	8,187,110
Total Revenues	0	0	8,187,474	8,187,474
EXPENDITURES				
Capital Outlay			7,988,047	(7,988,047)
Total Expenditures	0	0	7,988,047	(7,988,047)
Net Change in Fund Balance	\$	\$	199,427	\$ 199,427
Fund Balance - Beginning			0	
Fund Balance - Ending			\$ 199,427	

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Mavericks Stadium Special Revenue Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES				
Charges for Current Services	\$ 3,500	\$ 3,500	\$	\$ (3,500)
Total Revenues	3,500	3,500	0	(3,500)
EXPENDITURES				
Current:				
Parks and Recreation	56,425	58,700	128,640	(69,940)
Capital Outlay	15,000	15,000		15,000
Total Expenditures	71,425	73,700	128,640	(54,940)
Net Change in Fund Balance	<u>\$ (67,925)</u>	<u>\$ (70,200)</u>	(128,640)	<u>\$ (58,440)</u>
Fund Balance - Beginning			(3,094,725)	
Fund Balance - Ending			<u>\$ (3,223,365)</u>	

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Park Development Impact Special Revenue Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES				
Developer Fees	\$ 130,050	\$ 130,050	\$ 57,800	\$ (72,250)
Total Revenues	130,050	130,050	57,800	(72,250)
EXPENDITURES				
Current:				
Parks and Recreation	35,000	35,000		35,000
Capital Outlay	1,000,000	1,000,000	101,674	898,326
Total Expenditures	1,035,000	1,035,000	101,674	933,326
OTHER FINANCING SOURCES (USES)				
Transfers Out			(135,000)	(135,000)
Total Other Financing Sources (Uses)	0	0	(135,000)	(135,000)
Net Change in Fund Balance	<u>\$ (904,950)</u>	<u>\$ (904,950)</u>	(178,874)	<u>\$ 726,076</u>
Fund Balance - Beginning			1,493,388	
Fund Balance - Ending			<u>\$ 1,314,514</u>	

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Drainage Impact Special Revenue Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES				
Investment Earnings	\$ 50	\$ 50	\$	\$ (50)
Developer Fees	190,940	190,940	65,772	(125,168)
Total Revenues	190,990	190,990	65,772	(125,218)
EXPENDITURES				
Current:				
Public Works	25,000	25,000		25,000
Total Expenditures	25,000	25,000	0	25,000
Excess (Deficiency) of Revenues over Expenditures	165,990	165,990	65,772	(100,218)
OTHER FINANCING SOURCES (USES)				
Transfers In			154	154
Total Other Financing Sources (Uses)	0	0	154	154
Net Change in Fund Balances	<u>\$ 165,990</u>	<u>\$ 165,990</u>	65,926	<u>\$ (100,064)</u>
Fund Balance - Beginning			<u>4,560,670</u>	
Fund Balance - Ending			<u>\$ 4,626,596</u>	

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Traffic Impact Special Revenue Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES				
Developer Fees	\$ 264,340	\$ 264,340	\$ 93,492	\$ (170,848)
Total Revenues	264,340	264,340	93,492	(170,848)
EXPENDITURES				
Current:				
Public Works	10,000	10,000		10,000
Total Expenditures	10,000	10,000	0	10,000
Net Change in Fund Balance	<u>\$ 254,340</u>	<u>\$ 254,340</u>	93,492	<u>\$ (160,848)</u>
Fund Balance - Beginning			<u>3,393,236</u>	
Fund Balance - Ending			<u>\$ 3,486,728</u>	

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Fire Mitigation Impact Special Revenue Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES				
Developer Fees	\$ 20,000	\$ 20,000	\$ 4,935	\$ (15,065)
Total Revenues	20,000	20,000	4,935	(15,065)
EXPENDITURES				
Current:				
Public Works	20,000	20,000		20,000
Total Expenditures	20,000	20,000	0	20,000
Net Change in Fund Balance	\$ 0	\$ 0	4,935	\$ 4,935
Fund Balance - Beginning			191,339	
Fund Balance - Ending			\$ 196,274	

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Gas Tax Special Revenue Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES				
Investment Earnings	\$	\$	\$ 6,694	\$ 6,694
Intergovernmental Revenue	693,511	693,511	721,104	27,593
Total Revenues	693,511	693,511	727,798	34,287
EXPENDITURES				
Current:				
Public Works				0
Total Expenditures	0	0	0	0
Excess (Deficiency) of Revenues over Expenditures	693,511	693,511	727,798	34,287
OTHER FINANCING SOURCES (USES)				
Transfers Out	(900,000)	(900,000)	(900,000)	0
Total Other Financing Sources (Uses)	(900,000)	(900,000)	(900,000)	0
Net Change in Fund Balances	<u>\$ (206,489)</u>	<u>\$ (206,489)</u>	(172,202)	<u>\$ 34,287</u>
Fund Balance - Beginning			1,465,755	
Fund Balance - Ending			<u>\$ 1,293,553</u>	

