

**CITY OF DIXON TRANSIT FUND**

**FINANCIAL STATEMENTS**  
**WITH INDEPENDENT AUDITORS' REPORT**

**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2017**

CITY OF DIXON TRANSIT FUND  
FINANCIAL STATEMENTS  
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CITY OF DIXON TRANSIT FUND  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Transit Fund of the City of Dixon (the Transit Fund), as of and for the year ended June 30, 2017, and the related notes to financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special District. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Transit Fund of the City of Dixon, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### *Other Information*

As discussed in Note 1, the financial statements present only the Transit Fund of the City of Dixon and are not intended to present fairly the financial position and results of operations of the City of Dixon in conformity with accounting principles generally accepted in the United States of America.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2017 on our consideration of the Transit Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Transit Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Transit Fund's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Lance, Soll &amp; Lughard, LLP". The signature is written in a cursive, flowing style.

Brea, California  
November 27, 2017

CITY OF DIXON TRANSIT FUND

STATEMENT OF NET POSITION  
JUNE 30, 2017

	<u>2017</u>
<b>Assets:</b>	
Current:	
Cash and investments	\$ 1,180
Receivables:	
Accounts	317
Accrued interest	48
Grants	437,248
	<u>438,793</u>
<b>Total Current Assets</b>	<b>438,793</b>
Noncurrent:	
Capital assets - net of accumulated depreciation	141,937
	<u>141,937</u>
<b>Total Noncurrent Assets</b>	<b>141,937</b>
	<u>580,730</u>
<b>Total Assets</b>	<b>580,730</b>
<b>Deferred Outflows of Resources:</b>	
Deferred item related to pensions	84,815
	<u>84,815</u>
<b>Total Deferred Outflows of Resources</b>	<b>84,815</b>
<b>Liabilities, Deferred Inflows of Resources, and Net Position:</b>	
<b>Liabilities:</b>	
Current:	
Accounts payable	17,589
Salaries and benefits payable	6,830
Unearned revenues	8,603
Due to other funds	27,058
Accrued compensated absences	15,601
	<u>75,681</u>
<b>Total Current Liabilities</b>	<b>75,681</b>
Noncurrent:	
Accrued compensated absences	5,200
Net OPEB Obligation	408,777
Net pension liability	184,787
	<u>598,764</u>
<b>Total Noncurrent Liabilities</b>	<b>598,764</b>
	<u>674,445</u>
<b>Total Liabilities</b>	<b>674,445</b>
<b>Deferred Inflows of Resources:</b>	
Deferred items related to pensions	10,864
	<u>10,864</u>
<b>Total Deferred Inflows of Resources</b>	<b>10,864</b>
<b>Net Position:</b>	
Investment in capital assets	141,937
Unrestricted	(161,701)
	<u>(19,764)</u>
<b>Total Net Position</b>	<b>\$ (19,764)</b>

CITY OF DIXON TRANSIT FUND

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION  
YEAR ENDED JUNE 30, 2017

	<u>2017</u>
<b>Operating Revenues:</b>	
Charges for services, net of refunds	\$ 107,734
TDA operating grants	340,000
FTA operating grants	<u>253,982</u>
<b>Total Operating Revenues</b>	<b><u>701,716</u></b>
<b>Operating Expenses:</b>	
Salaries and benefits	506,473
Materials, supplies, and operational expenses	5,034
Repairs and maintenance	96,026
Power and utilities	5,262
Contractual services	3,275
Administration	20,651
Allocated cost from City	68,815
Miscellaneous	717
Depreciation expense	<u>20,202</u>
<b>Total Operating Expenses</b>	<b><u>726,455</u></b>
Operating Income (Loss)	<u>(24,739)</u>
<b>Nonoperating Revenues (Expenses):</b>	
TDA Capital Grant	<u>9,563</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<b><u>9,563</u></b>
Changes in Net Position	<u>(15,176)</u>
<b>Net Position:</b>	
Beginning of Fiscal Year	(187,854)
Restatements	<u>183,266</u>
Beginning of Fiscal Year, as restated	<u>(4,588)</u>
<b>Net Position-End of Fiscal Year</b>	<b><u>\$ (19,764)</u></b>

