

Fiscal Year Ended
June 30, 2016



COMPREHENSIVE ANNUAL FINANCIAL REPORT

City of Brea, California

CITY COUNCIL



Christine Marick
Mayor



Cecilia Hupp
Mayor Pro Tem



Glenn Parker
Council Member



Marty Simonoff
Council Member



Steven Vargas
Council Member

ADMINISTRATIVE PERSONNEL

<i>City Manager</i>	William Gallardo
<i>Assistant City Manager/ Community Services Director</i>	Chris Emeterio
<i>Administrative Services Director</i>	Cindy Russell
<i>Community Development Director</i>	David Crabtree
<i>Fire Chief</i>	Wolfgang Knabe
<i>Chief of Police</i>	John M. Conklin
<i>Public Works Director</i>	Tony Olmos
<i>Treasurer</i>	Richard J. Rios
<i>City Clerk</i>	Lillian Harris-Neal
<i>City Attorney</i>	James Markman

CITY OF BREA, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL PERIOD ENDED JUNE 30, 2016

PREPARED BY:
ADMINISTRATIVE SERVICES DEPARTMENT

CINDY RUSSELL
ADMINISTRATIVE SERVICES DIRECTOR

LEE SQUIRE
FINANCIAL SERVICES MANAGER

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 JUNE 30, 2016

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March 28, 2017

Honorable Mayor, Members of the City Council, and Citizens of the City of Brea:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the City of Brea for the Fiscal Year ended June 30, 2016. This report has been prepared in conformity with accounting principles generally accepted in the United States of America and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the City of Brea. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Brea has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Brea's financial statements. Because the cost of internal controls should not outweigh their benefits, the City of Brea's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that financial statements will be free from material misstatement.

As management, we assert that, to the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and component units of the City of Brea. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

Lance, Soll & Lunghard, LLP, a firm of licensed certified public accountants, has audited the City of Brea's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Brea for the Fiscal Year ended June 30, 2016, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The independent auditor concluded that there was a reasonable basis for rendering an unmodified opinion that the City of Brea's financial statements for the Fiscal Year ended June 30, 2016, are fairly presented in all material respects in conformity with accounting principles generally accepted in the United States of America. The independent auditors' report is presented as the first component of the financial section of this report.

The City of Brea is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and the U.S. Office of Management and Budget's 2 CFR Part 200 Uniform Guidance, Uniform Administrative Requirements, Cost Principles and Audit Requirements For Federal Awards. The City continually seeks federal assistance whenever possible and for Fiscal Year ending June 30, 2016 received in excess of \$5.7 million in grant revenues. Information related to this single audit, including a schedule of expenditures of federal awards assistance, the independent auditors' reports on the internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs is available in the City of Brea's separately issued Single Audit Report.

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Brea's MD&A can be found immediately following the report of the independent auditors.

CITY OF BREa PROFILE

The City of Brea, a diverse residential and business community is located at the most northern tip of Orange County at the juncture of three counties with access to major airports, popular regional attractions, beaches, deserts and mountains. Nestled among the hillsides, just 25 miles southeast of Los Angeles, Brea is home to more than 40,000 residents and hosts a daytime working population of more than 100,000.

The long-term economic condition and outlook of Brea and Orange County is trending upward. The City is a major retail center featuring the county's fourth largest shopping center, the Brea Mall; the Brea Union Plaza; Brea's Downtown; and a host of other retail and service businesses. The newest addition to Brea's retail hub is "The Village at La Floresta" which includes Whole Foods Market. Brea is also a center for big businesses such as Albertsons Distribution Warehouse, Bank of America, Beckman-Coulter, Bristol Industries, Kirkhill-TA Company, Evangelical Christian Credit Union, Kaiser Permanente, Kindred Hospital, Nature's Best, Veterinary Pet Insurance Company and Nestle Waters North America. Several companies' corporate headquarters are located within Brea, including Beckman-Coulter, Suzuki Motor of America and Mercury Insurance. Although Brea is a major retail and business hub, it maintains a balance with nature, preserving its hillside and canyon areas, which also contribute to Brea's quality of life. Brea is home to one of the nation's largest outdoor sculpture collections, with 166 pieces of sculpture created to date, an art gallery and a performing arts theatre. Brea has long been recognized for its vision and innovation. It possesses a focused economic development strategy, designed to ensure a well-balanced, economically viable community which includes a wide range of housing, beautiful parks and excellent schools.

Brea provides an excellent portfolio of responsive municipal services. The City operates as a "full service city," providing a full range of services including police and fire protection, water and sanitation services, construction and maintenance of streets and infrastructure, as well as recreational and cultural services. Besides serving its own residential and business customers, Brea has a tradition of entrepreneurial ventures providing services to numerous other public agencies such as information technology and printing services.

The City of Brea operates under the Council-Manager form of government, and is governed by a five member City Council elected at large, serving staggered four-year terms. Council elections are held in November of even-numbered years in conjunction with statewide general elections.

The annual budget serves as the foundation for the City of Brea's financial planning and control. The budget is adopted on an annual basis by the City Council in June of each year. The budget team, with the approval of the City Manager, develops budget guidelines in January. The various City departments then submit revenue estimates and expenditure appropriation requests for the one-year period that begins July 1. Budget meetings are held with each department, which leads to the development of the proposed budget. The City Manager then presents the proposed budget document to the City Council, which is discussed with the City Council in public workshops in mid-May. Formal public hearings are held in early June. The City Council adopts the annual budget on or before June 30 of each year. At the conclusion of the first six months, the budget team prepares a report on the progress of the first half of the budget cycle. The City Manager formally reviews the report with the City Council. The City Council adopts budget modifications as needed. The level of budgetary control is established at the department level within the General Fund and at the fund level for all other funds.

LOCAL ECONOMIC FACTORS

Brea's physical setting encompasses about 7,955 acres or 12.43 square miles of land. Brea's land use is distributed as follows:

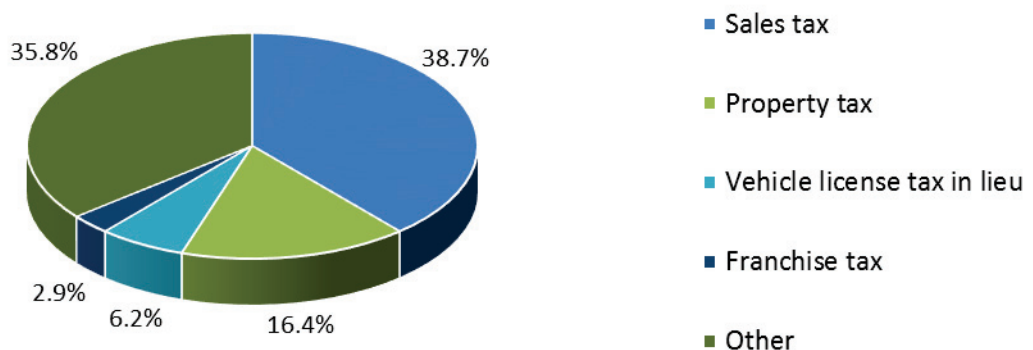
Land Use Distribution

Land Use	Percent
Residential (single-family, multi-family, and mobile homes)	27%
Commercial and Office	5
Industrial	11
Parks and Open Space	14
Public Facilities (City facilities, schools, drainage channels, and fire stations)	4
Carbon Canyon Hillside Areas and Vacant Lands	21
Agriculture	1
Vacant	2
Other (streets)	15
Total	100%

Source: City of Brea General Plan (2003, and subsequent updates 2008, 2014)

The current land use mix produces General Fund revenues of approximately \$56.3 million. The top four revenue sources include sales tax, property taxes, vehicle license taxes, and franchise taxes. These revenue sources account for 64.2% of the total amount of General Fund revenues. The remaining revenues account for 35.8% of the total, and are represented by a broad range of sources.

