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**REPORT TO THE CITY COUNCIL
Council Agenda of March 13, 2017**

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Prepared by:
Annette Munoz, Finance Director

CR

Approved by:
Cruz Ramos, City Administrator

SUBJECT: Fiscal Year 2016-17 Draft City Audit

RECOMMENDATION:
Receive and review FY 2016-17 Draft City Audit

BACKGROUND

In January of 2017 the City obtained audit services from Badawi & Associates CPA for fiscal years 16-17, 17-18 and 18-19. The interim audit was performed in June 2017 and the final information was obtained by the auditor the last week of October 2017. The City was also required to obtain actuarial information for other post-employment benefits. The City sought the services of Demsey, Filliger & Associates. The actuarial information became available for the City the last week of November.

Mr. Ahmed Badawi, principal at Badawi & Associates, will be in attendance at tonight's meeting to present the draft audited financial statements to Council and answer Council questions. Mr. Badawi has also met with a Council subcommittee consisting of Mayor John Lizalde and Mayor Pro Tem Ariston Julian to review the draft audit.

During its questioning, Council may want to focus on the Audit Findings and Recommendations Section that were included with the draft audit.

ATTACHMENTS

2016-17 Draft City of Guadalupe Audited Financial Statements
2016-17 Draft Findings

**City of Guadalupe
Annual Financial Report
For the year ended June 30, 2017**

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City of Guadalupe
Annual Financial Report
For the year ended June 30, 2017

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**BASIC
FINANCIAL STATEMENTS**

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

City of Guadalupe
Statement of Net Position
June 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 2,453,751	\$ 735,049	\$ 3,188,800
Accounts receivable	536,784	595,461	1,132,245
Prepaid expenses	244,949	849,817	1,094,766
Loans receivable	25,509	-	25,509
Internal balances	(373,333)	373,333	-
Total current assets	2,887,660	2,553,660	5,441,320
Noncurrent assets:			
Capital assets:			
Non-depreciable	343,131	660,643	1,003,774
Depreciable, net	8,332,558	8,373,168	16,705,726
Total capital assets	8,675,689	9,033,811	17,709,500
Total noncurrent assets	8,675,689	9,033,811	17,709,500
Total assets	11,563,349	11,587,471	23,150,820
DEFERRED OUTFLOWS OF RESOURCES			
Pension related amounts	715,686	107,912	823,598
Total deferred outflows of resources	715,686	107,912	823,598
LIABILITIES			
Current liabilities:			
Accounts payable	97,535	77,410	174,945
Cash overdraft	309,623	330,737	640,360
Accrued salaries and wages payable	105,852	18,331	124,183
Interest payable	-	39,990	39,990
Deposits payable	22,104	27,201	49,305
Unearned revenue	73,464	-	73,464
Long-term debt - due within one year	138,159	126,174	264,333
Total current liabilities	746,737	619,843	1,366,580
Noncurrent liabilities:			
Pension liability	2,238,889	347,340	2,586,229
OPEB liability	281,101	-	281,101
Long-term debt - due in more than one year	526,832	2,160,656	2,687,488
Total noncurrent liabilities	3,046,822	2,507,996	5,554,818
Total liabilities	3,793,559	3,127,839	6,921,398
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension related amounts	345,716	18,740	364,456
Total deferred inflows of resources	345,716	18,740	364,456
NET POSITION			
Net investment in capital assets	8,603,987	6,836,583	15,440,570
Restricted for:			
Street maintenance	1,176,515	-	1,176,515
Other capital projects	931,878	-	931,878
Community development	169,416	-	169,416
Other purposes	291,275	147,100	438,375
Total restricted	2,569,084	147,100	2,716,184
Unrestricted	(3,033,311)	1,565,121	(1,468,190)
Total net position	\$ 8,139,760	\$ 8,548,804	\$ 16,688,564

See accompanying Notes to Basic Financial Statements.

City of Guadalupe
Statement of Activities
For the year ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental activities:					
General Government	\$ 1,293,858	\$ 232,142	\$ 90,378	\$ -	\$ 322,520
Public Safety	2,322,259	56,137	322,834	-	378,971
Transportation	465,043	-	713,129	-	713,129
Leisure, cultural and social services	157,454	300	-	-	300
Community development	744,506	194,901	-	-	194,901
Interest on long-term debt	9,025	-	-	-	-
Total governmental activities	4,992,145	483,480	1,126,341	-	1,609,821
Business-type activities:					
Water	1,481,850	2,194,672	-	-	2,194,672
Wastewater Treatment	1,221,829	1,506,827	-	-	1,506,827
Solid Waste	44,097	62,694	-	-	62,694
Transit	535,717	549,233	-	-	549,233
Total business-type activities	3,283,493	4,313,426	-	-	4,313,426
Total primary government	\$ 8,275,638	\$ 4,796,906	\$ 1,126,341	\$ -	\$ 5,923,247
General Revenues:					
Taxes:					
Property taxes					
Sales taxes					
Utilities Uses Tax					
Other taxes					
Total taxes					
Investment earnings					
Other					
Transfers					
Total general revenues and transfers					
Change in net position					
Net position - beginning of year					
Net position - end of year					

See accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (971,338)	\$ -	\$ (971,338)
(1,943,288)	-	(1,943,288)
248,086	-	248,086
(157,154)	-	(157,154)
(549,605)	-	(549,605)
(9,025)	-	(9,025)
<u>(3,382,324)</u>	<u>-</u>	<u>(3,382,324)</u>
-	712,822	712,822
-	284,998	284,998
-	18,597	18,597
-	13,516	13,516
<u>-</u>	<u>1,029,933</u>	<u>1,029,933</u>
<u>(3,382,324)</u>	<u>1,029,933</u>	<u>(2,352,391)</u>
1,096,803	-	1,096,803
466,362	-	466,362
393,256	-	393,256
468,164	-	468,164
<u>2,424,585</u>	<u>-</u>	<u>2,424,585</u>
108,696	-	108,696
204,907	-	204,907
491,867	(491,867)	-
<u>3,230,055</u>	<u>(491,867)</u>	<u>2,738,188</u>
(152,269)	538,066	385,797
<u>8,292,029</u>	<u>8,010,738</u>	<u>16,302,767</u>
<u>\$ 8,139,760</u>	<u>\$ 8,548,804</u>	<u>\$ 16,688,564</u>

FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

Proprietary Fund Financial Statements

Fiduciary Fund Financial Statements

City of Guadalupe
Balance Sheet
Governmental Funds
June 30, 2017

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Measure A	Gas Tax		
ASSETS					
Cash and investments	\$ -	\$ 936,333	\$ 598,197	\$ 919,221	\$ 2,453,751
Accounts receivable	332,255	74,573	108,107	21,849	536,784
Prepaid expenses	222,629	14,975	-	7,345	244,949
Interfund loans receivable	-	-	-	348,333	348,333
Loans receivable	-	-	-	25,509	25,509
Total assets	\$ 554,884	\$ 1,025,881	\$ 706,304	\$ 1,322,257	\$ 3,609,326
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	83,465	1,174	6,626	6,270	97,535
Cash overdraft	307,156	-	-	2,467	309,623
Accrued salaries and wages payable	99,986	5,504	-	362	105,852
Deposits payable	22,104	-	-	-	22,104
Unearned revenue	73,464	-	-	-	73,464
Interfund loans payable	653,333	-	-	68,333	721,666
Total liabilities	1,239,508	6,678	6,626	77,432	1,330,244
Fund Balances:					
Nonspendable:					
Prepaid expenses	222,629	14,975	-	7,345	244,949
Restricted for:					
Street maintenance	-	1,004,228	-	172,287	1,176,515
Other capital projects	-	-	699,678	232,200	931,878
Community development	-	-	-	169,416	169,416
Public safety	-	-	-	264,052	264,052
Utility infrastructure	-	-	-	4,610	4,610
Debt service	-	-	-	22,613	22,613
Committed to:					
Lighting and landscape	-	-	-	431,173	431,173
Assigned to:					
Capital projects	-	-	-	11,929	11,929
Unassigned	(907,253)	-	-	(70,800)	(978,053)
Total fund balances	(684,624)	1,019,203	699,678	1,244,825	2,279,082
Total liabilities, deferred inflows of resources, and fund balances	\$ 554,884	\$ 1,025,881	\$ 706,304	\$ 1,322,257	\$ 3,609,326

See accompanying Notes to Basic Financial Statements.

City of Guadalupe
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2017

Total Fund Balances - Total Governmental Funds	\$ 2,279,082
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Amounts reported for governmental activities in the Statement of Net Position were different because:

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. Except for the internal service funds reported below, the capital assets were adjusted as follows:

Non-depreciable	343,131
Depreciable, net	8,332,558
	<hr/>
Total capital assets	8,675,689

Employer contributions for pension were recorded as expenditures in the governmental funds. However, in the Government-Wide Financial Statement these contributions are deferred.	265,093
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In the Government-Wide Financial Statement certain differences between actuarial estimates and actual results for pension are deferred and amortized over a period of time, however, in the governmental funds no transactions are recorded.	104,877
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Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.	
Net pension liability	(2,238,889)
Net OPEB Obligation	(281,101)
Long term liabilities - due in more than one year	(664,991)
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Total long-term liabilities	(3,184,981)

Net Position of Governmental Activities	\$ 8,139,760
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See accompanying Notes to Basic Financial Statements.

City of Guadalupe
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2017

	Major Funds		
	General	Measure A	Gas Tax
REVENUES:			
Taxes	1,999,232	462,594	137,862
Licenses and permits	692,805	-	-
Fines and penalties	23,365	-	-
Revenues from other agencies	275,834	-	107,019
Charges for current services	58,344	-	-
Interest	97,929	3,075	1,879
Other revenues	157,515	-	100
Total revenues	3,305,024	465,669	246,860
EXPENDITURES:			
Current:			
General Government	1,099,220	-	-
Public Safety	2,225,456	-	-
Transportation	-	376,866	63,095
Leisure, cultural and social services	105,144	-	-
Community development	313,213	-	-
Capital outlay	37,790	-	65,460
Debt service:			
Principal	51,873	-	21,519
Interest and fiscal charges	6,675	-	-
Total expenditures	3,839,371	376,866	150,074
REVENUES OVER (UNDER) EXPENDITURES	(534,347)	88,803	96,786
OTHER FINANCING SOURCES (USES):			
Transfers in	589,150	-	-
Transfers out	-	(32,833)	(42,900)
Total other financing sources (uses)	589,150	(32,833)	(42,900)
Net change in fund balances	54,803	55,970	53,886
FUND BALANCES:			
Beginning of year	(739,427)	963,233	645,792
End of year	<u>\$ (684,624)</u>	<u>\$ 1,019,203</u>	<u>\$ 699,678</u>

See accompanying Notes to Basic Financial Statements.

Other Governmental Funds	Total Governmental Funds
\$ 136,840	\$ 2,736,528
6,681	699,486
-	23,365
146,942	529,795
33,482	91,826
5,811	108,694
700	158,315
<u>330,456</u>	<u>4,348,009</u>
-	1,099,220
28,581	2,254,037
-	439,961
20,000	125,144
69,997	383,210
16,657	119,907
15,000	88,392
2,350	9,025
<u>152,585</u>	<u>4,518,896</u>
<u>177,871</u>	<u>(170,887)</u>
14,200	603,350
<u>(35,750)</u>	<u>(111,483)</u>
<u>(21,550)</u>	<u>491,867</u>
156,321	320,980
<u>1,088,504</u>	<u>1,958,102</u>
<u>\$ 1,244,825</u>	<u>\$ 2,279,082</u>

City of Guadalupe

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Change in Fund Balances to the Government-Wide Statement of Activities For the year ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds	\$	320,980
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Amounts reported for governmental activities in the Statement of Activities were different because:

Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period.	120,012
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Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the governmental funds.	(518,170)
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Accrued compensated leave payable was an expenditure in governmental funds, but the accrued payable increased compensated leave liabilities in the Government-Wide Statement of Net Position.	(14,655)
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OPEB expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(31,392)
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Bond proceeds provided current financial resources to governmental funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Position. Repayment of bond principal was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Position.	
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Long-term debt issuance	(160,094)
Long-term debt repayments	143,628

Current year employer pension contributions are recorded as expenditures in the governmental funds, however, these amounts are reported as a deferred outflow of resources in the Government-Wide Statement of Net Position.	265,093
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Pension expense is recorded as incurred in the Government-Wide Statement of Activities, however, pension expense is not recognized in the governmental funds.	(277,671)
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Change in Net Position of Governmental Activities	\$	<u>(152,269)</u>
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City of Guadalupe
Statement of Net Position
Proprietary Funds
June 30, 2017

	Enterprise Funds				Total
	Water	Wastewater Treatment	Solid Waste	Transit	
ASSETS					
Current assets:					
Cash and investments	\$ 509,486	\$ -	\$ (25,663)	\$ 251,226	735,049
Accounts receivable, net of allowance	269,182	212,411	7,505	106,363	595,461
Prepaid expenses	823,492	26,325	-	-	849,817
Total current assets	1,602,160	238,736	(18,158)	357,589	2,180,327
Noncurrent assets:					
Interfund loan receivable, net of current portion	373,333	-	-	-	373,333
Land	29,464	218,961	-	-	248,425
Work in progress	295,238	116,980	-	-	412,218
Buildings, structures and improvements	5,033,477	4,818,550	-	17,344	9,869,371
Vehicles	80,073	119,108	-	1,482,532	1,681,713
Equipment	392,348	126,558	-	10,610	529,516
Infrastructure	-	6,998,888	-	-	6,998,888
Less accumulated depreciation	(2,810,822)	(6,979,403)	-	(916,095)	(10,706,320)
Total noncurrent assets	3,393,111	5,419,642	-	594,391	9,407,144
Total assets	4,995,271	5,658,378	(18,158)	951,980	11,587,471
DEFERRED OUTFLOWS OF RESOURCES					
Deferred pensions	46,468	61,444	-	-	107,912
Total deferred outflows of resources	46,468	61,444	-	-	107,912

See accompanying Notes to Basic Financial Statements.

City of Guadalupe
Statement of Net Position
Proprietary Funds
June 30, 2017

	Enterprise Funds				Total
	Water	Wastewater Treatment	Solid Waste	Transit	
LIABILITIES					
Current liabilities:					
Accounts payable	16,421	30,835	-	30,154	77,410
Cash overdraft		280,308	50,429		330,737
Deposits payable	27,201	-	-	-	27,201
Accrued wages and benefits	8,367	9,964	-	-	18,331
Interest payable	22,588	17,402	-	-	39,990
Current portion of insurance claim payable	4,529	16,485			21,014
Current portion of capital lease obligations	16,053	28,315			44,368
Current portion of certificates of participation	38,952	21,840			60,792
Total current liabilities	134,111	405,149	50,429	30,154	619,843
Noncurrent liabilities:					
Insurance claim payable	42,555	26,033	-	-	68,588
Capital lease obligations, net of current portion	37,482	86,521	-	-	124,003
Certificates of participation, net of current portion	1,124,698	843,367	-	-	1,968,065
Net pension liability	149,568	197,772	-	-	347,340
Total noncurrent liabilities	1,354,303	1,153,693	-	-	2,507,996
Total liabilities	1,488,414	1,558,842	50,429	30,154	3,127,839
DEFERRED INFLOWS OF RESOURCES					
Deferred pensions	8,070	10,670	-	-	18,740
Total deferred inflows of resources	8,070	10,670	-	-	18,740
NET POSITION					
Net investment in capital assets	1,802,593	4,439,599	-	594,391	6,836,583
Restricted for debt service	88,522	58,578	-	-	147,100
Unrestricted	1,654,140	(347,867)	(68,587)	327,435	1,565,121
Total net position	\$ 3,545,255	\$ 4,150,310	\$ (68,587)	\$ 921,826	\$ 8,548,804

See accompanying Notes to Basic Financial Statements.

City of Guadalupe
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the year ended June 30, 2017

	Enterprise Funds				Total
	Water	Wastewater Treatment	Solid Waste	Transit	
OPERATING REVENUES:					
Waster sales	\$ 1,730,143	\$ -	\$ -	\$ -	1,730,143
Standby charges	31,091	-	-	-	31,091
Connection fees	66,504	11,282	-	-	77,786
Sewer service charges	-	1,431,071	-	-	1,431,071
Refuse service charges	-	-	62,694	-	62,694
Revenues from other agencies	347,000	-	-	475,532	822,532
Other revenues	19,934	64,474	-	73,701	158,109
Total operating revenues	2,194,672	1,506,827	62,694	549,233	4,313,426
OPERATING EXPENSES:					
Personnel services	213,843	253,992	-	-	467,835
Maintenance and operations	1,035,978	450,210	44,097	426,687	1,956,972
Depreciation	183,071	474,982	-	109,030	767,083
Total operating expenses	1,432,892	1,179,184	44,097	535,717	3,191,890
OPERATING INCOME (LOSS)	761,780	327,643	18,597	13,516	1,121,536
NONOPERATING REVENUES (EXPENSES):					
Interest expense	(48,958)	(42,645)	-	-	(91,603)
Transfers in	-	-	2,333	-	2,333
Transfers out	(281,900)	(177,300)	-	(35,000)	(494,200)
Total nonoperating revenues (expenses)	(330,858)	(219,945)	2,333	(35,000)	(583,470)
Change in net position	430,922	107,698	20,930	(21,484)	538,066
NET POSITION					
Beginning of year	3,114,333	4,042,612	(89,517)	943,310	8,010,738
End of year	\$ 3,545,255	\$ 4,150,310	\$ (68,587)	\$ 921,826	\$ 8,548,804

See accompanying Notes to Basic Financial Statements.

