

CITY OF MARYSVILLE, CALIFORNIA

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2016**



CITY OF MARYSVILLE, CALIFORNIA

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CITY OF MARYSVILLE, CALIFORNIA

CITY OFFICIALS
AS OF JUNE 30, 2016

CITY COUNCIL

- *Ricky Samayoa* Mayor
- *James Kitchen* Vice Mayor
- *Bill Simmons* Council member
- *Chris Pedigo* Council member
- *Dale Whitmore* Council member

OTHER CITY OFFICIALS

- *Walter Munchheimer* City Manager
- *Brant Bordsen* City Attorney
- *Satwant Takhar* Administrative Services
Director
- *Aaron Easton* Police Chief
- *David Lamon* City Services Director
- *Billie Fangman* City Clerk

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BOLER & ASSOCIATES

PROFESSIONAL ACCOUNTANCY CORPORATION
750 F STREET • DAVIS, CA 95616

(530) 756-1735

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, City Administrator, and
Members of the City Council
City of Marysville, California

Report on the 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 Marysville, California, 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 Marysville, California, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Going Concern

The accompanying financial statements have been prepared assuming that the City will continue as a going concern. As discussed in Note O to the financial statements, the City's General Fund has a deficit balance of \$9,382,492 and has substantial net unfunded pension liability of \$9,547,983. In addition, the City experienced depletion of emergency reserves, other deficit fund balances, slow recovery in revenues, and increased employment costs. These conditions raise substantial doubt about the City's ability to continue as a going concern. Management's plan in regard to these matters are also described in Note O. The plan includes the use of additional revenues to be received from a voter approved sales tax increase of 1% to 8.5% for the next 10 years. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Implementation of New Accounting Standards

As described in Note A to the financial statements, the City adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective years beginning after June 15, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14 and schedules related to the unfunded pension liability on pages 69 through 74 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marysville, California's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements 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 combining and individual nonmajor fund financial statements 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 September 24, 2016, on our consideration of the City of Marysville, California'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 City of Marysville, California's internal control over financial reporting and compliance.



September 24, 2016, except for Notes P and Q,
As to which the date is February 17, 2017

CITY OF MARYSVILLE, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

This section of the City of Marysville's Annual Financial Report presents a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City of Marysville exceeded liabilities by \$6.46 million (net position). This is an increase of \$1.42 million from the balance of \$5.04 million reported in the prior fiscal year. The City has an unrestricted deficit of \$20.91 million (due to the issuance of the Sewer Fund Series 2012 Revenue Bonds and the effects of the GASB Statement No. 68 implementation), \$4.99 million is restricted for specific purposes such as loan programs, street projects, and other community development, and \$12.48 million is invested in capital assets, net of related debt.
- The City's current year's change in net position was an increase of \$1.46 million.
- The General Fund has a fund deficit is \$9.00 million as of June 30, 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this report consists of six parts:

- Independent Auditor's Report;
- Management's Discussion and Analysis (this section);
- Basic Financial Statements that include:
 - Government-Wide Financial Statements;
 - Fund Financial Statements;
 - Notes to Financial Statements and
- Required Supplementary Information
- Combining and Individual Fund Statements and Schedules.
- Other Reports

The basic financial statements include two kinds of statements that present different views of the City:

GOVERNMENT-WIDE FINANCIAL STATEMENTS:

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

The Statement of Net Position (pages 16 and 17) presents information on all of the City's assets and liabilities, with the difference between the two reported as "net position." Over time, increases or decreases in net position may serve as a useful indicator of the City's financial improvement or deterioration.

CITY OF MARYSVILLE, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The Statement of Activities (pages 18 and 19) presents information showing how the government's net position changed during the past year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows (accrual basis of accounting). Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue – “governmental activities” from other functions that are intended to recover all or a significant portion of their costs through users fees and charges – “business-type activities.” The government activities of the City of Marysville include general government, public safety, streets, public works and parks and recreation. The business-type activity of the city is the wastewater system.

The government-wide financial statements include the City of Marysville itself (known as the primary government) and the legally separate Redevelopment Successor Agency Private-Purpose Trust Fund. The City Council serves as the governing body of this component unit and the City is financially accountable, resulting in its financial information being included in the City's overall financial statements on a blended basis as a fiduciary type fund. Please refer to the fiduciary statements (pages 30 and 31).

FUND FINANCIAL STATEMENTS

A “fund” is a group of related accounts that is used to maintain control over resources that that have been segregated for specific activities or objectives. The City of Marysville, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Marysville can be divided into three categories:

- Governmental Funds;
- Proprietary Funds; and
- Fiduciary Funds.

Governmental funds are used to account for essentially the same functions reported as “governmental activities” in the government-wide financial statements. However, unlike those statements, the focus in these statements is on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Marysville maintains several individual government funds organized according to their type (special revenue, capital projects, etc.). The fund financial statements provide detailed information about

CITY OF MARYSVILLE, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

each of the City's most significant funds, called major funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them as one total. Instead, each major fund is presented individually, with all non-major funds summarized and presented only in a single column. Subordinate schedules present the detail of these non-major funds. Major funds present the major activities of the City for the year, and may change from year to year as a result of changes in the pattern or the City's activities. Information is presented separately in the governmental funds balance sheet and in the governmental funds statements of revenues expenditures and changes in fund balances for the following major funds (found starting on page 20):

- General Fund

Data from the remaining nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of "combining statements" starting on page 78.

Proprietary funds are generally used to account for services for which the City charges customers. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains one type of proprietary fund, two enterprise funds, as described below.

Enterprise funds are used to report the same functions as presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for wastewater collection and treatment and the activity of its public financing authority.

The debt service for the Wastewater system is combined into the business-type activities column of the Statement of Net Position (pages 16-17) and the remaining debt service issues are combined into the governmental activities column of that report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Since the resources of these funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

The Notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 32-68 of this report.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

This section of the report includes additional detailed information about nonmajor governmental, proprietary and agency funds and can be found beginning on page 78.

CITY OF MARYSVILLE, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The fiscal year ended June 30, 2016 is the twelfth year in which the City of Marysville has presented its financial statements under the reporting model required by the Governmental Accounts Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. A comparative analysis of government-wide data is included in this report.

ANALYSIS OF NET POSITION

With the consolidation of government-wide net position into one statement and other changes such as the exclusion of fiduciary funds, net position may now serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$6.46 million. The City reported positive balances in the investment in capital assets and restricted categories of net position, in both the governmental and business-type activities. The unrestricted net position were deficits.

The Summary of Net Position is as follows:

TABLE 1
SUMMARY OF NET POSITION
AS OF JUNE 30

	Governmental Activities		Business-type Activities		TOTALS	
	2016	2015	2016	2015	2016	2015
ASSETS:						
Current and other assets	\$ 4,246,515	\$ 4,727,840	\$ 5,915,260	\$ 12,987,565	\$ 10,161,775	\$ 17,715,405
Capital assets, net	12,765,965	12,645,745	26,354,880	20,485,771	39,120,845	33,131,516
TOTAL ASSETS	\$ 17,012,480	\$ 17,373,585	\$ 32,270,140	\$ 33,473,336	\$ 49,282,620	\$ 50,846,921
DEFERRED OUTFLOWS OF RESOURCES						
	\$ 1,389,734	\$ 1,296,958	\$ 671,108	\$ 679,627	\$ 2,060,842	\$ 1,976,585
LIABILITIES:						
Liabilities due after one year	\$ 16,885,322	\$ 16,167,661	\$ 23,678,934	\$ 24,472,978	\$ 40,564,256	\$ 40,640,639
Other liabilities	988,333	1,135,240	1,168,601	2,215,039	2,156,934	3,350,279
TOTAL LIABILITIES	\$ 17,873,655	\$ 17,302,901	\$ 24,847,535	\$ 26,688,017	\$ 42,721,190	\$ 43,990,918
DEFERRED INFLOWS OF RESOURCES						
	\$ 1,138,410	\$ 2,688,096	\$ 1,019,423	\$ 1,104,330	\$ 2,157,833	\$ 3,792,426
NET POSITION:						
Investment in capital assets	\$ 6,163,591	\$ 5,969,327	\$ 6,318,079	\$ 9,484,148	\$ 12,481,670	\$ 15,453,475
Restricted	841,083	1,147,379	4,146,360	11,120,980	4,987,443	12,268,359
Unrestricted	(7,614,525)	(8,437,160)	(3,390,149)	(14,244,512)	(11,004,674)	(22,681,672)
TOTAL NET POSITION	\$ (609,851)	\$ (1,320,454)	\$ 7,074,290	\$ 6,360,616	\$ 6,464,439	\$ 5,040,162

CITY OF MARYSVILLE, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

- Total Net Position increased by \$1,457,436 from 2015 to 2016.
- \$12.48 million (193.08% of total Net Position) in net capital assets (e.g., land, buildings, other improvements, construction in progress and equipment), less any outstanding related debt used to acquire these assets. The City uses these capital assets to provide services to the community; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.
- \$4.99 million (77.15%) in net position are earmarked and represent resources that are subject to external restrictions on how they may be used. The increase in this figure from 2014 to 2015 can be found in the Restricted Net position in the Governmental Activities.
- The remaining unrestricted deficit is \$11.00 million.

CHANGES IN NET POSITION

The following table reflects the change in net position for Governmental and Business-Type Activities:

TABLE 2
CHANGE IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30

	Governmental Activities		Business-type Activities		TOTALS	
	2016	2015	2016	2015	2016	2015
PROGRAM REVENUES:						
Charges for services	\$ 1,367,490	\$1,245,711	\$ 2,765,382	\$ 2,938,293	\$ 4,132,872	\$ 4,184,004
Operating grants	659,555	1,045,894	-	-	659,555	1,045,894
Capital grants	333,150	782,407	-	-	333,150	782,407
GENERAL REVENUES:						
Property taxes	1,075,652	1,077,611	-	-	1,075,652	1,077,611
Sales and use taxes	1,881,909	1,943,100	-	-	1,881,909	1,943,100
Motor vehicle in-lieu	815,092	817,147	-	-	815,092	817,147
Franchise fees	483,311	388,004	-	-	483,311	388,004
Transient occupancy tax	96,749	101,283	-	-	96,749	101,283
Business license tax	136,776	131,589	-	-	136,776	131,589
Reimbursements	203,112	316,445	-	-	203,112	316,445
Proceeds from insurance	8,828	-	-	-	8,828	-
Miscellaneous sales	5,198	273	-	-	5,198	273
Debt forgiven by County	-	23,434	-	-	-	23,434
Loss on disposition of asset	-	(92,370)	-	(63,777)	-	(156,147)
Loan balance written off	(43,451)	-	-	-	(43,451)	-
Program income	9,269	-	-	-	9,269	-
Unrealized loss	-	-	-	(17,339)	-	(17,339)
Other revenues	30,280	35,128	10,422	-	40,702	35,128
Investment income	173,297	124,779	30,448	43,359	203,745	168,138
TOTAL REVENUES	7,236,217	7,940,435	2,806,252	2,900,536	10,042,469	10,840,971

CITY OF MARYSVILLE, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Governmental Activities		Business-type Activities		TOTALS	
	2016	2015	2016	2015	2016	2015
EXPENSES:						
Governmental activities:						
General government	\$ 762,630	\$ 1,545,799	\$ -	\$ -	\$ 762,630	\$ 1,545,799
Public safety	4,582,475	4,341,221	-	-	4,582,475	4,341,221
Streets and public works	1,087,037	988,165	-	-	1,087,037	988,165
Parks and recreation	320,451	243,018	-	-	320,451	243,018
Interest on long-term debt	503,191	506,431	-	-	503,191	506,431
Business-type activities:						
Sewer	-	-	1,133,028	1,089,822	1,133,028	1,089,822
Interest on long-term debt	-	-	531,221	664,124	531,221	664,124
TOTAL EXPENSES	7,255,784	7,624,634	1,664,249	1,753,946	8,920,033	9,378,580
EXCESS OF REVENUES OVER EXPENDITURES						
	(19,567)	315,801	1,142,003	1,146,590	1,122,436	1,462,391
Capital contributions	255,000	-	-	-	255,000	-
Transfers in (out)	508,329	47,363	(428,329)	32,637	80,000	80,000
CHANGE IN NET POSITION	743,762	363,164	713,674	1,179,227	1,457,436	1,542,391
NET POSITION, JULY 1:						
As originally reported	(1,320,454)	(1,683,618)	6,360,616	5,608,682	5,040,162	3,925,064
Prior period adjustment	(33,159)	-	-	(427,293)	(33,159)	(427,293)
As restated	<u>(1,353,613)</u>	<u>(1,683,618)</u>	<u>6,360,616</u>	<u>5,181,389</u>	<u>5,007,003</u>	<u>3,497,771</u>
NET POSITION, JUNE 30	\$ (609,851)	\$ (1,320,454)	\$ 7,074,290	\$ 6,360,616	\$ 6,464,439	\$ 5,040,162

Governmental Activities and Business-type Activities increased (decreased) the City's net position by \$743,762 and \$713,674, respectively.

REVENUES

The Governmental Activities total revenues were \$7.24 million and Business-Type Activity revenues were \$2.81 million for the year ended June 30, 2016. This represented a total decrease of \$798,502 from 2015. This decrease in revenues was attributed primarily to a decrease in operating and capital grants of \$835,596.

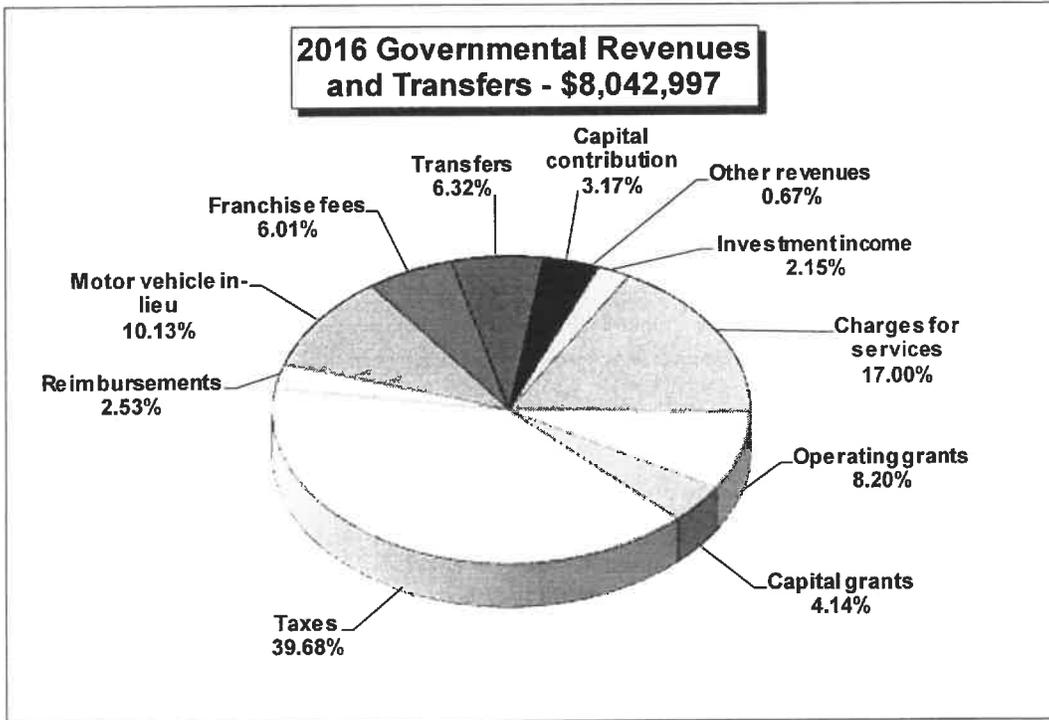
Program revenues include charges for services and grants and contributions. Program revenues provided \$2.36 million (32.62% of total revenues) for governmental activities and approximately \$2.77 million for business-type activities.

General revenues include, among other things, taxes, assessments and intergovernmental revenues. General revenues provided \$4.89 million (67.38% of total revenues). The majority of general revenues came from property, sales and other taxes.