General Fund Revenues by Revenue Source Fiscal Year Ended June 30, 2016

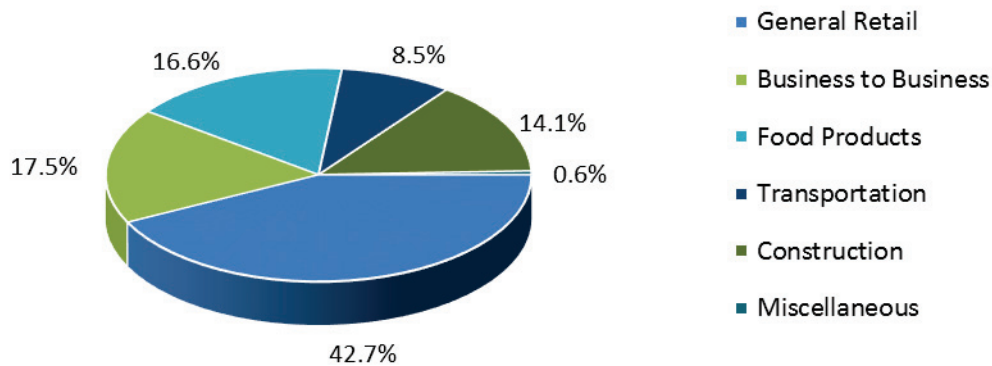


Sales Tax

Sales tax represents the single largest source of General Fund revenue at \$21.6 million. It is derived from six major economic categories as listed in the chart on the following page. The retail category, including department stores, apparel stores and general merchandise, makes up 42.7% of the total sales tax generated.

This sector includes the regional Brea Mall, which is the fourth largest mall in sales tax volume in Orange County. The second largest economic sector is the business-to-business category at 17.5%. During Fiscal Year 2015-16, the City's sales tax consultant MuniServices reported that the sales tax receipts grew and improved overall. In the final quarter of Fiscal Year 2015-16, Brea experienced a 1.5% increase in sales tax compared to the final quarter of Fiscal Year 2014-15. Overall, Brea's sales tax on a per capita basis consistently outperforms other municipalities, a strong indicator that the City imports sales tax dollars from surrounding communities. The City of Brea's sales tax per capita is the second largest in Orange County.

Sales Tax by Economic Categories Fiscal Year Ended June 30, 2016



Property Taxes

Brea is a very diverse community as previously indicated in the land use chart. General Fund property taxes represent \$9.2 million or 17.5% of General Fund revenues. Assessed valuation of all property (including the former Brea Redevelopment Agency) in Brea is \$8.5 billion, an increase of 7.2% over the prior fiscal year. The valuation is split between residential at 58%, commercial/industrial at 33.3%, and the remaining 8.7% for other miscellaneous uses. Of the City's 16,028 dwelling units, 66% are single-family units, 28% are multi-family units and 6% are mobile homes. Housing costs in Brea continue to rank among the highest in North Orange County. Brea, like other cities in Orange County, is experiencing an increase in housing prices. The median price of a single-family home increased to \$637,000 from \$610,000 noted in the prior fiscal year.

Vehicle License Fees (VLF)

When a vehicle is registered in California, a license fee is charged by the State of California. This fee includes a small administrative fee and a property tax in lieu fee. The in lieu fee is based on depreciated value of the vehicle and declines over the useful life of the vehicle. The in lieu fee, while collected by the State Department of Motor Vehicles, belongs to local government (cities and counties). It is allocated based on a per capita basis.

Beginning in January 2005, the Vehicle License Fee was permanently reduced to 0.65% from 2.0% of the vehicle's fair market value. Any loss to cities by this rate reduction will be made up, dollar for dollar, with an allocation from the County's Educational Revenue Augmentation Fund (ERAF) property tax account with two payments, due on or before January 31st and May 1st of each year. This allocation will grow with any corresponding growth in the City's secured property tax valuation.

Franchise Taxes

The franchise revenue received by the City is based on adopted City ordinances and contractual agreements. Public utilities (electric and gas) account for 54.2% of the \$1.6 million in annual franchise tax revenue. The remaining 45.8% of this revenue includes franchise fees for oil pipelines, cable television, and other non-city utilities.

Franchise Taxes Fiscal Year Ended June 30, 2016

	<u>Annual Revenue</u>	<u>Percent of Total</u>
Public Utilities	\$ 861,703	54.2%
All Others	<u>728,247</u>	<u>45.8%</u>
Totals	<u>\$ 1,589,950</u>	<u>100.0%</u>

ECONOMIC OUTLOOK

Brea's excellent financial condition is not only the result of the City's efforts during Fiscal Year 2015-16, but the result of fiscally conservative organizational decisions made over the past decade. Some of the past measures included tough strategic decisions such as: City-wide reorganization, increasing employee retirement contributions and other reductions, while maintaining core City services.

Overall, the Fiscal Year 2016-17 budget is balanced due to a solid foundation of fiscally conservative practices combined with a continued increase in employee retirement contributions, projecting relatively flat expenditures and a generally improving economy. Revenues for Fiscal Year 2016-17 are projected to increase approximately 1.4% over estimates for Fiscal Year 2015-16 mainly due to the flattening retail and housing market. While revenues are still slightly increasing, staff will continue to identify and closely monitor any potential threats to City revenues.

It is important to understand why the City of Brea (and all local government) is impacted by State Government's decisions and actions. Unlike the State Government, the City does not exert control over two of its primary sources of revenue for the General Fund - property taxes and sales taxes. The State legislature and the Governor are, as usual, looking to local government revenues to help balance their budget.

The following regional factors, along with the State and National economic issues, will continue to place uncertainty on Brea's revenues and expenditures:

- The expected statewide CalPERS increases in FY 2016-17 and beyond to address pension liability.
- The impending increase to the federal funds rate to 2% and 3% by the end of 2017 and 2018 respectively.
- Housing activity expected to decrease due to increasing interest rates.

It is expected that these factors may have a potentially negative impact on the City's revenues. Other costs such as energy, water, and equipment are being diligently managed in an effort to minimize the need for future service reductions. Going forward, during Fiscal Year 2016-17, City staff will continue to be diligent in monitoring economic factors and seek additional budget solutions to balance the budget.