City of Guadalupe
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2017

	Enterprise Funds				
	Waster	Wastewater Treatment	Solid Waste	Transit	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 2,056,849	\$ 1,460,873	\$ 145,380	\$ 740,613	\$ 4,403,715
Cash received from connection fees	66,504	11,282	-	-	77,786
Cash received from standby charges and other agencies	39,332	-	-	-	39,332
Cash paid to suppliers for goods and services	(1,151,510)	(958,041)	(223,805)	(426,229)	(2,759,585)
Cash paid to employees and related benefits	(209,446)	(250,298)	-	-	(459,744)
Net cash provided by (used in) operating activities	801,729	263,816	(78,425)	314,384	1,301,504
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Internal activity - cash paid from (to) other funds	16,667	-	-	(250,000)	(233,333)
Net transfers	(281,900)	(177,300)	2,333	(35,000)	(491,867)
Net cash provided by (used in) noncapital financing activities	(265,233)	(177,300)	2,333	(285,000)	(725,200)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Net change in insurance payable	(8,069)	(6,295)	-	-	(14,364)
Net changes in capital lease obligations	11,251	79,354	-	-	90,605
Principal payments on certificates of participation	(37,212)	(20,280)	-	-	(57,492)
Interest payments on certificates of participation	(48,958)	(42,645)	-	-	(91,603)
Principal payments on loans payable to Successor Agency Trust Fund	-	(156,910)	-	-	(156,910)
Acquisition of capital assets	(375,579)	(220,048)	-	(65,306)	(660,933)
Net cash used in capital and related financing activities	(458,567)	(366,824)	-	(65,306)	(890,697)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	77,929	(280,308)	(76,092)	(35,922)	(314,393)
CASH AND CASH EQUIVALENTS - Beginning of year	431,557	-	-	287,148	718,705
CASH AND CASH EQUIVALENTS - End of year	\$ 509,486	\$ (280,308)	\$ (76,092)	\$ 251,226	\$ 404,312
FINANCIAL STATEMENT PRESENTATION:					
Cash and investments	\$ 509,486	\$ -	\$ (25,663)	\$ 251,226	735,049
Cash overdraft	-	(280,308)	(50,429)	-	(330,737)
Total	\$ 509,486	\$ (280,308)	\$ (76,092)	\$ 251,226	\$ 404,312
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating income (loss)	\$ 761,780	\$ 327,643	\$ 18,597	\$ 13,516	\$ 1,121,536
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	183,071	474,982	-	109,030	767,083
Changes in assets, deferred outflows and inflows of resources, and liabilities					
Accounts receivable	(39,652)	(34,672)	129,033	262,380	317,089
Prepaid expenses	(109,038)	(4,040)	-	-	(113,078)
Deferred outflows pensions	(30,370)	(40,158)	-	-	(70,528)
Accounts payable	(6,494)	(503,791)	(179,708)	458	(689,535)
Unearned revenue	-	-	(46,347)	(71,000)	(117,347)
Deposits payable	7,665	-	-	-	7,665
Accrued wages and benefits	3,568	2,598	-	-	6,166
Net pension liability	46,310	61,235	-	-	107,545
Deferred inflows pensions	(15,111)	(19,981)	-	-	(35,092)
Total adjustments	39,949	(63,827)	(97,022)	300,868	179,968
Net cash provided by (used in) operating activities	\$ 801,729	\$ 263,816	\$ (78,425)	\$ 314,384	\$ 1,301,504

See accompanying Notes to Basic Financial Statements.

City of Guadalupe
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2017

	Private-Purpose Trust Fund
ASSETS	
Cash and investments	\$ 854,521
Cash with fiscal agent	414,750
Accounts receivable	120,348
Loans receivable	4,899
Property held for resale	222,482
Capital assets, net of accumulated depreciation	173,260
Total assets	1,790,260
LIABILITIES	
Accounts payable	23,317
Interest payable	105,239
Deferred revenue	344,036
Long-term liabilities:	
Due within one year	168,524
Due after one year	4,850,121
Total liabilities	5,491,237
NET POSITION	
Held in trust for other governments	\$ (3,700,977)

See accompanying Notes to Basic Financial Statements.

City of Guadalupe
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the year ended June 30, 2017

	Private-Purpose Trust Fund
ADDITIONS:	
Property taxes	\$ 591,137
Revenue from other agencies	21,979
Other revenues	4,163
Total additions	617,279
DEDUCTIONS:	
Program expenses	1,091,410
Administration expenses	80,000
Interest on long-term liabilities	249,194
Loss on sale of Lantern Hotel	-
Depreciation	9,900
Total Deductions	1,430,504
Change in net position	(813,225)
NET POSITION:	
Beginning of year	(2,887,752)
End of year	\$ (3,700,977)

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Guadalupe, California (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City of Guadalupe (the City) was incorporated on August 3, 1946. The City is a general law city under the laws of the State of California and operates under a Council-Administrator form of government. The City provides the following services: public safety (police and fire), construction and maintenance of highways and streets, sanitation, culture and recreation, public improvements, planning, zoning and general administration. Enterprise funds, operated in a manner similar to a private business, include water, wastewater, solid waste, and transit.

The City has defined its reporting entity in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 14, amended by GASB Statements No. 39 and 61. These statements provide guidance for determining which organizations, functions and activities of a government should be included in the general purpose financial statements.

The criteria for inclusion in the basic financial statements are generally based upon the ability of the City to exercise oversight responsibility over such organizations, functions and activities. Oversight responsibility is generally defined as the existence of financial interdependency and/or the ability to appoint governing boards, to designate management, to significantly influence operations, to approve operating budgets or to control day to day activities.

The accompanying financial statements include all activities and reporting entities over which the City exercises oversight responsibility. Effective January 31, 2012, the Community Redevelopment Agency of the City of Guadalupe (the Agency) was dissolved through the Supreme Court decision on Assembly Bill 1X26. This action impacted the reporting entity of the City that previously had reported the Agency as a blended component unit. See Note 14 for additional information on the dissolution and reporting of the Agency as a Private Purpose Trust Fund.

In determining the financial reporting entity for the City of Guadalupe, the following governmental unit has met the criteria for inclusion in the City's financial statements.

Guadalupe Public Financing Authority

The Guadalupe Public Financing Authority (the Authority) was established in 2000, and is a separate government entity under the laws of the State of California. The purpose of the Authority is to provide financing for the construction and acquisition of selected City facilities. The City Council of the City of Guadalupe and the Board of Directors of the Authority are legally separate boards; however, they share a common membership. Activities of the Authority are accounted for in the applicable City governmental or enterprise funds. Separate financial statements are not prepared for the Authority, as it is included in the accompanying financial statements as a blended component unit.

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Reporting Entity, Continued

Other Governmental Agencies

Other governmental agencies provide various levels of services to residents of the City, either entirely or partially. The entities include, but are not limited to, the State of California, the County of Santa Barbara, as well as several school districts. Each of these agencies has an independently elected governing board or is dependent on an independently elected governing board other than the City Council of the City of Guadalupe.

The City has no ability to appoint or control the management of any of these entities and is not responsible for any operating losses or debts incurred. As a result of the above analysis, financial information for these agencies is not included within the scope of this report.

B. Basis of Accounting and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity with its own self-balancing set of accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures or expenses. These funds are established for the purpose of carrying out specific activities or certain objectives in accordance with specific regulations, restrictions or limitations. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on the primary government and its blended component units. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Government-Wide Financial Statements, Continued

These financial statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets, deferred inflows/outflows of resources, and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liabilities are incurred.

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

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

Certain eliminations have been made in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Due to/from other funds
- Transfers in/out

The City applies all applicable GASB pronouncements including all NCGA Statements and Interpretations currently in effect.

Fund Financial Statements

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

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the government-wide financial statements. The City has presented all major funds that meet specific qualifications.

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after fiscal year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent that they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual include other taxes, intergovernmental revenues, interest, and charges for services.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures/expenses. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

The City reports the following funds as major governmental funds of the City.

General Fund accounts for resources traditionally associated with governmental activities that are not required legally or by sound financial management to be accounted for in another fund.

Measure A Fund accounts for the activities associated with maintaining, improving or constructing roadways, bridges and bicycle and pedestrian bridges, safe routes to school improvements, storm damage repair for transportation facilities, roadway drainage facilities, and landscaping maintenance.

Gas Tax Fund accounts for the activities associated with [describe]

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Change in Net Position, and a Statement of Cash Flows for all proprietary funds.

A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the Government-Wide Financial Statements.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which a liability is incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for 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.

The City reports the Water, Sewer, Solid waste and Transit Fund as proprietary funds of the City.

Water Fund: This enterprise fund accounts for the operation of the City's water utility, a self-supporting activity, which renders a service on a user charge basis to residents and businesses.

Wastewater Treatment Fund: This enterprise fund accounts for the operations of the City's wastewater treatment plant. The fund accounts for the operation of the City's sewer utility, a self-supporting activity, which renders a service on a user charge basis to residents and businesses.

Solid Waste Fund: This enterprise fund accounts for the operations of the City's solid waste collection and disposal services, a self-supporting activity, which renders service on a user charge basis to residents and businesses.

Transit Fund: This enterprise fund accounts for the operations of the City's transit service within the City and surrounding areas.

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Fiduciary Fund Financial Statements

Fiduciary fund financial statements consist of a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. Fiduciary funds include a private purpose trust fund and an agency fund. The private purpose trust fund accounts for the assets and liabilities of the former Redevelopment Agency. The agency fund is used to account for funds held by the City for specified purpose that do not belong to the City. The fiduciary funds are accounted for on the accrual basis of accounting.

C. Cash, Cash Equivalents and Investments

For purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The proprietary funds' "deposits" in the City-wide cash management pool are, in substance, demand deposits and are, therefore, considered cash equivalents for purposes of the statement of cash flows.

The City pools cash resources from all funds in order to facilitate the management of cash. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end, and other disclosures.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid 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. The City categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City does not have any investments that are measured using Level 3 inputs.

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash, Cash Equivalents and Investments, Continued

The City participates in an investment pool managed by the State of California entitled Local Agency Investment Fund (LAIF) which has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to the change in interest rates.

Cash equivalents are considered amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the City and are presented as "Cash and Investments" in the accompanying Basic Financial Statements.

The City considers all pooled cash and investments (consisting of cash and investments and restricted cash and investments) held by the City as cash and cash equivalents because the pool is used essentially as a demand deposit account from the standpoint of the funds. The City also considers all non-pooled cash and investments (consisting of cash with fiscal agent and restricted cash and investments held by fiscal agent) as cash and cash equivalents because investments meet the criteria for cash equivalents defined above.

D. Restricted Cash and Investments

Certain restricted cash and investments are held by fiscal agents for the redemption of bonded debt, for acquisition and construction of capital projects, and to meet bond indenture debt reserve requirements. Cash and investments are also restricted for deposits held for others within the enterprise funds.

E. Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. The City's policy is to capitalize all capital assets with costs exceeding \$2,500 and with useful lives exceeding one year.

With the implementation of GASB Statement No. 34, the City has recorded all its public domain (infrastructure) capital assets, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each fiscal year represents that fiscal year's pro rata share of the cost of capital assets. GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each fiscal year until the asset is fully depreciated.

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Capital Assets, Continued

The City has assigned the useful lives listed below to capital assets.

Vehicles	5 - 10 years
Buildings and Improvements	20 - 35 years
Equipment	5 - 15 years
Infrastructure	10 - 50 years

F. Interest Payable

In the Government-Wide Financial Statements, interest payable on long-term debt is recognized as the liability is incurred for governmental fund types and proprietary fund types.

In the Fund Financial Statements, proprietary fund types recognize the interest payable when the liability is incurred.

G. Long-Term Debt

Government-Wide Financial Statements - Long-term debt and other long-term obligations are reported as liabilities in the appropriate activities.

Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable is reported net of the applicable bond premium or discount. Bond issuance costs, except any portion related to prepaid insurance costs, are recognized as an expense in the period incurred.

Fund Financial Statements - The governmental fund financial statements do not present long-term debt. As such, long-term debt is shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.

Bond premiums and discounts are recognized during the current period as other financing sources or uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Bond proceeds are reported as other financing sources.

Proprietary Fund and Fiduciary Fund Financial Statements use the same principles as those used in the Government-Wide Financial Statements.

H. Property Taxes

California Constitution Article XIII A limits the combined property tax rate to one percent of a property's assessed valuation. Additional taxes may be imposed with voter approval. Assessed value is calculated at one hundred percent of a property's fair value, as defined by Article XIII A, and may be increased no more than two percent per year unless a change in ownership occurs. The state legislature has determined the method of distributing the one percent tax levy among the various taxing jurisdictions.

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Property Taxes, Continued

Property tax revenues are recognized in the fiscal year for which taxes have been levied, and collected within sixty days of fiscal year-end. Property tax assessment and collection is administered by the County of Santa Barbara.

Property taxes are billed and collected as follows:

	<u>Secured</u>	<u>Unsecured</u>
Valuation/Lien Date(s)	January 1	January 1
Levy Date(s)	September 1	January 1
Due Date(s)	November 1 (50%) February 1 (50%)	Upon Billing
Delinquency Date(s)	December 10 (Nov.) April 10 (Feb.)	August 31

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position (balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position (balance sheet) will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

J. Net Position

Government-Wide Financial Statements

In the Government-Wide Financial Statements, net position are classified in the following categories:

Net Investment in Capital Assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of governments.

Unrestricted - This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position" as defined above.

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Net Position, Continued

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the City's policy is to apply restricted net position first.

K. Fund Balances

Fund Financial Statements

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). The new classifications of fund balances are as follows:

Non-spendable Fund Balances

This component consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balances

This component consists of amounts that have constraints placed on them either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the City to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

Committed Fund Balances

This component consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision making authority which includes the City Municipal Code, Ordinances and Resolutions. Those committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action (City Municipal Code, Ordinance and Resolution) it employed previously to commit those amounts.

Assigned Fund Balances

This component consists of amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Such intent should be expressed by the City Council or its designated officials to assign amounts to be used. Constraints imposed on the use of assigned amounts can be removed with no formal Council actions.

Unassigned Fund Balance

This component consists of amounts that have not been restricted, committed or assigned to specific purposes.

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. Fund Balances, Continued

Hierarchy of Expenditures to Classify Fund Balance Amounts

The City has formally adopted a spending policy regarding the order in which restricted, committed, assigned, and unassigned fund balances are spent when more than one amount is available for a specific purpose. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the City's policy to use committed resources first, then assigned, and then unassigned as they are needed.

L. Compensated Leave Payable

In compliance with GASB Statement No. 16, the City has established a liability for accrued sick leave and vacation in relevant funds. For governmental funds, the current liability appears in the respective funds. All vacation paid is accrued when incurred in the government-wide and proprietary funds financial statements. This liability is set up for the current employees at the current rates of pay. If sick leave and vacation are not used by the employee during the term of employment, compensation is payable to the employee at the time of retirement. Such compensation is calculated at the employee's prevailing rate at the time of retirement or termination. Each fiscal year, an adjustment to the liability is made based on pay rate changes and adjustments for the current portion. The General Fund is primarily responsible for the repayment of the governmental portion of compensated absences.

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

M. Pension

The City recognizes a net pension liability, which represents the City's proportionate share of the excess of the total pension liability over the fiduciary net position of the pension reflected in the actuarial reports provided by the California Public Employees' Retirement System (CalPERS) plan (Plan). The net pension liability is measured as of the City's prior fiscal year-end. Changes in the net pension liability are recorded, in the period incurred, as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in the net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) are amortized over the weighted average remaining service life of all participants in the respective pension plan and are recorded as a component of pension expense beginning with the period in which they are incurred.

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

N. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the American Institute of Certified Public Accountants, 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 expenditures/expenses during the reporting period. Actual results could differ from those estimates.

O. New Pronouncements

In 2017, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*— The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

O. New Pronouncements, Continued

- **GASB Statement No. 77, *Tax Abatement Disclosure***- This Statement addresses the financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time.

- **GASB Statement No. 78, *Pension Provided through Certain Multiple-Employer Defined Benefit Pension Plans***- The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

- **GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*** - The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*

- **GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statement No. 67, No. 68, and No. 73*** - This Statement addresses certain issues that had been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in the required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The City updated covered employee payroll information in the required supplementary information as part of implementation of this accounting standard.

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

2. CASH AND INVESTMENTS

The City maintains a cash and investment pool for all funds. Certain restricted funds that are held and invested by independent outside custodians through contractual agreements are not pooled. These restricted funds include cash and investment held by trustees.

The following is a summary of cash and investments at June 30, 2017:

	Government-Wide Statement of Net Position			Fund Financials	
	Governmental Activities	Business-Type Activities	Total	Fiduciary Funds Statement of Net Position	Total
Cash and investments	\$ 2,453,751	\$ 735,049	\$ 3,188,800	\$ 854,521	\$ 4,043,321
Cash overdraft	(309,623)	(330,737)	(640,360)	-	(640,360)
Total cash and Investments	2,144,128	404,312	2,548,440	854,521	3,402,961
Restricted cash and investments	-	-	-	415,740	415,740
Total cash and Investments and restricted cash and investments	\$ 2,144,128	\$ 404,312	\$ 2,548,440	\$ 1,270,261	\$ 3,818,701

A. Summary of Cash and Investments

Cash and investments as of June 30, 2017 consist of the following:

Cash and investments:	
Deposits	\$ 216,603
Petty cash	1,050
Local Agency Investment Fund (LAIF)	3,138,921
Common stock	46,387
Total cash and investments	\$ 3,402,961

B. Deposits

The carrying amount of the City's cash deposit was \$216,603 at June 30, 2017. Bank balances before reconciling items were a positive amount of \$893,071 at June 30, 2017. The City's cash deposit was fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The remaining amount was collateralized with securities held by the pledging financial institutions in the City's name.

The California Government Code (Code) Section 53652 requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. The Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

2. CASH AND INVESTMENTS, Continued

B. Deposits, Continued

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

C. Investments

Under the provisions of the City's investment policy, and in accordance with the Code, the following investments are authorized:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Securities of the United States Government, or its agencies	5 years	N/A	N/A
Certificates of deposit (or time deposits) placed with commercial banks and/or savings and loan companies	5 years	N/A	N/A
Negotiable certificates of deposit	5 years	N/A	N/A
Commercial paper	5 years	N/A	N/A
Money market funds rated "AAAm" or "AAAmg" by Standard & Poor's Corporation	5 years	N/A	N/A
Local Agency Investment Fund (State Pool)	5 years	N/A	N/A
Repurchase agreements	5 years	N/A	N/A

Investments are stated at fair value using the aggregate method in all funds, resulting in the following investment income in all funds:

Interest income	\$ -
Unrealized gain in changes in fair value of investments	-
Total investment income	0

The City's portfolio value fluctuates in an inverse relationship to any change in interest rate. Accordingly, if interest rates rise, the portfolio value will decline. If interest rates fall, the portfolio value will rise. The portfolio for year-end reporting purposes is treated as if it were all sold. Therefore, fund balance must reflect the portfolio's change in value. These portfolio value changes are unrealized

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

2. CASH AND INVESTMENTS, Continued

C. Investments, Continued

unless sold. Generally the City's practice is to buy and hold investments until maturity dates. Consequently, the City's investments are carried at fair value.