CITY OF DIXON TRANSIT FUND

STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2017

	<u>2017</u>
<b>Cash Flows from Operating Activities:</b>	
Receipts from customers and users	\$ 107,417
Receipts from operating grants	405,096
Payments to suppliers for goods and services	(206,047)
Payments to employees for services	(485,354)
	<u>(178,888)</u>
<b>Cash Flows Provided (Used) by Operating Activities</b>	<b>(178,888)</b>
<b>Cash Flows from Non-Capital Financing Activities:</b>	
Repayment received from (payment to) other funds	27,058
Grant subsidies	9,563
	<u>36,621</u>
<b>Cash Flows Used by Non-Capital Financing Activities</b>	<b>36,621</b>
<b>Cash Flows from Investing Activities:</b>	
Interest received	304
	<u>304</u>
<b>Cash Flows Provided by Investing Activities</b>	<b>304</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(141,963)</b>
Cash and Cash Equivalents at Beginning of Year	143,143
	<u>143,143</u>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 1,180</b>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>	
Operating income (loss)	\$ (24,739)
<b>Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:</b>	
Depreciation	20,202
(Increase) decrease in grants receivable	(189,299)
Increase (decrease) in accounts payable	6,648
Increase (decrease) in unearned revenues	96
Increase (decrease) in accrued liabilities	21,119
Increase (decrease) in salaries and benefits payable	(12,915)
	<u>(154,149)</u>
<b>Total Adjustments</b>	<b>(154,149)</b>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ (178,888)</b>
<b>Non-Cash Investing, Capital, and Financing Activities:</b>	
Net position restatement	\$ 183,266



## CITY OF DIXON TRANSIT FUND

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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#### Note 1: **Organization and Summary of Significant Accounting Policies**

The Transit Fund of the City of Dixon (the Transit Fund) receives funds under the provisions of the Transportation Development Act (TDA) from the Solano County Local Transportation Fund (LTF) under Article 4, Section 99260 and State Transit Assistance Fund (STA) under Article 4, Section 6730(a). The STA funds are to be used for public transportation purposes only. The Transit Fund's Article 4 LTF funds are for the support of the public transportation systems as defined in the TDA. The Transit Fund operates demand responsive transit services within the City of Dixon limits.

##### **a. Reporting Entity**

The financial statements are intended to present the financial position, results of operations and cash flows of only transactions recorded in the Transit Fund of the City of Dixon. The Transit Fund itself is included in the financial statements of the City of Dixon.

##### **b. Basis of Presentation**

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

These standards require that the financial statements described below be presented.

##### Government-Wide Financial Statements

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position include all of the activities of the Transit Fund. The Transit Fund's resources are allocated to and accounted for in these basic financial statements as an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. The Transit Fund's net position is reported in three parts: invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The Transit Fund first utilizes restricted resources to finance qualifying activities.

The Statement of Revenues, Expenses, and Changes in Net Position includes business-type activities that are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or the economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Enterprise funds distinguish operating revenue and expenses from non-operating items. Operating revenues and expenses consists of those revenues and expenses that result from the ongoing principal operations of the Transit Fund. Operating revenues consist primarily of charges for services and operating grants. Operating expenses consist of the cost of services, vehicle maintenance, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Note 1: Organization and Summary of Significant Accounting Policies (Continued)**

**c. Basis of Accounting**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements regardless of the measurement focus applied.

All proprietary funds are reported using the *economic resources* measurement focus and the *full accrual* basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Those revenues susceptible to accrual include 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 Transit Fund 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. The Transit Fund's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

**d. Cash and Cash Equivalents**

The Transit Fund pools its cash and investments with the City of Dixon. The cash and investment balance in the fund represents the fund's equity share of the City's cash and investment pool.