Locally, geographic and socio-economic conditions in Orange County and the City of Brea remain desirable. Property values in the region are projected to increase, and the City's property tax base is expected to continue its favorable trend for the foreseeable future. Brea's net taxable assessed valuation for Fiscal Year 2015-16 increased by 7.2% from the prior year.

Brea's sales tax of \$21.6 million in Fiscal Year 2015-16 increased 6% compared to the prior fiscal year. This increase is the result of the one-time payment of \$2.6 million related to the close out of the Triple Flip. Based on economic data trends and projections, retail sales are projected to increase by approximately 9.4%; however, overall sales tax revenue is projected to decrease 3.3% for Fiscal Year 2016-17 as compared to the prior year due to the one-time payment.

Highlights for the State of California from the UCLA Anderson Forecast on December 6, 2016 include the following:

- The forecast indicates an overall higher degree of uncertainty due to some of the potential policy impacts of the new presidency. Noting an increase in defense spending would benefit California however, being a sanctuary state funding to the state may be at risk.
- Currently the State is basically at full employment, however the new administration's position on the skilled worker visa program may increase the unemployment rate.
- Employment growth for cities forecasted at 1.8% for 2017 and 1.3% for 2018.
- Real personal income growth in California is expected to be 3.6% and 3.8% in 2017 and 2018 respectively.

On the national front, it is expected that the Federal Reserve will begin to raise interest rates in response to higher inflation. The GDP growth is projected to be 3% in 2017 and 2% in 2018. Employment is forecasted to grow by adding 140,000 jobs per month in 2017 and 120,000 jobs in 2018. However, changes to the immigration policy could slow job growth.

LONG-TERM FINANCIAL PLANNING

Brea Engagement & Strategy Team (formally known as Budget Strategic Planning)

Representatives from all City departments began meeting since late 2005 to discuss budget strategic planning issues. Over 40 City staff members work collaboratively on an ongoing basis. Originally, these meetings focused on identifying and evaluating changing City needs, a significant amount of which is spurred by future development. Likewise, in years past this included identification of capital project needs across all departments, as well as associated staff and supply needs which are anticipated for those projects. Additionally, staff explored various revenue generating options. In Fiscal Year 2009-10, the focus shifted to tackling economic impacts to the City's budget, including state revenue takeaways and revenue deferrals. BEST continues to meet focusing on addressing changes to the budget and other organizational concerns that may be necessary to sustain the City over the course of the next several fiscal years and beyond.

Capital Improvement Program (CIP) Budget

The goal of the seven-year CIP is to enhance the quality of life in the community, ensure a safe environment and to promote transportation improvement in the City. The CIP budget for Fiscal Year 2015-16, the first of the seven years, reflects the City Council's commitment to this goal by enhancing existing infrastructure and providing new infrastructure to aid in service delivery to the community. The remaining six years of the CIP are not a commitment of actual funds, but rather a long-range planning tool for subsequent investments in the City's infrastructure. The CIP is divided into six categories: streets, traffic safety, water, storm drain, sewer, and facility improvements.

Community Center Reserves

Funds are set aside annually for the future replacement of the Community Center facility and equipment. Ongoing review of facility and equipment needs allows the City to manage and plan for expenditures in a more proactive manner. The balance in Community Center Reserves at June 30, 2016 was \$590,815.

Capital Asset Reserves

Funds are set aside annually for the replacement of City-owned infrastructure, facilities and capital assets. In addition to a fixed annual contribution, an assessment is made at the end of each fiscal year to determine whether an additional contribution can be made based upon a review of General Fund excess revenues over expenditures. The balance in Capital Asset Reserves at June 30, 2016 was \$9,091,623.

Pension Rate Stabilization Program

On November 17, 2015, the City of Brea established a pension rate stabilization program with Public Agency Retirement Services (PARS) to reduce the future unfunded pension liability for current and future retirement costs for both safety and non-safety employees. The City's initial contribution of \$6,000,000 was made during FY 15/16 and the balance as of June 30, 2016 including interest earned to date was \$6,133,960.

MAJOR INITIATIVES

Pension Reform

Starting in Fiscal Year 2011-12, the City of Brea began the first year of pension reform for both safety and non-safety employees by requiring employees to contribute toward their retirement and instituting PEPRRA, a second retirement tier for new employees.

Starting in Fiscal Year 2011-12 and through Fiscal Year 2015-16, the total employee contributions were \$6.2 million. In addition, the implementation of a multi-tiered retirement system is a long-term savings measure whereby savings are not fully realized for many years in the future.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City of Brea for its Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2015. This was the 26th consecutive year that the City of Brea has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to conform to the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of Lee Squire, Financial Services Manager – Accounting, and the entire staff of the Administrative Services Department. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

We also would like to thank our independent auditor, Lance, Soll & Lunghard, LLP, for their expertise and advice in the preparation of this year's financial report.

In closing, without the leadership and support of the City Council of the City of Brea, preparation of this report would not have been possible.