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - TDA Article 8 Special Revenue Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES				
Intergovernmental Revenue	\$ 206,826	\$ 206,826	\$	\$ (206,826)
Total Revenues	206,826	206,826	0	(206,826)
EXPENDITURES				
Current:				
Public Works				0
Total Expenditures	0	0	0	0
Excess (Deficiency) of Revenues over Expenditures	206,826	206,826	0	(206,826)
OTHER FINANCING SOURCES (USES)				
Transfers Out	(206,826)	(206,826)	(206,826)	0
Total Other Financing Sources (Uses)	(206,826)	(206,826)	(206,826)	0
Net Change in Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	(206,826)	<u>\$ (206,826)</u>
Fund Balance - Beginning			637,342	
Fund Balance - Ending			<u>\$ 430,516</u>	

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - TDA Article 4 Special Revenue Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES				
Miscellaneous	\$	\$	\$	\$ 0
Total Revenues	0	0	0	0
EXPENDITURES				
Current:				
Public Works				0
Total Expenditures	0	0	0	0
Net Change in Fund Balance	\$ 0	\$ 0	0	\$ 0
Fund Balance - Beginning			265	
Fund Balance - Ending			\$ 265	

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Federal Grants Special Revenue Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES				
Investment Earnings	\$ 100	\$ 100	\$	\$ (100)
Intergovernmental Revenues	35,000	35,000	59,274	24,274
Total Revenues	35,100	35,100	59,274	24,174
EXPENDITURES				
Current:				
Public Safety	35,000	68,326	13,425	54,901
Total Expenditures	35,000	68,326	13,425	54,901
Excess (Deficiency) of Revenues Over Expenditures	100	(33,226)	45,849	79,075
OTHER FINANCING SOURCES (USES)				
Transfers Out			(45,849)	(45,849)
Total Other Financing Sources (Uses)	0	0	(45,849)	(45,849)
Net Change in Fund Balance	<u>\$ 100</u>	<u>\$ (33,226)</u>	0	<u>\$ 33,226</u>
Fund Balance - Beginning			0	
Fund Balance - Ending			<u>\$ 0</u>	

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - State/Local Grants Special Revenue Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES				
Intergovernmental Revenues	\$	\$	\$ 8,822	\$ 8,822
Total Revenues	0	0	8,822	8,822
EXPENDITURES				
Current:				
Community Development			4,024	(4,024)
Total Expenditures	0	0	4,024	(4,024)
Excess (Deficiency) of Revenues Over Expenditures	0	0	4,798	4,798
OTHER FINANCING SOURCES (USES)				
Transfers Out			(4,798)	(4,798)
Total Other Financing Sources (Uses)	0	0	(4,798)	(4,798)
Net Change in Fund Balance	\$ 0	\$ 0	0	\$ 0
Fund Balance - Beginning			0	
Fund Balance - Ending			\$ 0	

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Community Development Block Grant Special Revenue Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES				
Intergovernmental Revenues	\$ 90,092	\$ 90,092	\$ 100,627	\$ 10,535
Total Revenues	90,092	90,092	100,627	10,535
EXPENDITURES				
Current:				
Community Development	37,669	37,669	24,724	12,945
Total Expenditures	37,669	37,669	24,724	12,945
Excess (Deficiency) of Revenues over Expenditures	52,423	52,423	75,903	23,480
OTHER FINANCING SOURCES (USES)				
Transfers Out	(52,423)	(52,423)	(75,903)	(23,480)
Total Other Financing Sources (Uses)	(52,423)	(52,423)	(75,903)	(23,480)
Net Change in Fund Balance	\$ 0	\$ 0	0	\$ 0
Fund Balance - Beginning			0	
Fund Balance - Ending			\$ 0	

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - AQMD/California AB Distributions Special Revenue Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenues	\$ 18,000	\$ 18,000	\$ 34,400	\$ 16,400
Total Revenues	18,000	18,000	34,400	16,400
EXPENDITURES				
Current:				
Public Works	6,000	6,000	6,000	0
Total Expenditures	6,000	6,000	6,000	0
Net Change in Fund Balance	<u>\$ 12,000</u>	<u>\$ 12,000</u>	28,400	<u>\$ 16,400</u>
Fund Balance - Beginning			<u>181,761</u>	
Fund Balance - Ending			<u>\$ 210,161</u>	

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - CLEEP Special Revenue Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES				
Intergovernmental Revenues	\$	\$	\$	\$ 0
Total Revenues	0	0	0	0
EXPENDITURES				
Current:				
Public Safety	208			0
Total Expenditures	208	0	0	0
Net Change in Fund Balance	\$ (208)	\$ 0	0	\$ 0
Fund Balance - Beginning			208	
Fund Balance - Ending			\$ 208	

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Police Asset Seizure Special Revenue Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES				
Intergovernmental Revenues	\$	\$	\$	\$ 0
Total Revenues	0	0	0	0
EXPENDITURES				
Current:				
Public Safety	23,622		7,500	(7,500)
Total Expenditures	23,622	0	7,500	(7,500)
Net Change in Fund Balance	\$ (23,622)	\$ 0	(7,500)	\$ 7,500
Fund Balance - Beginning			23,622	
Fund Balance - Ending			\$ 16,122	