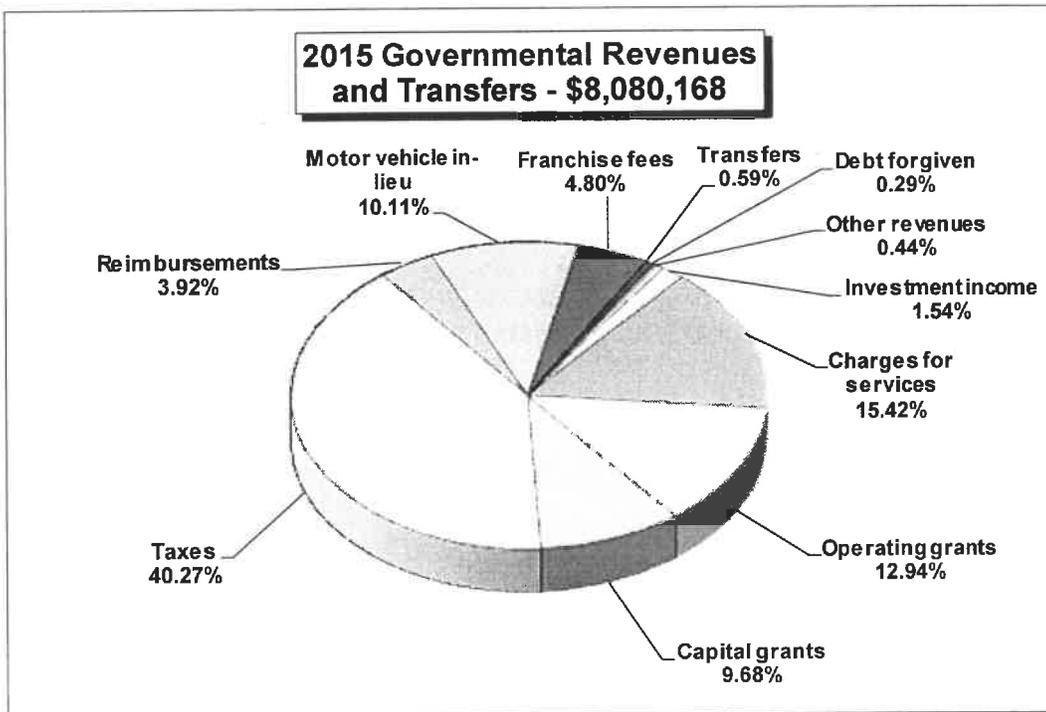
CITY OF MARYSVILLE, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The fiscal year ended June 30, 2016 revenues are reflected graphically as follows:



The fiscal year ended June 30, 2015 revenues are reflected graphically as follows:



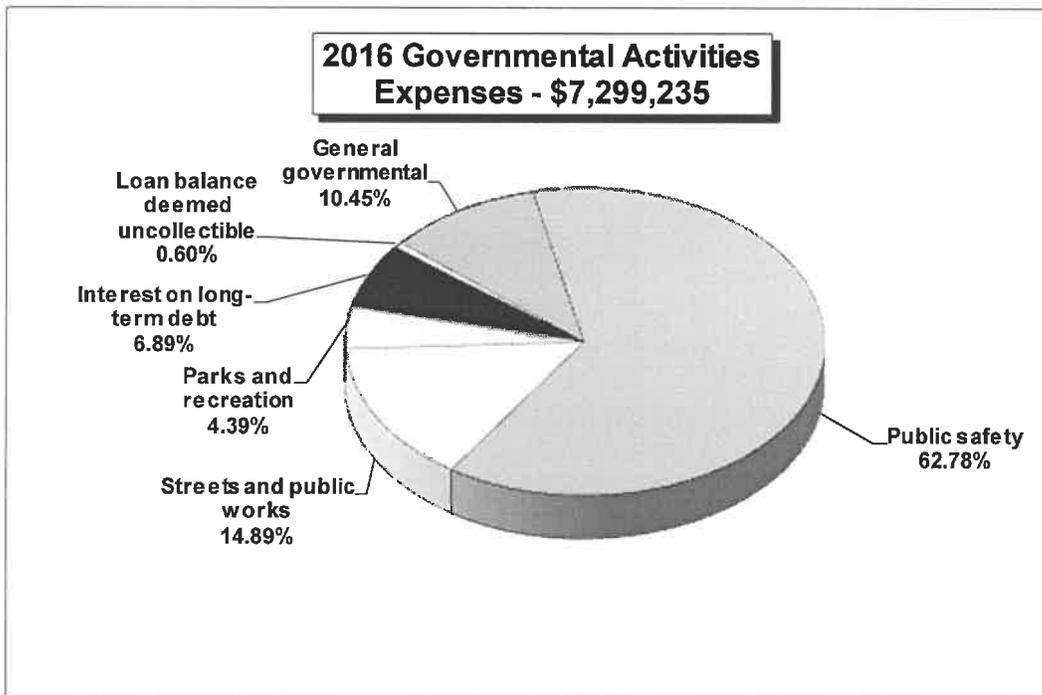
CITY OF MARYSVILLE, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

EXPENSES

Expenses for the City totaled \$8.96 million. Governmental activities incurred \$7.30 million in expenses and business-type activities incurred \$1.66 million in expenses during the year. Governmental activities expenses were 32.53% funded by program revenues, fees, grants and contributions. The remainder of the funding came from general revenues. On the other hand, business-type activities expenses were 60.18% funded by program revenues, with the exception of interest and investment earnings.

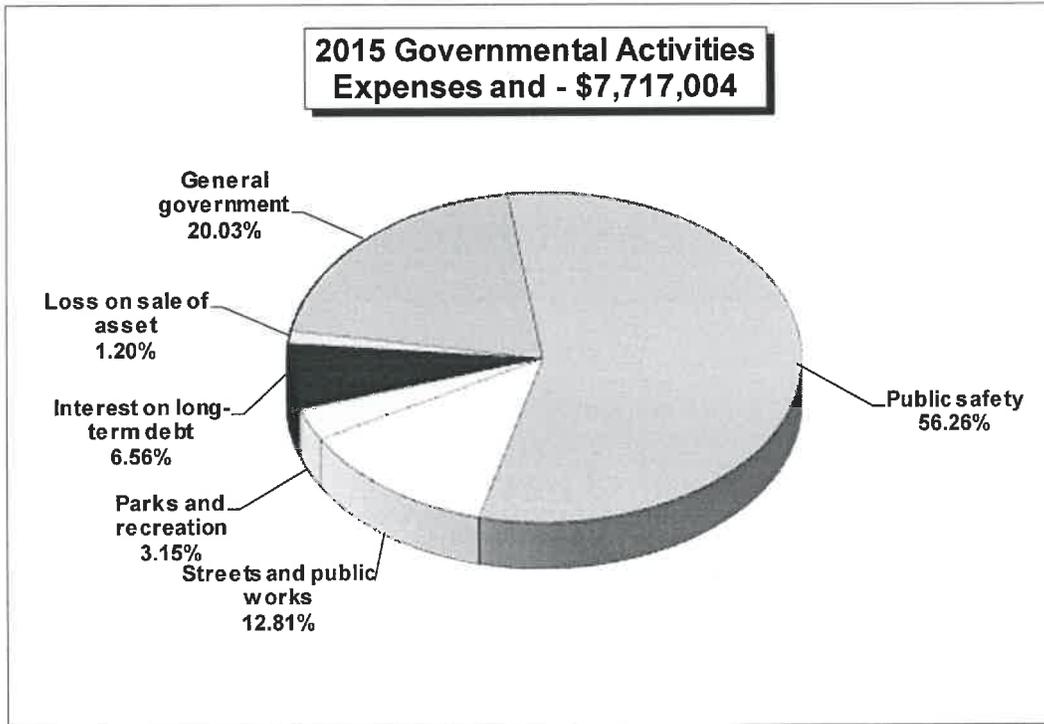
The fiscal year ended June 30, 2016 expenses are reflected graphically as follows:



CITY OF MARYSVILLE, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The fiscal year ended June 30, 2015 expenses are reflected graphically as follows:



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The City of Marysville uses fund accounting to segregate accounts for specific activities or objectives, including demonstrating finance-related legal compliance.

GOVERNMENTAL FUNDS

The focus of the City's government funds is to provide information on near-term inflows, outflows and balances of resources that are available to provide services and capital project construction. In particular, unreserved fund balance may serve as a useful measure of a government's net spendable resources.

At the end of FY 2015-16, the City's governmental funds reported combined fund balance of \$3.72 million. The City has an unassigned fund deficit of \$0.71 million. The remainder of the governmental ending fund balance of \$3.01 million is non-spendable, committed, or restricted to indicate that it is not available for new spending because it has been designated to pay for prior year commitments and other specific requirements.

PROPRIETARY FUNDS

The City's proprietary funds statements provide the same type of information found in the government-wide financial statements, but in more detail.

CITY OF MARYSVILLE, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year General Fund revenue was \$169,164 lower than the amended budget estimate, which was primarily due to the reduction in state police-related grant funds, including COPS, OTS, and Avoid the 9 grants. Another primary reduction was in fines, especially traffic fines cited by the use of traffic light cameras due to the CalTrans construction on state highways 20 and 70 and traffic light cameras and encroachment permit delays due to CalTrans.

The General Fund expense budget was \$2.14 million lower than the amended budget estimate, which was primarily due to the reduction in police services as a result, in part, to the loss of state grant funds and traffic light camera vendor billings were lower due to construction downtime and encroachment permit delays. Also, under GASB No. 68, pension payments of \$258,510 were recorded as deferred outflows of resources rather than as expenditures in the current period.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The capital assets reported reflect the reevaluation of capital asset balances reported in 2003-04 to conform to GASB Statement No. 34 reporting requirements.

TABLE 3
CAPITAL ASSETS, NET OF DEPRECIATION
AS OF JUNE 30

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Fiduciary Activities</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Capital assets, not being depreciated:						
Construction in progress	\$ -	\$ -	\$ 9,764,071	\$ 3,705,068	\$ -	\$ -
Land	6,057,051	6,057,051	-	-	78,797	79,203
Depreciable capital assets, net:						
Sewer plant	-	-	2,919,240	3,140,821	-	-
Intangible asset	-	-	12,300,000	12,300,000	-	-
Infrastructure	2,566,853	2,573,324	-	-	-	-
Buildings	1,645,765	1,697,804	315,196	333,739	21,087	24,332
Machinery and equipment	991,160	604,282	515,605	455,800	-	-
Vehicles	1,505,136	1,619,684	55,343	66,808	-	-
TOTAL	<u>\$ 12,765,965</u>	<u>\$ 12,552,145</u>	<u>\$ 25,869,455</u>	<u>\$ 20,002,236</u>	<u>\$ 99,884</u>	<u>\$ 103,535</u>

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2016, was \$38.64 million (net of accumulated depreciation). This investment in capital assets includes: land, buildings, improvements other than buildings, and equipment. The City's investment in capital assets had a net increase from FY 2014-15 of \$6,081,039. The increase principally resulted from the current fiscal year's construction in progress in the Sewer Enterprise Fund of \$6,059,003. Infrastructure acquired prior to FY 2003-04 has not been recorded. The City is not required to record those infrastructure costs expended in those previous fiscal years.

CITY OF MARYSVILLE, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

For government-wide financial statement presentation, all depreciable capital assets are depreciated from the acquisition date over their useful lives. Governmental fund financial statements record capital asset purchases as expenditures.

DEBT ADMINISTRATION

At the end of FY 2014-15, the City of Marysville had long-term liabilities of \$6.85 million and \$24.50 million for governmental activities and business-type activities, respectively. Also, the fiduciary activities' long-term liabilities were \$380,106. Additional information about the City's long-term obligations can be found in Note F in the Notes to Basic Financial Statements.

TABLE 4
OUTSTANDING DEBT
AS OF JUNE 30

	Governmental Activities		Business-type Activities		Fiduciary Activities	
	2016	2015	2016	2015	2016	2015
Sewer Revenue Bonds, 2012 Series A	\$ -	\$ -	\$ 12,485,000	\$ 12,705,000	\$ -	\$ -
Certificates of participation, 2011	7,000,000	7,000,000	-	-	-	-
Lease revenue bonds, 2001 Series A	-	-	214,894	245,495	380,106	434,505
Obligations under capital lease	-	-	210,418	275,706	-	-
Linda County Water District State Water Resources Loan	-	-	10,871,468	11,235,736	-	-
Add: Bond premium, net	-	-	972,049	1,005,093	-	-
Less: Bond discount, net	(397,626)	(417,182)	(9,320)	(10,874)	-	-
Less: Issuance costs, net	-	-	(610,395)	(631,144)	-	-
Compensated absences	243,264	191,973	25,078	26,738	-	-
TOTALS	\$ 6,845,638	\$ 6,774,791	\$ 24,502,563	\$ 25,359,342	\$ 380,106	\$ 434,505

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The property assessed valuations grew 3.9% in FY 2016-17 compared to 4.3% in FY 2015-16, positive increases of 8.2% over the two year period indicates property values continue to rise with the pattern of an increasing economy in the City. The City's general fund reserves have increased and the fund balance as of June 30, 2016 is \$269,729 excluding the net pension liability adjustment. This is a positive outlook as the ending fund balance as of June 30, 2016 was estimated to be a negative \$274,109 for budgeting purposes going into FY 2016-17. The positive general fund balance along with budget revisions and adjustments project a positive fund balance of approximately \$336,000.

Economic activity appears to be increasing with the approval of a new upscale 70 unit market rate apartment complex bringing new residents to the City as well as the official opening of the regional medical center resulting in new job creation in the City and surrounding community.

CITY OF MARYSVILLE, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The voters passed Measure C in June 2016 which calls for a 1% transactions and use tax to take effect October 1, 2016. The sales tax will generate approximately \$1,080,000 in FY 2016-17 and approximately \$1,600,000 each full fiscal year for a period of ten years. This new revenue source will help restore City service levels to pre-recession levels, rebuild deteriorated public works infrastructure, fund public safety, offset debt service payments, increase financial reserve funds and help rebuild levels of services in all areas of City services provided to the residents.

The voters will consider Measure F in November 2016, which calls for a cannabis business tax on medical marijuana dispensaries. If Measure F passes, it has the potential to generate approximately \$600,000 a year to the general fund which will help pay for City services.

The City has been awarded approximately \$5,000,000 in grant funds to be used for street improvements, public safety personnel and equipment, housing rehabilitation, park improvements, planning and the design of 5th Street from E Street to J Street, which will complement the new 5th Street bridge replacement project. The City will continue to aggressively pursue grant funding for much needed projects and to offset personnel costs.

Both Moody's Investor Service and S&P Raters have recently upgraded the City's credit rating and have listed a positive outlook for the City based on the City's financial rebuilding strategy that has resulted in an increase in the fund balance reserves. The increase in the City's credit rating also signals that the financial markets have confidence in the City's policies and an improved financial future.

The City has faced several financial challenges over the past decade in the areas of personnel cuts, service level reductions, increases in the areas of pension, workers' compensation and liability insurance costs. The City is very optimistic and believes that City finances will continue to strengthen in the future, both short and long term, and will continue to fund all of its financial obligations such as debt service, pension and personnel costs as it has in past years.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Marysville's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Marysville Finance Department at 526 C Street, Marysville, CA 95901, phone (530) 749-3903.



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BASIC FINANCIAL STATEMENTS



CITY OF MARYSVILLE, CALIFORNIA

GOVERNMENT-WIDE STATEMENT OF NET POSITION AS OF JUNE 30, 2016

	Governmental Activities	Business-type Activities	TOTALS
ASSETS:			
CURRENT ASSETS:			
Cash and investments	\$ 1,073,471	\$ 954,385	\$ 2,027,856
Receivables:			
Accounts receivable	230,735	256,729	487,464
Interest receivable	941	1,299	2,240
Taxes receivable	63,638	-	63,638
Loans receivable	1,778,893	-	1,778,893
Due from other governments	899,074	13,029	912,103
Internal balances	(543,458)	543,458	-
Restricted cash with fiscal agent	743,221	4,146,360	4,889,581
TOTAL CURRENT ASSETS	4,246,515	5,915,260	10,161,775
NONCURRENT ASSETS:			
Advances to fiduciary funds	-	485,425	485,425
Nondepreciable capital assets	6,057,051	9,764,071	15,821,122
Depreciable capital assets, net	6,708,914	16,105,384	22,814,298
TOTAL NONCURRENT ASSETS	12,765,965	26,354,880	39,120,845
TOTAL ASSETS	17,012,480	32,270,140	49,282,620
DEFERRED OUTFLOWS OF RESOURCES:			
Pension payments	992,108	51,393	1,043,501
Unamortized bond issuance costs and discounts	397,626	619,715	1,017,341
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,389,734	671,108	2,060,842
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 18,402,214	\$ 32,941,248	\$ 51,343,462

The accompanying notes to financial statements are an integral part of this statement.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>TOTALS</u>
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable	\$ 210,266	\$ 125,802	\$ 336,068
Accrued payroll liabilities	242,801	23,151	265,952
Interest payable	120,469	134,256	254,725
Deposits payable	11,533	-	11,533
Compensated absences	243,264	25,078	268,342
Obligation under capital lease, due within one year	-	67,656	67,656
Long-term debt, due within one year	160,000	792,658	952,658
TOTAL CURRENT LIABILITIES	<u>988,333</u>	<u>1,168,601</u>	<u>2,156,934</u>
NONCURRENT LIABILITIES:			
Net pension liability	9,996,988	414,097	10,411,085
Other post employment benefits payable	48,334	-	48,334
Obligation under capital lease, due within one year	-	142,762	142,762
Long-term debt, due after one year	6,840,000	23,122,075	29,962,075
TOTAL NONCURRENT LIABILITIES	<u>16,885,322</u>	<u>23,678,934</u>	<u>40,564,256</u>
TOTAL LIABILITIES	<u>\$ 17,873,655</u>	<u>\$ 24,847,535</u>	<u>\$ 42,721,190</u>
DEFERRED INFLOWS OF RESOURCES:			
Pension payments	\$ 1,093,082	\$ 47,374	\$ 1,140,456
Business license fees to be earned	45,328	-	45,328
Unamortized bond premium	-	972,049	972,049
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 1,138,410</u>	<u>\$ 1,019,423</u>	<u>\$ 2,157,833</u>
NET POSITION:			
Invested in capital assets, net of related debt	\$ 6,163,591	\$ 6,318,079	\$ 12,481,670
Restricted	841,083	4,146,360	4,987,443
Unrestricted	(7,614,525)	(3,390,149)	(11,004,674)
TOTAL NET POSITION	<u>\$ (609,851)</u>	<u>\$ 7,074,290</u>	<u>\$ 6,464,439</u>