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investments with LAIF at June 30, 2017, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

Structured Notes - are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.

Asset-Backed Securities - the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2017, the City had \$3,138,921 invested in LAIF, which had invested 2.89% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 2.81% in the previous year. The LAIF fair value factor of 0.998940671 was used to calculate the fair value of the investments in LAIF.

D. Risk Disclosures

Interest Risk: Interest rate risk is the market value fluctuation due to overall changes in the interest rates. It is mitigated by limiting the average maturity of the City's portfolio not to exceed three years. Investments held in the City Treasury grouped by maturity date at June 30, 2017, are shown below:

Investment Type	Totals	Remaining Maturity (in Months)					
		12 Months Or Less	13 to 24 Months	25 to 36 Months	37 to 48 Months	49 to 60 Months	More Than 60 Months
State Pool	\$ 3,138,921	\$ 3,138,921	\$ -	\$ -	\$ -	\$ -	\$ -
Common stock	46,387	46,387	-	-	-	-	-
Total	\$ 3,185,308	\$ 3,185,308	\$ -	\$ -	\$ -	\$ -	\$ -

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

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

2. CASH AND INVESTMENTS, Continued

D. Risk Disclosures, Continued

At June 30, 2017, the City's deposits and investments were rated as follows:

Investment Type	Amount	Minimum Legal Rating	Exempt from Disclosure	Rating as of Fiscal Year-End	
				Not Rated	
State Pool	\$ 3,138,921	N/A	\$ -	\$	3,138,921
Common stock	46,387	N/A	-		46,387
Total	\$ 3,185,308		\$ -	\$	3,185,308

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the City's investments were subject to custodial credit risk.

E. Investment Valuation

Investments (except money market accounts that are included as part of restricted cash and investments) are measured at fair value on a recurring basis. Recurring fair value measurements, are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments' fair value measurements at June 30, 2017 are described below:

Investment Type	Amount	Fair Value Measurement Using:		
		Level 1	Level 2	Level 3
Investments subject to leveling:				
Common stock	\$ 46,387	\$ 46,387	\$ -	\$ -
Total investments subject to leveling	46,387	\$ 46,387	\$ -	\$ -
Investments not subject to leveling:				
State Pool	3,138,921			
Total investments	\$ 3,185,308			

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

3. INTERFUND TRANSACTIONS

A. Interfund Loans Receivable

At June 30, 2017, the City had the following due to/from other funds:

Due From	Due To		
	Non-Major Governmental		
	Funds	Water Fund	
General Fund	280,000	373,333	653,333
Non-Major Governmental Funds	68,333	-	68,333
	348,333	373,333	721,666

Interfund loans occur when one fund loans another fund amounts for a specific purpose. Unlike external loans, these internal loans are interest free. However, the City intends to pay amounts back to the appropriate loaning fund in a manner similar to how an external loan would be paid, with a set payment schedule. The purpose of the interfund loans to the General Fund were to reduce the existing negative cash balance and support continued operations. The purpose of the Library Fund interfund loan was to pay the library lease payments, which will be supported through development fees in future years.

AS of June 30, 2017, future minimum payments on the above loans were as follows:

	General Fund	Library Fund
2018	\$ 40,834	\$ 20,000
2019	52,500	20,000
2020	64,168	20,000
2021	75,834	8,000
2022	87,500	-
2023-2025	332,497	-
	\$ 653,333	\$ 68,000

B. Transfers

Interfund transfers are used to move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due and to move unrestricted fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as matching funds for various grant programs. Interfund transfers to the General Fund are for the variable cost allocation plan for services provided to other funds of the City.

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

3. INTERFUND TRANSACTIONS, Continued

B. Transfers, Continued

At June 30, 2017, the City had the following transfers in/out which arose in the normal course of operations.

Transfer Out	Transfer In			Total
	General Fund	Non-Major Governmental Funds	Solid Waste Fund	
General Fund	\$ -	\$ -	\$ -	\$ -
Measure A Fund	30,500	-	2,333	32,833
Gas Tax Fund	42,900	-	-	42,900
Non-Major Governmental	21,550	14,200	-	35,750
Water Fund	281,900	-	-	281,900
Wastewater Treatment Fund	177,300	-	-	177,300
Transit Fund	35,000	-	-	35,000
Total	\$ 589,150	\$ 14,200	\$ 2,333	\$ 605,683

4. LOANS AND NOTES RECEIVABLE

The City has made various loans under Community Development Block Grants to qualified homeowners and businesses. Under the terms of the business loans, repayments are due in monthly installments through 2021. Under the terms of the homeowner agreements, repayments of the loans are only required upon the sale of the home. The outstanding balance of the loans receivable was \$25,509 at June 30, 2017.

At June 30, 2017, the aggregate maturities of the City's loans and notes receivable was as follows:

For the Year Ending June 30,	
2018	\$ 5,160
2019	5,160
2020	5,160
2021	10,029
Total	\$ 25,509

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

5. CAPITAL ASSETS

A. Government-Wide Financial Statements

The following is a summary of changes in the capital assets for the governmental activities during the fiscal year:

	Balance July 1, 2016	Additions	Retirements	Transfers	Balance June 30, 2017
Non-depreciable assets:					
Land	\$ 343,131	\$ -	\$ -	\$ -	\$ 343,131
Construction in progress	-	-	-	-	-
Total non-depreciable assets	<u>343,131</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>343,131</u>
Depreciable assets:					
Buildings and improvements	5,244,508	-	-	-	5,244,508
Vehicles	1,103,905	83,876	-	-	1,187,781
Equipment	511,184	36,136	-	-	547,320
Infrastructure	6,998,887	-	-	-	6,998,887
Total depreciable assets	<u>13,858,484</u>	<u>120,012</u>	<u>-</u>	<u>-</u>	<u>13,978,496</u>
Less accumulated depreciation:					
Buildings and improvements	1,357,822	143,123	-	-	1,500,945
Vehicles	917,252	75,781	-	-	993,033
Equipment	477,908	22,930	-	-	500,838
Infrastructure	2,374,786	276,336	-	-	2,651,122
Total accumulated depreciation	<u>5,127,768</u>	<u>518,170</u>	<u>-</u>	<u>-</u>	<u>5,645,938</u>
Total depreciable assets, net	<u>8,730,716</u>	<u>(398,158)</u>	<u>-</u>	<u>-</u>	<u>8,332,558</u>
Total capital assets	<u>\$ 9,073,847</u>	<u>\$ (398,158)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,675,689</u>

Depreciation expense by program for capital assets for the year ended June 30, 2017 was as follows:

General government	\$ 31,260
Public safety	68,222
Transportation	25,082
Leisure, cultural & social services	32,310
Community development	361,296
Total depreciation expense	<u>\$ 518,170</u>

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

5. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

The following is a summary of changes in the capital assets for business-type activities during the fiscal year:

	Balance July 1, 2016	Additions	Retirements	Transfers	Balance June 30, 2017
Non-depreciable assets:					
Land	\$ 248,425	\$ -	\$ -	\$ -	\$ 248,425
Construction in progress	48,176	364,042	-	-	412,218
Total non-depreciable assets	296,601	364,042	-	-	660,643
Depreciable assets:					
Buildings and improvements	9,769,022	100,349	-	-	9,869,371
Vehicles	1,509,260	172,453	-	-	1,681,713
Equipment	505,425	24,091	-	-	529,516
Infrastructure	6,998,888	-	-	-	6,998,888
Total depreciable assets	18,782,595	296,893	-	-	19,079,488
Less accumulated depreciation:					
Buildings and improvements	6,845,773	607,718	-	-	7,453,491
Vehicles	811,004	138,007	-	-	949,011
Equipment	451,512	21,358	-	-	472,870
Infrastructure	1,830,948	-	-	-	1,830,948
Total accumulated depreciation	9,939,237	767,083	-	-	10,706,320
Total depreciable assets, net	8,843,358	(470,190)	-	-	8,373,168
Total capital assets	\$ 9,139,959	\$ (106,148)	\$ -	\$ -	\$ 9,033,811

Depreciation expense for the year ended June 30, 2017 was as follows:

Water	\$ 183,071
Waste Water	474,982
Transit	109,030
Total depreciation expense	\$ 767,083

B. Governmental Fund Financial Statements

The governmental fund financial statements do not present general government capital assets but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

6. LONG-TERM DEBT

A. Governmental Activities

For the year ended June 30, 2017, governmental activities long-term liabilities activity was as follows:

	Balance			Balance	Due Within
	July 1, 2016	Additions	Deletions	June 30, 2017	One Year
Sewer bonds	\$ 47,000	\$ -	\$ (15,000)	\$ 32,000	\$ 16,000
Capital lease obligations	175,351	160,094	(73,392)	262,053	73,125
Insurance claims payable	170,431	51,044	(106,280)	115,195	49,034
Compensated absences	241,088	14,655	-	255,743	-
Total capital assets	\$ 633,870	\$ 225,793	\$ (194,672)	\$ 664,991	\$ 138,159

Sewer Bonds

Principal payments on the 1971 Sewer Bonds Series B and the 1978 Sewer Bonds are due on April 1st each year with interest due semi-annually at 5% per annum. The bonds mature in April 2019. These payments are made to the Farmers Home Administration, the purchaser of the bonds. At June 30, 2017, the principal balance outstanding was \$32,000.

The annual debt service requirements on the Sewer Bonds are as follows:

Year Ending	Principal	Interest	Total
June 30,			
2018	\$ 16,000	\$ 850	\$ 16,850
2019	16,000	100	16,100
Total	\$ 32,000	\$ 950	\$ 32,950

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

6. LONG-TERM DEBT, Continued

A. Governmental Activities, Continued

Capital Lease Obligations

The City leases vehicles and equipment under capital leases that expire through January 2021. At June 30, 2017, future minimum payments for governmental capital lease obligations were as follows: The annual debt service requirements on these bonds are as follows:

Year Ending June 30,	Amount
2018	73,125
2019	73,125
2020	73,125
2021	37,978
2022	4,700
Less interest	
Present value of minimum lease payments	262,053
Less current portion	(73,125)
Long-term principal obligations	<u>\$ 188,928</u>

Compensated absences in the governmental funds are generally liquidated by the General Fund on a pay as you go basis.

B. Business-Type Activities

For the year ended June 30, 2017, business-type activities long-term liabilities activity was as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Certificates of participation	\$ 2,086,349	\$ -	\$ (57,492)	\$ 2,028,857	\$ 60,792
Capital lease obligations	77,766	131,348	(40,743)	168,371	44,368
Insurance claims payable	103,966	-	(14,364)	89,602	21,014
Total	<u>\$ 2,268,081</u>	<u>\$ 131,348</u>	<u>\$ (112,599)</u>	<u>\$ 2,286,830</u>	<u>\$ 126,174</u>

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

6. LONG-TERM DEBT, Continued

A. Business-Type Activities, Continued

Certificates of Participation 2000 - Original Issue \$1,429,800

On December 21, 2000, the City issued certificates of participation through the Guadalupe Financing Authority which were purchased by the US Department of Agriculture (USDA) Rural Utilities Service (RUS), amounting to \$1,429,800, in an agreement which included a grant of \$875,200 for water and sewer line replacement. Under the terms of the agreement, the City has pledged tax increment revenues for the payment of debt service. Where tax increment revenues are no longer available for the payment of debt service, the City has pledged net water revenues for the payment of debt service. The certificates of participation bear interest at 4.5% per annum, with principal and interest payments due semiannually through August 1, 2041. At June 30, 2017, the principal balance outstanding was \$1,101,800.

The annual debt service requirements on the Certificates of Participation-2000 are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 28,000	\$ 50,094	78,094
2019	28,000	48,822	76,822
2020	30,000	47,527	77,527
2021	31,000	46,164	77,164
2022	32,000	44,734	76,734
2023-2027	187,000	199,910	386,910
2028-2032	235,000	152,702	387,702
2033-2037	292,000	93,596	385,596
2038-2042	238,800	22,930	261,730
Total	<u>\$ 1,101,800</u>	<u>\$ 706,479</u>	<u>\$ 1,808,279</u>

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

6. LONG-TERM DEBT, Continued

B. Business-Type Activities, Continued

Certificates of Participation 2005 - Original Issue \$1,203,900

On July 27, 2005, the City issued certificates of participation which were purchased by the US Department of Agriculture (USDA) Rural Utilities Service (RUS), amounting to \$1,203,900, in an agreement which included a grant for water tank construction and upgrades. Under the terms of the agreement, the City has pledged tax increment revenues for the payment of debt service. Where tax increment revenues are no longer available for the payment of debt service, the City has pledged net water revenues for the payment of debt service. The certificates of participation bear interest at 4.125% per annum, with principal and interest payments due semiannually through July 28, 2035. At June 30, 2017, the principal balance outstanding was \$927,057.

The annual debt service requirements on the Certificates of Participation-2005 are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 32,792	\$ 38,615	\$ 71,407
2019	34,144	37,237	71,381
2020	35,553	35,801	71,354
2021	37,019	34,307	71,326
2022	38,546	32,750	71,296
2023-2027	217,936	138,066	356,002
2028-2032	266,700	88,319	355,019
2033-2037	264,367	27,430	291,797
Total	<u>\$ 927,057</u>	<u>\$ 432,525</u>	<u>\$ 1,359,582</u>

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

6. LONG-TERM DEBT, Continued

B. Business-Type Activities, Continued

Capital Lease Obligations

The City leases vehicles and equipment under capital leases that expire through January 2021. At June 30, 2017, future minimum payments for business-type capital lease obligations were as follows:

For the Year Ending June 30,	Amount
2018	44,368
2019	44,368
2020	44,368
2021	33,926
2022	3,624
Less interest	
Present value of minimum lease payments	170,654
Less current portion	(44,368)
Long-term principal obligations	<u>\$ 126,286</u>

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

8. JOINT EXERCISE OF POWERS AGREEMENT

The City of Guadalupe participates in two joint ventures under joint powers agreements.

Central Coast Water Authority

The Central Coast Water Authority (CCWA) is a joint powers authority organized in 1991 for the purpose of providing the financing, construction, operation and maintenance of certain local (non-state owned) facilities required to deliver water from the State Water Project to certain water purveyors and users in Santa Barbara County. CCWA is composed of eight members, all of which are public agencies. The Board of Directors is made up of one representative from each participating entity. Votes on the Board are apportioned between the entities based upon each entity's pro-rata share of the water provided by the project.

Each participant is required to pay to CCWA an amount equal to its share of the total cost of "fixed project costs" and certain other costs in the proportion established in the Water Supply Agreement. This includes the participant's share of payments to the State Department of Water Resources (DWR) under the State Water Supply Contract (including capital, operation, maintenance, power and replacement costs of the DWR facilities), debt service on CCWA bonds and all CCWA operating and administrative costs. Each participant is required to make payments under its Water Supply Agreement solely from the revenues of its water system. State water payments were \$XXX for the year ended June 30, 2017. The City's allocation of CCWA's operating expenses for the year ended June 30, 2017 was \$XXX.

Additional information and complete financial statements for the CCWA may be obtained by contacting The Central Coast Water Authority at 255 Industrial Way, Buellton, CA 93427.

California Joint Powers Insurance Authority

The City is a member of the California Joint Powers Insurance Authority (CJPIA). CJPIA is composed of 122 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of CJPIA is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other coverages. The CJPIA's pool began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

Self-Insurance Program of CJPIA:

Each member pays an annual contribution (formerly called the primary deposit) to cover estimated losses for the coverage period. This initial funding is paid at the beginning of the coverage period. After the close of the coverage period, outstanding claims are valued. A retrospective deposit computation is then conducted annually thereafter until all claims incurred during the coverage period are closed on a pool-wide basis. This subsequent cost re-allocation among members based on actual claim development can result in adjustments of either refunds or additional deposits required.

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

8. JOINT EXERCISE OF POWERS AGREEMENT, Continued

California Joint Powers Insurance Authority, Continued

Self-Insurance Program of CJPIA, Continued:

The total funding requirement for self-insurance programs is estimated using actuarial models and pre-funded through the annual contribution. Costs are allocated to individual agencies based on exposure (payroll) and experience (claims) relative to other members of the risk-sharing pool. Additional information regarding the cost allocation methodology is provided below.

Liability:

In the liability program claims are pooled separately between police and non-police exposures. (1) The payroll of each member is evaluated relative to the payroll of the other members. A variable credibility factor is determined for each member, which established the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$30,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from the \$30,000 to \$750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$750,000 up to the reinsurance attachment point of \$5 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$5 million to \$10 million are paid under a reinsurance contract subject to a \$2.5 million annual aggregate deductible. The \$2.5 million annual aggregate deductible is fully covered under a separate policy; as no such portion of it is retained by CJPIA. Costs of covered claims from \$10 million to \$15 million are paid under two reinsurance contracts subject to a combined \$3 million annual aggregate deductible. The \$3.0 million annual aggregate deductible is fully retained by CJPIA. (6) Costs of covered claims from \$15 million up to \$50 million are covered through excess insurance policies. The overall coverage limit for each member including all layers of coverage is \$50 million per occurrence.

Costs covered claims for subsidence losses are paid by reinsurance and excess insurance with a pooled sub-limit of \$25 million per occurrence. This \$25 million subsidence sub-limit is composed of (a) \$5 million retained with the pool's SIR, (b) \$10 million in reinsurance and (c) \$10 million in excess insurance. The excess insurance layer has a \$10 million annual aggregate.

Workers' Compensation:

The City also participates in the worker's compensation pool administered by CJIPA. In the workers' compensation program claims are pooled separately between public safety (police and fire) and non-public safety exposures. (1) The payroll of each member is evaluated relative to the payroll of the other members. A variable credibility factor is determined for each member, which established the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$50,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$50,000 to \$100,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$100,000 up to reinsurance attachment point of \$2 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$2 million up to statutory limits are paid under a reinsurance policy. Protection is provided per statutory liability under California Workers' Compensation Law.

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

8. JOINT EXERCISE OF POWERS AGREEMENT, Continued

California Joint Powers Insurance Authority, Continued

Workers' Compensation, Continued:

Employer's Liability losses are pooled among members to \$2 million. Coverage from \$2 million to \$5 million is purchased as part of a reinsurance policy, and Employer's Liability losses from \$5 million to \$10 million are pooled among members.