Sincerely,

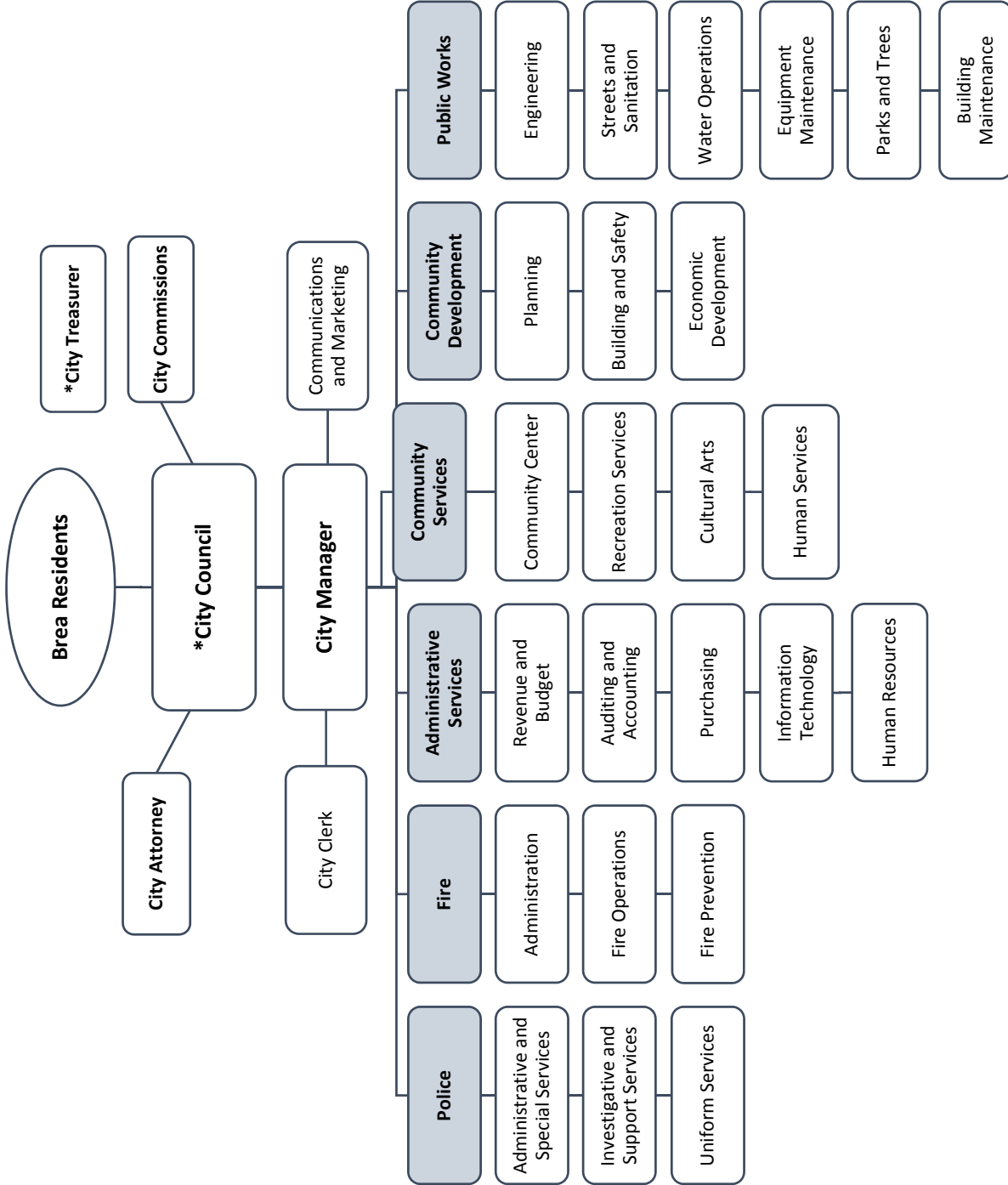


William Gallardo
City Manager



Cindy Russell
Administrative Services Director

CITY ORGANIZATION CHART





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Brea
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Brea, California, (the City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedules for the General Fund and the Low and Moderate Income Housing Assets, the schedule of changes in net pension liability and related ratio, and the schedule of plan contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual nonmajor fund financial statements and the schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



CPAs AND ADVISORS

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Lance, Soll & Lughard, LLP

Brea, California
March 28, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Brea's Comprehensive Annual Financial Report (CAFR) presents management's discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2016. This analysis should be read in conjunction with the Transmittal Letter at the front of this report and the accompanying Basic Financial Statements.

FINANCIAL HIGHLIGHTS

Long-Term Economic Resource (Government-wide) Focus – Economic resources are differentiated from financial resources in that the economic measurement focus measures changes in net position as soon as the event occurs regardless of the timing of related cash flows. Therefore, this measurement focus includes both current spendable resources and fixed non-spendable assets, and long-term claims against these assets. The resulting net position utilizing this measurement focus provides one measure of the City's overall long-term financial condition.

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year resulting in a net position of \$214 million.
- The City's total net position increased overall by \$14 million, \$5.6 million due to current year operations and \$8.3 million due to capital asset restatement.
- The City's non-current liabilities of \$168.2 million primarily includes \$94.7 million in net pension liabilities and \$59.2 million of outstanding bonded debt and capital leases (which was used to finance the acquisition of capital assets and to fund capital improvements). Total capital assets, net of depreciation represent \$259 million of the \$395 million in total assets. A significant portion of the capital assets have been funded through bond financing from the former Brea Redevelopment Agency.

Short-Term Financial Resource (Fund) Focus – The financial resources focus measures inflows of current spendable assets. The resulting net difference between current financial assets and current financial liabilities otherwise known as fund balance (or net working capital in the private sector) is to measure the City's ability to finance activities in the near term.

- At the close of the current fiscal year, the City's Governmental Funds reported a combined ending fund balance of \$84 million, an increase of \$2.3 million. Of the total combined fund balance of \$84 million for governmental funds, \$615,605 was non-spendable, \$54.6 million was restricted, \$9.1 million was committed, \$590,815 was assigned, and \$19.3 million was unassigned.
- The General Fund reported an increase of \$1.9 million in fund balance resulting in total ending fund balance of \$36.9 million. Of total ending fund balance, \$615,605 was non-spendable, \$7.3 million was restricted, \$9.1 million was committed, \$590,815 was assigned, and \$19.4 million was unassigned. The unassigned balance is available for future appropriations.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the comprehensive annual financial report contains the following information: *Independent Auditors' Report*, *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and the *Supplementary Information* section, an optional section that presents combining and budgetary schedules for individual non-major funds. The *Basic Financial Statements* are comprised of three components: 1) *Government-wide Financial Statements*, 2) *Fund Financial Statements* and 3) *Notes to the Financial Statements*. The Management's Discussion and Analysis is intended to be an introduction to the Basic Financial Statements.

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements – The Government-wide Financial Statements are intended to provide a “Big Picture” view of the City as a whole using accounting methods similar to those used by private sector companies. The statement of net position includes all of the City's assets (including non-spendable assets like streets and roads), liabilities (including long-term liabilities that may be paid over twenty or more years) and any deferred outflows of resources. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

Government-wide Financial Statements report the City's net position and how they have changed. Net position – the difference between the City's assets and liabilities – is one way to measure the City's financial health, or position. Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the City, one should also consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's roads.

The City's Government-wide Financial Statements are divided into two categories:

Governmental Activities – This statement depicts the extent to which programs are self-supporting and the net amount provided by property taxes and other general revenues. Most of the City's basic services are included in this category, such as public safety, community development, community services, public works, and general administration. Taxes and charges for services finance most of these activities.

Business-type Activities – The City's business enterprises include urban runoff, water utility, sewer utility, sanitation, and information technology external support. The City charges fees to customers to recover the cost of providing these services.

Fund Financial Statements – Funds are accounting devices that the City uses to track and control resources intended for specific purposes. The Fund Financial Statements provide more detailed information about the City's most significant funds (major funds) but not the City as a whole. Some funds are required by State and Federal law or by bond covenants. Other funds are utilized simply to control and manage resources intended for particular purposes.

The City utilizes three broad categories of funds:

Governmental Funds – Governmental Funds are used to account for essentially the same functions reported as Government Activities in the Government-wide Financial Statements. However, unlike the Government-wide Financial Statements, Governmental Fund Financial Statements utilize the financial resources measurement focus and thus concentrate on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Consequently, the Governmental Fund Financial Statements provide a detailed short-term view that helps a reader determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs.

Proprietary Funds – Services for which the City charges customers a fee are generally reported in Proprietary Funds (Enterprise Funds and Internal Service Funds). Like the Government-wide Financial Statements, these funds provide both long and short-term financial information utilizing the economic resources measurement focus. The City's Enterprise Funds (urban runoff, water, utility, sewer utility, sanitation, and information technology external support) are individual funds represented in the combined presentation of Business-type Activities in the Government-wide Financial Statements. The individual fund presentation provides more detailed information about each business segment, its operating statements, and statements of cash flow. The City also uses Internal Service Funds that are utilized to report and allocate the cost of certain centrally managed and operated activities (risk management, equipment replacement, and building occupancy). Because the Internal Service Funds primarily serve the government, they are reported with Governmental Activities rather than the Business-type Activities in the Government-wide Financial Statements.