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Public Safety 1/2 Cent Special Revenue Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 110,000	\$ 110,000	\$ 135,108	\$ 25,108
Total Revenues	110,000	110,000	135,108	25,108
EXPENDITURES				
Current:				
Public Safety				0
Total Expenditures	0	0	0	0
Excess (Deficiency) of Revenues over Expenditures	110,000	110,000	135,108	25,108
OTHER FINANCING SOURCES (USES)				
Transfers Out	(125,000)	(125,000)	(125,000)	0
Total Other Financing Sources (Uses)	(125,000)	(125,000)	(125,000)	0
Net Change in Fund Balances	<u>\$ (15,000)</u>	<u>\$ (15,000)</u>	10,108	<u>\$ 25,108</u>
Fund Balance - Beginning			53,392	
Fund Balance - Ending			<u>\$ 63,500</u>	

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Traffic Offender Special Revenue Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES				
Fines, Forfeitures and Penalties	\$ 18,000	\$ 18,000	\$ 13,216	\$ (4,784)
Investment Earnings	400			0
Total Revenues	18,400	18,000	13,216	(4,784)
EXPENDITURES				
Current:				
Public Safety				0
Total Expenditures	0	0	0	0
Excess (Deficiency) of Revenues over Expenditures	18,400	18,000	13,216	(4,784)
OTHER FINANCING SOURCES (USES)				
Transfers Out	(5,000)	(5,000)	(5,000)	0
Total Other Financing Sources (Uses)	(5,000)	(5,000)	(5,000)	0
Net Change in Fund Balance	<u>\$ 13,400</u>	<u>\$ 13,000</u>	8,216	<u>\$ (4,784)</u>
Fund Balance - Beginning			13,393	
Fund Balance - Ending			<u>\$ 21,609</u>	

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - COPS Grant Special Revenue Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenues	\$ 100,000	\$ 100,000	\$ 103,143	\$ 3,143
Total Revenues	100,000	100,000	103,143	3,143
EXPENDITURES				
Current:				
Public Safety				0
Total Expenditures	0	0	0	0
Excess (Deficiency) of Revenues over Expenditures	100,000	100,000	103,143	3,143
EXPENDITURES				
Transfers Out	(100,000)	(100,000)	(100,000)	0
Total Other Financing Sources (Uses)	(100,000)	(100,000)	(100,000)	0
Net Change in Fund Balance	\$ 0	\$ 0	3,143	\$ 3,143
Fund Balance - Beginning			145,962	
Fund Balance - Ending			\$ 149,105	

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Measure I 1990-2010 Special Revenue Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES				
Investment Earnings	\$ 500	\$ 500	\$ 604	\$ 104
Total Revenues	500	500	604	104
EXPENDITURES				
Capital Outlay	2,415,737	2,415,237	96,369	2,318,868
Total Expenditures	2,415,737	2,415,237	96,369	2,318,868
Net Change in Fund Balances	<u>\$ (2,415,237)</u>	<u>\$ (2,414,737)</u>	(95,765)	<u>\$ 2,318,972</u>
Fund Balance - Beginning			2,415,841	
Fund Balance - Ending			<u>\$ 2,320,076</u>	

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Measure I 70% Local Special Revenue Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES				
Taxes	\$ 625,000	\$ 625,000	\$ 628,729	\$ 3,729
Investment Earnings	150	150	373	223
Miscellaneous			9,504	(9,504)
Total Revenues	625,150	625,150	638,606	(5,552)
EXPENDITURES				
Current:				
Public Works	300,000	300,000	314,547	(14,547)
Capital Outlay	755,000	755,000	134,024	620,976
Total Expenditures	1,055,000	1,055,000	448,571	606,429
Net Change in Fund Balances	<u>\$ (429,850)</u>	<u>\$ (429,850)</u>	190,035	<u>\$ 600,877</u>
Fund Balance - Beginning			2,197,965	
Fund Balance - Ending			<u>\$ 2,388,000</u>	

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Community Facilities District Special Revenue Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES				
Taxes	\$ 90,000	\$ 90,000	\$ 162,547	\$ 72,547
Total Revenues	90,000	90,000	162,547	72,547
EXPENDITURES				
Current:				
Community Development	8,000	8,000	39,052	(31,052)
Total Expenditures	8,000	8,000	39,052	(31,052)
Excess (Deficiency) of Revenues over Expenditures	82,000	82,000	123,495	41,495
OTHER FINANCING SOURCES (USES)				
Transfers Out	(100,000)	(100,000)	(100,000)	0
Total Other Financing Sources (Uses)	(100,000)	(100,000)	(100,000)	0
Net Change in Fund Balances	<u>\$ (18,000)</u>	<u>\$ (18,000)</u>	23,495	<u>\$ 41,495</u>
Fund Balance - Beginning			<u>322,591</u>	
Fund Balance - Ending			<u>\$ 346,086</u>	

City of Adelanto, California
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - LLMD Annexation Special Revenue Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES				
Taxes	\$ 160,000	\$ 160,000	\$ 147,667	\$ (12,333)
Total Revenues	160,000	160,000	147,667	(12,333)
EXPENDITURES				
Current:				
Public Works	44,000	44,000	33,496	10,504
Total Expenditures	44,000	44,000	33,496	10,504
Excess (Deficiency) of Revenues over Expenditures	116,000	116,000	114,171	(1,829)
OTHER FINANCING SOURCES (USES)				
Transfers Out	(125,000)	(125,000)	(125,000)	0
Total Other Financing Sources (Uses)	(125,000)	(125,000)	(125,000)	0
Net Change in Fund Balances	<u>\$ (9,000)</u>	<u>\$ (9,000)</u>	(10,829)	<u>\$ (1,829)</u>
Fund Balance - Beginning			88,568	
Fund Balance - Ending			<u>\$ 77,739</u>	