Purchased Insurance under CJPIA:

Property Insurance: The City participates in the all-risk property protection program of CJPIA. This insurance protection is underwritten by several insurance companies. City property is currently insured according to a schedule of covered property submitted by the City to CJPIA. City property currently has all-risk property insurance protection in the amount of \$XXX. There is a \$5,000 deductible per occurrence except for non-emergency vehicle insurance which has a \$1,000 deductible. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

Adequacy of Protection under CJPIA:

During the past three fiscal years, the above programs of protection have had no settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage in 2016-17.

Insurance Claim Payable:

The Authority has assessed a retrospective claims liability balance to pool members. The City's share of the liability is \$204,797 at June 30, 2017. The long term liability applicable to governmental type and business-type activities have been allocated accordingly.

At June 30, 2017, the aggregate future maturities of the insurance claim payable were as follows:

For the Year				
Ending June 30,	Governmental	Business-Type	Total	
2018	\$ 49,034	\$ 21,014	\$ 70,048	
2019	50,057	21,453	71,510	
2020	16,104	14,682	30,786	
2021		14,986	14,986	
2022	-	17,467	17,467	
Thereafter	-	-	-	
Total	\$ 115,195	\$ 89,602	\$ 204,797	

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

9. EMPLOYEE RETIREMENT PLANS

Plan Descriptions

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

Benefits Provided

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

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Miscellaneous		PEPRA	
	Miscellaneous	Safety	Miscellaneous	Safety
	Prior to	Prior to	On or After	On or After
Hire date	January 1, 2013	January 1, 2013	January 1, 2013	January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 55	2.0% @ 62	2.0% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	55	55	62	57
Monthly benefits, as a % of				
of eligible compensation	2%	2%	2%	2%
Required employee contribution rates	6.891%	6.904%	6.250%	9.500%
Required employer contribution rates	8.880%	12.050%	6.555%	9.418%
Unfunded liability payment	\$ 66,318	\$ 29,094	\$ 95	\$ 64

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

9. EMPLOYEE RETIREMENT PLANS, Continued

Benefits Provided, Continued

Contributions - 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. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

The City's contributions to the Plan for the measurement period ended June 30, 2017 were \$305,064.

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

As of June 30, 2017, the City reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$2,586,229.

The City's net pension liability for the Plan is measured as the proportionate share of the total net pension liability of the Plan. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by actuarial valuations as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The City's proportionate of the net pension liability was based on the City's plan liability and asset-related information where available, and proportional allocations of individual plan amounts as of the valuation date where not available. The City's proportionate share of the net pension liability for each Plan as of June 30, 2015 and 2016 were as follows:

Proportion - June 30, 2015	0.02666%
Proportion - June 30, 2016	0.02989%
Change - Increase (Decrease)	<u>0.00323%</u>

For the year ended June 30, 2017, the City recognized pension expense of \$319,748.

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

9. EMPLOYEE RETIREMENT PLANS, Continued

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

At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 305,064	\$ -
Changes of assumptions	-	85,507
Differences between expected and actual experience	-	5,359
Changes in employer's proportion	81,387	212,588
Differences between the employer's contribution and the employer's proportionate share of contributions	3,678	61,002
Net differences between projected and actual earnings on plan investments	433,469	-
Total	\$ 823,598	\$ 364,456

\$305,064 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ending June 30,	
2017	\$ (113,477)
2018	(63,233)
2019	218,256
2020	112,532
2020	154,078

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

9. EMPLOYEE RETIREMENT PLANS, Continued

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

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

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	Varies by entry age and service
Investment Rate of Return ⁽¹⁾	7.50%
Mortality	Derived by CalPERS membership data for all funds

(1) Net of pension plan administrative expenses.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate - The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

9. EMPLOYEE RETIREMENT PLANS, Continued

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

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

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

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	100.00%		

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

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

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

9. EMPLOYEE RETIREMENT PLANS, Continued

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

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

1% Decrease		6.65%
Net Pension Liability	\$	4,229,264
Current Discount Rate		7.65%
Net Pension Liability	\$	2,856,229
1% Increase		8.65%
Net Pension Liability	\$	1,232,394

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

Payable to the Pension Plan

At June 30, 2017 the City reported a payable of \$XXX for outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

10. OTHER POST EMPLOYMENT BENEFITS

Plan Description

The City's other post employment benefits (OPEB) cost obligation is for retiree health benefits under its election to participate in the California Public Employees Retirement System (PERS) Health Benefit Program, an agent multiple employer defined benefit OPEB plan. The City entered the PERS medical insurance program in 1990 under the Public Employees Medical and Hospital Care Act (PEMHCA). The required employer contribution was \$125 per employee per month in 2017. The City provides post employment health care insurance to all employees who retire from the City on or after attaining age 50 with at least 5 years of PERS credited service. For employees first covered under PERS on or after January 1, 2013, the eligibility requirements are attaining age 52 and 5 years of PERS credited service. Currently, four retirees meet those eligibility requirements.

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

10. OTHER POST EMPLOYMENT BENEFITS

Funding Policy

The contribution requirements of the plan members and the City are established and may be amended by the City. The City's annual OPEB cost (expense) is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The City's ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period of 30 years. The ARC for the fiscal year 2016-2017 was \$39,649. For the fiscal year 2016-2017, the City contributed \$3,804 to the Plan. Annual OPEB Cost and Net OPEB Obligation.

The following table shows the components of the City's annual OPEB cost, the actual amount contributed to the plan, and changes in the City's OPEB obligation:

Annual required contributions	\$	39,649
Interest on net OPEB obligation		9,988
Adjustment to annual required contributions		<u>(14,441)</u>
Annual OPEB cost		35,196
Contributions made		<u>(3,804)</u>
Change in net OPEB obligation		31,392
Net OPEB obligation - beginning of year		<u>249,709</u>
Net OPEB obligation - end of year	\$	<u>281,101</u>

The City Retiree Medical annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation was as follows:

Year Ending June 30,	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 50,086	\$ 5,784	11.5%	\$ 205,268
2016	50,381	5,940	11.8%	249,709
2017	35,196	3,804	11%	281,101

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

10. OTHER POST EMPLOYMENT BENEFITS

Funded Status and Funding Progress

The funded status of the plan of July 1, 2013, the plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$	360,846
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAL)		360,846
Funded ratio (actuarial value of plan assets/AAL)		0.00%
Covered payroll (active plan members)	\$	2,267,277
UAAL as a percentage of covered payroll		15.92%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress is presented as required supplementary information following the notes to the financial statements. The schedule presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the 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 the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations.

In the July 1, 2013 actuarial valuation, the projected unit cost actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return. The initial health care cost trend rates were 5.0 to 8.0%. The method of determining the actuarial value of assets is not applicable as the plan has no assets. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll over 30 years on an open basis. The remaining amortization period at June 30, 2017 was 27 years.

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

11. CONTINGENCIES AND COMMITMENTS

A. Litigation

The City is a defendant in various litigation in court. There. During the fiscal year, the court found the City liable in one of the claims and awarded a judgment against the City for \$456,049. The City intend to appeal the judgment and the outcome of the appeal is currently unknown.

B. Grant Commitments

The City had received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

**12. SUCCESSOR AGENCY TRUST FOR ASSETS OF
FORMER REDVELOPMENT AGENCY**

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (the "Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Guadalupe that previously had reported the City's Redevelopment Agency within the reporting entity as a blended component unit.

The Bill provided that upon dissolution of a redevelopment agency, either the City or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 9, 2012, the City Council elected to become the Successor Agency for the former Redevelopment agency in accordance with the Bill as part of City Resolution No. 2 (2012).

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California were prohibited from entering into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets could only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

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

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

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

**12. SUCCESSOR AGENCY TRUST FOR ASSETS OF
FORMER REDVELOPMENT AGENCY, Continued**

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

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012. After the date of dissolution, the assets and activities of the dissolved redevelopment agency were transferred to and are reported in a fiduciary fund (private purpose trust fund, the Trust Fund) in the financial statements of the City.

A. Cash and Investments

The City maintained investments with the State of California Local Agency Investment Fund (LAIF) for all City activities, including the Trust Fund. The Trust had \$854,521 in cash and investments as of June 30, 2017, that was held in LAIF. The City manages the Trust Fund's cash and investments in a consistent manner with the rest of its cash and investment pool. Refer to Note 3 for additional information regarding LAIF.

B. Cash with Fiscal Agent

The Trust Fund had \$414,750 in cash and investments as of June 30, 2017, held by fiscal agents pledged for the payment or security of certain bonds. The California Government code provides that these monies, in the absence of specific statutory provisions governing the issuance of bonds, certificates, or leases, may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments its fiscal agents may make. These ordinances, resolutions, and indentures are generally more restrictive than the Trust's general investment policy. In no instance have additional types of investments, not permitted by the Trust's general investment policy, been authorized.

C. Loans Receivable

During 2007, the former redevelopment agency made a loan to a nonprofit organization for land purchase and low income housing construction within the City's project area. Subsequent to year end, the Housing Authority of the County of Santa Barbara has become the successor agency on this project and the loan was transferred. The balance on the loan was \$450,000 at the time of transfer.

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

**12. SUCCESSOR AGENCY TRUST FOR ASSETS OF
FORMER REDVELOPMENT AGENCY, Continued**

C. Loans Receivable, Continued

The former redevelopment agency has made various loans to businesses in the City's project area. The loans' interest rates are 0%, with maturities through May 2018. The balance on the loans was \$4,899 at June 30, 2017.

D. Property Held for Resale

At June 30, 2017, the carrying value of property held for resale was as follows:

West side of Obispo Street	\$	105,507
Next door to Royal Theatre		75,308
Royal Theatre		<u>41,667</u>
Total	\$	<u><u>222,482</u></u>

F. Capital Assets

For the year ended June 30, 2017, capital assets activity was as follows:

	Balance July 1, 2016	Transfers/ Additions	Retirements	Balance June 30, 2017
Capital assets being depreciated				
Infrastructure	\$ 201,197	\$ -	\$ -	\$ 201,197
Structures and improvements	83,333	-	-	83,333
Less accumulated depreciation	<u>(101,370)</u>	<u>(9,900)</u>	-	<u>(111,270)</u>
Net capital assets	<u>\$ 183,160</u>	<u>\$ (9,900)</u>	<u>\$ -</u>	<u>\$ 173,260</u>

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

**12. SUCCESSOR AGENCY TRUST FOR ASSETS OF
FORMER REDVELOPMENT AGENCY, Continued**

G. Long-Term Liabilities

For the year ended June 30, 2017, long-term liabilities activity was as follows:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Due within One Year
Note payable	\$ 17,104	\$ -	\$ (3,459)	\$ 13,645	\$ 3,524
Tax allocation bonds	5,160,000		(155,000)	5,005,000	165,000
Total	<u>\$ 5,177,104</u>	<u>\$ -</u>	<u>\$ (158,459)</u>	<u>\$ 5,018,645</u>	<u>\$ 168,524</u>

Note Payable

The Trust Fund had a note payable to a private party related to the purchase of property currently held for resale. Principal and interest payments on the note payable are due on the 16th of each month and the note matures in 2021. Interest accrues at 9.0% per annum. At June 30, 2017, the principal balance outstanding was \$13,645.

At June 30, 2017, the aggregate maturities of the note payable were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2018	\$ 3,524	\$ 1,637	\$ 5,161
2019	3,854	1,335	5,189
2020	4,215	1,004	5,219
2021	2,052	892	2,944
Total	<u>\$ 13,645</u>	<u>\$ 4,868</u>	<u>\$ 18,513</u>

Tax Allocation Bonds

On April 3, 2003, the former redevelopment agency issued \$6,455,000 of tax allocation bonds for a current refunding of Series 1997 Tax Allocation Bonds. The refunding was undertaken to reduce total future debt service payments. The former redevelopment agency determined that there was an economic gain on the refunding; however, the amount was not material. The bonds mature through August 1, 2035, with interest rates from 2.0 to 5.125%. At June 30, 2017, the principal balance outstanding was \$5,005,000.

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

**12. SUCCESSOR AGENCY TRUST FOR ASSETS OF
FORMER REDVELOPMENT AGENCY, Continued**

Tax Allocation Bonds, Continued

For the year ended June 30, 2017, the aggregate maturities of the tax allocation bonds were as follows:

<u>For the Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	165,000	249,355	\$ 414,355
2019	170,000	242,738	412,738
2020	175,000	234,853	409,853
2021	185,000	225,628	410,628
2022	195,000	215,891	410,891
2022-2027	1,150,000	913,273	2,063,273
2028-2032	1,480,000	578,353	2,058,353
2033-2037	1,485,000	551,439	2,036,439
Total	<u>\$ 5,005,000</u>	<u>\$3,211,530</u>	<u>\$ 6,158,065</u>

Pollution Remediation

The Trust owns property designated by the Santa Barbara County Fire Department as a LUFT (Leaking Underground Fuel Tank) site (#52010). The Agency has been accepted into the State Water Resources Cleanup of Underground Storage Tanks Fund (USTCF), which approved a total Letter of Commitment (LOC) in the amount of \$1.5 Million.

Between the fiscal years 2008/2009 through June 30, 2016, the former Agency expended a total of \$556,269 towards the cleanup costs. Cleanup costs incurred and paid for the 2016/17 SFY, but which the City has not yet been reimbursed for by the State, total \$21,979. Due to changes in processing claims at the State, reimbursement of these costs to the City is expected by the end of June 2018. Payments for tasks performed are due within six months of invoice date or upon receipt of USTCF claim reimbursement.

Tasks in 2016/17 included: 1) preparation of a Pilot Test report for submittal to the County; 2) preparation and uploading of a reimbursement request package #9 to the State USTCF for reimbursement; 3) initial permitting and implementation of soil vapor extraction (SVE) activities at the site as directed by the County; and 4) preparation and submittal of a Project Execution Plan (PEP) to the State at the direction of the County

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

**12. SUCCESSOR AGENCY TRUST FOR ASSETS OF
FORMER REDVELOPMENT AGENCY, Continued**

Pollution Remediation, Continued

In January 2017, the LOP directed that soil vapor extraction (SVE) activities be employed at the site for a period of approximately 12 months. Between January 10, 2017 and June 30, 2017, DMI-EMK initiated these SVE activities, coordinating the field activities and obtaining associated permits required before field activities can be implemented. DMI-EMK Environmental currently anticipate that the field work can be implemented around the middle of September 2017. As noted above, these field activities are expected to run for 12 months - until approximately September 2018. DMI-EMK estimates that, once closure is granted by the County, it will take approximately 6 more months after that before a final closure letter can be obtained for the site. As such, it is anticipated that the soonest a final closure letter can be obtained for this site is approximately March 2019.

Estimated future costs beyond June 30, 2017 are anticipated to be approximately \$423,500: approximately \$255,500 during the 2017-18 fiscal year; and, approximately 168,000 - assuming the site is found to meet the low-threat closure criteria after 12 months of active remediation.

Based on the above, the total estimated costs for cleanup activities (approximately \$1,000,000) is expected to fall well below the \$1.5 Million budget allotted this site by the State.

In November 2013, The Successor Agency sought an appraisal of the site. The appraisal determined the value of the site to be \$85,000 if un-remediated and \$103,000 if remediated to the satisfaction of the regulatory agency and provided with a closure letter. As part of the Long Range Property Management Plan required by the Department of Finance, the Agency is required to dispose of the property. The Agency has engaged a commercial real estate broker to facilitate that process.

13. OPERATING LEASES

The City leases equipment under operating leases with lease terms in excess of one year. The agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors but it is unlikely that the City will cancel the agreements prior to the expiration date. Rent expense under operating leases was \$39,682 for the year ended June 30, 2017.

City of Guadalupe
Notes to Basic Financial Statements
For the year ended June 30, 2017

13. OPERATING LEASES, Continued

At June 30, 2017, future minimum lease payments under these operating leases were as follows:

	For the Year Ending June 30,	
2018	\$	11,294
2019		11,294
2020		11,294
2021		<u>5,800</u>
Total	\$	<u>39,682</u>

15. DEFICIT FUND BALANCES/NET POSITION

Major Funds

A deficit net position of \$684,624 exists for the General Fund. The difference is due to the past years of operating deficits.

A deficit net position of \$68,587 exists for the Solid Waste Fund. The difference is due to
XX

A deficit net position of \$65,800 exists for the Library Fund. The difference is due to
XX

16. GOING CONCERN

The City continue to suffer from a significant deficit fund balance in General Fund and the Wastewater Treatment Fund. In addition, the General Fund and Wastewater Treatment Fund have a significant cash overdraft balance which represents borrowing from other funds. Those borrowings are in addition to the interfund loans payable recorded in the General Fund. There are serious doubts about the General Fund ability to repay the intefund loans payable and the cover the cash overdraft balance without having a significant impact on the City's operation.

**REQUIRED
SUPPLEMENTARY INFORMATION**

City of Guadalupe
Required Supplementary Information
For the year ended June 30, 2017

1. BUDGETS AND BUDGETARY ACCOUNTING

A. *Budgetary Control and Budgetary Accounting*

In August 2015, the LOP directed that soil vapor extraction (SVE) activities be employed at the site due to groundwater. Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. After adoption of the final budget, transfers of appropriations within a General Fund department, or within other funds, can be made by the City Administrator. Budget modifications between funds and increases or decreases to a fund's overall budget, must be approved by the City Council. Numerous properly authorized amendments were made during the fiscal year.

Budgetary control is enhanced by integrating the budget into the general ledger accounts. Encumbrance accounting is employed (e.g., purchase orders) to avoid expenditures over budget. Encumbrances outstanding at fiscal year-end are automatically re-budgeted in the following fiscal year.