The Transit Funds investments are carried at fair value. The fair value of equity and debt securities is determined based on sales prices or bid-and-asked quotations from SEC-registered securities exchanges or NASDAQ dealers. The Local Agency Investment Fund (LAIF) determines the fair value of their portfolio quarterly and reports a factor to the City; the City applies that factor to convert its share of LAIF from amortized cost to fair value. This amount is included in cash and cash equivalents in the balance sheet of governmental funds. Changes in fair value are allocated to each participating fund.

Interest income earned on pooled cash and investments is allocated monthly to the various funds based on daily average balances and is adjusted at fiscal year-end. Interest income on restricted cash and investments with fiscal agents is credited directly to the related fund.

For purposes of cash flow, the Transit Fund considers cash and investments in the City of Dixon's investment pool with original maturities of three months or less from the date of acquisition to be cash and cash equivalents.

**e. Capital Assets**

Infrastructure with an aggregate cost of \$100,000 or more and equipment with a cost of \$5,000 or more and a useful life of one year or more are capitalized. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

**Note 1: Organization and Summary of Significant Accounting Policies (Continued)**

Depreciation of all exhaustible capital assets is recorded as an expense in the Statement of Revenues, Expenses, and Changes in Net Position, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Structures and improvements	7 - 50 years
Machinery and equipment	5 - 15 years
Developers contributed improvements	30 - 50 years

**f. Compensated Absences**

The Transit Fund's policy regarding vacation and sick leave is to permit employees to accumulate earned, but unused, vacation and sick leave. The current portion of this long-term liability is estimated based on historical trends. In the fund financial statements, proprietary funds report the liability as it is incurred.

**g. Net Pension Liability**

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 Transit Fund's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**h. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so would not be recognized as an outflow of resources (expenses/expenditure) until then. The Transit Fund has one item that qualifies for reporting in this category. The item, deferred pension related items, is reported in the government-wide statement of net position.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow or resources (revenue) until that time. The Transit Fund has one item that qualifies for reporting in this category. The item, deferred pension related items is reported in the government-wide statement of net position.

**i. Use of Estimates**

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

CITY OF DIXON TRANSIT FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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**Note 2: Cash and Investments**

The Transit Fund participates in the City's cash and investment pool. These balances are stated at fair value. The Transit Fund's share of the cash and investment pool is separately accounted for and interest earned is apportioned monthly based upon the relationship of its daily average cash balance to the total of the pooled cash and investments. The value of pool shares in the City that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Transit Fund's position in the pool. Cash and investments as of June 30, 2017, totaled \$1,180, of which none was restricted for grant purposes, and were classified in the accompanying financial statements as cash and investments which consisted of cash and investments pooled with the City of Dixon.

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

The table below identifies the investment types that are authorized by the City's investment policy. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in</u>
Local agency bonds	5 years	None	10%
U.S. Treasury obligations	5 years	None	None
U.S. Agency securities	5 years	None	None
California local agency debt	5 years	None	10%
Banker's acceptances	180 days	45%	10%
Commercial paper	180 days	25%	10%
Negotiable certificates and time deposits	5 years	30%	10%
Repurchase agreements	1 year	None	10%
Medium term corporate notes	5 years	30%	10%
Money market mutual funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None

The Transit Fund complies with the provisions of California Government Code (or the City's investment policy, where more restrictive) pertaining to the types of investments held, institutions in which deposits were made and security requirements. The Transit Fund will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As the Transit Fund pools their cash with the City, information about the sensitivity of the fair values of the Transit Fund's investments to market rate fluctuations may be found in the notes to the City of Dixon's basic financial statements.

**CITY OF DIXON TRANSIT FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2017**

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**Note 2: Cash and Investments (Continued)**

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The Transit Fund and the City had no investments that were highly sensitive to interest rate fluctuations as of June 30, 2017.