CITY OF MARYSVILLE, CALIFORNIA

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Functions/Programs	Operating Expenses	Program Revenues		
		Charges for Services	Grants and other contributions	
			Operating	Capital
GOVERNMENTAL ACTIVITIES:				
General government	\$ 762,630	\$ 674,000	\$ 4,828	\$ -
Public safety	4,582,475	381,597	639,169	39,954
Streets and public works	1,087,037	116,169	15,558	293,196
Parks and recreation	320,451	195,724	-	-
Interest on long-term debt	503,191	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	7,255,784	1,367,490	659,555	333,150
BUSINESS-TYPE ACTIVITIES:				
Sewer	1,133,028	2,765,382	-	-
Interest on long-term debt	531,221	-	-	-
TOTAL BUSINESS-TYPE ACTIVITIES	1,664,249	2,765,382	-	-
TOTAL GOVERNMENT	\$ 8,920,033	\$ 4,132,872	\$ 659,555	\$ 333,150

GENERAL REVENUES:

- Property taxes
- Sales and use taxes
- Motor vehicle in-lieu
- Franchise fees
- Transient occupancy tax
- Business license tax
- Reimbursements
- Proceeds from insurance recovery
- Miscellaneous sales
- Loan balance deemed uncollectible
- Program income
- Other revenues
- Investment income

TRANSFERS:

- Transfers

CAPITAL CONTRIBUTION:

- Contribution for equipment upgrade

TOTAL GENERAL REVENUES

CHANGE IN NET POSITION

Net position, July 1:

- As originally reported
- Prior period adjustment
- As restated

NET POSITION, JUNE 30

The accompanying notes to financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-type Activities	TOTALS
\$ (83,802)	\$ -	\$ (83,802)
(3,521,755)	-	(3,521,755)
(662,114)	-	(662,114)
(124,727)	-	(124,727)
(503,191)	-	(503,191)
<u>(4,895,589)</u>	<u>-</u>	<u>(4,895,589)</u>
-	1,632,354	1,632,354
<u>-</u>	<u>(531,221)</u>	<u>(531,221)</u>
-	1,101,133	1,101,133
<u>(4,895,589)</u>	<u>1,101,133</u>	<u>(3,794,456)</u>
1,075,652	-	1,075,652
1,881,909	-	1,881,909
815,092	-	815,092
483,311	-	483,311
96,749	-	96,749
136,776	-	136,776
203,112	-	203,112
8,828	-	8,828
5,198	-	5,198
(43,451)	-	(43,451)
9,269	-	9,269
30,280	10,422	40,702
173,297	30,448	203,745
508,329	(428,329)	80,000
<u>255,000</u>	<u>-</u>	<u>255,000</u>
<u>5,639,351</u>	<u>(387,459)</u>	<u>5,251,892</u>
<u>743,762</u>	<u>713,674</u>	<u>1,457,436</u>
(1,320,454)	6,360,616	5,040,162
(33,159)	-	(33,159)
<u>(1,353,613)</u>	<u>6,360,616</u>	<u>5,007,003</u>
<u>\$ (609,851)</u>	<u>\$ 7,074,290</u>	<u>\$ 6,464,439</u>

CITY OF MARYSVILLE, CALIFORNIA

BALANCE SHEET GOVERNMENTAL FUNDS AS OF JUNE 30, 2016

	General Fund	Aggregate Nonmajor Governmental Funds	TOTALS
ASSETS			
Cash and investments	\$ -	\$ 1,073,471	\$ 1,073,471
Receivables:			
Accounts receivable, net	223,025	7,710	230,735
Interest receivable	13	928	941
Taxes receivable	63,638	-	63,638
Notes receivable	1,684	1,777,209	1,778,893
Due from other governments	881,448	17,626	899,074
Restricted cash with fiscal agent	-	743,221	743,221
	TOTAL ASSETS	\$ 3,620,165	\$ 4,789,973
LIABILITIES			
Accounts payable	\$ 183,381	\$ 26,885	\$ 210,266
Accrued payroll liabilities	211,426	31,375	242,801
Compensated absences	-	12,053	12,053
Deposits	11,533	-	11,533
Due to other funds	448,409	95,049	543,458
	TOTAL LIABILITIES	165,362	1,020,111
DEFERRED INFLOWS OF RESOURCES			
Business license fees to be earned	45,328	-	45,328
	TOTAL DEFERRED INFLOWS	-	45,328
FUND BALANCES (DEFICITS)			
Non-spendable:			
Notes receivable	-	1,777,209	1,777,209
Committed:			
Debt service	-	743,221	743,221
Subsequent year's expenditures	-	393,245	393,245
Restricted:			
Road improvements and repairs	-	97,862	97,862
Unassigned:			
General fund	269,731	-	269,731
Special revenue funds	-	510,449	510,449
Capital project funds	-	(67,183)	(67,183)
	TOTAL FUND BALANCES (DEFICITS)	3,454,803	3,724,534
	TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	\$ 3,620,165	\$ 4,789,973

The accompanying notes to financial statements are an integral part of this statement.

CITY OF MARYSVILLE, CALIFORNIA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET POSITION AS OF JUNE 30, 2016

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 3,724,534

*Amounts reported for governmental activities in the statement
of net assets are different because:*

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the funds. 12,765,965

Long-term credits not due and available in the current period and therefore
are not reported in the governmental funds balance sheet:

Unamortized bond issuance costs and discounts	\$ 397,626	
Deferred outflows - pension payments for future benefits	<u>992,108</u>	1,389,734

Long-term liabilities are not due and payable in the current period and therefore
are not reported in the governmental funds balance sheet:

Bonds payable	\$ (7,000,000)	
Compensated absences	(231,211)	
Net pension liability	(9,996,988)	
Deferred inflows - pension payments	(1,093,082)	
OPEB payable	<u>(48,334)</u>	(18,369,615)

Interest payable on long-term debt does not require the use of current financial
resources and, therefore, is not reported in the governmental funds. (120,469)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (609,851)

CITY OF MARYSVILLE, CALIFORNIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	Aggregate Nonmajor Governmental Funds	TOTALS
REVENUES:			
Tax revenues	\$ 4,489,489	\$ -	\$ 4,489,489
Intergovernmental revenues	608,970	383,734	992,704
Licenses, fees and permits	232,941	-	232,941
Charges for services	602,186	127,031	729,217
Fines, forfeitures and penalties	232,099	-	232,099
Reimbursements and refunds	203,112	-	203,112
Use of money and property	167,820	5,477	173,297
Program income	-	9,269	9,269
Miscellaneous sales	5,198	-	5,198
Proceeds from insurance recovery	8,828	-	8,828
Recreation and event fees	40,224	-	40,224
Donations	133,009	-	133,009
Other revenue	30,280	-	30,280
	6,754,156	525,511	7,279,667
EXPENDITURES:			
Current:			
General government	1,215,826	208,548	1,424,374
Public safety	4,323,903	91,036	4,414,939
Streets and public works	645,923	414,279	1,060,202
Parks and recreation	269,551	10,700	280,251
Debt service:			
Interest and other charges	-	483,635	483,635
Capital outlay	472,410	35,968	508,378
	6,927,613	1,244,166	8,171,779
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(173,457)	(718,655)	(892,112)
OTHER FINANCING SOURCES (USES):			
Capital contribution for equipment upgrade	255,000	-	255,000
Loan balance deemed uncollectible	-	(43,451)	(43,451)
Transfers in	596,014	2,612,205	3,208,219
Transfers out	(582,372)	(2,117,518)	(2,699,890)
	268,642	451,236	719,878
NET CHANGE IN FUND BALANCES	95,185	(267,419)	(172,234)
FUND BALANCES, July 1:			
As originally stated	(10,546,476)	3,622,169	(6,924,307)
Prior period adjustment	10,721,022	100,053	10,821,075
As restated	174,546	3,722,222	3,896,768
FUND BALANCES, JUNE 30	\$ 269,731	\$3,454,803	\$ 3,724,534

The accompanying notes to financial statements are an integral part of this statement.

CITY OF MARYSVILLE, CALIFORNIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (172,234)

*Amounts reported for governmental activities in the statement of activities
are different because:*

Governmental funds report capital outlays as expenditures. However, in the Government-wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlay	\$ 498,443	
Depreciation expense	<u>(284,623)</u>	213,820

Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities:

Amortization of issuance costs and discounts		(19,556)
--	--	----------

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Change in other post employment benefits payable	\$ 4,697	
Change in pension liability	756,272	
Change in compensated absences	<u>(39,237)</u>	<u>721,732</u>

CHANGE IN NET POSITION OF GOVERNMENTAL FUNDS \$ 743,762

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CITY OF MARYSVILLE, CALIFORNIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES:				
Tax revenues	\$ 4,433,749	\$ 4,433,749	\$ 4,489,489	\$ 55,740
Intergovernmental revenues	658,871	698,871	608,970	(89,901)
Licenses, fees and permits	142,900	178,900	232,941	54,041
Charges for services	584,400	657,400	602,186	(55,214)
Fines, forfeitures and penalties	545,000	545,000	232,099	(312,901)
Reimbursements and refunds	202,500	202,500	203,112	612
Use of money and property	147,000	147,000	167,820	20,820
Proceeds from insurance recovery	-	-	8,828	8,828
Miscellaneous sales	5,300	5,300	5,198	(102)
Recreation and event fees	36,000	36,000	40,224	4,224
Donations	8,600	8,600	133,009	124,409
Other revenue	10,000	10,000	30,280	20,280
TOTAL REVENUES	6,774,320	6,923,320	6,754,156	(169,164)
EXPENDITURES:				
Current:				
General government	1,371,231	1,544,231	1,215,826	328,405
Public safety	5,073,295	5,113,658	4,323,903	789,755
Streets and public works	1,030,728	1,103,728	645,923	457,805
Parks and recreation	230,391	240,891	269,551	(28,660)
Debt service:				
Interest and other charges	650	650	-	650
Capital outlay	500	500	472,410	(471,910)
TOTAL EXPENDITURES	7,706,795	8,003,658	6,927,613	1,076,045
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(932,475)	(1,080,338)	(173,457)	906,881
OTHER FINANCING SOURCES (USES):				
Repayment agreement with the county	(25,000)	(25,000)	-	25,000
Capital contribution for equipment upgrade	-	-	255,000	255,000
Transfers in	493,959	493,959	596,014	102,055
Transfers out	(33,774)	(33,774)	(582,372)	(548,598)
TOTAL OTHER FINANCING	435,185	435,185	268,642	(166,543)
NET CHANGE IN FUND BALANCES	(497,290)	(645,153)	95,185	740,338
FUND DEFICITS, July 1	(10,546,476)	(10,546,476)	(10,546,476)	-
Prior period adjustment	-	-	10,721,022	10,721,022
As restated	(10,546,476)	(10,546,476)	174,546	10,721,022
FUND DEFICITS, JUNE 30	\$ (11,043,766)	\$ (11,191,629)	\$ 269,731	\$ 11,461,360

The accompanying notes to financial statements are an integral part of this statement.

CITY OF MARYSVILLE, CALIFORNIA

STATEMENT OF NET POSITION - WASTEWATER PROPRIETARY FUND AS OF JUNE 30, 2016

ASSETS:

CURRENT ASSETS:

Cash and investments	\$ 954,385
Receivables, net	
Accounts receivable, net	256,729
Interest receivable	1,299
Due from other governments	13,029
Due from other funds	543,458
Restricted cash with fiscal agent	<u>4,146,360</u>

TOTAL CURRENT ASSETS 5,915,260

NONCURRENT ASSETS:

Advance to other funds	485,425
Non-depreciable capital assets	9,764,071
Depreciable capital assets, net	<u>16,105,384</u>

TOTAL NONCURRENT ASSETS 26,354,880

TOTAL ASSETS 32,270,140

DEFERRED OUTFLOWS OF RESOURCES:

Pension receipts	51,393
Unamortized bond issuance costs and discounts	<u>619,715</u>

TOTAL DEFERRED OUTFLOWS OF RESOURCES 671,108

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES \$ 32,941,248

The accompanying notes to financial statements are an integral part of this statement.

LIABILITIES:**CURRENT LIABILITIES:**

Accounts payable	\$ 125,802
Accrued payroll liabilities	23,151
Interest payable	134,256
Compensated absences	25,078
Due to other funds	-
Obligation under capital lease, due within one year	67,656
Long-term debt, due within one year	<u>792,658</u>

TOTAL CURRENT LIABILITIES1,168,601**NONCURRENT LIABILITIES:**

Net pension liability	414,097
Obligation under capital lease, due after one year	142,762
Long-term debt, due after one year, net	<u>23,122,075</u>

TOTAL LIABILITIES24,847,535**DEFERRED INFLOWS OF RESOURCES:**

Pension payments	47,374
Unamortized bond premium	<u>972,049</u>

TOTAL DEFERRED INFLOWS OF RESOURCES1,019,423**NET POSITION:**

Invested in capital assets, net of related debt	6,318,079
Restricted for debt service	4,146,360
Unrestricted	<u>(3,390,149)</u>

TOTAL NET POSITION7,074,290**TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION**\$ 32,941,248

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CITY OF MARYSVILLE, CALIFORNIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION WASTEWATER PROPRIETARY FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2016

OPERATING REVENUES:	
Utility revenue	\$ 2,765,382
Other revenue	<u>10,422</u>
TOTAL OPERATING REVENUES	<u>2,775,804</u>
OPERATING EXPENSES:	
Salaries and benefits	300,407
Operations and maintenance	554,934
Depreciation and amortization expense	<u>277,687</u>
TOTAL OPERATING EXPENSES	<u>1,133,028</u>
OPERATING INCOME	<u>1,642,776</u>
NONOPERATING INCOME (EXPENSE):	
Interest income	30,448
Interest expense	<u>(531,221)</u>
TOTAL NONOPERATING INCOME (EXPENSE)	<u>(500,773)</u>
INCOME BEFORE TRANSFERS	<u>1,142,003</u>
OTHER FINANCING USES:	
Transfers out	<u>(428,329)</u>
TOTAL OTHER FINANCING USES	<u>(428,329)</u>
CHANGE IN NET POSITION	713,674
NET POSITION, JULY 1	<u>6,360,616</u>
NET POSITION, JUNE 30	<u>\$ 7,074,290</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF MARYSVILLE, CALIFORNIA

STATEMENT OF CASH FLOWS - WASTEWATER PROPRIETARY FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers and users	\$ 2,756,245
Cash paid to suppliers	(546,689)
Cash paid to employees and related benefits	(279,013)
Interfund borrowings	<u>(526,384)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,404,159</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Payments on obligations under capital lease	(65,288)
Additions of capital assets	(7,261,329)
Interest paid	(529,023)
Payments on long term debt	<u>(779,090)</u>
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	<u>(8,634,730)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Increase in advances to other funds	(1,890)
Deferred inflows for pension payments	(51,863)
Deferred outflows for pension receipts	(13,784)
Reduction of net pension liability	77,742
Intergovernmental revenues	(10,030)
Transfers out	<u>(428,329)</u>
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(428,154)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	<u>29,811</u>
DECREASE IN CASH AND CASH EQUIVALENTS	<u>(7,628,914)</u>
Cash and cash equivalents, July 1	<u>12,729,659</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 5,100,745</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS:	
Cash and cash equivalents	\$ 954,385
Restricted cash with fiscal agent	<u>4,146,360</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 5,100,745</u>

The accompanying notes to financial statements are an integral part of this statement.

Reconciliation of operating income from operations to cash provided by operating activities:

Operating income	\$ 1,642,776
Adjustments to reconcile operating income to cash provided by operating activities:	
Depreciation and amortization	277,687
(Increase) decrease in assets:	
Accounts receivable	(19,559)
Increase (decrease) in liabilities:	
Accounts payable	8,245
Accrued payroll liabilities	23,054
Compensated absences	(1,660)
Due to other funds	<u>(526,384)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,404,159</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:	
Capital asset additions included in accounts payable	<u>\$ 76,195</u>

CITY OF MARYSVILLE, CALIFORNIA

STATEMENT OF FIDUCIARY NET POSITION AS OF JUNE 30, 2016

	Redevelopment Successor Agency Private-Purpose Trust Fund	Agency Funds
ASSETS:		
Cash and investments	\$ 196,093	\$ 297,591
Receivables:		
Accounts receivable	-	299
Interest receivable	121	275
Prepaid costs	-	9,808
Due from other governments	-	20,168
Restricted assets:		
Investments with fiscal agent	103,092	-
Land held for redevelopment	78,797	-
Depreciable capital assets, net	21,087	-
TOTAL ASSETS	\$ 399,190	\$ 328,141
 LIABILITIES:		
Accounts payable	\$ 8,750	\$ 46,421
Accrued payroll liabilities	-	6,834
Interest payable	10,234	-
Advances from other City funds	485,425	-
Due to other agencies	-	274,886
Long-term debt:		
Due within one year	54,400	-
Due after one year	325,706	-
TOTAL LIABILITIES	\$ 884,515	\$ 328,141
 NET POSITION:		
Held in trust for other purposes	\$ (485,325)	

The accompanying notes to financial statements are an integral part of this statement.