City of Adelanto, California
Statement of Changes in Fiduciary Assets and Liabilities
Assessment District 1A
Year Ended June 30, 2016

	Beginning Balance	Additions	Deletions	Ending Balance
ASSETS				
Cash and Investments	\$ 918,183	\$ 139,645	\$ 34,704	\$ 1,023,124
Cash and Investments with Fiscal Agent	2,021			2,021
Accounts Receivable	11,387	11,473	22,774	86
	<u>11,387</u>	<u>11,473</u>	<u>22,774</u>	<u>86</u>
Total Assets	<u>\$ 931,591</u>	<u>\$ 151,118</u>	<u>\$ 57,478</u>	<u>\$ 1,025,231</u>
LIABILITIES				
Due to Bondholders	<u>\$ 931,591</u>	<u>\$ 151,118</u>	<u>\$ 57,478</u>	<u>\$ 1,025,231</u>
Total Liabilities	<u>\$ 931,591</u>	<u>\$ 151,118</u>	<u>\$ 57,478</u>	<u>\$ 1,025,231</u>

City of Adelanto, California
Statement of Changes in Fiduciary Assets and Liabilities
CFD 2006-2 Bond Fund
Year Ended June 30, 2016

	Beginning Balance	Additions	Deletions	Ending Balance
ASSETS				
Cash and Investments	\$ 0	\$ 422,897		\$ 422,897
Cash and Investments with Fiscal Agent	0	948,391		948,391
Accounts Receivable	0	5,352		5,352
	<u>0</u>	<u>5,352</u>		<u>5,352</u>
Total Assets	<u>\$ 0</u>	<u>\$ 1,376,640</u>	<u>\$ 0</u>	<u>\$ 1,376,640</u>
LIABILITIES				
Due to Bondholders	\$ 0	\$ 1,376,640		\$ 1,376,640
	<u>0</u>	<u>1,376,640</u>		<u>1,376,640</u>
Total Liabilities	<u>\$ 0</u>	<u>\$ 1,376,640</u>	<u>\$ 0</u>	<u>\$ 1,376,640</u>

City of Adelanto, California
Statement of Changes in Fiduciary Assets and Liabilities
Total Agency Funds
Year Ended June 30, 2016

	Beginning Balance	Additions	Deletions	Ending Balance
ASSETS				
Cash and Investments	\$ 918,183	\$ 562,542	\$ 34,704	\$ 1,446,021
Cash and Investments with Fiscal Agent	2,021	948,391		950,412
Accounts Receivable	11,387	16,825	22,774	5,438
	<u>11,387</u>	<u>16,825</u>	<u>22,774</u>	<u>5,438</u>
Total Assets	<u>\$ 931,591</u>	<u>\$ 1,527,758</u>	<u>\$ 57,478</u>	<u>\$ 2,401,871</u>
LIABILITIES				
Due to Bondholders	<u>\$ 931,591</u>	<u>\$ 1,527,758</u>	<u>\$ 57,478</u>	<u>\$ 2,401,871</u>
Total Liabilities	<u>\$ 931,591</u>	<u>\$ 1,527,758</u>	<u>\$ 57,478</u>	<u>\$ 2,401,871</u>

**Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

City Council
City of Adelanto
Adelanto, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Adelanto, California (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 10, 2019.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 2016-001, 2016-002, 2016-003, 2016-004 and 2016-005 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings as items 2016-006, 2016-007, 2016-008, 2016-009, 2016-010, and 2016-011 to be significant deficiencies.

Compliance and Other Matters

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

City of Adelanto Response to Findings

The City responses to the findings identified in our audit are described in the accompany Schedule of Findings. The City responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

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

Teaman Ramirez & Smith, Inc.

Riverside, California
December 10, 2019

CITY OF ADELANTO
SCHEDULE OF FINDINGS
Year Ended June 30, 2016

MATERIAL WEAKNESSES

2016-001 - Financial Close and Reporting Process

Condition: The City's financial close and reporting process has been behind in preparing year-end reconciliations and adjustments to adequately close the most current fiscal year-end accounting records.

Criteria: Financial close and reporting processes should be in place to close and complete the accounting records within a reasonable time after the end of the fiscal year.

Cause: The City had various turn over in staff and management, which included the Finance Department.

Effect: Since the financial close and reporting process wasn't completed timely, there was a delay in completing the audited financial statements. Also, management and the City Council may be basing decisions on financial information that may not be the most current if adjustments were made several months later.

Recommendation: It is our understanding that the City is working with an outside accounting consultant to assist the City in preparing year-end reconciliations and other analysis to have the City's accounting records more current. Therefore, we recommend the City continue to work with the outside accounting consultant and also develop formal financial close and reporting procedures that would adequately complete the accounting records at the end of each fiscal year in a timely manner.

Management's Response and Planned Corrective Actions: See attached management's corrective action plan.

2016-002 - Formal Written Payroll and Accounting Policies and Procedures Manual

Condition: There is no formal written payroll and accounting policies and procedures manual.