City of Guadalupe
Budgetary Comparison Schedule - General Fund
For the year ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 2,059,000	\$ 2,059,000	\$ 1,999,232	\$ (59,768)
Licenses and permits	648,000	648,000	692,805	44,805
Fines and penalties	18,300	18,300	23,365	5,065
Revenues from other agencies	249,700	249,700	275,834	26,134
Charges for current services	53,500	53,500	58,344	4,844
Interest	76,000	76,000	97,929	21,929
Other revenues	214,000	214,000	157,515	(56,485)
Total revenues	3,318,500	3,318,500	3,305,024	(13,476)
EXPENDITURES:				
Current:				
General Government	1,032,411	1,032,411	1,099,220	(66,809)
Public Safety	2,273,342	2,273,342	2,225,456	47,886
Leisure, cultural and social services	516,360	516,360	105,144	411,216
Community development	-	-	313,213	(313,213)
Capital outlay	42,000	42,000	37,790	4,210
Debt service:				
Principal	55,850	55,850	51,873	3,977
Interest and fiscal charges	-	-	6,675	(6,675)
Total expenditures	3,919,963	3,919,963	3,839,371	80,592
REVENUES OVER (UNDER) EXPENDITURES	(601,463)	(601,463)	(534,347)	67,116
OTHER FINANCING SOURCES (USES):				
Transfers in	601,900	601,900	589,150	(12,750)
Total other financing sources (uses)	601,900	601,900	589,150	(12,750)
Net change in fund balances	437	437	54,803	54,366
FUND BALANCES:				
Beginning of year	(739,427)	(739,427)	(739,427)	-
End of year	\$ (738,990)	\$ (738,990)	\$ (684,624)	\$ 54,366

City of Guadalupe
Budgetary Comparison Schedule - Measure A Fund
For the year ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 453,000	\$ 453,000	\$ 462,594	\$ 9,594
Interest	200	200	3,075	2,875
Other revenues	-	-	-	-
Total revenues	453,200	453,200	465,669	12,469
EXPENDITURES:				
Current:				
Transportation	640,633	640,633	376,866	263,767
Total expenditures	640,633	640,633	376,866	263,767
REVENUES OVER (UNDER) EXPENDITURES	(187,433)	(187,433)	88,803	(251,298)
OTHER FINANCING SOURCES (USES):				
Transfers out	(58,496)	(58,496)	(32,833)	(25,663)
Total other financing sources (uses)	(58,496)	(58,496)	(32,833)	(25,663)
Net change in fund balances	(245,929)	(245,929)	55,970	(276,961)
FUND BALANCES:				
Beginning of year	963,233	963,233	963,233	-
End of year	\$ 717,304	\$ 717,304	\$ 1,019,203	\$ (276,961)

City of Guadalupe
Budgetary Comparison Schedule - Gas Tax Fund
For the year ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 153,728	\$ 153,728	\$ 137,862	\$ (15,866)
Revenues from other agencies	30,000	30,000	107,019	77,019
Interest	122	122	1,879	1,757
Other revenues	-	-	100	100
Total revenues	183,850	183,850	246,860	63,010
EXPENDITURES:				
Current:				
Transportation	90,000	90,000	63,095	26,905
Capital outlay	530,000	530,000	65,460	464,540
Debt service:				
Principal	26,000	26,000	21,519	4,481
Total expenditures	646,000	646,000	150,074	495,926
REVENUES OVER (UNDER) EXPENDITURES	(462,150)	(462,150)	96,786	(432,916)
OTHER FINANCING SOURCES (USES):				
Transfers out	(42,900)	(42,900)	(42,900)	-
Total other financing sources (uses)	(42,900)	(42,900)	(42,900)	-
Net change in fund balances	(505,050)	(505,050)	53,886	(432,916)
FUND BALANCES:				
Beginning of year	645,792	645,792	645,792	-
End of year	\$ 140,742	\$ 140,742	\$ 699,678	\$ (432,916)

City of Guadalupe
Required Supplementary Information
For the year ended June 30, 2017

2. DEFINED BENEFIT PENSION PLANS

A. Schedule of the City's Proportionate Share of the Net Pension Liability - Last 10 Year*

Fiscal year	<u>2017</u>	<u>2016</u>	<u>2015</u>
Measurement date	6/30/2016	6/30/2015	6/30/2014
Proportion of the net pension liability	0.02989%	0.02666%	0.0312%
Proportionate share of the net pension liability	\$ 2,586,229	\$ 1,830,129	\$ 1,939,137
Covered payroll	\$ 1,829,580	\$ 1,853,264	\$ 1,689,183
Proportionate Share of the net pension liability as percentage of covered payroll	141.36%	98.75%	114.80%
Plan fiduciary net position as a percentage of the total pension liability	74.06%	78.40%	79.82%

* Historical information is required only for measurement period for which GASB 68 is applicable

B. Schedule of Plan Contributions

The following are the budget comparison schedules for all major Governmental Funds.

	<u>Fiscal Year 2016-17</u>	<u>Fiscal Year 2015-16 ⁽¹⁾</u>	<u>Fiscal Year 2014-15</u>
Actuarially determined contribution	\$ 305,064	\$ 251,172	\$ 211,025
Contribution in relation to the actuarially determined contributions	(305,064)	(251,172)	(211,025)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ -	\$ 1,829,580	\$ 1,853,264
Contributions as a percentage of covered payroll	#DIV/0!	13.73%	11.39%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable

City of Guadalupe
Required Supplementary Information
For the year ended June 30, 2017

3. OTHER POST EMPLOYMENT BENEFITS (OPEB)

Schedule of Funding Progress

A schedule of funding progress for the past two actuarial valuation is presented below.

Actuarial Valuation Date *	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll **	Unfunded Actuarial Liability as Percentage of Covered Payroll
6/30/2016	\$ -	\$ 268,068	\$ 268,068	0.00%	\$ 1,853,700	14.46%
6/30/2017	\$ -	\$ 367,341	\$ 367,341	0.00%	\$ 2,267,277	16.20%

* Based on the most recent actuarial valuation available

** Annual payroll of active employees covered by the plan

SUPPLEMENTARY INFORMATION



NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Police Grants Fund accounts for the revenues and expenditures of State and Federal grants such as State SLESF (Supplemental Law Enforcement Services Fund).

Community Development Block Grant Fund (CDBG) accounts for revenue and expenditures of CDBG funds awarded by the Department of Housing and Urban Development.

HOME Special Revenue Fund accounts for revenue and expenditures of the Federal HOME grant program.

City Housing Special Revenue Fund accounts for revenues from a former Federal Rental Rehabilitation program and loan payments from the First-Time Homebuyer program.

Low and Moderate Income Housing Special Revenue Fund accounts for revenues and expenditures of the former Redevelopment Agency Special Revenue Fund.

Fire Protection Fund accounts for the fees charged and expenditure for activities relating to fire inspections and permits.

Gas Tax Fund accounts for gasoline tax revenues as required by State law.

Advance Planning Fund accounts for fees collected through building permits and expenditures for activities relating to long term planning, including the general plan update.

Parking Fund accounts for parking meter revenues and expenditures of the City's downtown parking facilities.

Solid Waste Fund accounts for garbage collection surcharge revenues. The use of funds is restricted by City ordinance to street cleaning and waste disposal.

DEBT SERVICE FUNDS

Landfill Bonds Fund accounts for debt service payments on landfill revenue bonds (to finance expenditures related to final closure of the former landfill site and construction of related park improvements) and post-closure monitoring costs.

General Obligation Bonds Fund accounts for voter-approved property tax revenues and debt service payments on general obligation bonds.

CAPITAL PROJECT FUND

2% Hotel Tax Fund accounts for the voter-approved 2% hotel tax revenue Measure C, the related transfers to the capital improvement fund, and debt service on variable rate bonds.

City of Guadalupe
Combining Balance Sheet
Other Governmental Funds
June 30, 2017

	Special Revenue					
	Local		Public	Park	Guadalupe	Public
	Transportation	Library	Facilities	Development	Lighting and Assessment	Safety
ASSETS						
Cash and investments	\$ 171,125	\$ -	\$ 4,601	\$ 1,256	\$ 156,675	\$ 245,233
Accounts receivable	1,162	-	9	2	229	19,720
Prepaid expenses	-	5,000	-	-	1,500	845
Interfund loans receivable	-	-	-	-	280,000	-
Loans receivable	-	-	-	-	-	-
Total assets	\$ 172,287	\$ 5,000	\$ 4,610	\$ 1,258	\$ 438,404	\$ 265,798
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	-	-	-	-	5,731	539
Cash overdraft	-	2,467	-	-	-	-
Accrued wages and benefits	-	-	-	-	-	362
Interfund loans payable	-	68,333	-	-	-	-
Total liabilities	-	70,800	-	-	5,731	901
Fund Balances:						
Nonspendable:						
Long-term loans receivable	-	5,000	-	-	1,500	845
Restricted for:						
Street maintenance	172,287	-	-	-	-	-
Other capital projects	-	-	-	1,258	-	-
Community development	-	-	-	-	-	-
Public safety	-	-	-	-	-	264,052
Utility infrastructure	-	-	4,610	-	-	-
Debt service	-	-	-	-	-	-
Committed to:						
Lighting and landscape	-	-	-	-	431,173	-
Assigned to:						
Capital projects	-	-	-	-	-	-
Unassigned	-	(70,800)	-	-	-	-
Total fund balances	172,287	(65,800)	4,610	1,258	432,673	264,897
Total liabilities and fund balances	\$ 172,287	\$ 5,000	\$ 4,610	\$ 1,258	\$ 438,404	\$ 265,798

Special Revenue		Capital Projects				Total Other
Community Development	Capital Facilities	City Hall	Traffic Mitigation	Sewer Bond Debt Service	Governmental Funds	
\$ 143,632	\$ 159,217	\$ 3,043	\$ 11,907	\$ 22,532	919,221	
275	343	6	22	81	21,849	
-	-	-	-	-	7,345	
-	68,333	-	-	-	348,333	
25,509	-	-	-	-	25,509	
<u>\$ 169,416</u>	<u>\$ 227,893</u>	<u>\$ 3,049</u>	<u>\$ 11,929</u>	<u>\$ 22,613</u>	<u>\$ 1,322,257</u>	
-	-	-	-	-	6,270	
-	-	-	-	-	2,467	
-	-	-	-	-	362	
-	-	-	-	-	68,333	
-	-	-	-	-	77,432	
-	-	-	-	-	7,345	
-	-	-	-	-	172,287	
-	227,893	3,049	-	-	232,200	
169,416	-	-	-	-	169,416	
-	-	-	-	-	264,052	
-	-	-	-	-	4,610	
-	-	-	-	22,613	22,613	
-	-	-	-	-	431,173	
-	-	-	11,929	-	11,929	
-	-	-	-	-	(70,800)	
<u>169,416</u>	<u>227,893</u>	<u>3,049</u>	<u>11,929</u>	<u>22,613</u>	<u>1,244,825</u>	
<u>\$ 169,416</u>	<u>\$ 227,893</u>	<u>\$ 3,049</u>	<u>\$ 11,929</u>	<u>\$ 22,613</u>	<u>\$ 1,322,257</u>	

City of Guadalupe
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Other Governmental Funds
For the year ended June 30, 2017

	Special Revenue					
	Local Transportation	Library	Public Facilities	Park Development	Guadalupe Lighting and Assessment	Public Safety
REVENUES:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 118,664	\$ -
Licenses and permits	-	-	-	-	-	-
Fines and penalties	-	-	-	-	-	-
Revenues from other agencies	5,654	-	-	-	-	141,288
Charges for current services	-	-	327	300	-	32,855
Interest	555	-	16	3	3,239	731
Other revenues	-	-	-	-	-	700
Total revenues	6,209	-	343	303	121,903	175,574
EXPENDITURES:						
Current:						
Public Safety	-	-	-	-	-	28,581
Leisure, culture and social services	-	20,000	-	-	-	-
Community development	-	-	-	-	63,049	-
Capital outlay	-	-	-	-	-	16,657
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	-	20,000	-	-	63,049	45,238
REVENUES OVER (UNDER) EXPENDITURES	6,209	(20,000)	343	303	58,854	130,336
OTHER FINANCING SOURCES (USES):						
Transfers in	-	14,200	-	-	-	-
Transfers out	(8,600)	-	-	-	(10,700)	-
Total other financing sources (uses)	(8,600)	14,200	-	-	(10,700)	-
Net change in fund balances	(2,391)	(5,800)	343	303	48,154	130,336
FUND BALANCES:						
Beginning of year	174,678	(60,000)	4,267	955	384,519	134,561
End of year	\$ 172,287	\$ (65,800)	\$ 4,610	\$ 1,258	\$ 432,673	\$ 264,897

Special Revenue		Capital Projects			Total Other	
Community Development	Capital Facilities	City Hall	Traffic Mitigation	Sewer Bond Debt Service	Governmental Funds	
\$ -	\$ -	\$ -	\$ -	\$ 18,176	\$ 136,840	
-	-	1,360	5,321	-	6,681	
-	-	-	-	-	-	
-	-	-	-	-	146,942	
-	-	-	-	-	33,482	
511	589	9	34	124	5,811	
-	-	-	-	-	700	
<u>511</u>	<u>589</u>	<u>1,369</u>	<u>5,355</u>	<u>18,300</u>	<u>330,456</u>	
-	-	-	-	-	28,581	
-	-	-	-	-	20,000	
6,948	-	-	-	-	69,997	
-	-	-	-	-	16,657	
-	-	-	-	15,000	15,000	
-	-	-	-	2,350	2,350	
<u>6,948</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,350</u>	<u>152,585</u>	
<u>(6,437)</u>	<u>589</u>	<u>1,369</u>	<u>5,355</u>	<u>950</u>	<u>177,871</u>	
-	-	-	-	-	14,200	
<u>(2,250)</u>	<u>(14,200)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(35,750)</u>	
<u>(2,250)</u>	<u>(14,200)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(21,550)</u>	
<u>(8,687)</u>	<u>(13,611)</u>	<u>1,369</u>	<u>5,355</u>	<u>950</u>	<u>156,321</u>	
<u>178,103</u>	<u>241,504</u>	<u>1,680</u>	<u>6,574</u>	<u>21,663</u>	<u>1,088,504</u>	
<u>\$ 169,416</u>	<u>\$ 227,893</u>	<u>\$ 3,049</u>	<u>\$ 11,929</u>	<u>\$ 22,613</u>	<u>\$ 1,244,825</u>	

**INDEPENDENT AUDITOR'S 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**

To the Honorable Mayor and Members of the City Council
of the City of Guadalupe
Guadalupe, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Guadalupe, California (City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated **March XX, 2018**.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as items 2017-001 and 2017-002 in the accompanying schedule of findings and responses to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described as items 2017-003 to 2017-006 in the accompanying schedule of findings and responses to be significant deficiencies

To the Honorable Mayor and Members of the City Council
of the City of Guadalupe
Guadalupe, California
Page 2

Compliance and Other Matters

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

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Badawi & Associates, CPAs
Oakland, California
March XX, 2018

City of Guadalupe
Schedule of Findings and Responses
For the year ended June 30, 2017

FINDINGS - FINANCIAL STATEMENTS AUDIT

2017-001 – Deficit Fund Balance In The General Fund, Wastewater Treatment Fund And The Solid Waste Fund And The Ability Of The City To Continue As A Going Concern (Material Weakness)

Criteria:

General purpose local governments, regardless of size, at a minimum should maintain a fund balance in the general fund of either 1) no less than 5 to 15 percent of regular general fund operating revenues, or 2) no less than 1 to 2 months of regular general fund operating expenditures.

Condition:

The General Fund had a negative fund balance as of June 30, 2017. The General Fund finished the year with a deficit of \$(684,624) compared to a negative fund balance of \$(739,427) in the prior fiscal year. Overall, the funds liabilities exceeded assets, and the fund had a negative cash balance of \$307,156 that is included as cash overdraft on the balance sheet. The amount of cash overdraft are considered to be borrowings from other funds and eventually will need to be repaid. Additionally, as of June 30, 2017 the General Fund owed internally to the Lighting and Assessment Fund and to the Water Fund in the amounts of \$280,000 and \$373,333, respectively. These interfund loans were made so that the General Fund could sustain its basic operations. Finally, there is a court judgment against the City for approximately \$450,000. The City intend on appealing this judgement, however, if the City is not successful in the appeal, the General fund will most likely have to pay the \$450,000 judgment which it does not have the ability to do so.

The Wastewater Treatment Fund had a negative unrestricted net position of \$(347,867) as of June 30, 2017. In addition, the fund had cash overdraft of \$280,308 as of June 30, 2017. The amount of cash overdraft represents borrowings from other funds that will need to be eventually repaid.

The Solid Waste Fund had a negative fund balance of \$(68,587) as of June 30, 2017. In addition, the fund had cash overdraft of \$76,092 as of June 30, 2017. The amount of cash overdraft represents borrowings from other funds that will need to be eventually repaid.

The multiple afore mentioned conditions have raised substantial doubt about the City's ability to continue as a going concern, as described further in Note 16.

Cause:

The City has either overspend its budget in the past or the budget was not balanced which led to the overspending and the deficit fund balance situation.

Effect:

Deficiency in fund balances and decrease in revenues have created a budget shortfall that will require significant cost cutting measures to reach a budget that will recoup the negative fund balance, the cash overdraft as well as provide the necessary revenues and financing for continued operations of the City..

City of Guadalupe
Schedule of Findings and Responses
For the year ended June 30, 2017

Recommendation:

We recommend the City continue to analyze all potential cost cutting measures and revenue sources, and review options to establish a budget plan for the General Fund and other funds to recoup the deficit fund balance, the cash overdraft balance as well as provide continued financing for City operations.

Management Response:

City of Guadalupe
Schedule of Findings and Responses
For the year ended June 30, 2017

2017-002 – Cash Overdraft And Potential Non-Compliance With Laws And Regulations (Material Weakness)

Criteria:

Restricted resources such as Gas Tax and Measure A are to be used only for their legally intended purpose. Any borrowings by other funds from these restricted resources are usually not allowed unless it is very short term in nature and if it does occur, it should be recognized by the City and a repayment plan should be put in place.

Condition:

During our audit we noted that the following funds had the following cash overdraft balance as of June 30, 2017:

- General Fund - \$307,156
- Library Fund - \$2,467
- Wastewater Treatment Fund - \$280,308
- Solid Waste Fund - \$76,092

The amount of cash overdraft represents borrowings from other funds. It is unclear which funds have loaned the above mentioned funds the amounts listed above. However, by analyzing the various City funds, it appears that the funds with the most cash balances where most likely the loans came from are the Measure A and Gas Tax funds. Those funds are legally restricted and the use of those funds for purposes other than the legally intended purpose is not allowed. Giving the financial condition of the funds listed above, there is substantial doubt about the ability of the funds listed above to repay the amounts borrowed from the legally restricted funds.

Cause:

The City have overspend in the funds listed above and covered that overspending by using funds that are legally restricted and not intended to be used to subsidize the General Fund, the Wastewater Treatment Fund and the Solid Waste Fund.

Effect:

The amount of cash overdraft represents additional borrowings for the funds listed above that will need to be repaid based on a repayment plan. This will add to the challenges already faced by the funds listed above

Recommendation:

We recommend that the City analyze its funds to determine which funds loaned the above mentioned funds the amounts listed above. We recommend that the City Council approve a repayment plan to ensure all restricted resources are paid back to the funds it belongs to.