CITY OF MARYSVILLE, CALIFORNIA

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION REDEVELOPMENT SUCCESSOR AGENCY PRIVATE-PURPOSE TRUST FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2016

ADDITIONS:

Property taxes	\$ 235,463
Use of money and property	<u>2,233</u>

TOTAL ADDITIONS

237,696

DEDUCTIONS:

Depreciation expense	1,622
Administrative expenses	9,156
Interest and fiscal agency expenses of former redevelopment agency	<u>23,612</u>

TOTAL DEDUCTIONS

34,390

CHANGE IN NET POSITION BEFORE TRANSFERS

203,306

OTHER FINANCING USES:

Transfers out	<u>(80,000)</u>
---------------	-----------------

CHANGE IN NET POSITION

123,306

NET POSITION, JULY 1

(608,631)

NET POSITION, JUNE 30

\$ (485,325)

The accompanying notes to financial statements are an integral part of this statement.

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CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Marysville (the City) was incorporated on February 5, 1851, under the laws and regulations of the State of California (the State). The City lies at the confluence of the Yuba and Feather Rivers at the foot of the Sierra Mountains and is located about 40 miles north of Sacramento. Marysville and neighboring Yuba City, commonly known as the "Twin Cities," form a regional community of approximately 125,000 people. The City's economic base is agriculture (rice, peaches, tomatoes, etc.), government (Beale Air Force Base and District 3 Office of Caltrans), and retail trade services.

The City operates under a City Manager — Council form of government and provides the following services: public safety (Police and Fire), highways and streets, sewer, culture-recreation, public improvements, planning and zoning, and general administration. The voters of the City of Marysville, California, give authority and responsibility for operations to the City Council. The City Council has the authority to employ administrative and support personnel to carry out its directives. The primary method used to monitor the performance of the City's management is the financial budget, which is adopted annually by the City Council.

The financial statements of the City have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. In addition, the City applies all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued after November 30, 1989, unless they conflict with or contradict GASB pronouncements related to its proprietary operations. The more significant of these accounting policies are described below.

Reporting Entity: The City operates as a self-governing local government unit within the State. It has limited authority to levy taxes and has the authority to determine user fees for the services that it provides. The City's main funding sources include property taxes, sales taxes, other inter-governmental revenue from state and federal sources, user fees, and federal and state financial assistance.

The financial reporting entity consists of (a) the primary government, the City, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (a) the City has the ability to impose its will on the organization or (b) there is a potential for the organization to provide a financial benefit to or impose a financial burden on the City.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As required by GAAP, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. These component units are reported on a blended basis. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The City's reporting entity includes the following blended component unit:

Redevelopment Successor Agency Private-Purpose Trust Fund: The City of Marysville Community Development Agency (the Agency) was formed as a separate legal entity under the Community Redevelopment Law. 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. On January 17, 2012, the City Council elected to become Successor Agency for the redevelopment agency in accordance with the bill as part of City Resolution No. 2012-02. The successor agency is reported as the Redevelopment Successor Agency Private-Purpose Trust Fund, a fiduciary fund.

Basis of Presentation - Government-wide Financial Statements: The government-wide financial statements (i.e. the statement of net position and 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 interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties.

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 in separate columns in the fund financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Certain indirect costs are included in the program expenses of most business-type activities. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Sales taxes are recognized when the underlying sales transaction takes place. Grants and similar items are recognized as revenues when all eligibility requirements are met.

Basis of Presentation-Fund Financial Statements: The accounts of the City are organized on the basis of funds. A fund is a separate self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to be used 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 are generally 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. General capital asset acquisitions are reported as expenditures in governmental funds.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. For the City, the General Fund includes such activities as public safety, public works, parks and recreation, and economic development services.

The City reports the following major enterprise funds:

Wastewater Enterprise Fund – The Wastewater Enterprise Fund is used to account for all revenues and expenses for operation maintenance and capital improvement funding of the Marysville Wastewater facilities.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Additionally, the City reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds — Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Funds — Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Project Funds — Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

PROPRIETARY FUNDS

Enterprise Funds — Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges.

FIDUCIARY FUNDS

Private-Purpose Trust — Private Purpose Trust funds are used to account for trust arrangements where the principal and income benefit individuals, private organizations, or other governments. Examples include successor agencies for redevelopment agencies.

Agency Funds — Agency Funds account for assets held by the City in a purely custodial capacity. Agency Funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

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 City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds 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.

Cash and Cash Equivalents: For purposes of the accompanying Statement of Cash Flows, cash and cash equivalents are defined as deposits and highly liquid investments with original maturities of 90 days or less, and are readily convertible to known amounts of cash and not subject to significant changes in value from interest rate fluctuations. Cash and cash equivalents include: demand deposits, short-term, highly liquid investments including Treasury bills, commercial paper, certificates of deposit, money market funds, and cash management pools, including California Local Agency Investment Fund (LAIF).

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments: Highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value using the aggregate method.

Receivables and Payables: Property, sales, use, and utility user taxes related to the current fiscal year are accrued as revenue and accounts receivable and are considered available if received within 60 days of year end. Federal and state grants are considered receivable and accrued as revenue when reimbursable costs are incurred under the accrual basis of accounting in the government-wide statement of Net Position. The amount recognized as revenue under the modified accrual basis is limited to the amount that is deemed measurable and collectible.

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

Advances between funds, as reported in the fund financial statements, are offset by a reservation of fund balance for noncurrent assets in governmental funds to indicate they do not constitute resources available for appropriation.

The City’s estimates the amount of uncollectible receivables based on prior experience and history. At June 30, 2016, the allowance for doubtful accounts were as follows:

	Accounts receivable	Allowance for doubtful account	Accounts receivable, net
Major funds:			
General fund	\$ 223,025	\$ -	\$ 223,025
Sewer enterprise fund	268,811	(12,082)	256,729
Non-major funds	7,710	-	7,710
TOTAL	\$ 499,546	\$ (12,082)	\$ 487,464

Property Taxes: The County of Yuba (the County) is responsible for the collection and allocation of property taxes. Under California law, property taxes are assessed and collected by the County up to 1% of the full cash value of taxable property, plus other increases approved by the voters and distributed in accordance with statutory formulas. The City recognizes property taxes when the individual installments are due provided they are collected within 60 days after year end. Secured property taxes are levied on or before September 30 of each year. They become a lien on real property on March 1 preceding the fiscal year for which taxes are levied. These taxes are paid in two equal installments; the first is due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Secured property taxes, which are delinquent and unpaid as of June 30, are declared to be tax defaulted and are subject to redemption penalties, costs, and interest when paid.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The term “unsecured” refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized in the fiscal year for which they are levied, provided they are due and collected within sixty days after fiscal year-end. The County apportions secured property tax revenue in accordance with the alternate methods of distribution, the “Teeter Plan,” as prescribed by Section 4717 of the California Revenue and Taxation code.

Therefore, the City receives 100 percent of the secured property tax levies to which it is entitled, whether or not collected. Unsecured delinquent taxes are considered fully collectible.

Restricted Assets: Certain proceeds of the City’s long-term debt are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The “reserve” account is used to report resources set aside to make up potential future deficiencies in the bond’s debt service.

Capital Assets: Capital assets, which include land, ponds, buildings and improvements, machinery and equipment, and vehicles are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. For certain assets, estimated historical costs are used. The City has recorded its infrastructure assets prospectively beginning with the year ended June 30, 2005.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

	<u>Years</u>
Buildings and structures	80 - 150
Machinery, equipment and vehicles	5 - 40

It is the City’s policy to capitalize all land and equipment with a cost of \$5,000 or more. Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement and the resulting gain or loss is included in the operating statement of the related fund. In governmental funds, the sale of general capital assets is included in the statement of revenues, expenditures, and changes in fund balances as proceeds from sale.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences: It is the City's policy to permit employees to accumulate earned but unused annual leave. Annual leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements and is currently payable. The General Fund is typically used to liquidate compensated absences.

Unused annual leave is paid to employees upon termination. The maximum accrual for all employees is 384 hours. In December of each year, all employees, except the new fire department employees, have the opportunity to "sell back" a portion of their annual leave. The fire department employees are currently unrepresented and do not have a memorandum of understanding.

Deferred and Unearned Revenues: Deferred revenues in governmental funds arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues arise when resources are received by the City before it has legal claim to them (i.e., when grant monies are received prior to the incurrence of qualifying expenditures).

Long-term Obligations: In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-activities, or proprietary fund type statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges and are amortized over the life of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

Net Position: The government-wide financial statements utilize a Net Position presentation. Net Position are categorized as invested capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets, Net of Related Debt — This category groups all capital assets into one component of Net Position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Position — This category presents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments, and restrictions imposed by law through constitutional provisions or enabling legislation. As of June 30, 2016, the Restricted Net Position consisted of the following:

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Type	Amount	Action
Major Funds:		
Wastewater Enterprise Fund	\$ 4,146,360	Imposed by debt indebtedure
Debt service:		
Nonmajor debt service fund	743,221	Imposed by debt indebtedure
Road improvements and repairs:		
Nonmajor capital projects funds	97,862	Imposed by funding source
	\$ 4,987,443	

Unrestricted Net Position — This category represents Net Position of the City not restricted for any project or other purpose.

Fund Equity: In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City classifies governmental fund balances as follows:

- Non-spendable – includes amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors of amounts constrained due to constitutional provisions or enabling legislation.
- Unassigned includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The non-spendable fund balance is comprised as follows:

Fund Balance Type	Amount
Notes receivable:	
Nonmajor special revenue fund	\$ 1,777,209

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City committed the following fund balance types by taking the following action:

<u>Fund Balance Type</u>	<u>Amount</u>	<u>Action</u>
Debt service:		
Nonmajor special revenue fund	\$ 743,221	Bond indenture
Subsequent year's expenditures:		
Nonmajor special revenue fund	<u>393,245</u>	Council budget resolution
TOTAL COMMITTED BALANCES	<u>\$ 1,136,466</u>	

The City has restricted fund balances as follows:

<u>Fund Type</u>	<u>Amount</u>	<u>Action</u>
Road improvements and repairs		
Nonmajor capital projects funds	<u>\$ 97,536</u>	Imposed by funding source

The City first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. The City uses restricted or committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents or contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City does not have a formal minimum fund balance policy.

Use of Estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Budgetary Information: The City Council establishes budgets for all governmental funds. Budgetary control is legally maintained at the fund level, Department heads submit a proposed budget to the City Administrator. The Administrator prepares an estimate of revenues and prepares recommendations for the next year's budget. The preliminary budget may or may not be amended by the City Council after public hearings are held and is adopted by City Council resolution prior to July 1 in accordance with the municipal code.

The City Council may amend the budget by motion during the fiscal year. The City manager is authorized to transfer budgeted amounts within an object or purpose within any department. However, the City Council must approve revisions that alter the total expenditures of any department.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenditures may not legally exceed appropriations at the fund level, which is the legal level of control. Supplemental appropriations, which increase appropriations, may be made during the fiscal year. All budget amounts presented in the accompanying financial statements and supplementary information have been adjusted for legally authorized revisions of the annual budgets during the year. Amounts represent the original budgeted amounts and all supplemental appropriations. The supplemental appropriations were immaterial.

Budget information is presented for the General and major Special Revenue Funds. The budget information is presented on a basis consistent with GAAP. Governmental Fund budgets are maintained on the modified accrual basis of accounting. Appropriations, except open project appropriations, and unexpended grant appropriations lapse at the end of each fiscal year. The budgetary data is prepared on the modified accrual basis consistent with the related "actual" amounts.

Excess Expenditures over Appropriations: The following funds had excess expenditures over appropriations:

Fund	Approp- riations	Total Expenditures and Transfers	Excess Expenditures and Transfers
Non-Major Special Revenue Funds:			
Business Development Center Fund	\$ 70,866	\$ 81,514	\$ (10,648)
Gas Tax Fund	408,975	665,431	(256,456)
Narcotics Enforcement Fund*	-	2,924	(2,924)
Asset Seizure Fund	3,000	4,579	(1,579)
Community Development Block Grant Fund*	-	1,128,174	(1,128,174)
Housing Revolving Loan Fund*	-	444,451	(444,451)
Economic Development Loan Fund*	-	181,654	(181,654)
HOME Program Income Fund*	-	1,118	(1,118)
LAFCO Fund	233,912	305,436	(71,524)
	<u>\$ 716,753</u>	<u>\$ 2,815,281</u>	<u>\$ (2,098,528)</u>

* Fund is unbudgeted

New Accounting Pronouncements: GASB Statement No. 72 – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement requires disclosures about fair value measurements, the level of fair value hierarchy, and valuation techniques. These disclosures are organized by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. See Note B for more information.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE B - CASH AND INVESTMENTS

The City follows the practice of pooling cash and investments of all funds. Cash represents cash on hand, demand deposits in the bank, amounts invested in the State of California Local Agency Investment Fund (LAIF) and debt service reserves. Cash and investments at June 30, 2016 are classified in the accompanying financial statements as follows:

	Government-wide Statement of Net Assets		Fiduciary Fund State- ment of Net Assets	Total
	Governmental Activities	Business-type Activities		
Cash and investments	\$ 1,073,471	\$ 954,385	\$ 493,684	\$ 2,521,540
Restricted cash with fiscal agent	743,221	4,146,360	103,092	4,992,673
TOTAL	\$ 1,816,692	\$ 5,100,745	\$ 596,776	\$ 7,514,213

As of June 30, 2016, the City's cash and investments consisted of the following:

Cash on hand	\$ 900
Deposits in financial institutions	450,449
Less: outstanding checks and withholding	(147,472)
Total cash and cash equivalents	303,877
LAIF	2,217,662
Held by bond trustee:	
Money market mutual fund	4,933,174
Repurchase agreement	59,500
Total investments	7,210,336
Total cash and investments	\$ 7,514,213

Investment policy: California statutes authorize cities to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. The table below identifies the investment types that are authorized for the City by 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.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE B - CASH AND INVESTMENTS (Continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio*</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury obligations	5 years	None	None
U.S. Agency securities	5 years	None	None
Banker's acceptances	180 days	30%	30%
High grade commercial paper	180 days	15%	None
Negotiable certificates of deposit	1 year	30%	None
Local Agency Investment Fund	N/A	None	None
Medium term corporate notes	5 years	15%	None
Repurchase agreements	30 days	20%	None

*Excluding amounts held by bond trustee that are not subject to the California Government Code restrictions.

The City complied with the provisions of California Government Code pertaining to the types of investments held, institutions in which deposits were made and security requirements. The City will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

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. The 2001 Series A Lease Revenue debt agreement contains certain provisions that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio*</u>	<u>Maximum Investment In One Issuer</u>
Local agency bonds	None	None	None
U.S. Treasury obligations	None	None	None
Municipal obligations	None	None	None
Banker's acceptances	360 days	40%	30%
Commercial paper	270 days	None	None
Negotiable certificates of deposit	360 days	None	None
Repurchase agreements*	None	None	None
Money market mutual funds	None	None	None
Local Agency Investment Fund	N/A	None	None
Investment agreement*	None	None	None

*These investments require prior approval of the municipal bond insurer, Ambac Assurance Corporation.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE B - CASH AND INVESTMENTS (Continued)

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 the City manages its exposure to interest rate 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 distribution of the City's investments by maturity:

	Remaining maturity (in months)			
	Total	12 months or less	13 months to 24 months	More than 60 months
Local Agency Investment Fund	\$ 2,217,662	\$ 2,217,662	\$ -	\$ -
Held by bond trustee:				
Money market mutual funds	4,933,174	4,933,174	-	-
Repurchase agreements	59,500	-	-	59,500
TOTAL	\$ 7,210,336	\$ 7,150,836	\$ -	\$ 59,500

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. The current rating of the money market mutual funds are AAA. LAIF does not have ratings assigned by a nationally recognized statistical organization. The repurchase agreement is held with the fiscal agent but not in the City's name. All bonds are rated Aaa by Moody's.

Concentration of Credit Risk: The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2016, the repurchase agreement with a reported amount of \$59,500 represented more than 5% of the total investments (other than mutual funds and external investment pools) in any one issuer. The issuer of the repurchase agreement is Chase Manhattan Bank. The repurchase agreement represents the reserve fund for the 2001 Series A Lease Revenue Bonds.

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

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE B - CASH AND INVESTMENTS (Continued)

that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a 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 public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2016, the carrying amount of the City's deposits was \$302,977 and the balances at the financial institutions were \$450,449. Of the balance in financial institutions, \$250,000 was covered by federal depository insurance and \$200,449 was collateralized as required by State law (Government Code Section 53630), by the pledging financial institution with assets held in a common pool for the City and other governmental agencies, but not in the name of the City. As of June 30, 2016, a repurchase agreement with a reported amount of \$59,500 was held by the same broker-dealer (counterparty) that was used by the City to purchase the security.