Criteria: Formal written payroll and accounting policies and procedures provide uniform guidance and communication for the consistency and accounting treatment of transactions.

Cause: The City has not developed a formally written payroll and accounting policies and procedures manual.

Effect: Since there are no formal written payroll and accounting policies and procedures manual, transactions may be treated inconsistently which could cause errors or the potential for abuse.

CITY OF ADELANTO
SCHEDULE OF FINDINGS
Year Ended June 30, 2016

2016-002 - Formal Written Payroll and Accounting Policies and Procedures Manual - Continued

Recommendation: We recommend the City develop a formal written payroll and accounting policies and procedure manual. The manual should be evaluated and updated at least annually. It is our understanding that the City is currently in the process of developing this manual.

Management's Response and Planned Corrective Actions: See attached management's corrective action plan.

2016-003 - Outstanding Checks

Condition: For the Adelanto Water Authority checking account, the amount of outstanding checks was estimated and there was no detail listing of the outstanding checks on the bank reconciliation.

Criteria: In order to properly prepare bank reconciliations, detect errors in a timely manner and to prevent any fraud or abuse, outstanding checks should be monitored with a detailed listing and procedures implemented for long outstanding checks.

Cause: The outstanding checks on the Adelanto Water Authority checking account consists mostly of uncashed refunds to customers. Several of these uncashed refunds are several years old and there are no available records to easily identify all the outstanding checks and the Authority has not kept track of the current outstanding checks.

Effect: With no detail listing of outstanding checks, it would be difficult to determine if the outstanding checks are still valid since most checks are not honored by the bank after a length of time not being cashed. This also could cause errors or the potential for fraud with the bank reconciliation since the amount cannot be verified.

Recommendation: The City does have a unclaimed funds policy where uncashed checks over a year are reclassified to an aged uncashed warrants liability account or become the property of the City if the payee is unknown. Therefore, we recommend the City review its bank reconciliations for identifiable outstanding checks, reclassify uncashed outstanding checks over a year to a liability account and write-off any unidentified amounts.

Management's Response and Planned Corrective Actions: See attached management's corrective action plan.

CITY OF ADELANTO
SCHEDULE OF FINDINGS
Year Ended June 30, 2016

2016-004 - Bank Accounts Authorized Signers

Condition: The bank reconciliations are being prepared by an individual who is also an authorized signer for the City's bank accounts.

Criteria: Bank reconciliations should be prepared by individuals who are not authorized signers for the bank accounts to properly have segregation of duties. Cash is the most susceptible area for misappropriations and by segregating duties it reduces the possibility of fraud or errors.

Cause: The individual performing the bank reconciliations is also listed as an authorized signer on the Authority's bank accounts.

Effect: There is a lack of segregation of duties by having an authorized bank account signer prepare the bank reconciliations.

Recommendation: It is our understanding that the City has subsequently updated its bank accounts' authorized signers which no longer includes the individual preparing the bank reconciliations.

Management's Response and Planned Correction Actions: See attached management's corrective action plan.

2016-005 - Capital Assets Valuation Report Review and Capital Assets Contributions by Developers

Condition: The City had a valuation of its capital assets performed by an external consultant which is used to adjust the capital assets accounts in their accounting records. However, there doesn't appear to be any comprehensive review or approval of the valuation report. Developer capital contributions also appeared excluded from the valuation report.

Criteria: Capital assets reconciliations or valuations should be reviewed and approved to determine that those reconciliations or valuations have the proper amounts and related data to avoid any errors or omissions. During this review, developer capital contributions should also be reviewed to determine if they were properly included in the report.

Cause: There was no indication that the capital asset valuation for the fiscal year 2016 had a comprehensive review and approval before the valuation was finalized.

Effect: Because there was no comprehensive review by the City, the valuation report appeared to have incorrect installation dates which included a capital asset that appeared to be purchased in the 2017 fiscal year, land deletions that were transferred or sold subsequent to the 2016 fiscal year and developer constructed assets, streets and other improvements, were also not included in the report.

CITY OF ADELANTO
SCHEDULE OF FINDINGS
Year Ended June 30, 2016

Recommendation: The City should review and approve its annual capital asset valuation report by knowledgeable individuals which also should include documentation of the amounts and dates used in the report. The City should also develop procedures to capture information from capital assets constructed by developers that the City will maintain and include in the City's capital assets.

Management's Response and Planned Correction Actions: See attached management's corrective action plan.

CITY OF ADELANTO
SCHEDULE OF FINDINGS
Year Ended June 30, 2016

SIGNIFICANT DEFICIENCIES

2016-006 - Cash Disbursement and Purchasing Policies

Condition: The current cash disbursements and purchasing practices of the City do not follow the limits set forth under the City of Adelanto's municipal code.

Criteria: Cash disbursement and purchasing policies are established by the governing board to set various limits and guidelines to properly control the purchase of goods and services.

Cause: The City has not reviewed or updated its policy for several years. The City also implemented a new accounting software where limits were established to provide better controls over cash disbursements and purchasing but the change was not updated in the municipal code.

Effect: The current cash disbursements and purchasing practices by the City are not formally approved in the municipal code.

Recommendation: We recommend the City update its cash disbursements and purchasing policies in the municipal code to adhere to their current accounting practices.