Management Response:

City of Guadalupe
Schedule of Findings and Responses
For the year ended June 30, 2017

2017-003 – Recordkeeping Of Capital Assets And Long-Term Debt (Significant Deficiency)

Criteria:

A good internal control system over capital assets and long-term debt requires that City maintain detail records of all its capital assets and long-term debt obligation to be able to support amounts reported on the financial statements and to ensuring safeguarding of assets and timely payment on long-term debt.

Condition:

We noted during the audit that the City did not maintain adequate records for capital assets and long-term debt to enable it to exercise control over those activities. Instead, the City is relying on a loosely maintained spreadsheets that were originally developed by the previous audit firm used by the City. The spreadsheets were outdated and it did not match amounts reported in the City's accounting records or the previously audited financial statements. In addition, there were various lease agreements and acquisition of assets that occurred in prior years and were not properly and timely recorded either on the City's records or the previously audited financial statements. Finally, the City did not record the interest accrual and some other debt transactions as required by accounting standards generally accepted in the United States.

Cause:

The City did not keep accurate and complete records of its capital assets and long-term debt obligations. In addition, the City is not able to locate certain long-term debt repayment schedules which contributed to the difficulty in the accounting for those transactions.

Effect:

Capital assets and long-term debt may be misstated and/or not properly or timely accounted for.

Recommendation:

We recommend that the City implement a tracking system and to conduct an inventory of its capital assets and ensure that it is in possession of all debt agreements and repayment schedules.

Management Response:

City of Guadalupe
Schedule of Findings and Responses
For the year ended June 30, 2017

2017-004 – Control Over Expenditures And Accounts Payable (Significant Deficiency)

Criteria:

A good internal control system over expenditures and accounts payable requires that certain tasks such as creating new vendors, inputting invoices, and processing checks be segregated and not performed by the same individual. In addition, changes to the master file should be reviewed and reconciled by a qualified individual independent from the accounts payable process.

Condition:

During our audit we noted that the Accounts Payable Clerk is responsible for setting up new vendors in the system. There is no independent review of changes made to the vendor master files. In addition, we noted that the reviewer of the accounts payable do not keep track of the sequence numbers of the checks reviewed

Cause:

Duties in the accounts payable system is not properly segregated to ensure good checks and balances are in place.

Effect:

Errors in accounts payable may not be detected timely. In addition, unauthorized payments to vendors or payments to unauthorized vendors may not be detected timely.

Recommendation:

We recommend that the City improve and strengthen its procedures for review and reconciliation to ensure that changes to the vendor master files are properly reviewed and reconciled by an independent person and there is adequate segregation of duties in place.

Management Response:

City of Guadalupe
Schedule of Findings and Responses
For the year ended June 30, 2017

2017-005 - Control Over Payroll And Related Liabilities (Significant Deficiency)

Criteria:

A good internal control system over payroll requires that certain tasks such as creating new employees, inputting payrates, and processing payroll be segregated and not performed by the same individual. In addition, payroll should be reviewed and reconciled by a qualified individual independent from the payroll process.

Condition:

During our audit we noted that there was mainly one person who was responsible for setting up new employees, making and updating all changes in the payroll system as well as processing payroll.

Cause:

Duties in the payroll system is not properly segregated to ensure good checks and balances are in place.

Effect:

Payroll amounts may be misstated due to errors not detected during the review process . In addition, incorrect or unauthorized pay rates may be used and not detected timely.

Recommendation:

We recommend that the City improve and strengthen its procedures for review and reconciliation to ensure that payroll is properly reviewed and reconciled by an independent person and there is adequate segregation of duties in place.

Management Response:

City of Guadalupe
Schedule of Findings and Responses
For the year ended June 30, 2017

2017-006 - Control Over Journal Entries And Financial Reporting (Significant Deficiency)

Criteria:

A good internal control system over financial reporting requires that certain tasks such as creating journal entries and reviewing journal entries be segregated and not performed by the same individual.

Condition:

During our audit we noted that there was mainly one person who was responsible for creating journal entries with no independent review of those entries by an independent person

Cause:

Duties in the financial reporting system are not properly segregated to ensure good checks and balances are in place.

Effect:

Journal entries amounts may be misstated due to errors not detected during the review process . In addition, unauthorized entries may be posted and not detected timely.

Recommendation:

We recommend that the City improve and strengthen its procedures for review and reconciliation to ensure that journal entries are properly reviewed and reconciled by an independent person and there is adequate segregation of duties in place.

Management Response:

Draft Management Response

2017-001 – Deficit Fund Balance in the General Fund, Wastewater Treatment and the Solid Waste Fund and the Ability of the City to Continue as a Going Concern.

Management Response:

The City will continue to analyze cost cutting measures as well as pursue options for sustainable revenues. The City has also performed a five year projection to provide a guideline for current and future decisions for the general fund. The same will be performed for the enterprise funds.

Permit revenues from the Pasadera development have increased 880% from FY 14-15 (\$29,655) to FY 16-17 (\$290,577). There were five homes permitted in FY 14-15, sixteen homes permitted in FY15-16 and fifty homes permitted in FY 16-17. In the long term, after approximately 420 homes are built, the commercial portion of the development will commence. The City expects an increase in sales tax revenues once this occurs. The City also expects an increase in property tax revenues during buildout which will be a period of approximately five to seven years. These increases will gradually bring the general fund balance back into the positive.

The negative balance in the wastewater fund was addressed in FY 2016 per ordinance 2016-442 after a Prop 218 process. The ordinance increased wastewater rates 30% over a three year period starting June 1, 2016 with the last increase on January 1, 2018. Thereafter increases will continue every January 1 as a CPI adjustment only. The City will also see increased revenues for wastewater due to the Pasadera development. The negative balance has decreased 3% from June 2016 (1,530,565) to June 2017 (1,486,616).

The negative balance in the solid waste fund was addressed in FY 2015 per ordinance 2015-430 after a Prop 218 process. The negative balance has decreased 68% from June of 2014 (87,222) to February of 2018 (28,131). There are no longer costs associated with this fund as the waste haulers took over the billing in August of 2016. The City expects the fund to be made whole by June of 2018.

An ongoing focus for the City is to remain perseverant in obtaining sustainable revenues and continue to diligently control costs in the general fund and enterprise funds.

2017-002 – Cash Overdraft and Potential Non-Compliance with Laws and Regulations.

Management Response:

The City will analyze the general fund and wastewater fund to determine which funds loaned those funds monies. The City will then present a repayment schedule to Council for approval.

The solid waste fund will be made whole by June 2018 through ordinance 2015-430. As mentioned in finding 2017-001 there are no longer costs associated with this fund as the waste haulers took over the billing in August of 2016.

The Library fund will be made whole by June 2018 through the Pasadera development fees that are due on February 27, 2018 and May 9, 2018.

2017-003 – Recordkeeping of Capital Assets and Long Term Debt

Management Response:

The City will implement a tracking system and continue to conduct an inventory of its capital assets to ensure that it is in possession of all debt agreements and repayment schedules.

2017-004 – Control Over Expenditures and Accounts Payable

Management Response:

The City will strengthen its procedure for review and reconciliation to ensure that changes to the vendor master file are properly review and reconciled by an independent person.

2017-005 – Control Over Payroll and Related Liabilities

Management Response:

The City will strengthen its procedure for review and reconciliation to ensure that payroll is properly reviewed and reconciled by an independent person.

2017-006 – Control over Journal Entries and Financial Reporting.

Management Response:

Although there is a concern regarding proper review of journal entries, the City is limited in its ability to have an independent person review senior level journal entries. The department will continue to monitor and reconcile all accounts to make sure the journal entry activity is correctly recorded.

9a.

**REPORT TO THE CITY COUNCIL
March 13, 2018**

PS

Prepared by:
Philip F. Sinco, City Attorney

CWR

Approved by:
Cruz Ramos, City Administrator

SUBJECT: EXTENSION OF INTERIM URGENCY ORDINANCE AND INTRODUCTION OF REGULAR ORDINANCE PROHIBITING COMMERCIAL CULTIVATION, MANUFACTURING, PROCESSING, LABORATORY TESTING, LABELING, STORING, WHOLESALE AND RETAIL SALES AND DISTRIBUTION, AND DELIVERIES OF CANNABIS, CANNABIS PRODUCTS, AND ALL CANNABIS DERIVATIVES IN THE CITY OF GUADALUPE, EXCEPT FOR DELIVERIES FOR MEDICAL PURPOSES FROM DISPENSARIES LOCATED OUTSIDE THE CITY

EXECUTIVE SUMMARY:

At its meeting on February 13, 2018, the City Council adopted an interim urgency ordinance prohibiting all commercial cannabis uses in the City of Guadalupe, with the exception of deliveries of medical marijuana from dispensaries located outside of the City. The interim urgency ordinance took effect immediately upon adoption. An interim urgency ordinance expires after 45 days, and therefore, the urgency ordinance adopted by the Council will expire on March 30, 2018, unless the City Council extends the interim urgency ordinance.

Staff had also recommended at the February 13, 2018 meeting that the City Council introduce an ordinance that would prohibit commercial cultivation, manufacturing, processing, laboratory testing, labeling, storing, wholesale and retail sales and distribution, and deliveries of cannabis, cannabis products, and all cannabis derivatives in the City of Guadalupe; however, the Council did not take any action on this ordinance.

Staff is recommending that the City Council adopt an extension of the interim urgency ordinance and introduce Ordinance No. 2018-471 to prohibit commercial cultivation, manufacturing, processing, laboratory testing, labeling, storing, wholesale and retail sales and distribution, and deliveries of cannabis, cannabis products, and all cannabis derivatives in the City of Guadalupe, except for deliveries for medical purposes from dispensaries located outside of the City.

RECOMMENDATION:

That the City Council take the following actions:

1. Adopt Ordinance 2018-470 extending the interim urgency ordinance to continue the temporary moratorium on the commercial cultivation, manufacturing, processing, laboratory testing, labeling, storing, wholesale and retail sales and distribution, and deliveries of cannabis, cannabis products, and all cannabis derivatives in the City of Guadalupe, except for deliveries for medical purposes from dispensaries located outside of the City; and
2. Introduce Ordinance No. 2018-471, for first reading and continue to the meeting of April 10, 2018 for second reading and adoption, prohibiting the commercial cultivation, manufacturing, processing, laboratory testing, labeling, storing, wholesale and retail sales and distribution, and deliveries of cannabis, cannabis products, and all cannabis derivatives in the City of Guadalupe, except for deliveries for medical purposes from dispensaries located outside of the City.

BACKGROUND:

The “Control, Regulate, and Tax Adult Use of Marijuana Initiative” (Proposition 64) was approved by the voters on November 8, 2016, and took effect on January 1, 2018. This initiative legalized adult (recreational) use of cannabis in California but permitted local jurisdictions to regulate it as provided in the initiative.

At the City Council’s meeting on February 13, 2018, staff recommended that the Council adopt an interim urgency ordinance, and introduce a regular ordinance, prohibiting all commercial cannabis uses in the City of Guadalupe; however, there were only three votes in favor of adoption of the interim urgency ordinance, and since urgency ordinances require a 4/5 vote of the legislative body, the ordinance was not adopted. After this vote, the proposed interim urgency ordinance was revised to allow deliveries for medical purposes from dispensaries located outside of the City, and this revised urgency ordinance was passed and adopted by a 5-0 vote of the Council; however, the Council did not act to introduce the regular ordinance at the February 13, 2018 meeting.

DISCUSSION:

Government Code Section 65858 authorizes the City Council to adopt a moratorium as an urgency ordinance to preserve the public health, safety or welfare. An urgency ordinance requires a four-fifths (4/5) vote for adoption. Urgency ordinances expire 45 days after adoption but may be extended, after notice and a public hearing, for ten (10) months and fifteen (15) days, and subsequently extended for one year. Any extension requires a four-fifths (4/5) vote for adoption. Not more than two extensions may be adopted. Ten days prior to the expiration of the interim ordinance or any extension, City Council must issue a report describing the measures taken to alleviate the condition which led to the adoption of the ordinance. This report is attached hereto as Exhibit 1.

Because the interim urgency ordinance adopted by the Council on February 13, 2018 will expire on March 30, 2018 (45 days after its adoption), staff recommends that the Council adopt Ordinance No. 2018-470 to extend the interim urgency ordinance for a period of ten (10) months

and fifteen (15) days as provided by Government Code Section 65858. Staff also recommends that the Council introduce Ordinance No. 2018-471 for a first reading, and continue to the April 10, 2018 meeting for second reading and adoption, a regular ordinance prohibiting commercial cultivation, manufacturing, processing, laboratory testing, labeling, storing, wholesale and retail sales and distribution, and deliveries of cannabis, cannabis products, and all cannabis derivatives in the City of Guadalupe, except for deliveries for medical purposes from dispensaries located outside of the City. Extending the interim urgency ordinance will prevent any gaps in the ban on commercial cannabis uses (except for deliveries of medical cannabis) that would occur between March 30, 2018 when the urgency ordinance would otherwise expire and before Ordinance No. 2018-471 takes effect on May 10 2018 (thirty (30) days after the second reading takes place on April 10, 2018).

ALTERNATIVES:

1. The City Council may decline to take any action. This may result in businesses that cultivate, manufacture, process, conduct laboratory testing, and/or label cannabis, cannabis products, and/or cannabis derivatives in the City (if the business can otherwise comply with all applicable City regulations) locating in the City after the interim urgency ordinance expires (on March 30, 2018). Medical marijuana would be prohibited from dispensaries located in the City, although deliveries from dispensaries located outside of the City might be permitted. Adult use retail and wholesale distribution and/or sales of adult use cannabis may be able to locate in the City; or
2. The City Council may give staff direction to make changes in the proposed ordinance to tax and regulate some or all legal cannabis uses and/or products in the City, in which case, staff recommends that the Council adopt the ordinance extending the interim urgency ordinance to permit staff an opportunity to prepare an appropriate ordinance that complies with Council's direction.

ENVIRONMENTAL PROCEDURES:

This action is exempt from the California Environmental Quality Act (CEQA) pursuant to Section 15306 (Information Collection) because it does not have the potential to create a physical environmental effect.

FISCAL IMPACT:

There are no anticipated fiscal impacts from the recommended action.

PUBLIC NOTICE:

Staff published the required Public Hearing Notice in a newspaper of general circulation on or before March 3, 2018.

CONCLUSION:

Staff recommends that the City Council adopt the ordinance extending the interim urgency ordinance adopted at the February 13, 2018, by a 4/5 vote; and also, introduce Ordinance 2018-471 and continue to the April 10, 2018 meeting for second reading and adoption.

ATTACHMENTS:

- 1) Report required by Government Code section 65858(d).
- 2) Ordinance 2018-470 entitled "Extension of Interim Urgency Ordinance (Ordinance No. 2810-469) of the City Council of the City of Guadalupe, California, Prohibiting Commercial Cultivation, Manufacturing, Processing, Laboratory Testing, Labeling, Storing, Wholesale and Retail Sales and Distribution, and Deliveries of Cannabis, Cannabis Products, and All Cannabis Derivatives in the City of Guadalupe, except for deliveries for medical purposes from dispensaries located outside of the City."
- 3) Ordinance 2018-471 entitled "An Ordinance of the City Council of the City of Guadalupe, California, Prohibiting Commercial Cultivation, Manufacturing, Processing, Laboratory Testing, Labeling, Storing, Wholesale and Retail Sales and Distribution, and Deliveries of Cannabis, Cannabis Products, and All Cannabis Derivatives in the City of Guadalupe, except for deliveries for medical purposes from dispensaries located outside of the City."

ORDINANCE NO. 2018-470

AN ORDINANCE EXTENDING AN INTERIM URGENCY ORDINANCE (ORDINANCE NO. 469) OF THE CITY COUNCIL OF THE CITY OF GUADALUPE, CALIFORNIA PROHIBITING THE COMMERCIAL CULTIVATION, MANUFACTURING, PROCESSING, LABORATORY TESTING, LABELING, STORING, WHOLESALE AND RETAIL SALES AND DISTRIBUTION, AND DELIVERIES OF CANNABIS, CANNABIS PRODUCTS, AND ALL CANNABIS DERIVATIVES IN THE CITY OF GUADALUPE, EXCEPT FOR DELIVERIES FOR MEDICAL PURPOSES FROM DISPENSARIES LOCATED OUTSIDE OF THE CITY

The City Council of the City of Guadalupe, California, does ordain as follows:

SECTION 1. FINDINGS.

The City Council finds and declares as follows:

A. The Control, Regulate, and Tax Adult Use of Marijuana Initiative (Proposition 64) was approved by a majority of the votes on November 8, 2016, which established the Bureau of Marijuana Control within the Department of Consumer Affairs to regulate and license the marijuana industry, in addition to legalizing the adult use of cannabis, cannabis products, and cannabis derivatives.

B. Proposition 64 allows local governments to ban adult use marijuana businesses entirely and reasonably regulate cultivation through zoning and other local laws, including banning outdoor cultivation outright. Proposition 64, however, requires local governments to allow limited indoor cultivation in private residences or inside accessory structures on residential parcels of up to six plants for personal use.

C. The City Council finds there is a current and immediate threat to the health, safety, and welfare of City residents arising from the risks associated with the manufacture, processing, laboratory testing, labeling and storing of cannabis, whether medical or recreational. Citywide prohibition of all activities, from cultivation to point of sale, is proper and necessary to avoid the risks of criminal activity, degradation of the natural environment, malodorous smells and indoor electrical fire hazards that may result from such activities.

D. Several California cities have reported negative impacts of marijuana processing and distribution uses, including offensive odors, illegal sales and distribution of marijuana, trespassing, theft, violent robberies and attempted robbery, and fire hazards.

E. Manufacturing of cannabis products can involve use of chemicals and solvents, and as a result, the manufacture of hash oil concentrate, often added to edibles, drinks and liquids, carries a significant risk of explosion due to the distillation process utilized to extract tetrahydrocannabinol. Major burn treatment centers at two hospitals in Northern California reported in 2015 that nearly 10 percent of severe burn cases were attributed to butane hash oil explosions, which was more than burn cases from car accidents and house fires combined.

F. Cultivation of cannabis and medical marijuana dispensaries are currently prohibited under the City's zoning regulations. The City Council desires to enact this interim urgency ordinance to expressly clarify that the commercial cultivation, manufacturing, processing, laboratory testing, labeling and storing of cannabis, cannabis products, and all cannabis derivatives, whether medical or recreational, are also temporarily prohibited in all zones throughout the City, and also to prohibit wholesale and/or retail sales and distribution, including deliveries of all cannabis, cannabis products, and cannabis derivatives whether for medical or adult use in the City of Guadalupe.