Fiduciary Funds – The City utilizes Fiduciary Funds to account for assets held by the City in a trustee capacity, or as an agent for other governmental entities, private organizations, or individuals. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the City's Government-wide Financial Statements because the City cannot use these assets to finance its operations.

Notes to the Financial Statements – The financial statements also include the Notes to the Financial Statements that provide important narrative details about the information contained in the financial statements. Information contained in the Notes to the Financial Statements is critical to a reader's full understanding of the Government-wide and Fund Financial Statements.

Supplementary Information – In addition to the required elements of the Basic Financial Statements, we have also included a Supplementary Information section, which includes budgetary and combining schedules that provide additional details about the City's non-major Governmental Funds, Enterprise Funds, Internal Service Funds, and Fiduciary Funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position – Net position may serve over time as a useful indicator of a government’s financial position. The City’s combined net position for the year ended June 30, 2016, as shown in Table 1, was \$214 million.

Table 1
Net Position
Fiscal Year Ended June 30, 2016
(in thousands)

	Governmental Activities		Business-Type Activities		Total Activities	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 102,695	\$ 100,213	\$ 33,535	\$ 30,379	\$ 136,230	130,592
Capital assets	173,086	165,390	85,681	87,102	258,767	252,492
Total assets	275,781	265,603	119,216	117,481	394,997	383,084
Deferred charge on refunding	-	-	819	983	819	983
Deferred pension related items	16,256	4,908	1,566	815	17,822	5,723
Total Deferred Outflows of Resources	16,256	4,908	2,385	1,798	18,641	6,706
Noncurrent liabilities	104,990	96,877	63,205	64,532	168,195	161,409
Other liabilities	8,209	6,808	3,735	4,110	11,944	10,918
Total liabilities	113,199	103,685	66,940	68,642	180,139	172,327
Deferred pension related items	16,933	14,993	2,683	2,463	19,616	17,456
Total Deferred Inflows of Resources	16,933	14,993	2,683	2,463	19,616	17,456
Net Investment in Capital Assets	165,493	158,977	33,174	33,368	198,667	192,345
Restricted	54,410	48,182	6,166	6,203	60,576	54,385
Unrestricted	(57,998)	(55,326)	12,638	8,603	(45,360)	(46,723)
Total net position	\$ 161,905	\$ 151,833	\$ 51,978	\$ 48,174	\$ 213,883	\$ 200,007

Net Investment of Capital Assets – The largest component of the \$395 million in total assets is the City’s investment in capital assets (e.g., land, buildings, infrastructure, and equipment), representing \$259 million or 66% of total assets. A significant portion of the capital assets have been funded through bond financing from the former Brea Redevelopment Agency.

Noncurrent Liabilities -- Of the \$168 million in long-term (non-current) liabilities, \$59.2 million represents outstanding bonded debt and capital leases and \$94.7 million represents net pension liability. The proceeds from debt were used to finance the acquisition of capital assets and to fund capital improvements.

Restricted Net Position –The \$60.6 million in restricted net position was on overall increase of \$6.2 million from the prior fiscal year.

Unrestricted Net Position – The (\$45.4) million in unrestricted net position was an overall decrease of \$1.3 million from the prior fiscal year.

Overall the City’s net position increased \$14 million during the current fiscal year, \$5.7 million from current year operations and \$8.3 million due to capital asset restatement.

Table 2
Change in Net Position
Fiscal Year Ended June 30, 2016
(in thousands)

	Governmental Activities		Business-Type Activities		Total Activities	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues:						
Charges for services	\$ 8,905	\$ 11,385	\$ 24,498	\$ 25,731	\$ 33,403	\$ 37,116
Operating grants and contributions	3,399	3,238	11	-	3,410	3,238
Capital grants and contributions	2,337	3,909	-	1,521	2,337	5,430
General Revenues:						
Taxes:						
Property taxes	16,656	14,627	-	-	16,656	14,627
Sales taxes	21,612	20,573	-	-	21,612	20,573
Transient occupancy taxes	1,606	1,592	-	-	1,606	1,592
Franchise taxes	1,590	1,626	-	-	1,590	1,626
Business license taxes	1,102	1,035	-	-	1,102	1,035
Other taxes	797	977	-	-	797	977
Motor vehicle in lieu	73	70	-	-	73	70
Use of money and property	1,602	687	304	151	1,906	838
Rental Income	952	1,233	-	-	952	1,233
Other	2,940	480	328	428	3,268	908
Gain (loss) on sale of capital asset	83	31	73	152	156	183
Extraordinary gain/(loss) on dissolution of redevelopment agency	-	(944)	-	-	-	(944)
Total Revenues	63,654	60,519	25,214	27,983	88,868	88,502
Expenses:						
General government	7,298	7,570	-	-	7,298	7,570
Public safety	31,372	32,410	-	-	31,372	32,410
Community development	3,011	2,836	-	-	3,011	2,836
Community services	7,268	7,441	-	-	7,268	7,441
Public works	13,544	12,367	-	-	13,544	12,367
Interest on long-term debt	435	436	-	-	435	436
Urban runoff	-	-	415	388	415	388
Water utility	-	-	14,085	15,753	14,085	15,753
Sewer utility	-	-	1,591	1,576	1,591	1,576
Sanitation	-	-	2,938	2,911	2,938	2,911
Information Technology External Support	-	-	1,313	1,240	1,313	1,240
Total Expenses	62,928	63,060	20,342	21,868	83,270	84,928
Change in net position before transfers	726	(2,541)	4,872	6,115	5,598	3,574
Transfers	1,591	1,526	(1,591)	(1,526)	-	-
Change in net position	2,317	(1,015)	3,281	4,589	5,598	3,574
Net position at beginning of year	151,833	244,166	48,174	56,214	200,007	300,380
Restatement of Net position	7,755	(91,318)	522	(12,629)	8,277	(103,947)
Net position at end of year	\$ 161,905	\$ 151,833	\$ 51,977	\$ 48,174	\$ 213,882	\$ 200,007

Governmental Activities – The cost of all Governmental Activities in the current fiscal year was \$62.9 million. As shown on the statement of activities, \$8.9 million of the cost was paid by those who directly benefited from the programs; \$5.7 million was financed by contributions and grants received from other governmental organizations, developers, and property owners for both capital and operating activities; and \$49 million was subsidized through general city revenues. Therefore, as a result of operations, the City's change in net position before transfers increased by \$726,000.

Property tax revenues for Fiscal Year 2015-16 increased by \$2 million when compared to Fiscal Year 2014-15. The increase in property tax revenues is primarily due to the increase in sale value of residential and commercial properties as well as new residential construction in the Blackstone and La Floresta housing developments. Sales tax revenues for Fiscal Year 2015-16 were \$1 million higher when compared to Fiscal Year 2014-15.

Total expenses for Fiscal Year 2015-16 were \$62.9 million, a decrease of \$132,000 when compared to Fiscal Year 2014-15. This was primarily due to a combination of decreases in public safety and community services expenses.