Concentration of Credit Risk

The investment policy of the Transit Fund contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The Transit Fund pools its cash and investments with the City. See the City of Dixon's annual financial report for information relating to concentration of credit risk for amounts reported as cash and investments pooled with the City.

Custodial Credit Risk

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

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Transit Fund's investment in this pool is reported at amounts based on the City's pro-rata share of the fair value provided by LAIF for the entire portfolio (in relation to amortized costs of that portfolio). The maturities related to LAIF investments, as well as the corresponding fair value hierarchy of these investments, can be found in the City of Dixon's annual financial report.

**CITY OF DIXON TRANSIT FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2017**

**Note 3: Capital Assets**

Capital assets consisted of the following for the year ended June 30, 2017:

	Balance at July 1, 2016	Additions	Retirements	Balance at June 30, 2017
Capital assets being depreciated				
Buildings and improvements	\$ 174,436	\$ -	\$ -	\$ 174,436
Equipment	722,214	-	-	722,214
Total capital assets being depreciated	896,650	-	-	896,650
Less accumulated depreciation for:				
Buildings and improvements	89,411	4,380	-	93,791
Equipment	645,100	15,822	-	660,922
Total accumulated depreciation being depreciated, net	734,511	20,202	-	754,713
Capital assets, net	\$ 162,139	\$ (20,202)	\$ -	\$ 141,937

Total depreciation expense for the year ended June 30, 2017 was \$20,202.

**Note 4: Long-Term Liabilities**

The following is a summary of long-term liability activity for the year ended June 30, 2017:

	Balance at July 1, 2016	Additions	Retirements	Balance at June 30, 2017	Due within One Year
Compensated absences	\$ 26,349	\$ 14,371	\$ 19,919	\$ 20,801	\$ 15,601
Total long-term liabilities	\$ 26,349	\$ 14,371	\$ 19,919	\$ 20,801	\$ 15,601

**Note 5: Early Retirement Incentive**

In fiscal year 2012, the City approved an early retirement incentive program through the Public Agency Retirement System (PARS) for eligible City staff. In order to qualify for the early retirement program, an employee needed to meet the following criteria:

- They must be a Miscellaneous member of PERS
- They must be at least 50 years of age or older effective September 30, 2011
- They must be able to retire under the PERS retirement system with at least 5 years of service
- They must have at least 5 years of City of Dixon service effective September 30, 2011
- They must actually retire from PERS no later than September 30, 2011

During fiscal year 2012, twenty-two City employees met the eligibility criteria. Two Transit employees elected to participate. During 2013, two additional employees joined the program. Qualifying employees who participated in the program selected from a number of benefit options, the basic program in which they receive one-twelfth (1/12) of seven percent (7%) of their final pay.

CITY OF DIXON TRANSIT FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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**Note 5: Early Retirement Incentive (Continued)**

The Transit Fund records a liability and expense upon election by the employees to participate in the program. The liability at June 30, 2017 has been paid off.

**Note 6: Pension Plan**

Defined Benefit Plan

***Plan Description***

All qualified permanent and probationary Transit employees are eligible to participate in the City of Dixon Miscellaneous cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the City. The City Council has authority over the Transit Fund's participation in CalPERS, plan amendments and the choice of plan options within CalPERS. The CalPERS annual financial report may be obtained from their website at [www.calpers.ca.gov](http://www.calpers.ca.gov) or from their executive Office: 400 P Street, Sacramento, CA, 95814.