Investments by Fair Value Level: In accordance with GASB Statement No. 72, the Town's investments in its brokerage account are categorized into the following fair value categories:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Town can access at the year end.
- Level 2 inputs – Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs - Unobservable inputs for an asset or liability.

Fair value can be determined using the market approach, cost approach, and income approach. The Town's brokerage investments are valued with the market approach by using the available quoted market prices at year end.

	Balance as of June 30, 2016	Fair Value Measurements Using		
		Quoted prices in active mar- kets for iden- ticle assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobserv- able inputs (Level 3)
Securities:				
Local agency investment fund	\$ 2,217,662	\$ 2,217,662	\$ -	\$ -
Mutual funds	4,933,153	4,933,153	-	-
Repurchase agreement	59,500	59,500	-	-
TOTAL INVESTMENTS BY FAIR VALUE LEVEL	\$ 7,210,315	\$ 7,210,315	\$ -	\$ -

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE B - CASH AND INVESTMENTS (Continued)

Investment in Local Agency Investment Fund (LAIF): LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total fair value amount at June 30, 2016 invested by all public agencies in LAIF is \$75,442,558,513 and is managed by the State Treasurer. The investments are as follows:

	As a percent of portfolio
Structured notes and medium-term asset backed securities	1.55%
Short-term asset-backed commercial paper	1.26%
All other investments	97.19%
	100.00%

The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. Copies of LAIF's annual financial report and other information may be obtained from LAIF at 915 Capitol Mall, Room 110, Sacramento, CA 95814 or at its website www.treasurer.ca.gov/pmia-laif/. 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.

NOTE C - INTERFUND TRANSACTIONS

Interfund long-term advances at June 30, 2016 were as follows:

Fund	Advances to Other Funds	Advances From Other Funds
Enterprise Funds:		
Wastewater Fund	\$ 485,425	\$ -
Fiduciary Funds - Private-Purpose Trust:		
Redevelopment Successor Agency	-	485,425
	\$ 485,425	\$ 485,425

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE C - INTERFUND TRANSACTIONS (Continued)

The changes in the interfund advances for the fiscal year ended June 30, 2016 were as follows:

	Balance at July 1, 2015	Additions	Adjustment/ Retirement	Balance at June 30, 2016
Advance from the General Fund	\$ 93,600	\$ -	\$ (93,600)	\$ -
Advance from the Wastewater Enterprise Fund	483,535	2,058	(168)	485,425
TOTAL ADVANCES	\$ 577,135	\$ 2,058	\$ (93,768)	\$ 485,425

Advance from General Fund: The General Fund advanced amounts to the former redevelopment agency for various redevelopment projects. The amount of outstanding debt had accumulated to a total of \$1,812,731 as of July, 1991. However, the refunding bond proceeds and proceeds from sale of two properties, and repayments by the Redevelopment Agency prior to dissolution (See Note L) reduced the balance to \$142,800. On December 6, 2013, the State of California approved this amount as eligible for tax revenues deposited into the Redevelopment Property Tax Trust Fund created by the State to receive all taxes due the dissolved Agency. Interest accrues at the LAIF interest rate and will be added to the advance balance annually when approved by the State. A payment of \$93,600 was made during the fiscal year ended June 30, 2016.

Advance from Wastewater Enterprise Fund: During the year ended June 30, 2000, the City's Wastewater Enterprise Fund advanced to the Agency \$500,000 to be used for improvements at the baseball field. On December 6, 2013, the State of California approved this amount as eligible for tax revenues deposited into the Redevelopment Property Tax Trust Fund created by the State to receive all taxes due the dissolved Agency. Interest accrues at the LAIF interest rate and will be added to the advance balance annually when approved by the State. No payments were made during the fiscal year ended June 30, 2016 due to a lack of monies in the Trust Fund.

Interfund balances at June 30, 2016 were as follows:

Fund	Due From Other Funds	Due To Other Funds
General Fund	\$ -	\$ 448,409
Enterprise Funds:		
Wastewater Fund	543,458	-
Nonmajor funds:		
Special revenue funds	-	26,348
Capital projects funds	-	68,701
Total	\$ 543,458	\$ 543,458

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE C - INTERFUND TRANSACTIONS (Continued)

Interfund transfers for the year ended June 30, 2016 were as follows:

Fund	Transfer In	Transfer Out
General Fund	\$ 596,014	\$ 582,372
Enterprise Funds:		
Wastewater Fund	-	428,329
Fiduciary Funds - Private-Purpose Trust:		
Redevelopment Successor Agency	-	80,000
Nonmajor funds:		
Special revenue funds	2,075,935	2,078,682
Debt service fund	527,951	-
Capital projects funds	8,319	38,836
Total	\$ 3,208,219	\$ 3,208,219

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due.

NOTE D - NOTES RECEIVABLE

The following is a summary of the various types of notes receivable outstanding as of June 30, 2016:

General Fund — The City made loans to its employees for computer purchases. These loans have an interest rate of 6% and have varying due dates.

CDBG Principal and Interest Special Revenue Fund — The City participates in a CDBG Revolving Loan program. The program is federally funded and provides assistance to private parties and for-profit businesses to carry out economic development. Loans have been provided to qualifying businesses located within the City. Interest rates vary depending on the terms of the loan and interest may be deferred until the related property is refinanced or sold. Accrued but unpaid interest is added to the loan balance. Interest rates range from zero to 10%.

HOME Program Income Fund — The City has made various loans to qualifying participants within the City as part of the Federal First Time Home Buyers Program (HOME), which are owner occupied housing rehabilitation programs. Interest rates vary depending on the terms of the loan and interest is deferred until the loan is refinanced or sold and may be waived under certain conditions if the loan is carried to full term. Also, the City utilizes proceeds received from pay-offs under the Housing Revolving Loan Fund to reloan to qualifying participants. The interest rate on the loans is 3% to 3.75%.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE D - NOTES RECEIVABLE

Activity in notes receivable for the year ended June 30, 2016 is as follows:

	Balance at July 1, 2015	Additions	Payments Received	Balance at June 30, 2016
Major Governmental Funds:				
General Fund:				
Employees - computers	\$ 546	\$ 1,979	\$ (841)	\$ 1,684
Nonmajor Governmental Funds:				
CDBG Principal and Interest				
Special Revenue Fund:				
Block grant loans	1,211,558	-	(12,056)	1,199,502
HOME Program Income Fund:				
HOME loans	705,482	-	(127,775)	577,707
TOTAL NOTES AND LOANS RECEIVABLE	\$ 1,917,586	\$ 1,979	\$ (140,672)	\$ 1,778,893

NOTE E - CAPITAL ASSETS

Governmental capital asset activities for the year ended June 30, 2016 were as follows:

	Balance at July 1, 2015	Additions	Deletions	Balance at June 30, 2016
Capital assets, not being depreciated:				
Land	\$ 6,057,051	\$ -	\$ -	\$ 6,057,051
Capital assets being depreciated:				
Infrastructure	2,700,676	31,313	-	2,731,989
Buildings	3,702,289	-	-	3,702,289
Machinery and equipment	1,690,937	467,129	-	2,158,066
Vehicles	2,835,043	-	(22,500)	2,812,543
Less: accumulated depreciation:				
Infrastructure	(127,353)	(37,783)	-	(165,136)
Buildings	(2,004,484)	(52,040)	-	(2,056,524)
Machinery and equipment	(1,086,654)	(80,252)	-	(1,166,906)
Vehicles	(1,215,360)	(114,547)	22,500	(1,307,407)
Total capital assets being depreciated, net	6,495,094	213,820	-	6,708,914
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ 12,552,145	\$ 213,820	\$ -	\$ 12,765,965

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE E - CAPITAL ASSETS (Continued)

Depreciation expense for governmental capital assets was charged to functions as follows:

General government	\$	59,987
Public safety		157,600
Streets and public works		26,835
Parks and recreation		<u>40,200</u>
TOTAL GOVERNMENTAL ACTIVITIES	\$	<u>284,622</u>

Business-type capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	<u>Balance at July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2016</u>
Capital assets, not being depreciated:				
Construction in progress	\$ 3,705,068	\$ 6,059,003	\$ -	\$ 9,764,071
Total capital assets not being depreciated	<u>3,705,068</u>	<u>6,059,003</u>	<u>-</u>	<u>9,764,071</u>
Capital assets being depreciated:				
Sewer plant	6,805,519	-	-	6,805,519
Buildings	1,483,400	-	-	1,483,400
Machinery and equipment	1,188,487	96,644	-	1,285,131
Vehicles	310,101	-	-	310,101
Equipment under capital lease	570,426	-	-	570,426
Intangible asset - franchise license	12,300,000	-	-	12,300,000
Less: accumulated depreciation:				
Sewer plant	(3,664,697)	(221,581)	-	(3,886,278)
Buildings	(1,149,661)	(18,543)	-	(1,168,204)
Machinery and equipment	(1,126,261)	(8,317)	-	(1,134,578)
Vehicles	(243,294)	(11,465)	-	(254,759)
Equipment under capital lease	(176,852)	(28,522)	-	(205,374)
Total capital assets being depreciated, net	<u>16,297,168</u>	<u>(191,784)</u>	<u>-</u>	<u>16,105,384</u>
BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS, NET	<u>\$ 20,002,236</u>	<u>\$ 5,867,219</u>	<u>\$ -</u>	<u>\$ 25,869,455</u>

The depreciation expense for business-type capital assets was charged to the wastewater function.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE E - CAPITAL ASSETS (Continued)

Fiduciary fund capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	Balance at July 1, 2015	Additions	Deletions	Balance at June 30, 2016
Capital assets, not being depreciated:				
Land	\$ 79,203	\$ -	\$ (406)	\$ 78,797
Capital assets being depreciated:				
Buildings	48,663	-	-	48,663
Less: accumulated depreciation:				
Buildings	(25,954)	(1,622)	-	(27,576)
FIDUCIARY CAPITAL ASSETS, NET	\$ 101,912	\$ (1,622)	\$ (406)	\$ 99,884

NOTE F — LONG-TERM LIABILITIES

The activity of the long-term liabilities of the City for the year ended June 30, 2016 follows:

	Balance at July 1, 2015	Incurred	Retired	Balance at June 30, 2016	Due within one year
Governmental activities:					
Certificates of participation, 2011	\$ 7,000,000	\$ -	\$ -	\$ 7,000,000	\$ 160,000
Compensated absences	191,972	51,292	-	243,264	-
	7,191,972	51,292	-	7,243,264	160,000
Less: unamortized bond issuance costs and discounts	(417,182)	-	19,556	(397,626)	-
TOTAL	\$ 6,774,790	\$ 51,292	\$ 19,556	\$ 6,845,638	\$ 160,000
Business-type activities:					
Lease revenue bonds, 2001 Series A	\$ 245,494	\$ -	\$ (30,600)	\$ 214,894	\$ 30,600
Sewer revenue bonds, 2012 Series A	12,705,000	-	(220,000)	12,485,000	225,000
Linda County Water District	11,235,736	-	(364,268)	10,871,468	367,910
State Water Resources loan	507,592	-	(164,221)	343,371	169,148
Obligation under capital lease	275,706	-	(65,288)	210,418	67,656
Compensated absences	26,739	-	(1,661)	25,078	-
	24,996,267	-	(846,038)	24,150,229	860,314
Add: unamortized bond premium	1,005,093	-	(33,044)	972,049	-
Less: unamortized bond issuance costs and discounts	(642,018)	-	22,303	(619,715)	-
TOTAL	\$ 25,359,342	\$ -	\$ (856,779)	\$ 24,502,563	\$ 860,314
Fiduciary activities:					
Lease revenue bonds, 2001 Series A	\$ 434,506	\$ -	\$ (54,400)	\$ 380,106	\$ 54,400

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE F — LONG-TERM LIABILITIES (Continued)

Long-term debt consists of the following:

BONDS AND LOANS PAYABLE:

\$7,000,000 Taxable Certificates of Participation, 2011: Issued on September 26, 2011 by the City of Marysville to refund the prior 2006 Taxable Certificates of Participation of the City of Marysville Public Financing Authority. The stated interest rates are 6.25% to 7.25%. Principal payments ranging from \$160,000 to \$615,000 are due annually beginning October 1, 2016 through October 1, 2036 and interest payments ranging from \$44,588 to \$484,552 are due semi-annually on April 1 and October 1 beginning October 1, 2012 through October 1, 2036. The term certificates mature as follows: \$715,000, October 1, 2019; \$910,000, October 1, 2023, \$1,875,000, October 1, 2029; and, \$3,500,000 mature on October 1, 2036. To provide for repayment of the bonds, the City intends to lease, on a long-term basis, the baseball park and a development project.

\$7,000,000

\$2,725,000 Lease Revenue Bonds, 2001 Series A: Issued on July 20, 2001 to refinance the two outstanding debt issues of the City issued in 1992: Certificates of Participation (1992 Capital Improvement Financing Project) and Marysville Community Development Agency 1992 Tax Allocation Refunding Bonds. The bonds were issued by the Association of Bay Area Governments (the Authority) with three other cities for a total bond issuance of \$15,110,000. The City's bonds are due beginning July 1, 2002 through July 1, 2021 and have stated interests rates from 3.25% to 5.25%. Principal payments ranging from \$110,000 to \$200,000 are due annually on July 1 through July 1, 2021 and interest payments ranging from \$2,750 to \$46,354 are due semi-annually on January 1 and July 1 through July 1, 2021. To provide for repayment of the bonds, the City has leased the city hall to the Authority under a leaseback agreement. The refinancing involved both governmental activities and business-type activities. The liability has been allocated based on the debt service requirements of the respective bond issues refinanced: \$214,894 business-type activities and \$380,106 fiduciary activities.

595,000

\$13,135,000 Sewer Revenue Bonds, 2012 Series A: Issued on November 9, 2012 to finance the acquisition and construction of certain improvements and facilities for the Sewer System. The serial bonds with principal payments of \$215,000 to \$315,000 are due beginning November 1, 2013 through November 1, 2027 with term bonds maturing on November 1 of 2023, 2032, 2038, and 2045. The serial bonds have stated interest rates of 0.55% to 3% and the term bonds have interest rates of 4.00% and 5.00%. Repayment is secured by a pledge and lien of the net revenues of the sewer system.

12,485,000

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE F — LONG-TERM LIABILITIES (Continued)

Linda County Water District Agreement: Dated September 19, 2012 for the City share of the added capacity resulting from the improvements to the wastewater facilities and pipeline owned and maintained by the water district. The total project costs is anticipated to be \$34,168,332 for increased capacity of 5.0 million gallons per day (MGD) of which the City was allocated 1.8 MGD and \$12,300,600 of the project costs. Annual payments of \$476,625 are due beginning January 1, 2013 through January 1, 2042, including interest at 1%.

10,871,468

State Water Resources Board Loan: Dated June 6, 1995 to finance improvements to the wastewater system. The stated interest rate is 3.0% and accrues as of the date of each disbursement. The maximum allowable loan is \$2,633,254. On June 26, 1995, the City received the initial drawdown. Payments of \$179,449 are due annually through December 19, 2017, including interest at 3%.

343,371

Obligation under capital lease: Dated June 1, 2014 for the acquisition of a vacuum truck for the Sewer Enterprise Fund. Due in annual installments of \$75,287 beginning December 1, 2014 and ending December 1, 2018, including interest at 3.627%. The value of the vehicle leased was \$344,640 with accumulated amortization of \$34,464 as of June 30, 2016.