Brea is a full service city providing residents, businesses and visitors with the following functional services:

General Government is comprised of two departments (City Council/City Manager and Administrative Services) providing general governance, executive management, legal services, communication and marketing, human resources, records management, information technology, accounting, budget, treasury, utility billing, purchasing and reprographics.

Public Safety is comprised of two departments (Police Services and Fire Services) providing general law enforcement, public safety dispatch, fire suppression, fire prevention, paramedic services and emergency preparedness.

Community Development is comprised of two divisions (Planning & Building Services and Economic Development Services) providing planning, zoning and building services, redevelopment services, economic development and housing services.

Community Services is overseen by one department and includes recreation, arts and human services, and the community center.

Public Works is overseen by one department and includes engineering and construction of public facilities, parks, streets and related infrastructure, traffic engineering as well as the maintenance of all public facilities, parks, streets and related infrastructure.

Business-type activities is comprised of two departments (Public Works and Administrative Services) providing five activities to residential and business customers (urban runoff, water utility, sewer utility, sanitation services and information technology external support to public agencies).

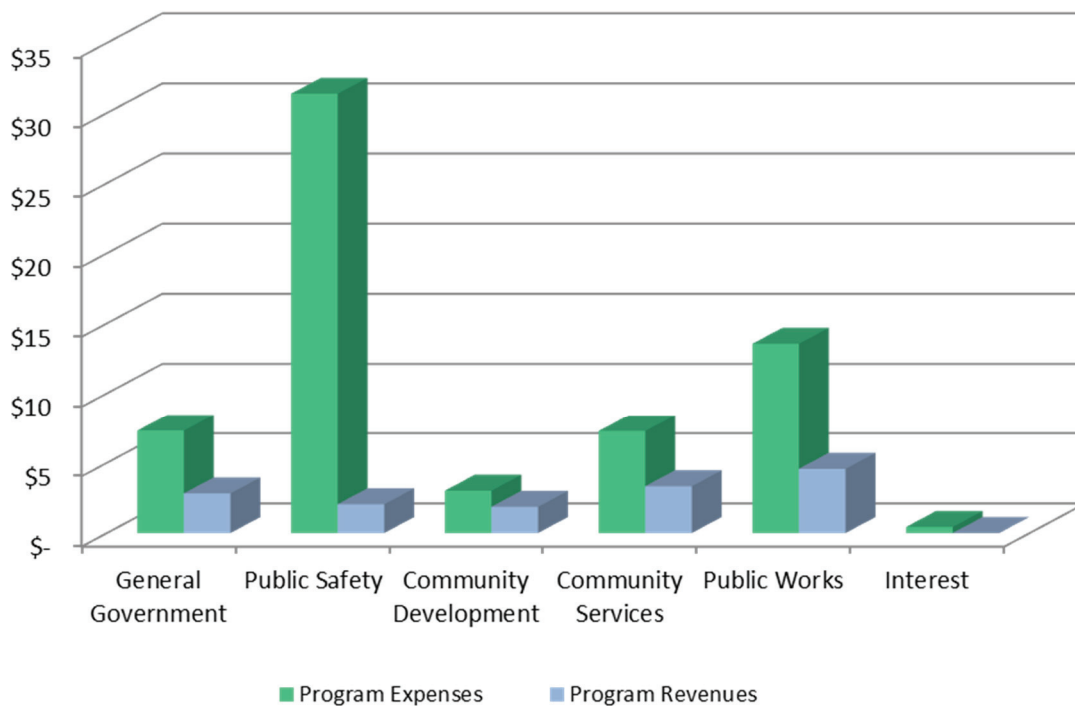
Each programs' net cost (total cost less revenues generated by the activities) is presented below. The net cost shows the extent to which the City's general taxes support each of the City's programs.

**Table 3
Governmental Activities
Fiscal Year Ended June 30, 2016
(in thousands)**

	Program Expenses		Program Revenues	
	2016	2015	2016	2015
General government	\$ 7,298	\$ 7,570	\$ 2,824	\$ 2,754
Public safety	31,372	32,410	2,048	1,690
Community development	3,011	2,836	1,866	2,433
Community services	7,268	7,441	3,330	5,691
Public works	13,544	12,367	4,573	5,963
Interest on long-term debt	435	436	-	-
Totals	\$ 62,928	\$ 63,060	\$ 14,641	\$ 18,531

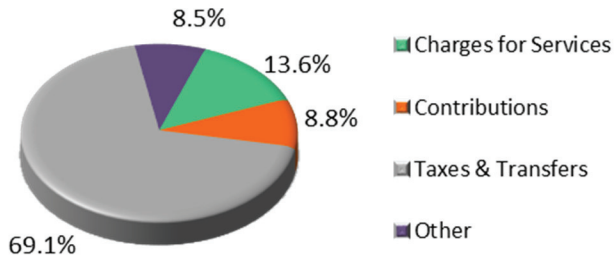
Of the \$14.6 million in program revenues that financed the Governmental Activities, 31% was utilized for Public Works, 23% was utilized for Community Services, 19% was utilized for General Government, and the remaining 27% supplemented Public Safety and Community Development.

**Table 4
Program Expenses and Revenues - Governmental Activities
Fiscal Year Ended June 30, 2016
(in millions)**

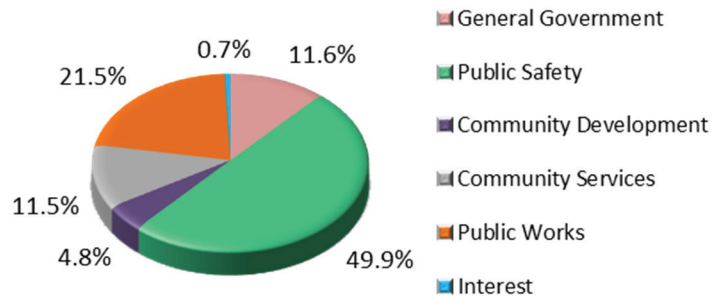


**Table 5
Governmental Activities
Fiscal Year Ended June 30, 2016**

Revenues by Source



Functional Expense



Major Governmental Activities in the current fiscal year included the following:

Revenues

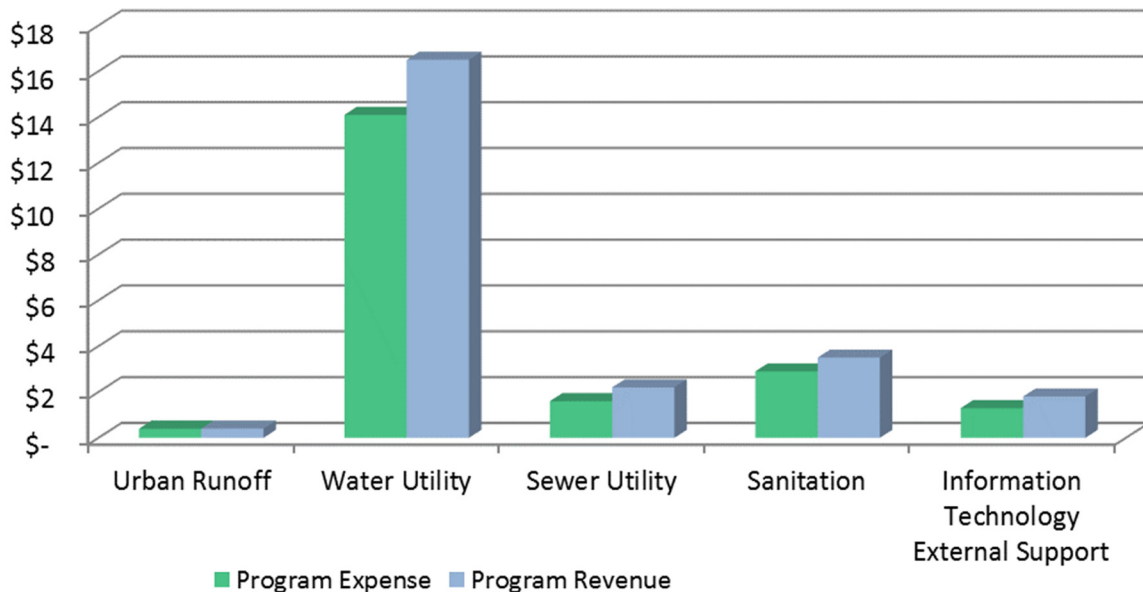
- The City's combined amount of program revenues, general revenues, taxes and transfers were \$65.2 million. This amount includes operating and capital contributions and grants of \$5.7 million and \$45.0 million in taxes and transfers.
- Of the \$65.2 million in total governmental revenues, extraordinary loss and transfers, 13.6% represents program revenues and 69.1% represents taxes & transfers. Other revenues make up 17.3%.

Expenses

- In the current year, expenses for all Governmental Activities were \$62.9 million. See Table 5 above for an analysis of the expenses by function/program.

Business-type Activities – Business-type Activities increased the City’s net position by \$5 million which was comprised of various changes in the net position of the urban runoff, water utility, sewer utility, sanitation and information technology external support activities. Business-type Activities are financed primarily by fees charged to external parties for goods and services.

Table 6
Program Expense & Revenue – Business-type Activities
Fiscal Year Ended June 30, 2016
(in millions)



Business-type Activities in the current fiscal year included the following:

The water utility activity had an increase in net position of \$2.5 million. The increase in net position was primarily due to the increase in charges for services, as well as \$617,886 in Capital Improvement Projects not completed with the fiscal year and carried forward to Fiscal Year 2016-17. Of the \$11.2 million in water related expenses, 46% was from the purchase of water, 12% was from maintenance and other operating expenses, 18% was from depreciation, and 24% covered personnel costs. Water rates were adjusted effective March 2016, to fund on-going operations, recapture the bond coverage ratio and provide funding for planned capital improvements to the water utility system.

The sewer utility activity had an increase in net position of \$328,625. The increase in net position was primarily due to Capital Improvement Projects not completed with the fiscal year and carried forward to Fiscal Year 2016-17. Of the \$1.6 million in sewer related expenses, 14% was from maintenance and other operating expenses, 27% from depreciation and 59% from personnel costs.

The urban runoff activity had a decrease in net position of \$3,864. This decrease was due to expenses of \$416,561 over revenues of \$412,697, primarily caused by user rates remaining unadjusted. Operating expenses, which include maintenance and operation costs of \$195,832, personnel costs of \$219,535, depreciation of \$938 and transfer out of \$256, totaling \$416,561 while operating and non-operating revenues totaled \$412,697.

The sanitation utility activity had an increase in net position of \$38,575. The increase in net position was due to revenues of \$3.5 million, expenses of \$2.9 million and the transfer out of \$550,000 of franchise fees. Operating expenses, included maintenance and operation costs of \$2.4 million and personnel costs of \$562,138.

The information technology external support activity had an increase in net position of \$459,047. The increase in net position was primarily due to a decrease in transfers out to cover overhead costs. Operating revenues of \$1.8 million exceeded operating expenses of \$1.4 million by a total of \$459,047.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to highlight available financial resources and to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – Utilizing the financial resources measurement focus, the City's Governmental Funds provide information on near-term inflows and outflows, and balances of spendable resources. This information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$84 million, an increase of \$2.3 million. Non-spendable fund balance of \$615,605 is for advances to other funds. Restricted fund balance totals \$54.4 million, legally restricted by external parties. Committed fund balance totals \$9.1 million which is for capital asset replacement. Assigned fund balance totals \$590,815 which is primarily for community center replacement. Unassigned fund balance totals \$19.3 million.

The General Fund ended the fiscal year with a \$36.9 million fund balance, a net increase of \$1.9 million. Non-spendable fund balance of \$615,605 is for advances to other funds. Restricted fund balance of \$7.2 million includes \$6.1 million toward the payment of the City's pension obligations and is for such items as debt service funds with trustees and for lighting and landscape districts. Committed fund balance of \$9.1 million is for capital asset replacement. Assigned fund balance of \$590,815 is primarily for community center replacement. Unassigned fund balance of \$19.2 million is available for future appropriations.

The Housing Successor Fund ended the fiscal year with a fund balance of \$18.8 million all of which is restricted for affordable housing activities and for notes and loans receivable.

The City's Capital Projects Fund ended the fiscal year with a fund balance of \$14.0 million, a decrease of \$719,513. Restricted fund balance of \$14 million is primarily for impact fees.

Proprietary Funds – The City's Proprietary Funds (Enterprise and Internal Service Funds) presented in the Fund Financial Statements section basically provide the same type of information in the Government-wide Financial Statements, but include individual segment information.

The Water Utility Fund ended the fiscal year with a net position of \$41.0 million, an increase of \$2.5 million from prior year. The increase in net position was primarily due to the increase in charges for services, as well as \$617,886 in Capital Improvement Projects not completed with the fiscal year and carried forward to Fiscal Year 2016-17. Of the \$41.0 million in net position \$18.7 million is net investment in capital assets, \$6.2 million is restricted for debt service and \$16.0 million is unrestricted.

The Sewer Utility Fund ended the fiscal year with \$14.5 million in net position, an increase of \$328,625. The increase in net position was primarily due to Capital Improvement Projects not completed with the fiscal year and carried forward to Fiscal Year 2016-17. Of the \$14.5 million in net position \$46,019 is unrestricted and the balance is net investment in capital assets.

GENERAL FUND BUDGETARY HIGHLIGHTS

The final budgeted resources and transfers in for the General Fund at fiscal year-end were \$3.4 million more than the original budget and total actual resources and transfers in were \$719,626 more than the final budget.

The final appropriations for the General Fund at fiscal year-end were \$13.6 million more than the original budget and total actual appropriations and transfers out were \$11.9 million less than the final budget. Several factors contributed to the final variance and are briefly summarized as follows:

Changes to Original Budget

Resources (Inflows):

- The variance was primarily a combination of a \$2 million increase in capital leases and an increase of \$804,287 in intergovernmental revenues.