***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 rate plan provisions and benefits in effect at June 30, 2017, are summarized as follows:

CITY OF DIXON TRANSIT FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2017

**Note 6: Pension Plan (Continued)**

**Miscellaneous Cost-Sharing Rate Plans**

	Tier 1*	Tier 2*	PEPRA
	Prior to	December 16, 2012 to	On or after
Hire date	December 16, 2012	December 31, 2012	January 1, 2013
Benefit formula	2.5% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	minimum 50 yrs	minimum 50 yrs	minimum 52 yrs
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates	8.000%	7.000%	6.250%
Required employer contribution rates	28.820%	7.176%	6.555%

\*Plan is closed to new entrants

**Contribution Description**

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2017, the employer contributions recognized as a reduction to the net pension liability for the Plan was \$12,943.

**Pension Liabilities, Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions**

As of June 30, 2017, the Transit Fund reported net pension liabilities for its proportionate shares of the net pension liability of the plan, the balance was \$184,787.

The Transit Fund's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, rolled forward to June 30, 2016, using standard update procedures. The Transit Fund's proportion of the net pension liability was based on a projection of the City of Dixon's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Transit Fund's share of the City of Dixon's proportionate share of the net pension liability as of June 30, 2015 and 2016, was as follows:



CITY OF DIXON TRANSIT FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2017

Note 6: Pension Plan (Continued)

	<u>Net Pension Liability</u>
Proportion - June 30, 2015	0.00574%
Proportion - June 30, 2016	0.00532%
Change - Increase(Decrease)	<u>-0.00042%</u>

For the year ended June 30, 2017, the Transit Fund recognized pension expense of \$10,142. At June 30, 2017, the Transit Fund reported deferred outflows and deferred inflows of resources related to pensions as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contribution made subsequent to measurement date	\$ 41,233	\$ -
Change in assumptions	-	6,075
Difference between expected and actual experiences	642	147
Difference in proportionate share	-	2,800
Net difference between projects and actual earnings on plan investments	31,616	-
Adjustment due to difference in proportions	<u>11,324</u>	<u>1,842</u>
Total	<u>\$ 84,815</u>	<u>\$ 10,864</u>

The \$41,233 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows or deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Measurement Period Ended June 30:</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2017	\$ 5,856
2018	5,333
2019	13,341
2020	8,188

**Note 6: Pension Plan (Continued)**

***Actuarial Methods and Assumptions Used to Determine Total Pension Liability***

For the measurement period ended June 30, 2016, the total pension liability was determined by rolling forward the June 30, 2015 total pension liability. The June 30, 2015 and the June 30, 2016 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

***Change of Assumptions***

There were no changes of assumptions.

***Discount Rate***

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees' Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS website under the GASB 68 section.

CITY OF DIXON TRANSIT FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2017

**Note 6: Pension Plan (Continued)**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2015. These geometric rates of return are net of administrative expenses.

<b>Asset Class</b>	<b>New Strategic Allocation</b>	<b>Real Return Years 1 - 10 (1)</b>	<b>Real Return Years 11+ (2)</b>
Global Equity	51.0%	5.25%	5.71%
Global Debt Securities	20.0	0.99	2.43
Inflation Assets	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	1.0	(0.55)	(1.05)

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

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

***Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The following presents the Transit Fund's proportionate share of the net pension liability, calculated using the discount rate, as well as what the Transit Fund's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	<b>Discount Rate - 1%</b>	<b>Current Discount</b>	<b>Discount Rate +1%</b>
	<b>6.65%</b>	<b>7.65%</b>	<b>8.65%</b>
Net Pension Liability	\$ 264,062	\$ 184,787	\$ 119,271

CITY OF DIXON TRANSIT FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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**Note 6: Pension Plan (Continued)**

***Pension Plan Fiduciary Net Position***

Detailed information about the plan's fiduciary net position is available in the separately issued CalPERS financial reports. See CalPERS website for additional information.