Management's Response and Planned Corrective Actions: See attached management's corrective action plan.

2016-007 - Bank Reconciliations

Condition: Bank reconciliations were completed several months after the close of each month.

Criteria: The reconciliations completed in a timely manner allow the City to properly monitor cash and investments and identify errors or other unrecorded transactions shortly after the close of each month.

Cause: The staff specifically assigned to prepare the reconciliations was out for several months due to illness and there were no other staff or consultants that prepared the bank reconciliations in their absence.

Effect: Since the reconciliations were completed several months after the close of each month, unrecorded transactions and adjustments were not recorded timely after the close of each month.

Recommendation: We recommend that the City train an alternate person in case the staff assigned to the reconciliations should become unavailable to perform the bank reconciliations in a timely manner.

Management's Response and Planned Corrective Actions: See attached management's corrective action plan.

CITY OF ADELANTO
SCHEDULE OF FINDINGS
Year Ended June 30, 2016

2016-008 - Payroll Rate Approvals

Condition: During our test of payroll controls, there were several personnel action forms that had missing approval signatures.

Criteria: Employee pay rates should be properly approved and documented before a rate adjustment is applied to payroll.

Cause: Personnel action forms required the employee's department head, City Manager, Finance Department and HR Department approvals for changes in payroll information which include payroll rates. The signatures were missed due to the unavailability of the authorized signers.

Effect: Without all the proper signatures, a payroll change might be incorrectly updated.

Recommendation: We recommend the City review its payroll procedures and document all the required signatures are present before applying a payroll change.

Management's Response and Planned Corrective Actions: See attached management's corrective action plan.

2016-009 - Construction Recycling Deposits

Condition: The City has construction recycling deposits but there are no formal tracking procedures that keep an updated listing and verification of outstanding deposits.

Criteria: Deposit liabilities should be tracked and monitored by appropriate personnel to determine when the liability has occurred and when the deposit should be refunded. A separate individual should use that information to reconcile those amounts to the City's accounting records.

Cause: Currently, the City doesn't have any formal procedures to monitor construction recycling deposits.

Effect: Construction recycling deposits could potentially have missing deposits or deposits that have been refunded and not properly recorded.

Recommendation: We recommend the City develop formal procedures for construction recycling deposits where an appropriate employee monitors and tracks construction recycle deposits and a separate employee uses that information to reconcile the amounts to the City's accounting records.

Management's Response and Planned Corrective Actions: See attached management's corrective action plan.

CITY OF ADELANTO
SCHEDULE OF FINDINGS
Year Ended June 30, 2016

2016-010 - Cash Management

Condition: The City has no formal cash management procedures to review and monitor interfund reimbursements.

Criteria: Reimbursement revenues, such as grants and intergovernmental sources, should be recorded in the proper fund when received. If another fund has expenditures/expenses related to those reimbursement revenues, then those amounts should be transferred to the appropriate fund.

Cause: Currently, the City does not have any formal cash management procedures to review and monitor interfund reimbursements.

Effect: Reimbursements between funds may not be recorded in a timely manner which could overstate cash in one fund and understate cash in another fund.

Recommendation: We recommend the City review its cash management procedures and develop procedures to identify transfer reimbursements between funds are recorded in a timely manner.

Management's Response and Planned Corrective Actions: See attached management's corrective action plan.

2016-011 - Maintenance of Minutes

Condition: The City's maintenance of minutes of the public meetings was not prepared in a timely manner.

Criteria: The maintenance of minutes should be prepared and then approved in a timely manner for City Council actions to be implemented and timely documentation on approved items.

Cause: The maintenance of minutes was not prepared in a timely manner due to staff changes in the last few years.

Effect: The minutes were prepared several months after the meetings took place.

Recommendation: It is our understanding that the City has prepared the minutes up to the most current meeting. So we recommend the City continue its efforts to have the minutes prepared up to the most current meeting.

Management's Response and Planned Correction Actions: See attached management's corrective action plan.

**CITY OF ADELANTO, CALIFORNIA
CORRECTIVE ACTION PLAN
Year Ended June 30, 2016**

Compiled by: The Finance Department

CITY OF ADELANTO, CALIFORNIA
CORRECTION ACTION PLAN
Year Ended June 30, 2016

MATERIAL WEAKNESSES

2016-001 - Financial Close and Reporting Process

Management's or Department's Response: We concur with the finding.

View of Responsible Officials and Corrective Action: The Finance Department will use outside accounting consultants in order to work towards timely year-end closings. At such time that the year-end closings are current, the process will be transitioned to City staff.

Contact Information of Responsible Official: Ward Komers, Finance Director

Implementation Date: September 2019

2016-002 - Formal Written Payroll and Accounting Policies and Procedures Manual

Management's or Department's Response: We concur with the finding.

View of Responsible Officials and Corrective Action: The Finance and Human Resource Departments are in the process of developing and implementing formal written payroll and accounting policies as well as a procedures manual.

Contact Information of Responsible Official: Ward Komers, Finance Director

Implementation Date: July 2020

2016-003 - Outstanding Checks

Management's or Department's Response: We concur with the finding.

View of Responsible Officials and Corrective Action: The Finance Department is reviewing its bank reconciliation to apply the Unclaimed Funds Policy on outstanding and un-cashed checks.