G. Government Code § 65858 authorizes the City Council to adopt a moratorium as an interim urgency ordinance to preserve the public health, safety or welfare. For the reasons stated above and for the immediate preservation of the public health, safety and welfare of the citizens of the community of Santa Maria, it is required that the City Council adopt this ordinance as an urgency measure.

H. This ordinance is not a project subject to the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines § 15306 (Information Collection) because it does not have the potential to create a physical environmental effect.

SECTION 2. TEMPORARY MORATORIUM.

A temporary moratorium is hereby declared prohibiting any commercial or industrial use involving cannabis in every zoning district in the City, including but not limited to the cultivation (except for up to six plants for personal use grown on residential parcels), manufacturing, processing, laboratory testing, labeling, storing, wholesale and retail sales and distribution, including deliveries, of cannabis, cannabis products, and all cannabis derivatives in the City of Guadalupe, except for deliveries for medical purposes from dispensaries located outside of the City.

SECTION 3. INTERIM URGENCY ORDINANCE.

By the City Council making the findings of fact set forth above, which constitute an emergency for the immediate preservation of the public health, welfare and safety, the City Council declares that this ordinance is an urgency measure and therefore, this ordinance takes effect immediately upon its adoption and continues as provided for under *Government Code* § 65858 and any extensions which may thereafter be made.

PASSED AND ADOPTED as an interim urgency ordinance at a regular meeting of the City Council held on the 13th day of March, 2018, by the following roll call vote:

AYES:

NOES:

ABSENT:

ABSTAINED:

ATTEST:

Joice Earleen Raguz, City Clerk

John Lizalde, Mayor

APPROVED AS TO FORM

Philip F. Sinco City Attorney

APPROVED AS TO CONTENT

Cruz Ramos, City Administrator

Ordinance No. 2018-470

ORDINANCE NO. 2018-471

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF GUADALUPE, CALIFORNIA, PROHIBITING COMMERCIAL CULTIVATION, MANUFACTURING, PROCESSING, LABORATORY TESTING, LABELING, STORING, WHOLESALE AND RETAIL SALES AND DISTRIBUTION, AND DELIVERIES OF CANNABIS, CANNABIS PRODUCTS, AND ALL CANNABIS DERIVATIVES IN THE CITY OF GUADALUPE, EXCEPT FOR DELIVERIES FOR MEDICAL PURPOSES FROM DISPENSARIES LOCATED OUTSIDE OF THE CITY

The City Council of the City of Guadalupe, State of California, does ordain as follows:

SECTION 1. Chapter 18.74 of the Guadalupe Municipal Code is repealed in its entirety:

~~Chapter 18.74 MEDICAL MARIJUANA CULTIVATION, PROCESSING AND TRANSPORT~~

~~18.74.010 Findings and purpose.~~

~~— A. — The City Council finds that the cultivation of medical marijuana significantly impacts, or has the potential to significantly impact, the health, safety and welfare of the City's residents and businesses. These impacts include damage to buildings in which cultivation occurs, including improper and dangerous electrical alterations and use, inadequate ventilation, increased occurrences of home invasion robberies and similar crimes and nuisance impacts to neighboring properties from the strong and potentially noxious odors from the plants and increased crime.~~

~~— B. — The City Council acknowledges that the Compassionate Use Act (CUA), passed in 1996 by the voters of the State of California, provides a criminal defense to the cultivation, possession and use of marijuana for medical purposes. However, the Compassionate Use Act (CUA) does not address the land use or other impacts that are caused by the cultivation of medical marijuana.~~

~~— C. — The City Council wishes to adopt rules consistent with the CUA, the Medical Marijuana Program Act (MMPA), and the Medical Marijuana Regulation and Safety Act (MMRSA) to regulate medical marijuana in a manner that protects the public health, safety and welfare of the residents, visitors and business operators in the City of Guadalupe and prevents adverse impacts that such activities may have on nearby properties and residents, without interfering with the rights of qualified patients and their primary caregivers to possess or cultivate medical marijuana pursuant to State law.~~

~~— D. — The CUA is limited in scope, in that it only provides a defense from criminal prosecution for possession and cultivation of marijuana to qualified patients and their primary caregivers. The scope of the MMPA is also limited in that it establishes a Statewide identification program and affords qualified patients, persons with identification cards and their primary caregivers, an affirmative defense to certain enumerated criminal sanctions that would otherwise apply to transporting, processing, administering or distributing marijuana. The MMRSA establishes additional regulations regarding the cultivation, processing and transport of medical marijuana, but it allows for additional local regulation.~~

~~— E. — Facilities dispensing marijuana for medicinal purposes are commonly referred to as medical marijuana dispensaries, medical marijuana cooperatives or medical marijuana collectives. The City Council has previously prohibited the establishment of these operations within the City.~~

~~— F. — The CUA, MMPA and MMRSA do not require or impose an affirmative duty or mandate upon local governments, such as the City of Guadalupe, to allow, authorize or sanction the establishment and the operation and establishment of facilities dispensing medical marijuana within their jurisdiction.~~

~~G. Neither the CUA nor the MMPA abrogate the City's powers to regulate for public health, safety and welfare. Health and Safety Code Section 11362.5(b)(2) provides that the Act does not supersede any legislation intended to prohibit conduct that endangers others. In addition, Health and Safety Code Section 11362.83 authorizes cities and counties to adopt and enforce rules and regulations consistent with the MMPA. The MMRSA provides that nothing in that act shall be interpreted to supersede or limit existing local authority for law enforcement activity, enforcement of local zoning requirements or local ordinances, or enforcement of local permit or licensing requirements.~~

~~H. Marijuana remains an illegal substance under the Federal Controlled Substances Act, 21 U.S.C. 801, et seq., and is classified as a "Schedule I Drug" which is defined as a drug or other substance that has a high potential for abuse, that is no currently accepted medical use in treatment in the United States, and that has not been accepted as safe for its use under medical supervision. Furthermore, the Federal Controlled Substances Act makes it unlawful for any person to cultivate, manufacture, distribute or dispense, or possess with intent to manufacture, distribute or dispense marijuana. The Controlled Substances Act contains no statutory exemption for the possession of marijuana for medical purposes. The City does not wish to be in violation of federal law.~~

~~I. Pursuant to the City of Guadalupe's police powers authorized in Article XI, Section 7 of the California Constitution, as well as under the City of Guadalupe Municipal Code, the City has the power to regulate permissible land uses throughout the City and to enact regulations for the preservation of public health, safety and welfare of its residents and community. Pursuant to Government Code Section 38771 the City Council also has the power by ordinance to declare actions and activities that constitute a public nuisance.~~

~~K. The City Council finds that the CUA, MMPA and MMRSA do not preempt the City's exercise of its traditional police powers in enacting land use and zoning regulations, as well as legislation for preservation of public health, safety and welfare, such as this zoning ordinance prohibiting the establishment and operation of medical marijuana cooperatives and collectives and cultivation operation within the City.~~

~~L. The City Council finds that the public health, safety and general welfare of the City and its residents necessitate and require the adoption of this zoning ordinance.~~

18.74.020 Applicability.

~~A. Nothing in this chapter is intended, nor shall it be construed, to burden any defense to criminal prosecution under the CUA.~~

~~B. Nothing in this chapter is intended, nor shall it be construed, to make legal any cultivation, sale or other use of medical marijuana that is otherwise prohibited under California law.~~

~~C. Nothing in this chapter is intended, nor shall it be construed, to preclude any landlord from limiting or prohibiting medical marijuana cultivation by tenants.~~

~~D. Nothing in this chapter is intended, nor shall it be construed, to exempt any activity related to the cultivation of medical marijuana from any applicable electrical, plumbing, land use or other building or land use standards or permitting requirements.~~

~~E. All cultivation and sale of medical marijuana within the City shall be subject to the provisions of this chapter.~~

~~F. Any medical marijuana cultivation that legally occurred prior to the effective date of the ordinance codified in this chapter does not have nonconforming rights provided in Chapter 18.68.~~

18.74.030 Definitions.

~~The following definitions apply to this chapter:~~

~~— A. Fully enclosed and secure structure: A space within a building that complies with the California Building Code, as adopted in the City of Guadalupe, or, if exempt from permit requirements, that has a complete roof enclosure supported by connecting walls extended from the ground to the roof, a foundation, slab or equivalent base to which the floor is secured by bolts or similar attachments, is secure against unauthorized entry, and is accessible only through one or more lockable doors and accessible only to a primary caregiver or a qualified patient. Walls and roofs must be constructed of solid materials that cannot be easily broken through such as 2 inch by 4 inch or thicker studs overlaid with three eighths inch or thicker plywood or the equivalent. Plastic sheeting regardless of gauge, or similar products do not satisfy this requirement. If indoor grow lights or air filtration systems are used, they must comply with the California Building, Electrical and Fire Codes as adopted in the City of Guadalupe.~~

~~— B. Medical marijuana: Marijuana used for medical purposes in accordance with California Health and Safety Code Section 11362.5.~~

~~— C. Medical marijuana dispensary: A collective, cooperative, dispensary, operator, establishment, provider, association or similar entity that, from a fixed location, cultivates, distributes, or processes marijuana for medical purposes relating to a qualified patient or primary caregiver, pursuant to the Compassionate Use Act, Medical Marijuana Program Act and/or Medical Marijuana Regulation and Safety Act.~~

~~— D. Marijuana cultivation: The planting, growing, harvesting drying or processing of marijuana plants or any part thereof.~~

~~— E. Primary caregiver: A primary caregiver as defined in Health and Safety Code Section 11362.7.~~

~~— F. Qualified patient: A qualified patient as defined in Health and Safety Code Section 11362.7.~~

~~**18.74.040 Prohibition of marijuana cultivation.**~~

~~— Marijuana cultivation by any person, including primary caregivers and qualified patients, or dispensaries, is prohibited in all zone districts within the City of Guadalupe.~~

~~**18.74.050 Separation of Section 18.74.040.**~~

~~— If Section 18.74.040, or any subsection, sentence, clause, phrase or portion of Section 18.74.040 is held by a court of competent jurisdiction to be invalid or unconstitutional, that portion shall be deemed a separate, distinct and independent provision and the following Section 18.74.060 shall apply in lieu of Section 18.74.040.~~

~~**18.74.060 Cultivation in residential zone districts for personal use.**~~

~~— It is unlawful to cultivate medical marijuana in any residential zone district within the City, unless a zoning clearance under this title is first secured and all of the following criteria are met:~~

~~— A. Indoor Cultivation. Medical marijuana may be cultivated only in a fully enclosed and secure structure by a qualified patient or primary caregiver in a residential zone district if a zoning clearance is first secured and all of the following criteria are met:~~

~~— 1. The applicant must reside on the property and be either a qualified patient or primary caregiver.~~

~~— 2. The owner of the property, if other than the applicant, has consented in writing to the cultivation of marijuana on the property.~~

~~— 3. If the marijuana cultivation occurs within a residential accessory building or a garage, the location of the marijuana plants shall be at least 15 feet from any habitable structure on any adjacent property.~~

~~4. The location of the plants shall be at least 600 feet from any school property. The distance shall be measured in a straight line, without regard to intervening structures, from the closest property line of the property on which the marijuana is grown and the school property. The existence of city, county or other political subdivision boundary shall be irrelevant for purposes of calculating and applying the distance requirements of this paragraph.~~

~~5. The area where marijuana is grown shall not exceed 50 square feet of floor area, regardless of how many qualified patients or primary caregivers live on the property.~~

~~6. The marijuana cultivation shall not be visible from any public or other private property.~~

~~7. The cultivation of marijuana shall not take place in the kitchen, bathrooms or occupied bedrooms of the residence.~~

~~8. The lighting used for cultivation shall not exceed a cumulative total of 1,200 watts, regardless of the type or number of lighting fixtures.~~

~~9. The use of flammable or combustible products, including, but not limited to, propane and butane, for cultivation and/or processing is prohibited.~~

~~B. All medical marijuana cultivated pursuant to this section shall be for the personal use only of a qualified patient residing on the property and may not be distributed to any other person or medical marijuana dispensary.~~

~~C. The cultivation of medical marijuana shall not be an allowed home occupation.~~

~~D. Cultivation of marijuana in any other zone district other than those listed in this section is prohibited.~~

~~18.74.070 Medical marijuana dispensaries.~~

~~Medical marijuana dispensaries are not permitted in any zone district within the City of Guadalupe.~~

~~18.74.080 Separation of Section 18.74.070.~~

~~If Section 18.74.070, or any subsection, sentence, clause, phrase or portion of Section 18.74.070 is held by a court of competent jurisdiction to be invalid or unconstitutional, that portion shall be deemed a separate, distinct and independent provision and the following Section 18.74.090 shall apply in lieu of Section 18.74.070.~~

~~18.74.090 Medical marijuana dispensary.~~

~~A. Purpose. To establish a comprehensive set of regulations applicable to the operation of medical marijuana dispensaries within the City to insure such operation in a manner consistent with the overall health, welfare and safety of the City and its populace and in compliance with the California Compassionate Use Act, the Medical Marijuana Program Act, and the Medical Marijuana Regulation and Safety Act.~~

~~B. Allowed Zone Districts. Medical marijuana dispensaries are allowed in the General Industrial (G-I) Zone District, subject to an approved use permit in compliance with Chapter 18.72, and provided that all of the criteria provided below can be satisfied.~~

~~1. The site is not within 600 feet of any public or private school for grades kindergarten through 12th, any preschool or licensed childcare facility.~~

~~2. The site is not within 300 feet of any residential use, residential area or residential zone.~~

~~3. The site is not within 600 feet of any park, library or recreational area commonly used by minor children.~~

~~— All required minimum distances set forth in this subsection shall be measured from the nearest property line of one designated location to the nearest property line of the other designated location along a straight line extended between the two points without regard to intervening structures.~~

~~— C. — Needed Information. In addition to the information required by the City for any potential use permit application or any potential business license application, persons or entities making such application(s) for the establishment of a medical marijuana dispensary shall also provide the following information with the application(s):~~

~~— 1. — The application must be signed by the owner, lessee or agent who is applying for the use permit or business license and the owner, lessee or agent shall specifically identify the individuals who will be conducting the business of the medical marijuana dispensary for the premises for which the permit or license is sought. In the case of a lessee of a property applying for a permit pursuant to this chapter, the property owner shall acknowledge on the application consent to the application for a use permit for a medical marijuana dispensary.~~

~~— 2. — The application shall list the legal form of the applicant, e.g., individual, partnership, corporation:~~

~~— a. — If the applicant is an individual, the application shall list his or her legal name, any aliases and date of birth;~~

~~— b. — If the applicant is a partnership, the application shall list the full and complete name of the partnership, the legal names and addresses of all partners, dates of birth, all aliases used by all of the general partners and whether the partnership is general or limited; and~~

~~— c. — If the applicant is a corporation, the applicant shall list the full and complete corporate name, the date and status of its incorporation, evidence that the corporation is in good standing, the legal names and dates of birth and aliases used and the capacity of all officers, directors and principal stockholders (i.e., all stockholders with 10 percent or more of all outstanding shares, and the name and addresses of the registered officers for service of process.~~

~~— 3. — The application must list whether, preceding the date of the application, the applicant or any individuals listed pursuant to subsection (C)(2) of this section has:~~

~~— a. — In the 3 years prior to the year of the permit application, other licenses and/or permits issued to and/or revoked, relating to similar business activities as in the permit application. If the application lists such other licenses and/or permits, the list shall include the type, current status and issuing agency for each permit;~~

~~— b. — Been a partner in a partnership or an officer, director or principal stockholder of a corporation which has had any other licenses and/or permits, relating to similar business activities as in the permit application, issued to and/or revoked in the 3 years prior to the year of the permit application. The type, current status, and issuing agency for each previously issued or revoked licenses and/or permits shall be listed on the application;~~

~~— c. — Within the 4 years preceding the date of the application, been found guilty of or pleaded nolo contendere to a misdemeanor or a felony offense classified by the State of California as a drug or drug-related offense.~~

~~— D. — Restrictions on Use. The following restrictions/regulations/conditions shall apply to the operation of all medical marijuana dispensaries:~~

~~— 1. — Hours of Operation. Medical marijuana dispensaries shall be restricted to hours of operation between 8:00 a.m. and 6:00 p.m.~~

~~— 2. Conviction of Crimes: No operator and/or employee of a medical marijuana dispensary shall have been convicted of any felony under any State or Federal law, convicted of a crime in any other jurisdiction the commission of which would be a felony under California law, nor convicted of any crime of moral turpitude. All operators and/or employees of a medical marijuana dispensary shall be subject to verification of the absence of any disqualifying conviction under this subsection prior to commencement of any such operation and/or employment and annually thereafter, pursuant to reasonable regulations pertaining thereto as established and promulgated by the Chief of Police.~~

~~— 3. Security System. Medical marijuana dispensaries shall be equipped with, and the operators of such operations shall maintain in working order at all times burglary/robbery alarms in a manner compliant with the provisions of this Code.~~

~~— 4. Security Guard. During all hours of operation there shall be, for each 1,000 square feet of occupied building space, or portion thereof, at least one licensed, uniformed security guard present and visible on the premises, i.e., one guard for zero to and including 1,000 square feet, 2 guards for 1,001 to and including 2,000 square feet, etc.~~

~~— a. Such guards(s) shall be duly licensed by the State of California, Department of Consumer Affairs in a manner compliant with all applicable State and local laws. In particular, all security officers shall comply with the provisions of California Business and Professions Code Section 7582, et seq.~~

~~— b. The presence and licensing of such guards shall be subject to proof thereof by operator(s), employee(s) or security guard(s) of such dispensary at all required times, upon reasonable demand by any City, State or Federal Police Officer.~~

~~— 5. Use On Premises. Use or consumption of marijuana in any manner is not permitted on premises of any medical marijuana dispensary at any time.~~

~~— 6. Drug Paraphernalia. No medical marijuana dispensary may sell or display any drug paraphernalia on the premises at any time, including, but not limited to, water pipes (bongs), everyday items with special removable tops that have been converted to conceal narcotics and drugs, including, but not limited to, beer cans, oil cans and plastic photograph film vials, roach clips (for holding marijuana cigarettes), cigarette paper or filters.~~

~~— 7. Minors. Persons under the age of 18 years of age are not permitted to be on the premises of any medical marijuana dispensary at any time.~~