210,418

The annual requirements to amortize the outstanding debt as of June 30, 2016 are as follows:

Year Ending June 30	Governmental Activities Certificates of Particip- ation, 2011	Fiduciary Activities Lease Revenue Bonds, 2001 Series A	Total
2017	\$ 636,875	\$ 72,292	\$ 709,167
2018	641,406	72,552	713,958
2019	640,156	75,840	715,996
2020	638,281	72,640	710,921
2021	635,781	75,680	711,461
2022 - 2026	3,183,250	71,466	3,254,716
2027 - 2031	3,171,225	-	3,171,225
2032 - 2036	3,183,719	-	3,183,719
2037 - 2041	637,295	-	637,295
	13,367,988	440,470	13,808,458
Less: interest	(6,367,988)	(60,364)	(6,428,352)
Unamortized discount	(397,626)	-	(397,626)
	6,602,374	380,106	6,982,480
Due within one year	(160,000)	(54,400)	(214,400)
Due after one year	\$ 6,442,374	\$ 325,706	\$ 6,768,080

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE F — LONG-TERM LIABILITIES (Continued)

Year Ending June 30	Business-type Activities					Total
	Lease Revenue Bonds, 2001 Series A	Sewer Revenue Bonds, 2012 Series A	State Water Resources Board Loan	Linda County Water District	Obligation under capital lease	
2017	\$ 41,664	\$ 774,176	\$ 179,450	\$ 476,625	\$ 75,288	\$ 1,547,203
2018	40,811	775,638	179,449	476,625	75,287	1,547,810
2019	42,660	771,038	-	476,625	75,288	1,365,611
2020	40,860	781,288	-	476,625	-	1,298,773
2021	42,570	781,338	-	476,625	-	1,300,533
2022 - 2026	41,284	3,911,519	-	2,383,125	-	6,335,928
2027 - 2031	-	3,920,750	-	2,383,125	-	6,303,875
2032 - 2036	-	3,922,375	-	2,383,125	-	6,305,500
2037 - 2041	-	3,923,625	-	2,383,126	-	6,306,751
2042 - 2046	-	3,921,250	-	485,306	-	4,406,556
	249,849	23,482,997	358,899	12,400,932	225,863	36,718,540
Add (Less): Interest	(34,955)	(10,997,997)	(15,528)	(1,529,464)	(15,445)	(12,593,389)
Unamortized discount	(9,320)	(619,715)	-	-	-	(629,035)
Unamortized premium	-	972,049	-	-	-	972,049
	205,574	12,837,334	343,371	10,871,468	210,418	24,468,165
Due within one year	(30,600)	(225,000)	(169,148)	(367,910)	(67,656)	(860,314)
Due after one year	\$ 174,974	\$ 12,612,334	\$ 174,223	\$ 10,503,558	\$ 142,762	\$ 23,607,851

Interest costs:

A summary of the fiscal year's interest costs follows:

	Interest capitalized	Interest costs	Total
Governmental funds:			
Non-major governmental funds	\$ -	\$ 483,635	\$ 483,635
Proprietary fund:			
Wastewater fund	173,345	531,221	704,566
	\$ 173,345	\$ 1,014,856	\$ 1,188,201

The change in capitalized interest follows:

	Balance at July 1, 2015	Additions	Deletions	Balance at June 30, 2016
Capitalized interest	\$ 33,424	\$ 173,345	\$ -	\$ 206,769

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE F — LONG-TERM LIABILITIES (Continued)

Prior Advance Refundings:

Lease Revenue Bonds, 2001 Series A:

On July 20, 2001, the City issued the \$2,725,000 Lease Revenue Bonds, 2001 Series A to defease the two outstanding debt issues of the City issued in 1992: Certificates of Participation (1992 Capital Improvement Financing Project) and Marysville Community Development Agency 1992 Tax Allocation Refunding Bonds. The bonds were issued by the Association of Bay Area Governments (the Authority) with three other cities for a total bond issuance of \$15,110,000. Proceeds of the 2001 Series A Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased 1992 bonds and certificates of participation are not included in the City's financial statements.

2011 Taxable Certificates of Participation:

On September 26, 2011, the City issued \$7,000,000 2011 Taxable Certificates of Participation to refund the 2006 Taxable Certificates of Participation of the City of Marysville Public Financing Authority. Proceeds of the 2011 Taxable Certificates of Participation were placed in redemption fund to provide for all future debt service payments on the old bonds. Accordingly, the redemption account assets and the liability for the defeased 2006 taxable certificates of participation are not included in the City's financial statements.

The outstanding balances of the defeased bonds at June 30, 2016 are as follows:

1992 Refunding bonds payable	\$ 505,000
2006 Taxable certificates of participation	<u>4,355,000</u>
	<u>\$ 4,860,000</u>

Operating leases:

The City at year end had 5 copier leases. The minimum lease payments are as follows:

<u>Year Ending June 30</u>	<u>Number of copier leases by department</u>			<u>Total</u>
	<u>Police (2)</u>	<u>Admi- stration (2)</u>	<u>Fire (1)</u>	
2017	<u>\$ 4,400</u>	<u>\$ 3,795</u>	<u>\$ 1,001</u>	<u>\$ 9,196</u>
Monthly payment	<u>\$ 400</u>	<u>\$ 345</u>	<u>\$ 91</u>	<u>\$ 836</u>
Term for all leases:	June 1, 2012 to June 1, 2017			

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE F — LONG-TERM LIABILITIES (Continued)

The annual rent costs for the fiscal year were as follows:

	<u>Amount</u>
Copier leases	\$ 9,149
Facilities rent - baseball	18,000
Other rent costs	<u>301</u>
TOTAL	<u>\$ 27,450</u>

NOTE G - CONDUIT DEBT OBLIGATIONS

From time to time, the City has issued debt instruments to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying loan agreements. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2016, conduit debt issues were as follows:

Fremont-Rideout Health Group:	
Insured Revenue Bonds, Series 2003a	\$ 3,250,000
Master lease-purchase and sublease agreement, 2011	8,351,000
Revenue Bonds, Series 2011	<u>112,460,000</u>
TOTAL	<u>\$ 124,061,000</u>

NOTE H— DEFICIT FUND EQUITY

The following funds had deficit fund balances at June 30, 2016:

<u>Fund</u>	<u>Deficit</u>
Major funds:	
General Fund	\$ (8,996,546)
Non-major special revenue funds:	
Business Development Center Fund	(4,913)
Gas Tax Fund	(35,314)
2015 CDBG Fund	(117)
Avoid the 9 Fund	(11,389)
Office of Traffic Safety - Traffic Grant	(23,169)
LAFCO Fund	(63,722)
Non-major capital projects fund:	
Capital Projects Fund	(67,183)

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE I – DEFINED BENEFIT PENSION PLAN

Plan Description

Plan administration. The City of Marysville, California’s defined benefit pension plan, California Public Employees’ Retirement System (CalPERS) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City of Marysville, California is part of the Public Agency portion of CalPERS, an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public entities within the State of California. The City participates in the following risk pools: Miscellaneous, 2% at 55 and Safety, 3% at 50. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees’ Retirement Law. The City of Marysville, California selects optional benefits through state statute and City resolutions.

Section 20814(c) of the California Public Employees’ Retirement Law (PERL) 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. The total plan contributions are determined through the CalPERS’ annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan’s actuarially determined rate is based on the estimated amount necessary to pay the Plan’s allocated share of the risk pool’s costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates as a percent of annual payroll for the City as of June 30, 2016 were as follows:

	<u>Average employer contribution</u>	<u>Active employee contribution</u>
Miscellaneous first tier plan	8.512%	7.000%
Miscellaneous second tier plan	8.003%	7.000%
PEPRA miscellaneous plan	6.237%	6.250%
Fire safety plan	13.813%	9.000%
Fire PEPRA	11.153%	11.500%
Police safety plan	17.557%	9.000%
Police PEPRA	11.153%	11.500%

Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

Contributions. The amount of contributions paid by the City totaled \$525,546 for the year ended June 30, 2016. The required employer contribution was \$248,252 and the employee contribution was \$277,294.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE I – DEFINED BENEFIT PENSION PLAN (Continued)

Pooled Report Format. Since the City's plan has less than 100 active members, it is required to participate in a risk pool.

Benefits provided. CalPERS provides retirement and disability benefits based on two different valuation plans; Classic and PEPRA. Classic members are those employees who were in the CalPERS retirement system before January 1, 2014. PEPRA members are employees who have been hired and added to the CalPERS system subsequent to December 31, 2013. Retirement benefits for Classic plan members are calculated as 3 percent of the member's highest 3-year average salary times the member's years of service. Plan members with 5 years of accumulated service are eligible to retire at age 60. Classic plan members may retire at any age after 30 years of service. PEPRA (Public Employees' Pension Reform Act) employees retirement benefits are calculated at 2% of the Plan members 3-highest years averaged salaries times the number of years of service and are eligible to retire at age 62. All plan members are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. A plan member who leaves City service may withdraw his or her contributions, plus any accumulated interest.

Contributions. The City of Marysville, California is required to contribute at the actuarially determined rate necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year ended June 30, 2016 was \$248,252 (\$93,721 for miscellaneous employees and \$154,531 for safety employees).

PEPRA employees are required to pay no less than 50% of the actuarially determined cost of the retirement plan. For the fiscal year ending June 30, 2016, the total actuarially determined cost of retirement for PEPRA participants is 12.5% of payroll. PEPRA participants pay 6.25% of payroll into the plan.

The contribution requirement of plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Pension Plan CAFR. CalPERS issues a separate comprehensive annual financial report. Copies of CalPERS' annual financial report may be obtained from the CalPERS Actuarial Office, P.O. Box 942709, Sacramento, CA 95814 or on-line at www.calpers.ca.gov.

Actuarial valuations. For the measurement period ending June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. Both the June 30, 2014 total pension liability and the June 30, 2015 total pension liability were based on the following actuarial methods and assumptions:

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE I – DEFINED BENEFIT PENSION PLAN (Continued)

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Measurement period	July 1, 2014 to June 30, 2015
Actuarial cost method	Entry Age Normal
Asset valuation method	Actuarial value of assets
Actuarial assumptions:	
Discount rate	7.65%
Inflation rate	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.50% net of pension plan investment and administrative expenses
Mortality rate table	The probabilities of mortality are based on the 2010 CalPRES Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.
Retirement age	The probabilities of retirement are based on the 2010 CalPRES Experience Study for the period from 1997 to 2007.

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

Changes in assumptions. The discount rate was changed from 7.5% (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense for the measurement period ended June 30, 2015.

Discount rate. The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would 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 is applied to all plans in the Public Employees Retirement Fund. 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 discount rate was determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE I – DEFINED BENEFIT PENSION PLAN (Continued)

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year.

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

In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows are considered. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, 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 fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset class	New Strategic Allocation	Real Re-turn Years 1-10	Real Re-turn Years >10
Global equity	47.0%	5.25%	5.71%
Global fixed income	19.0%	0.99%	2.43%
Inflation sensitive	6.0%	0.45%	3.36%
Private equity	12.0%	6.83%	6.95%
Real estate	11.0%	4.50%	5.13%
Infrastructure and forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE I – DEFINED BENEFIT PENSION PLAN (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 7.65 percent, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Discount Rate		
	1.00% Decrease (6.65%)	Current (7.65%)	1.00% Decrease (8.65%)
Plan's net pension liability:			
Miscellaneous risk pool	\$ 2,046,334	\$ 1,220,184	\$ 538,102
Safety risk pool	5,334,408	3,327,053	1,681,058

Payable to plan at June 30, 2016. The amount payable to the Plan from the City at June 30, 2016 was \$44,255 as per the withholding and computed contribution requirements.

Subsequent events. There were no subsequent events that would materially affect the results presented in this disclosure.

Recognition of Gains and Losses. Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss. The periods are as follows:

- Difference between projected and 5 year straight-line amortization actual earnings
 - All other amounts
- Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE I – DEFINED BENEFIT PENSION PLAN (Continued)

A summary of the deferred outflows of resources and deferred inflows of resources are as follows:

	Net increase (decrease) in pension expense (measurement periods)					
	Year ended June 30,					
	2015	2016	2017	2018	2019	Thereafter
MISCELLANEOUS PLANS:						
Differences between expected and actual experience	\$ 6,733,111	\$ 6,733,111	\$ 6,733,111	\$ 5,386,488	\$ -	\$ -
Changes in assumption	(63,701,565)	(63,701,565)	(63,701,565)	(50,961,261)	-	-
Differences between projected and actual earnings on pension plan investments	(67,903,910)	(67,903,910)	(67,903,910)	(67,903,911)	114,295,501	-
TOTAL	\$ (124,872,364)	\$ (124,872,364)	\$ (124,872,364)	\$ (113,478,684)	\$ 114,295,501	\$ -
SAFETY PLAN:						
Differences between expected and actual experience	\$ (18,673,454)	\$ (18,673,454)	\$ (18,673,454)	\$ (14,938,762)	\$ -	\$ -
Changes in assumption	(85,886,014)	(85,886,014)	(85,886,014)	(68,708,811)	-	-
Differences between projected and actual earnings on pension plan investments	(90,496,415)	(90,496,415)	(90,496,415)	(90,496,417)	149,612,057	-
TOTAL	\$ (195,055,883)	\$ (195,055,883)	\$ (195,055,883)	\$ (174,143,990)	\$ 149,612,057	\$ -

Pension expense. The recognized pension expense for the fiscal year ended June 30, 2016 was \$395,613.

Covered employees. The total number of participants for the 2013-14 measurement period was 122,789. This includes active, inactive, and retired employees.

Changes in the net pension liability. The following table is intended for informational purposes only and is not a required GASB 68 disclosure for employers participating in cost-sharing plans. The table shows the aggregate changes in net pension liability recognized over the measurement period for the Miscellaneous and Safety Risk Pools.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE I – DEFINED BENEFIT PENSION PLAN (Continued)

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability/(Asset)</u>
MISCELLANEOUS PLANS:			
Balance at June 30, 2014, valuation date	\$ 13,110,948,452	\$ 10,639,461,174	\$ 2,471,487,278
Changes recognized for the measurement period:			
Service cost	335,248,541	-	335,248,541
Interest on the total pension liability	977,551,637	-	977,551,637
Changes in benefit terms	485,762	-	485,762
Changes in assumptions	(242,065,946)	-	(242,065,946)
Differences between expected and actual experience	25,585,821	-	25,585,821
Net plan to plan resource movement	-	65,452,197	(65,452,197)
Contributions from the employers	-	376,902,997	(376,902,997)
Contributions from the employees	-	154,112,658	(154,112,658)
Net investment income	-	240,587,946	(240,587,946)
Benefit payments, including refunds of employee contributions	(568,251,183)	(568,251,183)	-
Administrative expense	-	(12,229,721)	12,229,721
Net change for the year	528,554,632	256,574,894	271,979,738
Balance at June 30, 2015, measurement date	<u>\$ 13,639,503,084</u>	<u>\$ 10,896,036,068</u>	<u>\$ 2,743,467,016</u>
SAFETY PLAN:			
Balance at June 30, 2014, valuation date	\$ 17,719,018,179	\$ 13,968,041,341	\$ 3,750,976,838
Changes recognized for the measurement period:			
Service cost	359,392,979	-	359,392,979
Interest on the total pension liability	1,306,133,204	-	1,306,133,204
Changes in Benefit terms	-	-	-
Changes in assumptions	(326,366,853)	-	(326,366,853)
Differences between expected and actual experience	(70,959,124)	-	(70,959,124)
Net plan to plan resource movement	-	(615,551)	615,551
Contributions from the employers	-	476,688,774	(476,688,774)
Contributions from the employees	-	130,280,037	(130,280,037)
Net investment income	-	308,116,246	(308,116,246)
Benefit payments, including refunds of employee contributions	(855,504,067)	(855,504,067)	-
Administrative expense	-	(15,736,977)	15,736,977
Net change for the year	412,696,139	43,228,462	369,467,677
Balance at June 30, 2015, measurement date	<u>\$ 18,131,714,318</u>	<u>\$ 14,011,269,803</u>	<u>\$ 4,120,444,515</u>

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE J – POST EMPLOYMENT HEALTH CARE BENEFITS

Plan Description

One City employee and his spouse are the only persons currently eligible for post retirement health benefits if they meet certain service year requirements and retire upon separation from the City. The City has computed the post-employment benefits using the alternative measurement method permitted under GASB No. 45. The liability has not been funded nor has a trustee been appointed. The benefit provisions are established in the form of a binding contract with the employee. The plan currently does not issue stand alone financial statements.

Basis of Accounting

The employee and his spouse are not required to contribute to the plan. Employer contributions are recognized when due when an invoice is received from the medical insurance provider. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Funding Policy

Future contribution requirements of plan members, if any, and the City will be established and amended as needed by the City Council. The required contribution will be based on projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the Council. For the fiscal year ended June 30, 2016, the City contributed \$-0- to the plan of the projected \$48,334 net obligation. The City paid a total of \$6,536 to the medical insurance provider during the year.

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer* (ARC), the amount was determined using the Alternative Measurement Method permitted for employers with less than 100 employees in accordance with the parameters of GASB No. 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 an anticipated period of twelve years. The following table shows the amount contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution	\$ 1,760
Interest on net OPEB obligation	79
Payments made	<u>(6,536)</u>
Decrease in net OPEB obligation	(4,697)
Net OPEB obligation, July 1	<u>53,031</u>
Net OPEB obligation, June 30	<u>\$ 48,334</u>

The ARC was determined as part of the June 30, 2016 alternative measurement method computation. The ARC rate is not comparable to the annual covered payroll, since there are no active employees participating in the existing plan. For the fiscal year ended June 30, 2016, the City paid the required medical insurance premiums as billed.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE J – POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

The City’s annual OPEB cost paid, the percentage of annual OPEB cost contributed and the unpaid computed OPEB costs for the fiscal year ended June 30, 2016 were as follows:

<u>Year ended June 30,</u>	<u>OPEB cost paid</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Unpaid OPEB costs</u>
2014	\$ 1,637	100.00%	-
2015	3,866	100.00%	-
2016	6,536	100.00%	-

Funded Status and Funding Process

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

Accrued liability (AL)	\$ 44,877
Value of plan assets contributed	<u>-</u>
Unfunded accrued liability (UAL)	<u>\$ 44,877</u>
Funded ratio (value of plan assets/AL)	<u>0.00%</u>
Covered payroll (active plan members)	<u>\$ -</u>
UAL as a percentage of covered payroll	<u>n/a</u>

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.

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.