Contact Information of Responsible Official: Ward Komers, Finance Director

Implementation Date: July 2020

CITY OF ADELANTO, CALIFORNIA
CORRECTION ACTION PLAN
Year Ended June 30, 2016

2016-004 - Bank Accounts Authorized Signers

Management's or Department's Response: We concur with the finding.

View of Responsible Officials and Corrective Action: The Finance Department has updated its bank accounts' authorized signers which no longer includes the individual preparing the bank reconciliations. Management considers this finding to be closed.

Contact Information of Responsible Official: Ward Komers, Finance Director

Implementation Date: January 2019

2016-005 - Capital Assets Valuation Report Review and Capital Assets Contributions by Developers

Management's or Department's Response: We concur with the finding.

View of Responsible Officials and Corrective Action: The Finance Department is in the process of developing policies and procedures to ensure that the capital asset valuation report is reviewed and approved by City management staff and the Finance Director. The Finance Department is also in the process of developing procedures to capture information from capital assets constructed by developers that the City will maintain and include in the City's capital assets.

Contact Information of Responsible Official: Ward Komers, Finance Director

Implementation Date: July 2020

CITY OF ADELANTO, CALIFORNIA
CORRECTION ACTION PLAN
Year Ended June 30, 2016

SIGNIFICANT DEFICIENCIES

2016-006 - Cash Disbursement and Purchasing Policies

Management's or Department's Response: We concur with the finding.

View of Responsible Officials and Corrective Action: The Finance Department is reviewing the outdated cash disbursement and purchasing policies in the municipal code in order to recommend changes that are in line with those used in our software system and present these recommendations to City Council as replacement for the outdated codes. In the meantime, the Finance Department has altered its accounting practices in order to adhere to the cash disbursements and purchasing policies in the municipal code.

Contact Information of Responsible Official: Ward Komers, Finance Director

Implementation Date: July 2019

2016-007 - Bank Reconciliations

Management's or Department's Response: We concur with the finding.

View of Responsible Officials and Corrective Action: The City hired an accountant and outside accounting staff to perform all bank account reconciliation and are now current. Management considers this finding to be closed.

Contact Information of Responsible Official: Ward Komers, Finance Director

Implementation Date: December 2018

2016-008 - Payroll Rate Approvals

Management's or Department's Response: We concur with the finding.

View of Responsible Officials and Corrective Action: The Finance and Human Resource Departments are reviewing payroll policies to ensure payroll rate approvals are properly approved and documented. The departments have implemented a revised Personnel Action Form (PAF), which is reviewed and approved by City management staff. Further, the City has added a Sr. Human Resources Analyst position to the organizational structure in order to ensure personnel policies and procedures are adopted and followed.

Contact Information of Responsible Official: Ward Komers, Finance Director

Implementation Date: July 2019

CITY OF ADELANTO, CALIFORNIA
CORRECTION ACTION PLAN
Year Ended June 30, 2016

SIGNIFICANT DEFICIENCIES - Continued

2016-009 - Construction Recycling Deposits

Management's or Department's Response: We concur with the finding.

View of Responsible Officials and Corrective Action: The Finance Department is in the process of developing and implementing formal written policies and procedures to monitor construction recycling deposits as well as the reconciliation of those deposits.

Contact Information of Responsible Official: Ward Komers, Finance Director

Implementation Date: July 2020

2016-010 - Cash Management

Management's or Department's Response: We concur with the finding.

View of Responsible Officials and Corrective Action: The Finance Department has reviewed its cash management procedures and is in the process of updating those procedures to ensure timely transfer reimbursements between funds.

Contact Information of Responsible Official: Ward Komers, Finance Director

Implementation Date: July 2020

2016-011 - Maintenance of Minutes

Management's or Department's Response: We concur with the finding.

View of Responsible Officials and Corrective Action: The City Clerk Department has outsourced the preparation of public meeting minutes in order to have the minutes in a timely manner and to remain current. Management considers this finding to be closed.

Contact Information of Responsible Official: Brenda Lopez, City Clerk

Implementation Date: July 2019

December 10, 2019

City Council
City of Adelanto
Adelanto, California

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Adelanto, California (the “City”) for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 17, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the City changed accounting policies related to Statement of Governmental Accounting Standards (GASB Statement) No. 72, *Fair Value Measurement and Application*, in the 2016 fiscal year. Accordingly, there is an additional note disclosure on fair value measurements in the financial statements. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management’s estimate of the fair value of investments is based on information provided by financial institutions. We evaluated the key factors and assumptions used to develop the fair value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Management’s estimate of the Successor Agency loans receivable accreted interest is based on the interest rate of the loans, debt service payments and outstanding balances. We evaluated the key factors and assumptions used to develop the Successor Agency loans receivable accreted interest in determining that is reasonable in relation to the financial statements taken as a whole.