**Note 7: Other Post-Employment Benefits (OPEB)**

The Transit Fund sponsors and administers a single-employer health care plan for its employees. The plan provides medical, dental, and vision plan coverage. Medical coverage is provided through CalPERS under the Public Employees' Medical and Hospital Care Act (PEMHCA). Children are eligible for coverage until age 26. Retired employees who were part of the Public Employees Union #1 (Local One) receive one month's premium at the Kaiser plus one dependent rate for each year of full time service to a maximum of 24 months. In addition, the City offers dental and vision insurance. Additional information about OPEB benefits can be obtained from the City's financial statements. At June 30, 2017, the Transit Fund's net OPEB obligation was \$408,777.

**Note 8: Transfers to the City**

During the year ended June 30, 2017, the Transit Fund transferred out \$68,815 to the City's general fund to reimburse the City for allocated costs.

**Note 9: Fare Revenue Ratio**

The City's Transit Fund is required by the MTC to maintain a fare revenue to operating expenses ratio of at least 10% related to its services to the general public in accordance with the TDA. The calculation of the fare revenue ratio is as follows:

	<u>2017</u>
Fare revenue	<u>\$ 107,734</u>
Operating expenses	726,455
Less: depreciation	<u>20,202</u>
Net operating expenses	<u>\$ 706,253</u>
Fare revenue ratio	<u>15.25%</u>

The Transit Fund was in compliance with its fare revenue ratio as of June 30, 2017.

**CITY OF DIXON TRANSIT FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2017**

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**Note 10: Unearned Revenue**

Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA)

In November 2006, California Voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006. Of the \$19.925 billion of state general obligation bonds authorized, \$4 billion was set aside by the state as instructed by statute as the Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA). These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid transit improvements or for rolling back stock procurement, rehabilitation or replacement.

In prior years, the City received proceeds from the State's PTMISEA account. During the fiscal year ended June 30, 2017, the City received proceeds of \$8,603. Activity related to the PTMISEA funds were as follows:

	<u>Amount</u>
Unexpended proceeds, July 1, 2016	\$ 8,507
Proceeds received	8,603
Expenditures incurred	<u>(8,507)</u>
Unexpended proceeds, June 30, 2017	<u>\$ 8,603</u>

Unearned revenue – Other

There was no other unearned revenue as of June 30, 2017.

**Note 11: Concentrations**

The Transit Fund of the City receives a substantial amount of its support from a statewide retail sales tax from the Local Transportation Fund created by the TDA. A significant reduction in the level of this support, if this was to occur, may have a significant effect on the Transit Fund's activities.

**Note 12: Insurance Coverage**

The Transit Fund participates in the Northern California Cities Joint Power Authority through the City of Dixon for general, public officials' errors and omissions, property and workers' compensation liability. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Additional information about available coverage can be obtained from the City's financial statements.

The Transit Fund also participates in the California Transit Indemnity Pool (CalTIP). Under CalTIP, the Transit Fund contributes to the liability and vehicle physical damage programs. Information on CalTIP can be found online at [caltiponline.org](http://caltiponline.org).

CITY OF DIXON TRANSIT FUND

**COST SHARING MULTIPLE-EMPLOYER PLAN  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
AS OF JUNE 30, 2017**

	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b><u>Miscellaneous Plan</u></b>			
Plan's Proportion of the Net Pension Liability	0.00210%	0.00230%	0.00214%
Plan's Proportionate Share of the Net Pension Liability	\$ 130,516	\$ 157,560	\$ 184,787
Plan's Covered Payroll	\$ 185,848	\$ 204,517	\$ 185,468
Plan's Proportionate Share of the Net Pension Liability as Percentage of Covered Payroll	70.23%	77.04%	99.63%
<b>The Pension Plan's (PERF-C) Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>79.82%</b>	<b>78.40%</b>	<b>74.06%</b>

**Notes to Schedule:**

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2015. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amount reported were based on the 7.5 percent discount rate.

(1) Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only three years are shown.