In the June 30, 2016, the alternative measurement method was used. The assumptions included a 4.00% investment rate of return (net of administrative expenses), discount rate of 4.50% and average salary increases of 3.30%. The Entry Age Normal (EAN) cost method spreads plan costs for each participant from entry date to the expected retirement date. The unfunded actuarial accrued liability will be amortized using the flat dollar amount method over eleven years.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE K — RISK MANAGEMENT

The City is a member of the Northern California Cities Self Insurance Fund (NCCSIF) along with twenty other northern California cities. The NCCSIF is a joint powers authority (JPA) organized in accordance with Article I, Chapter 5, Division 7, Title I of the California Government Fund Programs. The purpose is to create a common pool of funds to be used to meet obligations of the parties to provide workers' compensation benefits for their employees and to provide excess liability insurance. The NCCSIF provides claims processing administrative services, risk management services and actuarial studies. A member from each city governs the NCCSIF. The City of Marysville council members do not have significant oversight responsibility, since they evenly share all factors of responsibility with the other cities. The City does not retain the risk of loss. However, ultimate liability for payment of claims and insurance premiums resides with member cities. The NCCSIF is empowered to make supplemental assessments as needed to eliminate deficit positions of member cities. If the JPA becomes insolvent, the City is responsible only to the extent of any deficiency in its equity balance.

The NCCSIF establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims settlement expenses) that have been reported but not settled, plus estimates of claims that have been incurred but not reported. Because actual claims costs depend on various factors, the claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision of inflation is implicit in the calculation of estimated future claims costs. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Settlements have not exceeded the insurance coverage for the past three fiscal years. There have not been any significant reductions in insurance coverage over the prior year. The audited financial statements of the JPA are available at the NCCSIF's office.

The City's insurance coverage and the respective coverage providers are as follows:

Amount	Coverage provider	Payment Source
<i>LIABILITY CLAIMS:</i>		
\$ 0 - 25,000	Self-insured	Banking layer
25,001 - 500,000	Northern California Cities Self-Insurance Fund	Shared risk pool
500,001 - \$ 24,500,000	California Joint Powers Risk Management Authority	Shared risk pool
<i>WORKERS' COMPENSATION:</i>		
\$ 0 - 100,000	Self-insured	Banking layer
100,001 - 500,000	Northern California Cities Self-Insurance Fund	Shared risk pool
300,001 - \$ 150,000,000	California State Association of Counties- Excess Insurance Authority	Shared risk pool

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE L - CONTINGENT LIABILITIES

The City is party to various claims, legal actions and complaints that arise in the normal operation of business. Management and the City's legal counsel believe that there are no material loss contingencies that would have a material adverse impact on the financial position of the City.

The City participates in various federal and state assisted grant programs. These programs are subject to compliance audits by the grantors. Such audits could result in a request for reimbursement for expenses disallowed under the terms and conditions of the agreements. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

NOTE M - COMMITMENTS

The City has committed to various projects summarized as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Incurred to June 30, 2016</u>	<u>Balance remaining</u>
General fund - software conversion	\$ 60,782	\$ 45,600	\$ 15,182
Sewer Enterprise Fund - improvements	<u>6,363,454</u>	<u>4,251,945</u>	<u>2,111,509</u>
TOTALS	<u>\$6,424,236</u>	<u>\$ 4,297,545</u>	<u>\$2,126,691</u>

NOTE N - SUBSEQUENT EVENTS

There were no significant subsequent events as of the review by management at September 24, 2016.

NOTE O - GOING CONCERN

For the fiscal year ended June 30, 2016, the City's government-wide unrestricted net position had a deficit of \$11,004,674 and substantial net pension liability of \$10,411,085. In addition, the City experienced depletion of emergency reserves, other deficit fund balances, slow recovery in revenues, and increased employment costs. These conditions have raised substantial doubt about the City's ability to continue as a going concern.

It is uncertain whether the City's General Fund's current revenue stream is sufficient to enable the City to continue providing the current level of city services as well as provide for the retirement of the unfunded pension liability. The City has been enacting cost cutting measures that include decreased staffing, elimination of some city services, and mandatory furlough days for City Hall employees.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE O – GOING CONCERN (Continued)

To mitigate the situation, the City has sought additional revenue sources. On June 7, 2016, the City of Marysville voters approved a sales tax increase of 1% to 8.5% for 10 years. It is estimated that revenues between \$1.6 million and \$1.7 million per year will be raised. These revenues are to be used for general municipal purposes such as fire safety, police protection and emergency response services, traffic safety, streets and sidewalks repair, park improvements and maintenance, reducing debt and rebuilding financial reserves. The increase is scheduled to become effective October 1, 2016.

NOTE P – PRIOR PERIOD ADJUSTMENTS

HIGHWAY USERS TAX

For the fiscal year ended June 30, 2015, the State of California instructed recipients of highway users tax monies as to the amounts to be accrued at year end. During the current fiscal year, the State concluded that the accrual was improper and should have been recognized as revenues for the fiscal year ended June 30, 2016. As a result, the amount due from other governments was overstated by \$33,159 with a corresponding overstatement of fund equity.

RECLASSIFICATION OF LONG-TERM BALANCES

For the fiscal year ended June 30, 2015, the City reported unfunded pension liability and related deferred inflows and outflows of resources within their governmental funds. As a result, reportable liabilities were overstated with a corresponding understatement of fund balance as follows:

	Governmental Activities		Total
	General Fund	Nonmajor Governmental Funds	
Net pension liability	\$ 9,001,376	\$ 113,254	\$ 9,114,630
Deferred outflows of resources	2,586,833	32,547	2,619,380
Deferred inflows of resources	(867,187)	(12,589)	(879,776)
TOTAL PENSION	\$ 10,721,022	\$ 133,212	\$ 10,854,234
Highway users tax accrual	\$ -	\$ (33,159)	\$ (33,159)
TOTAL ALL ADJUSTMENTS	\$ 10,721,022	\$ 100,053	\$ 10,821,075

NOTE Q – REISSUED FINANCIAL STATEMENTS

The financial statements dated September 24, 2016 have been reissued to reflect the reclassification of the long-term balances in the governmental funds described in Note P above.

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**REQUIRED SUPPLEMENTARY
INFORMATION**



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CITY OF MARYSVILLE, CALIFORNIA

SCHEDULE OF CHANGES IN AGGREGATE NET PENSION LIABILITY AND RELATED RATIOS FOR THE MEASUREMENT PERIOD ENDED JUNE 30 LAST TEN FISCAL YEARS*

	Measurement period: 2014	2015
TOTAL PENSION LIABILITY, July 1	\$29,273,709,178	\$ 30,829,966,631
Sevice cost	708,468,231	694,641,520
Interest on Total Pension Liability	2,172,422,018	2,283,684,841
Changes in benefit terms	-	485,762
Changes in assumptions	-	(568,432,799)
Difference between expected and actual experience	-	(45,373,303)
Benefit payment, including refunds of employee contributions	(1,324,632,796)	(1,423,755,250)
NET CHANGE IN TOTAL PENSION LIABILITY	1,556,257,453	941,250,771
TOTAL PENSION LIABILITY, JUNE 30	30,829,966,631	31,771,217,402
PLAN FIDUCIARY NET POSITION, July 1	\$21,212,719,187	\$ 24,607,502,515
Contributions - employer	740,762,907	853,591,771
Contributions - employee	291,772,508	284,392,695
Net investment income	3,686,880,709	548,704,192
Other miscellaneous income	-	-
Benefit payment, including refunds of employee contributions	(1,324,632,796)	(1,423,755,250)
Net plan to plna resource movement	-	64,836,646
Administrative expense	-	(27,966,698)
NET CHANGES IN FIDUCIARY NET POSITION	3,394,783,328	299,803,356
PLAN FIDUCIARY NET POSITION, JUNE 30	24,607,502,515	24,907,305,871
PLAN NET PENSION LIABILITY/(ASSET)	\$ 6,222,464,116	\$ 6,863,911,531
<u>RATIOS:</u>		
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	79.82%	78.40%
Covered-employee payroll	\$ 3,268,432,750	\$ 3,356,288,355
PLAN NET PENSION LIABILITY/(ASSET) AS A PERCENTAGE OF THE COVERED EMPLOYEE PAYROLL	190.38%	204.51%

* GASB Statement No. 68 was implemented during the fiscal year ended June 30, 2015. No information was available prior to this date.

CITY OF MARYSVILLE, CALIFORNIA

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIOS AS OF JUNE 30, 2016

	Measurement date:	June 30, 2014	
	<u>Aggregate data</u>	<u>City data</u>	<u>Percent of</u>
	<u>Pool balance</u>	<u>City of Marysville</u>	<u>City to Aggregate data</u>
<u>MISCELLANEOUS RISK POOL:</u>			
Total pension liability	\$13,110,948,452	\$ 6,566,339	<u>0.05008%</u>
Fiduciary net position	<u>10,639,461,174</u>	<u>5,452,680</u>	<u>0.05125%</u>
Net pension liability	<u>\$ 2,471,487,278</u>	<u>\$ 1,113,659</u>	<u>0.04506%</u>
Additional side fund payments	<u>\$ 29,291,579</u>	<u>\$ -</u>	
Fiduciary net position, net of additional side fund payments	<u>\$10,610,169,595</u>	<u>\$ 5,452,680</u>	
Covered - employee payroll		<u>\$ 1,487,386</u>	
Proportionate share of the net pension liability as a percentage of covered - employee payroll		<u>74.87%</u>	
<u>SAFETY RISK POOL:</u>			
Total pension liability	\$17,719,018,179	\$28,306,193	<u>0.21590%</u>
Fiduciary net position	<u>13,968,041,341</u>	<u>21,577,481</u>	<u>0.20281%</u>
Net pension liability	<u>\$ 3,750,976,838</u>	<u>\$ 6,728,712</u>	<u>0.27225%</u>
Additional side fund payments	<u>\$ 29,291,257</u>	<u>\$ -</u>	
Fiduciary net position, net of additional side fund payments	<u>\$13,938,750,084</u>	<u>\$21,577,481</u>	
Covered - employee payroll		<u>\$ 861,323</u>	
Proportionate share of the net pension liability as a percentage of covered - employee payroll		<u>781.21%</u>	

June 30, 2015

<u>Aggregate data</u>	<u>City data</u>	<u>Percent of City to Aggregate data</u>
<u>Pool balance</u>	<u>City of Marysville</u>	
\$ 13,639,503,084	\$ 15,286,746	<u>0.112077%</u>
<u>10,896,036,068</u>	<u>12,468,334</u>	<u>0.114430%</u>
<u>\$ 2,743,467,016</u>	<u>\$ 2,818,412</u>	<u>0.102732%</u>
<u>\$ -</u>	<u>\$ -</u>	
<u>\$ 10,896,036,068</u>	<u>\$ 12,468,334</u>	
	<u>\$ 1,368,205</u>	
	<u>205.99%</u>	
\$ 18,131,714,318	\$ 28,366,342	<u>0.156446%</u>
<u>14,011,269,803</u>	<u>20,773,669</u>	<u>0.148264%</u>
<u>\$ 4,120,444,515</u>	<u>\$ 7,592,673</u>	<u>0.184268%</u>
<u>\$ -</u>	<u>\$ -</u>	
<u>\$ 14,011,269,803</u>	<u>\$ 20,773,669</u>	
	<u>\$ 997,025</u>	
	<u>761.53%</u>	

CITY OF MARYSVILLE, CALIFORNIA

SCHEDULE OF PLAN ACTUARIALLY DETERMINED CONTRIBUTIONS AS OF JUNE 30, 2016 LAST TEN FISCAL YEARS*

	2014		2015	
	<u>Miscellaneous risk pool</u>	<u>Safety risk pool</u>	<u>Miscellaneous risk pool</u>	<u>Safety risk pool</u>
Actuarially determined contribution	\$ 185,501	\$ 313,745	\$ 778,717	\$ 1,086,996
Contributions in relation to the actuarially determined contribution	<u>(185,501)</u>	<u>(313,745)</u>	<u>(956,680)</u>	<u>(1,335,410)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (177,963)</u>	<u>\$ (248,414)</u>
Covered-employee payroll	<u>\$ 1,487,386</u>	<u>\$ 861,323</u>	<u>\$ 1,368,205</u>	<u>\$ 997,025</u>
Contributions as a percentage of covered-employee payroll	<u>12.47%</u>	<u>36.43%</u>	<u>69.92%</u>	<u>133.94%</u>

* GASB Statement No. 68 was implemented during the fiscal year ended June 30, 2015. No information was available prior to this date.

CITY OF MARYSVILLE, CALIFORNIA

SCHEDULE OF AGGREGATE PLAN LEGALLY REQUIRED CONTRIBUTIONS AS OF JUNE 30, 2016 LAST TEN FISCAL YEARS*

	Employer fiscal year end: <u>2014</u>	<u>2015</u>
Legally required contribution	\$ 681,668,865	\$ 694,805,563
Contributions in relation to the legally required contribution	<u>(740,762,907)</u>	<u>(853,591,771)</u>
Contribution deficiency (excess)	<u>\$ (59,094,042)</u>	<u>\$ (158,786,208)</u>
Covered-employee payroll	<u>\$ 3,268,462,750</u>	<u>\$ 3,356,288,355</u>
Contributions as a percentage of covered-employee payroll	<u>22.66%</u>	<u>25.43%</u>

* GASB Statement No. 68 was implemented during the fiscal year ended June 30, 2015. No information was available prior to this date.

CITY OF MARYSVILLE, CALIFORNIA

SCHEDULE OF DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES FOR THE FISCAL YEAR ENDED JUNE 30, 2016 LAST TEN FISCAL YEARS*

Measurement date:	June 30, 2014			
	Miscellaneous risk pool		Safety risk pool	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -	\$ -	\$ -
Changes in assumptions	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	(894,694)	-	(1,486,842)
Adjustment due to differences in proportions	78,240	-	153,615	-
TOTAL	\$ 78,240	\$ (894,694)	\$ 153,615	\$ (1,486,842)

* GASB Statement No. 68 was implemented during the fiscal year ended June 30, 2015. No information was available prior to this date.

June 30, 2015

Miscellaneous risk pool		Safety risk pool	
Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
\$ 8,385	\$ -	\$ -	\$ (42,218)
-	(79,329)	-	(194,176)
203,336	(243,105)	483,217	(581,627)
-	-	-	-
<u>\$ 211,721</u>	<u>\$ (322,434)</u>	<u>\$ 483,217</u>	<u>\$ (818,021)</u>

CITY OF MARYSVILLE, CALIFORNIA

SCHEDULE OF AGGREGATE DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES TO BE RECOGNIZED IN FUTURE PENSION EXPENSE FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Measurement period ended June 30	Deferred outflows/(inflows) of resources					
	Plan aggregate amounts		Allocation percentages		City of Marysville amount	
	Miscellaneous risk pool	Safety risk pool	Miscellaneous risk pool	Safety risk pool	Miscellaneous risk pool	Safety risk pool
2016	\$(124,872,364)	\$(195,055,883)	0.044476%	0.080745%	\$ (55,538)	\$ (157,498)
2017	(124,872,364)	(195,055,883)	0.044476%	0.080745%	(55,538)	(157,498)
2018	(113,478,674)	(174,143,990)	0.044476%	0.080745%	(50,471)	(140,613)
2019	114,295,501	149,612,057	0.044476%	0.080745%	50,834	120,804
2020	-	-			-	-
Remaining	-	-			-	-

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - CHANGE IN BENEFIT TERMS

The amounts above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Year Additional Service Credit (a.k.a. Golden Handshakes). Employers that have done so may need to report this information as a separate liability in their financial statements as CalPERS considers such amount to be separately financed employer-specific liabilities.

NOTE 2 - CHANGE IN ASSUMPTIONS

The discount rate was changed from 7.5% (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense for the measurement period ended June 30, 2015.

NOTE 3 - SIGNIFICANT METHODS AND ASSUMPTIONS

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Measurement period	July 1, 2014 to June 30, 2015
Actuarial cost method	Entry Age Normal
Asset valuation method	Actuarial value of assets
Actuarial assumptions:	
Discount rate	7.65%
Inflation rate	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.50% net of pension plan investment and administrative expenses
Mortality rate table	The probabilities of mortality are based on the 2010 CalPRES Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.
Retirement age	The probabilities of retirement are based on the 2010 CalPRES Experience Study for the period from 1997 to 2007.

NOTE 4 - PENSION EXPENSE RECOGNIZED

The pension expense recognized by the employer for the fiscal year ended June 30, 2016 was \$395,613.