Management’s estimate of capital assets depreciation is based on historical estimates of each capitalized item’s useful life. We evaluated the key factors and assumptions used to develop the capital assets depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension liability (asset) and related pension deferred outflows and inflows of resources are based on an actuarial valuation and pension contributions made during the year. We evaluated the key factors and assumptions used to develop the net pension liability (asset) and related pension deferred outflows and inflows of resources in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of net other postemployment benefits (OPEB) obligations is based on an actuarial valuation. We evaluated the key factors and assumptions used to develop the net OPEB obligation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the Successor Agency's tax increment loans with the County of San Bernardino is based on the loan agreements and the estimated amounts outstanding calculated by the County. However, these loans and their terms are currently in litigation with the County. We evaluated the key factors and assumptions used to develop the tax increment loans with the County of San Bernardino outstanding amounts in determining that it is reasonable in relation to the financial statements as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of the fair value of investments in Notes 3 and 4 to the financial statements represents amounts susceptible to market fluctuation.

The disclosure of the Successor Agency loans receivable accreted interest in Notes 6 and 15 to the financial statements is based on the interest rate of the loans, debt service payments and outstanding balances which could differ from actual amounts.

The disclosure of capital assets in Note 7 to the financial statements is based on historical information which could differ from actual useful lives of each capitalized item.

The disclosure of the employees' retirement plan, net pension liability (asset) and related pension deferred outflows and inflows of resources in Note 11 to the financial statements represents management's estimate based on an actuarial valuation and pension contributions made during the year. Actual results could differ depending on the key factors and assumptions used for the actuarial valuation.

The disclosure of other postemployment benefits and the net OPEB obligation in Note 12 to the financial statements represents management's estimate based on an actuarial valuation. Actual results could differ depending on the key factors and assumptions use for the actuarial valuation.

The disclosure of the Successor Agency's tax increment loans with the County of San Bernardino in Note 15 to the financial statements represents management's estimate based on the loan agreements and the County's estimated amounts outstanding. Due to the current litigation on these loans, these amounts could be adjusted depending on the outcome of the litigation.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. However, the audit was delayed and completed after several years from the June 30, 2016 fiscal year end. This was due to staff turnover and a delay in completing the financial close and reporting process.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

Description	Amount
Accounts Payable Adjustments	\$ 304,716
Defer 2016/17 Mitigation Fees	\$ 461,646
Interfund Principal Payments Reclassification	\$ 1,536,611
Adjust CFD Bonds Liabilities	\$ 9,872,361
Reclass CFD Bonds Activity to CIP and Agency Funds	\$ 19,510,054
Successor Agency Interest Payable Adjustment	\$ 753,088
San Bernardino County Loans Interest Payable Adjustment	\$ 2,045,056
APUA Developer Contributions for Water and Sewer Improvements	\$ 2,231,297
Successor Agency Land Held for Development Sales	\$ 1,020,026

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 10, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplementary information section, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information section, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

As part of the audit, we assisted with the preparation of the financial statements and related notes and GASB 68 net pension liability and related deferred outflows/inflows of resources calculation. However, these services, does not constitute an audit under Government Auditing Standards and are considered non audit services. Management has reviewed, approved, and accepted responsibility for the results of these services.

Restriction on Use

This information is intended solely for the information and use of the City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Teaman Ramirez & Smith, LLC

**INDEPENDENT ACCOUNTANT'S REPORT ON AGREED-UPON PROCEDURES
APPLIED TO APPROPRIATIONS LIMIT WORKSHEETS**

City Council
City of Adelanto
Adelanto, California

We have performed the procedures enumerated below, which were agreed to by the City of Adelanto, California and the League of California Cities (as presented in the publication entitled *Agreed-upon Procedures Applied to the Appropriations Limitation Prescribed by Article XIII B of the California Constitution*), on the accompanying Appropriations Limit documents of the City of Adelanto, California (the "City"), for the year ended June 30, 2016 (prepared in accordance with Section 1.5 of Article XIII B of the California Constitution). The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

1. We obtained the completed worksheets and compared the limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of the City Council. We also compared the population and inflation options included in the aforementioned documents to those that were selected by a recorded vote of the City Council.

Finding: No exceptions were noted as a result of our procedures.

2. For the accompanying Appropriations Limit worksheet, we added last year's limit to total adjustments and agreed the resulting amount to this year's limit.

Finding: No exceptions were noted as a result of our procedures.

3. We agreed the current year information presented in the accompanying Appropriations Limit worksheet to the other documents referenced in #1 above.

Finding: No exceptions were noted as a result of our procedures.

4. We agreed the prior year appropriations limit presented in the accompanying Appropriations Limit worksheet to the prior year appropriations limit adopted by the City Council during the prior year.

Finding: No exceptions were noted as a result of our procedures.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the accompanying Appropriations Limit worksheet and the City's Appropriations Limit documents. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by *Article XIII B of the California Constitution*.

This report is intended solely for the use of the City Council and management of the City of Adelanto, California and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Teaman Ramirez & Smith, Inc.

Riverside, California
December 10, 2019

CITY OF ADELANTO, CALIFORNIA
APPROPRIATIONS LIMIT COMPUTATION
2015 - 2016

		<u>2015 - 2016</u>
Per Capital Personal Income Change		3.82%
Population Change		
City Population Growth		2.07%
CPI Change Converted to a Ratio		1.0382
Population Change Converted to a Ratio		1.0207
Calculation of Growth Factor		1.05969074
2014 - 2015 Appropriations Limit	<u>\$ 8,769,773</u>	
2015 - 2016 Appropriations Limit (\$8,769,773 x 1.05969074)	<u>\$ 9,293,247</u>	