CITY OF DIXON TRANSIT FUND

**COST SHARING MULTIPLE-EMPLOYER PLAN  
SCHEDULE OF PLAN CONTRIBUTIONS  
AS OF JUNE 30, 2017**

	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b><u>Miscellaneous Plan</u></b>			
Actuarially Determined Contribution	\$ 12,412	\$ 11,649	\$ 41,233
Contribution in Relation to the Actuarially Determined Contribution	(12,412)	(11,649)	(41,233)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 204,517	\$ 185,468	\$ 256,822
Contributions as a Percentage of Covered-Employee Payroll	6.07%	6.28%	16.06%

(1) Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only three years are shown.

**Note to Schedule:**

Valuation Date: June 30, 2014

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal Cost Method
Amortization method	Level percentage of payroll, closed
Assets valuation method	Market Value
Discount Rate	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on Age, Service, and type of employment.
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation of 2.75% and an annual production growth of 0.25%.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the City Council  
City of Dixon, 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 Transit Fund of the City of Dixon, California, (the Transit Fund) as of and for the year ended June 30, 2017, and the related notes to financial statements, which collectively comprise the Transit Fund's basic financial statements, and have issued our report thereon dated November 27, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Transit Fund'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 Transit Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Transit Fund's internal control.

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

**Net Position Restatement**

As a result of our audit procedures, net position restatements relating to grant-funded revenues were discovered in the amount of \$183,266 in the Transit Enterprise Fund. These revenues were earned in fiscal year 2015-16 but were incorrectly recorded in fiscal year 2016-17. An additional adjusting entry was recorded to properly accrue revenue earned in fiscal year 2016-17 in the amount of \$253,982. We recommend the City perform a thorough review of year-end accruals related to grant-funded expenditures to ensure items are recorded in the proper accounting period.





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

**Management's Response:** The City agrees with this restatement and is drafting a Grant Policy that will include procedures to improve the year-end review process.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Transit Fund'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.

### **Transit Fund's Response to Findings**

The Transit Fund's response to the findings identified in our audit 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 Transit Fund'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 Transit Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Lance, Soll &amp; Luyhard, LLP". The signature is written in a cursive, flowing style.

Brea, California  
November 27, 2017

## REPORT ON COMPLIANCE WITH THE TRANSPORTATION DEVELOPMENT ACT

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

We have audited the financial statements of the Transit Fund of the City of Dixon (the Transit Fund), as of June 30, 2017, and for the year then ended, and have issued our report thereon dated November 27, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As part of obtaining reasonable assurance about whether the Transit Fund's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Additionally, we performed test to determine that allocations made and expenditures paid by the Transit Fund were made in accordance with the allocation instructions and resolutions of the Metropolitan Transportation Commission and in conformance with the California Transportation Development Act. Specifically, we performed each of the specific tasks identified in the California Code of Regulations Sections 6667 that are applicable to the Transit Fund. In connection with our audit, nothing came to our attention that caused us to believe the Transit Fund failed to comply with the statutes, Rules and Regulations of the California Transportation Development Act and the allocation instructions and resolutions of the Transportation Commission. 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.

Also part of our audit, we performed test of compliance to determine whether certain state bond funds were received and expended in accordance with the applicable bond act and state accounting requirements.

In November 2006, California Voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006. Of the \$19.925 billion of state general obligation bonds authorized, \$4 billion was set aside by the state as instructed by statute as the Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA). These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid transit improvements or for rolling back stock procurement, rehabilitation or replacement.



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

In prior years, the City received proceeds from the State's PTMISEA account. During the fiscal year ended June 30, 2017, the City received proceeds of \$8,603. Activity related to the PTMISEA funds were as follows:

	<u>Amount</u>
Unexpended proceeds, July 1, 2016	\$ 8,507
Proceeds received	8,603
Expenditures incurred	<u>(8,507)</u>
Unexpended proceeds, June 30, 2017	<u>\$ 8,603</u>

This report is intended solely for the information and use of management, the City Council, the Metropolitan Transportation Commission, the California Department of Transportation and the State Controller's office and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Lance, Solt & Loughard, LLP*

Brea, California  
November 27, 2017