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**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**



CITY OF MARYSVILLE, CALIFORNIA

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS AS OF JUNE 30, 2016

	Special Revenue Funds	Debt Service 2011 Taxable Certificates of Participation Fund	Capital Projects Funds	Total Nonmajor Governmental Funds
ASSETS:				
Cash and investments	\$ 975,700	\$ -	\$ 97,771	\$ 1,073,471
Receivables:				
Accounts receivable	7,710	-	-	7,710
Interest receivable	837	-	91	928
Loans receivable	1,777,209	-	-	1,777,209
Due from other governments	-	-	17,626	17,626
Restricted cash with fiscal agent	-	743,221	-	743,221
	TOTAL ASSETS	\$ 743,221	\$ 115,488	\$ 3,620,165
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 10,777	\$ -	\$ 16,108	\$ 26,885
Accrued payroll liabilities	31,375	-	-	31,375
Compensated absences	12,053	-	-	12,053
Due to other funds	26,348	-	68,701	95,049
	TOTAL LIABILITIES	-	84,809	165,362
FUND BALANCES:				
Non-spendable:				
Notes receivable	1,777,209	-	-	1,777,209
Committed:				
Debt service	-	743,221	-	743,221
Subsequent year's expenditures	393,245	-	-	393,245
Restricted:				
Road improvements and repairs	-	-	97,862	97,862
Unassigned				
Special revenue funds	510,449	-	-	510,449
Capital projects funds	-	-	(67,183)	(67,183)
	TOTAL FUND BALANCES	743,221	30,679	3,454,803
	\$ 2,761,456	\$ 743,221	\$ 115,488	\$ 3,620,165

CITY OF MARYSVILLE, CALIFORNIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Special Revenue Funds	Debt Service 2011 Taxable Certificates of Participation Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
REVENUES:				
Intergovernmental revenue	\$ 368,177	\$ -	\$ 15,557	\$ 383,734
Charges for services	127,031	-	-	127,031
Use of money and property	3,303	1,848	326	5,477
Program income	9,269	-	-	9,269
	TOTAL REVENUES	1,848	15,883	525,511
EXPENDITURES:				
Current:				
General government	208,548	-	-	208,548
Public safety	91,036	-	-	91,036
Streets and public works	326,350	-	87,929	414,279
Parks and recreation	10,700	-	-	10,700
Debt service:				
Interest and other charges	-	483,635	-	483,635
Capital outlay	35,968	-	-	35,968
	TOTAL EXPENDITURES	483,635	87,929	1,244,166
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(164,822)	(481,787)	(72,046)	(718,655)
OTHER FINANCING SOURCES (USES):				
Loans deemed uncollectible	(43,451)	-	-	(43,451)
Transfers in	2,075,935	527,951	8,319	2,612,205
Transfers out	(2,078,682)	-	(38,836)	(2,117,518)
	TOTAL OTHER FINANCING	527,951	(30,517)	451,236
NET CHANGE IN FUND BALANCE	(211,020)	46,164	(102,563)	(267,419)
FUND BALANCE, JULY 1:				
As originally stated	2,791,870	697,057	133,242	3,622,169
Prior period adjustment	100,053	-	-	100,053
As restated	2,891,923	697,057	133,242	3,722,222
FUND BALANCE, JUNE 30	\$ 2,680,903	\$ 743,221	\$ 30,679	\$ 3,454,803

CITY OF MARYSVILLE, CALIFORNIA

COMBINING BALANCE SHEET - NON-MAJOR SPECIAL REVENUE FUNDS AS OF JUNE 30, 2016

	<u>Bok Kai Event Fund</u>	<u>Business Develop- ment Cen- ter Fund</u>	<u>Gas Tax Fund</u>	<u>Narcotics Enforce- ment Fund</u>	<u>Asset Seizure Fund</u>	<u>Sidewalk Fund</u>
ASSETS:						
Cash and investments	\$ -	\$ 5,179	\$ 410,686	\$ 1,186	\$ 295	\$15,838
Receivables:						
Accounts receivable	-	-	6,182	-	-	1,528
Interest receivable	-	-	305	1	-	15
Notes receivable	-	-	-	-	-	-
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 5,179</u>	<u>\$ 417,173</u>	<u>\$ 1,187</u>	<u>\$ 295</u>	<u>\$17,381</u>
LIABILITIES:						
Accounts payable	\$ -	\$ 39	\$ 6,179	\$ -	\$ -	\$ -
Accrued payroll liabilities	-	5,179	15,834	-	-	-
Compensated absences	-	4,874	7,179	-	-	-
Due to other funds	-	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>10,092</u>	<u>29,192</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE:						
Non-spendable:						
Notes receivable	-	-	-	-	-	-
Committed:						
Subsequent year's expenditures	-	-	-	-	-	-
Assigned:						
Subsequent year's expenditures	-	-	-	-	-	-
Unassigned	-	(4,913)	387,981	1,187	295	17,381
TOTAL FUND BALANCE (DEFICIT)	<u>-</u>	<u>(4,913)</u>	<u>387,981</u>	<u>1,187</u>	<u>295</u>	<u>17,381</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 5,179</u>	<u>\$ 417,173</u>	<u>\$ 1,187</u>	<u>\$ 295</u>	<u>\$17,381</u>

Revolving Loan Funds					Law Enforcement Grants				LAFCO Fund	TOTALS
CDBG Principal and Interest Fund	Community Development Block Grant Fund	Housing Revolving Loan Fund	Economic Development Loan Fund	HOME Program Income Fund	2015 CDBG Fund	Avoid The 9 Fund	Office of Traffic Safety Traffic Grant			
\$ 309,653	\$ -	\$ -	\$ -	\$ 83,390	\$ -	\$ -	\$ -	\$ 149,473	\$ 975,700	
-	-	-	-	-	-	-	-	-	7,710	
297	-	-	-	77	-	-	-	142	837	
1,199,502	-	-	-	577,707	-	-	-	-	1,777,209	
<u>\$ 1,509,452</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 661,174</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 149,615</u>	<u>\$ 2,761,456</u>	
\$ 172	\$ -	\$ -	\$ -	\$ -	\$ 117	\$ 852	\$ -	\$ 3,418	\$ 10,777	
-	-	-	-	-	-	1,241	6,117	3,004	31,375	
-	-	-	-	-	-	-	-	-	12,053	
-	-	-	-	-	-	9,296	17,052	-	26,348	
172	-	-	-	-	117	11,389	23,169	6,422	80,553	
1,199,502	-	-	-	577,707	-	-	-	-	1,777,209	
309,778	-	-	-	83,467	-	-	-	-	393,245	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	(117)	(11,389)	(23,169)	143,193	510,449	
1,509,280	-	-	-	661,174	(117)	(11,389)	(23,169)	143,193	2,680,903	
<u>\$ 1,509,452</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 661,174</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 149,615</u>	<u>\$ 2,761,456</u>	

CITY OF MARYSVILLE, CALIFORNIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR SPECIAL REVENUE FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Bok Kai Event Fund	Business Develop- ment Cen- ter Fund	Gas Tax Fund	Narcotics Enforce- ment Fund	Asset Seizure Fund	Sidewalk Fund
REVENUES:						
Intergovernmental revenue	\$ -	\$ 4,828	\$ 293,197	\$ 815	\$ 4,425	\$ -
Charges for services	-	-	-	-	-	-
Use of money and property	16	-	1,271	3	3	48
Program income	-	-	-	-	-	-
	<u>16</u>	<u>4,828</u>	<u>294,468</u>	<u>818</u>	<u>4,428</u>	<u>48</u>
EXPENDITURES:						
Current:						
General government	-	81,514	-	-	-	-
Public safety	-	-	-	-	-	-
Streets and public works	-	-	321,847	2,924	1,579	-
Parks and recreation	10,700	-	-	-	-	-
Capital outlay	-	-	26,033	-	3,000	-
	<u>10,700</u>	<u>81,514</u>	<u>347,880</u>	<u>2,924</u>	<u>4,579</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(10,684)</u>	<u>(76,686)</u>	<u>(53,412)</u>	<u>(2,106)</u>	<u>(151)</u>	<u>48</u>
OTHER FINANCING SOURCES (USES):						
Loans balance deemed uncollectible	-	-	-	-	-	-
Transfers in	-	54,420	-	-	-	17,333
Transfers out	-	-	(32,748)	-	-	-
TOTAL OTHER FINANCING	<u>-</u>	<u>54,420</u>	<u>(32,748)</u>	<u>-</u>	<u>-</u>	<u>17,333</u>
NET CHANGE IN FUND BALANCE	<u>(10,684)</u>	<u>(22,266)</u>	<u>(86,160)</u>	<u>(2,106)</u>	<u>(151)</u>	<u>17,381</u>
FUND BALANCE (DEFICIT), JULY 1:						
As originally stated	10,684	17,353	401,556	3,293	446	-
Prior period adjustment	-	-	72,585	-	-	-
As restated	<u>10,684</u>	<u>17,353</u>	<u>474,141</u>	<u>3,293</u>	<u>446</u>	<u>-</u>
FUND BALANCE (DEFICIT), JUNE 30	<u>\$ -</u>	<u>\$ (4,913)</u>	<u>\$ 387,981</u>	<u>\$ 1,187</u>	<u>\$ 295</u>	<u>\$ 17,381</u>

CDBG Principal and Interest Fund	Revolving Loan Funds					Law Enforcement Grants			TOTALS
	Community Development Block Grant Fund	Housing Revolving Loan Fund	Economic Develop- ment Loan Fund	HOME Program Income Fund	2015 CDBG Fund	Avoid The 9 Fund	Office of Traffic Safety Traffic Grant	LAFCO Fund	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,135	\$ 34,777	\$ -	\$ 368,177
-	-	-	-	-	-	-	-	127,031	127,031
1,106	-	-	-	260	-	-	-	596	3,303
9,269	-	-	-	-	-	-	-	-	9,269
10,375	-	-	-	260	-	30,135	34,777	127,627	507,780
2,960	-	-	-	-	135	-	-	123,939	208,548
-	-	-	-	-	-	40,063	50,973	-	91,036
-	-	-	-	-	-	-	-	-	326,350
-	-	-	-	-	-	-	-	-	10,700
-	-	-	-	-	-	-	6,935	-	35,968
2,960	-	-	-	-	135	40,063	57,908	123,939	672,602
7,415	-	-	-	260	(135)	(9,928)	(23,131)	3,688	(164,822)
-	-	-	-	(43,451)	-	-	-	-	(43,451)
1,756,721	-	-	-	213,812	33,649	-	-	-	2,075,935
(254,856)	(1,128,174)	(444,451)	(181,654)	(1,118)	(33,631)	-	-	(2,050)	(2,078,682)
1,501,865	(1,128,174)	(444,451)	(181,654)	169,243	18	-	-	(2,050)	(46,198)
1,509,280	(1,128,174)	(444,451)	(181,654)	169,503	(117)	(9,928)	(23,131)	1,638	(211,020)
-	1,128,174	444,451	181,654	491,671	-	(1,461)	(38)	114,087	2,791,870
-	-	-	-	-	-	-	-	27,468	100,053
-	1,128,174	444,451	181,654	491,671	-	(1,461)	(38)	141,555	2,891,923
\$ 1,509,280	\$ -	\$ -	\$ -	\$ 661,174	\$ (117)	\$ (11,389)	\$ (23,169)	\$ 143,193	\$ 2,680,903

CITY OF MARYSVILLE, CALIFORNIA

COMBINING BALANCE SHEET - NON-MAJOR CAPITAL PROJECTS FUNDS AS OF JUNE 30, 2016

	Capital Projects Fund	Parks and Recreation Fund	Public Buildings Fund	Transport- ation and Transit Fund	TOTALS
ASSETS:					
Cash and investments	\$ -	\$ -	\$ -	\$ 97,771	\$ 97,771
Receivables:					
Interest receivable	-	-	-	91	91
Due from other governments	17,626	-	-	-	17,626
TOTAL ASSETS	\$ 17,626	\$ -	\$ -	\$ 97,862	\$ 115,488
 LIABILITIES AND FUND BALANCE					
LIABILITIES:					
Accounts payable	\$ 16,108	\$ -	\$ -	\$ -	\$ 16,108
Due to other funds	68,701	-	-	-	68,701
TOTAL LIABILITIES	84,809	-	-	-	84,809
 FUND BALANCE:					
Restricted for:					
Road improvements and repairs	-	-	-	97,862	97,862
Unassigned	(67,183)	-	-	-	(67,183)
TOTAL FUND BALANCE	(67,183)	-	-	97,862	30,679
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE	\$ 17,626	\$ -	\$ -	\$ 97,862	\$ 115,488

CITY OF MARYSVILLE, CALIFORNIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NON-MAJOR CAPITAL PROJECTS FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Capital Projects Fund	Parks and Recreation Fund	Public Buildings Fund	Transport- ation and Transit Fund	TOTALS
REVENUES:					
Intergovernmental revenues	\$ 15,557	\$ -	\$ -	\$ -	\$ 15,557
Use of money and property	-	-	-	326	326
TOTAL REVENUES	<u>15,557</u>	<u>-</u>	<u>-</u>	<u>326</u>	<u>15,883</u>
EXPENDITURES:					
Current:					
Streets and public works	80,033	-	7,896	-	87,929
TOTAL EXPENDITURES	<u>80,033</u>	<u>-</u>	<u>7,896</u>	<u>-</u>	<u>87,929</u>
EXCESS (DEFICIENCY) OF REV- ENUES OVER EXPENDITURES	<u>(64,476)</u>	<u>-</u>	<u>(7,896)</u>	<u>326</u>	<u>(72,046)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	8,319	-	-	-	8,319
Transfers out	(17,333)	(6,862)	(14,641)	-	(38,836)
TOTAL OTHER FINANCING	<u>(9,014)</u>	<u>(6,862)</u>	<u>(14,641)</u>	<u>-</u>	<u>(30,517)</u>
NET CHANGE IN FUND BALANCE	(73,490)	(6,862)	(22,537)	326	(102,563)
FUND BALANCE, JULY 1	<u>6,307</u>	<u>6,862</u>	<u>22,537</u>	<u>97,536</u>	<u>133,242</u>
FUND BALANCE, JUNE 30	<u>\$ (67,183)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 97,862</u>	<u>\$ 30,679</u>

CITY OF MARYSVILLE, CALIFORNIA

COMBINING BALANCE SHEET - AGENCY FUNDS AS OF JUNE 30, 2016

	<u>Levee Commission Fund</u>	<u>Mary Aaron Museum Fund</u>	<u>TOTALS</u>
ASSETS:			
Cash and investments	\$ 291,715	\$ 5,876	\$ 297,591
Receivables:			
Accounts receivable	299	-	299
Interest receivable	270	5	275
Prepaid costs	9,808	-	9,808
Due from other governments	<u>20,168</u>	<u>-</u>	<u>20,168</u>
 TOTAL ASSETS	<u><u>\$ 322,260</u></u>	<u><u>\$ 5,881</u></u>	<u><u>\$ 328,141</u></u>
LIABILITIES:			
Accounts payable	\$ 46,226	\$ 195	\$ 46,421
Accrued payroll liabilities	6,834	-	6,834
Due to other agencies	<u>269,200</u>	<u>5,686</u>	<u>274,886</u>
 TOTAL LIABILITIES	<u><u>\$ 322,260</u></u>	<u><u>\$ 5,881</u></u>	<u><u>\$ 328,141</u></u>

CITY OF MARYSVILLE, CALIFORNIA

COMBINING BALANCE SHEET - AGENCY FUNDS AS OF JUNE 30, 2016

	Balance at July 1, 2015	Additions	Deletions	Balance at June 30, 2016
<u>LEVEE COMMISSION FUND:</u>				
ASSETS:				
Cash and investments	\$ 251,472	\$ 374,664	\$ (334,421)	\$ 291,715
Receivables:				
Accounts receivable	-	299	-	299
Interest receivable	85	270	(85)	270
Prepaid costs	7,839	9,808	(7,839)	9,808
Due from other governments	13,994	20,168	(13,994)	20,168
	\$ 273,390	\$ 405,209	\$ (356,339)	\$ 322,260
LIABILITIES:				
Accounts payable	\$ 28,101	\$ 315,300	\$ (297,175)	\$ 46,226
Accrued payroll liabilities	5,258	78,576	(77,000)	6,834
Due to other agencies	240,031	424,952	(395,783)	269,200
	\$ 273,390	\$ 818,828	\$ (769,958)	\$ 322,260
<u>MARY AARON MUSEUM FUND:</u>				
ASSETS:				
Cash and investments	\$ 7,147	\$ 9,496	\$ (10,767)	\$ 5,876
Interest receivable	3	5	(3)	5
	\$ 7,150	\$ 9,501	\$ (10,770)	\$ 5,881
LIABILITIES:				
Accounts payable	\$ 6,316	\$ 5,926	\$ (12,047)	\$ 195
Due to other agencies	834	10,904	(6,052)	5,686
	\$ 7,150	\$ 16,830	\$ (18,099)	\$ 5,881
<u>TOTAL AGENCY FUNDS</u>				
ASSETS:				
Cash and investments	\$ 258,619	\$ 384,160	\$ (345,188)	\$ 297,591
Receivables:				
Accounts receivable	-	299	-	299
Interest receivable	88	275	(88)	275
Prepaid costs	7,839	9,808	(7,839)	9,808
Due from other governments	13,994	20,168	(13,994)	20,168
	\$ 280,540	\$ 414,710	\$ (367,109)	\$ 328,141
LIABILITIES:				
Accounts payable	\$ 34,417	\$ 321,226	\$ (309,222)	\$ 46,421
Accrued payroll liabilities	5,258	78,576	(77,000)	6,834
Due to other agencies	240,865	435,856	(401,835)	274,886
	\$ 280,540	\$ 835,658	\$ (788,057)	\$ 328,141

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OTHER REPORTS



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BOLER & ASSOCIATES

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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 Marysville, California
Marysville, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marysville, California as of and for the fiscal year ended June 30, 2016, which collectively comprise the City of Marysville, California's basic financial statements and have issued our report thereon dated September 24, 2016, except for Notes P and Q, as to which the date is February 17, 2017.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



September 24, 2016, except for Notes P and Q,
As to which the date is February 17, 2017