~~— 8. Alcohol. No alcoholic beverage shall be sold, conveyed or consumed on the premises of any medical marijuana dispensary at any time.~~

~~— 9. Under the Influence. No person shall be present on the premises of a medical marijuana dispensary while intoxicated and/or under the influence of alcohol or any controlled substance at any time, as defined in California Health and Safety Code Section 11007.~~

~~— 10. Unobstructed View. The interior of the dispensary shall be configured such that there is an unobstructed view by a manager, by use of the naked eye, and unaided by video, closed-circuit cameras or any other means, of every public area of the premises. No public area shall be obscured by any door, curtain wall, two way mirror or other device. A manager shall be in the public portion of the dispensary at all times it is in operation or open to the public in order to enforce all rules and regulations.~~

~~— 11. Exterior Painting. Buildings and structures shall not be painted or surfaced with any design that would simulate a sign or advertising message and cannot be established or maintained such that the exterior appearance of the structure is substantially inconsistent with the external appearance of abutting properties.~~

~~—12. Displays. Advertisements, displays of merchandise, signs or any other exhibit depicting activities of the dispensary placed within the interior of buildings of premises shall be arranged or screened to prevent public viewing from outside such building or premises. Neon or light emitting diode (LED) signage shall not be used.~~

~~—13. Loudspeakers. Outdoor loudspeakers or other outdoor sound equipment advertising or directing attention to a dispensary, including, but not limited to, prerecorded or live music or sounds, are prohibited.~~

~~—14. Graffiti. Upon order of the Chief of Police or designee, graffiti appearing on any exterior surface of a building or premises of a dispensary, which graffiti is in public view, shall be removed and that surface shall be restored within 48 hours of notification to the owner or person in charge of the premises or as may be specified in other ordinances of the City regulating graffiti removal.~~

~~—15. Security Cameras. The operator of the medical marijuana dispensary shall be responsible for insuring that a video surveillance system on the premises complies with the following standards:~~

~~— a. Visually records and monitors all parking lot areas, rear alley areas immediately adjacent to the dispensary, the main building entrance(s) and exit(s), and any and all transaction areas for the dispensing of medical marijuana. The operator of the dispensary or designated representative shall instruct the company or individual(s) installing the surveillance equipment at the dispensary to position cameras to maximize the quality of facial and body images and avoid backlighting and physical obstructions. The company or individual(s) installing the surveillance equipment for any medical marijuana dispensary shall be responsible for reasonable compliance with those instructions in installing such equipment at the dispensary.~~

~~— b. Cameras shall have a minimum resolution of 500 lines per inch and a minimum light factor requirement of 0.7 lux. Light sensitive lenses or the installation of additional lighting may be required to increase picture clarity and brightness. Cameras shall be calibrated and focused to maximize the quality of the recorded image.~~

~~— c. The recording device shall be a time-lapse or continuous recorder that displays a current date and time stamp on the recording. Systems required to have more than one camera shall include a “quad” or “multiplexer” video display splitter. The recording equipment and all recordings kept in compliance with this section shall be secured in a locked area in which access is limited to the dispensary operator, the permit holder, and/or designated representative(s).~~

~~— d. A display monitor with a minimum screen size of 19 inches shall be connected to the video surveillance system at all times. If a “quad” video display splitter is utilized, the display monitor shall have a minimum screen size of 27 inches.~~

~~— e. Video surveillance systems shall be maintained in good working order at all times. The owner of the dispensary shall instruct each employee, volunteer, agent, servant or other individual overseeing the functioning of the video system, to immediately report any malfunctioning of or technical problems whatsoever with surveillance equipment. Every 3 months, the operator of the dispensary or designated representative shall inspect all cameras and video recorders to ensure proper operation and shall perform the following functions: the camera lenses shall be cleaned and the date and time stamp shall be calibrated to reflect true information; all wires connected to the camera and video recording device shall be inspected for wear and tear; and, a test recording shall be done to verify image quality and the date and time stamp. The operator of the dispensary or designated representative shall keep a video surveillance maintenance log documenting all inspections and repairs to the system. Any technical problems or inoperable equipment shall be repaired as soon as possible, not to exceed~~

~~10 calendar days from the discovery of the problem. The video surveillance system and maintenance log shall be subject to periodic inspection upon request by the Police Department during the dispensary's operating hours, in order to ensure compliance with this section.~~

~~f. The video surveillance system and recording device shall be in continuous operation from one full hour before to one full hour after the dispensary is open to the public, or any portion thereof. Recordings of daily operations shall be kept a minimum of 30 days prior to reuse or destruction of such recordings, and the recordings shall be provided to the Police Department upon request.~~

~~16. Lighting.~~

~~a. Interior. The premises within which the dispensary is operated shall be equipped with and, at all times during which the dispensary is open to the public or any portion thereof, shall remain illuminated with overhead lighting fixtures of sufficient intensity to illuminate every place to which members of the public or portions thereof are permitted access with an illumination of not less than two foot-candles as measured at the floor level.~~

~~b. Exterior. The exterior of the premises upon which the dispensary is operated shall be equipped with and, at all times between sunset and sunrise, shall remain illuminated with fixtures of sufficient intensity and number to illuminate every portion of the property with an illumination level of not less than one foot-candle as measured at the ground level, including, but not limited to, landscape areas, parking lots, driveways, walkways, entry areas and refuse storage areas.~~

~~17. Change of Ownership. If a dispensary operating with a permit pursuant to this chapter changes ownership, the current owner or operator shall notify the Chief of Police of the new owner's name and address not later than 10 calendar days after the effective date of such change of ownership.~~

~~18. Manager On Premises. All dispensaries shall have a responsible person who shall be at least 21 years of age and who shall be on the premises to act as manager at all times during which the dispensary is open to the public or any portion thereof. The individual designated as the on-site manager shall be registered with the Police Department by the owner to receive all complaints and be responsible for all violations taking place on the premises.~~

~~19. Records and Inspection. All dispensaries shall maintain sufficiently detailed written records regarding their verification that medical marijuana is dispensed only to qualified patients and primary caregivers under the California Compassionate Use Act, Health and Safety Code Section 11362.5 et seq. These written records are subject to periodic inspection upon request by the Police Department, in order to ensure compliance with this section.~~

~~20. Other Conditions. The City Council may add any conditions to the granting of a permit pursuant to this chapter, should the particular facts and/or circumstances of a proposed use so justify.~~

~~E. Operator Responsible. The operator(s) of any medical marijuana dispensary is responsible for insuring at all times that employees, volunteers, agents or any other individuals having any charge over the functioning of the dispensary are acting in compliance with the provisions of this chapter.~~

~~F. Other Regulations. The provisions of this section do not waive or modify any other provisions of this code with which medical marijuana dispensaries are required to comply. Nothing in this section is intended to authorize, legalize or permit the establishment, operation or maintenance of any facility, building or use which violates any City of Guadalupe ordinance or California statute regarding public nuisances, medical marijuana or any Federal regulations or statutes relating to the use of controlled substances.~~

~~G. Prohibited in Other Zone Districts. Medical marijuana dispensaries are prohibited in any other zone district other than those listed in this section.~~

~~18.74.100 Nuisance and civil penalties.~~

~~Any cultivation, processing or distribution of medical marijuana which takes place in violation of any provision of this chapter is unlawful, and is hereby declared a public nuisance and is subject to administrative penalties pursuant to Chapters 1.10 and 1.11, in addition to any other remedies available to the City.~~

SECTION 2. Chapter 9.21 of the Guadalupe Municipal Code is hereby added to read as follows:

CHAPTER 9.21 CANNABIS REGULATIONS

Section 9.21.010. Purpose and Intent.

The purpose and intent of this Chapter is to comprehensively regulate cannabis within the City of Guadalupe, as authorized by State law.

Section 9.21.020. Definitions.

For purposes of this Chapter, the following definitions apply:

(a) “Cannabis” and “marijuana” mean all parts of the plant Cannabis sativa L., Cannabis Indica, or Cannabis Ruderalis, whether growing or not; the seeds thereof; the resin extracted from any part of the plant; and every compound, manufacture, salt, derivative, mixture, or preparation of the plant, its seeds, or resin. It does not include “industrial hemp” as defined by Section 81000 of the Food and Agricultural Code or Section 11018.5 of the Health and Safety Code.

(b) “Commercial marijuana activity” means the cultivation, harvesting, manufacture, processing, storing, laboratory testing, labeling, transportation, distribution, delivery or sale of marijuana or marijuana products.

(c) “Cultivation” means any activity involving the planting, growing, harvesting, drying, curing, grading, or trimming of cannabis.

(d) “Cultivation site” means any facility or location where cannabis is planted, grown, harvested, dried, cured, graded, or trimmed, or that does all or any combination of those activities.

(e) “Delivery” means the commercial transfer of marijuana or marijuana products to a customer. “Delivery” also includes the use by a retailer of any technology platform owned and controlled by the retailer, or independently licensed, that enables customers to arrange for or facilitate the commercial transfer by a licensed retailer of marijuana or marijuana products.

(f) “Distribution” means the procurement, sale and transport of marijuana and marijuana products between parties to a transaction.

(g) “Manufacture” means to compound, blend, extract, infuse or otherwise make or prepare a marijuana product.

(h) “Marijuana accessories” means any equipment, products or materials of any kind which are used, intended for use, or designed for use in planting, propagating, cultivating, growing, harvesting, manufacturing, compounding, converting, producing, processing, preparing, testing, analyzing, packaging, repackaging, storing, smoking, vaporizing or containing marijuana, or for ingesting, inhaling or otherwise introducing marijuana or marijuana products into the human body.

(i) “Marijuana dispensary” or “dispensary” means a facility or location, whether fixed or

mobile, where marijuana or marijuana products are made available for sale, whether for medical purposes or otherwise.

(j) “Marijuana products” means marijuana that has undergone a process whereby the plant material has been transformed into a concentrate, including but not limited to, concentrated cannabis, or an edible or topical product containing marijuana or concentrated cannabis and other ingredients.

(k) “Nursery” means a producer of clones, immature plants, seeds and other agricultural products used specifically for the planting, propagation, and cultivation of marijuana.

(l) “Sell,” “sale” and “to sell” include any transaction whereby, for any consideration, title to marijuana is transferred from one person to another, and includes the delivery of marijuana or marijuana products pursuant to an order placed for the purchase of same and soliciting or receiving an order for same.

(m) “Smoke” and “smoking” means to inhale, exhale, burn, or carry any lighted or heated device or pipe, or any other lighted or heated marijuana or marijuana product intended for inhalation, whether natural or synthetic, in any manner or in any form. “Smoke” and “smoking” includes the use of an electronic smoking device that creates an aerosol or vapor, in any manner or in any form, or the use of any oral smoking device for the purpose of circumventing the prohibition of smoking in a place.

(n) “Testing service” means a laboratory, facility or entity that offers or performs tests of marijuana or marijuana products, including the equipment provided by such laboratory, facility or entity.

Section 9.21.030. Marijuana Dispensaries Prohibited.

Marijuana dispensaries are prohibited in the City. No person shall operate or allow to be operated a marijuana dispensary in or upon any premises in the City.

Section 9.21.040. Commercial Marijuana Activity Prohibited.

Commercial marijuana activities are prohibited in the City. No person shall operate or allow to be operated a commercial marijuana activity in or upon any premises in the City.

Section 9.21.050. Cultivation Prohibited.

Cultivation of marijuana is prohibited in the City, except for cultivation of up to six (6) living plants for personal use as permitted by California Health and Safety Code section 11362(a)(3) and when located within a private residence or inside an accessory structure of a private residence located upon the grounds of a private residence that is fully enclosed and secure on the grounds of a private residence. Outdoor cultivation of marijuana for person use on the grounds of a private residence (e.g., in a garden area) is prohibited. No person shall operate or allow to be operated a cultivation site or nursery in or upon any premises in the City.

Section 9.21.060. Delivery Restricted.

Delivery of marijuana or marijuana products is limited to the delivery for medical purposes to a qualified patient or primary caregiver pursuant to Health and Safety Code Section 11362.5 from dispensaries located outside of the City.

Section 9.21.070. Distribution Prohibited.

The distribution of marijuana or marijuana products is prohibited in the City.

Section 9.21.080. Manufacture Prohibited.

The manufacture of marijuana or marijuana products is prohibited in the City. No person shall manufacture or allow the manufacturing of marijuana or marijuana products in or upon any premises in the City.

Section 9.21.090. Testing Services Prohibited.

The provision of testing services of marijuana or marijuana products is prohibited in the City. No person shall operate or allow testing services of marijuana or marijuana products in or upon any premises in the City.

Section 9.21.100. Smoking Prohibited.

Smoking marijuana and ingesting marijuana products are subject to the regulations contained in California Health and Safety Code section 11362.3.

Section 9.21.110. Public Nuisance.

(a) The operation of a marijuana dispensary, commercial marijuana activities, cultivation sites and nurseries, distribution, provision of testing services, and manufacturing of marijuana and marijuana products from any property, structure or building in the City is declared to be a public nuisance.

(b) In addition to the penalties provided in Section 9.21.140, any violation of this Chapter shall constitute a public nuisance and may be abated by the City by administrative process, or by civil restraining order, preliminary or permanent injunction, or in any manner provided by law for the abatement of a nuisance. All remedies herein are cumulative and non-exclusive.

(c) Any person, including the City, who prevails in an action or proceeding for the abatement of a public nuisance as provided herein shall be entitled to recover attorney's fees and costs incurred in any such action or proceeding.

Section 9.21.120. Confiscation of Marijuana and Marijuana Products.

Any peace officer who issues a criminal citation under this Chapter shall confiscate any marijuana or marijuana products and store them according to law, pending the conclusion of the criminal case.

Section 9.21.130. Suspension or Revocation of Business License.

No person or business holding a City business license and owning or operating a business in the City may use that business to operate a marijuana dispensary, conduct commercial marijuana activities, operate a cultivation site or nursery, distribute, provide testing services or manufacture of marijuana and marijuana products. A violation of this Chapter shall constitute grounds for suspension or revocation of a business.

Section 9.21.140. Penalties.

(a) Failure to comply with this Chapter is a misdemeanor punishable by imprisonment in the County Jail for a period not exceeding six (6) months, or by fine not exceeding \$1,000.00, or by both, provided that where the City Attorney determines that such action would be in the interest of justice, he/she may specify in the accusatory pleading that the offense is an infraction.

(b) Each person committing, causing, or maintaining a violation of this Chapter, or failing to comply with the requirements set forth herein shall be deemed guilty of a separate offense for each and every day during any portion of which any violation of any provision of this Chapter is committed, continued, maintained, or permitted by such person and shall be punishable accordingly.

Section 9.21.150. Exclusions.

(a) Nothing in this Chapter is intended to prohibit individuals from cultivating not more than six (6) living marijuana plants and possessing the marijuana produced by the plants when in compliance with the restrictions set forth at Health and Safety Code Section 11362.2(a) and when located within a private residence or inside an accessory structure located upon the grounds of a private residence that is fully enclosed and secure.

(b) Nothing in this Chapter is intended to prohibit individuals 21 years of age or older to possess, process, transport, purchase, obtain, or give away to persons 21 years of age or older without compensation, not more than 28.5 grams of marijuana and not in the form of concentrated cannabis, as set forth at Health and Safety Code Section 11362.1(a)(1).

(c) Nothing in this Chapter is intended to prohibit individuals 21 years of age or older to possess, process, transport, purchase, obtain or give away to persons 21 years of age or older without any compensation, not more than eight (8) grams of marijuana in the form of concentrated cannabis, including as contained in marijuana products, as set forth at Health & Safety Code Section 11362.1(a)(2).

(d) Nothing in this Chapter is intended to prohibit individuals 21 years of age or older to possess, transport, purchase, obtain, use, manufacture, or give away marijuana accessories to persons 21 years of age or older without compensation, as set forth at Health and Safety Code Section 11362.1(a)(5).

(e) Marijuana and marijuana products involved in any way with conduct deemed lawful by this Section are not contraband and not subject to seizure. No conduct deemed lawful by this Section shall constitute the basis for detention, search or arrest.

Section 9.21.160. Severability.

If any section, subsection, sentence, clause or phrase of this Chapter is held to be invalid or unconstitutional by a decision of a court of competent jurisdiction or preempted by State or Federal legislation, such decision or legislation shall not affect the validity of the remaining provisions of this Chapter.

SECTION 3. This Ordinance has been reviewed for compliance with the California Environmental Quality Act (CEQA), and the CEQA guidelines, and the City’s environmental procedures, and has been found to be exempt pursuant to Section 15601(b)(3) (general rule) of the CEQA Guidelines, because the City Council hereby finds with certainty that there is no possibility the passage of this Ordinance will have a significant effect on the environment.

SECTION 4. If any part or provision of this Chapter, or the application thereof to any person or circumstance, is held invalid, the remainder of the Chapter, including the application of that part or provision to other persons or circumstances, shall not be affected thereby and shall continue in full force and effect. To this end, the provisions of this Ordinance are severable.

SECTION 5. This Ordinance shall be in full force and effect thirty (30) days after its passage. Within fifteen days following its passage, the City Clerk shall cause this Ordinance to be published in a newspaper of general circulation in accordance with State Law; or when deemed necessary due to the length or complexity of the Ordinance, cause a summary of the Ordinance to be prepared and published at least five days prior to the City Council meeting at which the proposed Ordinance is to be adopted. If a summary is published at least five days prior to the City Council meeting at which the proposed Ordinance is to be adopted, then within 15 days after adoption of the Ordinance the City

Clerk shall publish a summary of the Ordinance with the names of those City Council Members voting for and against the Ordinance and shall post a certified copy of the full text of such adopted Ordinance along with the names of those City Council Members voting for and against the Ordinance.

SECTION 6. The Chief Deputy City Clerk is hereby authorized to make minor changes herein to address clerical errors, so long as substantial conformance of the intent of this document is maintained. In doing so, the Chief Deputy City Clerk shall consult with the City Manager and City Attorney concerning any changes deemed necessary.

INTRODUCED at a regular meeting of the City Council held this 13th day of March 2018, by the following roll call vote:

- AYES:
- NOES:
- ABSENT:
- ABSTAINED:

ATTEST:

John Lizalde, Mayor

Joice Earleen Raguz, City Clerk

APPROVED AS TO FORM

Philip F. Sinco, City Attorney

APPROVED AS TO CONTENT

Cruz Ramos, City Administrator

Ordinance No. 2018-471