Changes to Appropriation (Outflows):

- The variance between original budget and final budget of \$13.6 million was primarily due to a \$7.6 million increase in transfers out, \$3.2 million increase in operational costs and \$2.8 million was attributed to increased capital outlay.

Variances with Final Budget

Resources (Inflows):

- The variance between budgeted and actual resources was \$719,626. This was a combination of increases in taxes, licenses and permits, intergovernmental and charges for services over decreases in use of money and property, fines and forfeitures as well as miscellaneous resources.

Charges to Appropriation (Outflows):

- The variance between budgeted and actual charges of \$11.9 million was due to \$8.6 million decrease in transfers out, \$2 million decrease in operational charges across all departments and \$1.3 million decrease in capital outlay. Operational charges for General Government decreased by \$441,656, Public Safety decreased by \$483,259, Community Services decreased by \$507,357 and remaining variance was spread over Community Development, and Public Works departments.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for governmental and business-type activities as of June 30, 2016, amounts to \$259 million (net of accumulated depreciation). This investment in a broad range of capital assets includes land, structures and improvements, furniture, machinery and equipment, park facilities, roads, sidewalks, water system, storm drains, sound walls, and bridges. The total net increase (including additions and deletions) of \$6.3 million represents a 2.4% increase from last year.

Table 7
Capital Assets (net of depreciation)
Fiscal Year Ended June 30, 2016
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 44,743	\$ 44,743	\$ 2,075	\$ 2,075	\$ 46,818	\$ 46,818
Water rights	-	-	23,931	23,931	23,931	23,931
Structures and improvements	41,757	46,036	-	-	41,757	46,036
Equipment	8,726	5,006	98	-	8,824	5,006
Infrastructure	71,852	65,368	56,598	58,259	128,450	123,627
Construction-in-progress	6,008	4,237	2,979	2,837	8,987	7,074
Totals	<u>\$ 173,086</u>	<u>\$ 165,390</u>	<u>\$ 85,681</u>	<u>\$ 87,102</u>	<u>\$ 258,767</u>	<u>\$ 252,492</u>

The net increase to construction-in-progress totaled \$1.9 million, as noted above. This was primarily due to the addition of various capital improvement projects, not yet completed. However, the following significant capital assets and infrastructure projects were completed in Fiscal Year 2015-16:

- City Yard and Sports Park Fuel Tanks
- Sewer Mainline Relining
- Council Chambers ADA Improvements
- Senior Center ADA Improvements

Additional information on the City's capital assets can be found in Note (7) of the Notes to the Financial Statements.

Long-Term Debt

At the end of the current fiscal year, the City had total long-term debt outstanding for bonds and leases of \$59.2 million for all governmental and business-type activities.

Table 8
Bonds and Capital Leases
Fiscal Year Ended June 30, 2016
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Lease revenue bonds	\$ 2,760	\$ 2,760	\$ -	\$ -	\$ 2,760	\$ 2,760
Water revenue bonds	-	-	51,575	52,890	51,575	52,890
Capital leases	4,833	3,653	-	-	4,833	3,653
Totals	\$ 7,593	\$ 6,413	\$ 51,575	\$ 52,890	\$ 59,168	\$ 59,303

Additional information on the City's long-term debt can be found in Note (8) of the Notes to the Financial Statements.

FACTORS EFFECTING NEXT YEAR'S BUDGET

The Fiscal Year 2016-17 General Fund budgeted expenditures increased to \$54.6 million. This represents a 1.6% increase in budgeted expenditures when compared to prior fiscal year. While acknowledging that the cost of materials, supplies and contract services do increase, overall department operating expenditures were held relatively flat or reduced in several areas.

A brief summary of the factors considered when preparing the Fiscal Year 2016-17 budget are as follows:

- Sales tax represents the single largest source of General Fund revenue, budgeted at \$20.9 million for Fiscal Year 2016-17. Based on economic data trends and projections, sales tax is projected to remain relatively flat for Fiscal Year 2016-17. Brea's sales tax on a per capita basis consistently outperforms other municipalities, a strong indicator that the City imports sales tax dollars from surrounding communities.
- General Fund property taxes are projected to increase by approximately 6.4% and represent \$9.1 million of General Fund revenues.
- Overall, Fiscal Year 2016-17 General Fund revenues are projected to increase approximately 1.4% in comparison to revenues in Fiscal Year 2015-16.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City's Administrative Services Department, 1 Civic Center Circle, Brea, CA 92821, at (714) 990-7676.

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CITY OF BREA

STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments	\$ 60,646,243	\$ 10,017,108	\$ 70,663,351
Receivables:			
Accounts	746,048	4,013,339	4,759,387
Taxes	166,642	-	166,642
Notes and loans	20,637,548	-	20,637,548
Accrued interest	1,489,168	-	1,489,168
Internal balances	2,628,057	(2,628,057)	-
Due from other governments	9,878,297	359,891	10,238,188
Due from Successor Agency	113,405	-	113,405
Other investments	-	15,606,946	15,606,946
Restricted assets:			
Cash and investments	6,120,004	-	6,120,004
Cash with fiscal agent	269,453	6,165,829	6,435,282
Capital assets not being depreciated	50,751,171	28,984,173	79,735,344
Capital assets, net of depreciation	122,335,007	56,696,376	179,031,383
Total Assets	275,781,043	119,215,605	394,996,648
Deferred Outflows of Resources:			
Deferred charge on refunding	-	819,020	819,020
Deferred pension related items	16,255,808	1,566,200	17,822,008
Total Deferred Outflows of Resources	16,255,808	2,385,220	18,641,028
Liabilities:			
Accounts payable	3,200,128	1,896,146	5,096,274
Accrued liabilities	1,630,426	188,240	1,818,666
Accrued interest	99,515	1,408,029	1,507,544
Unearned revenue	995,423	-	995,423
Deposits	427,742	242,845	670,587
Due to other governments	1,855,592	-	1,855,592
Due to Successor Agency	254	-	254
Noncurrent liabilities:			
Due within one year	4,862,284	1,588,718	6,451,002
Due in more than one year	9,476,778	51,955,066	61,431,844
OPEB obligations	5,652,602	-	5,652,602
Net pension liabilities	84,998,206	9,661,436	94,659,642
Total Liabilities	113,198,950	66,940,480	180,139,430
Deferred Inflows of Resources:			
Deferred pension related items	16,933,137	2,682,522	19,615,659
Total Deferred Inflows of Resources	16,933,137	2,682,522	19,615,659
Net Position:			
Net investment in capital assets	165,493,107	33,174,074	198,667,181
Restricted for:			
Affordable housing	21,089,836	-	21,089,836
Public safety	839,952	-	839,952
Public works	6,505,402	-	6,505,402
Capital projects	19,570,767	-	19,570,767
Pension	6,133,960	-	6,133,960
Debt service	269,453	6,165,829	6,435,282
Unrestricted	(57,997,713)	12,637,920	(45,359,793)
Total Net Position	\$ 161,904,764	\$ 51,977,823	\$ 213,882,587

CITY OF BREA

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Functions/Programs				
Primary Government:				
Governmental Activities:				
General government	\$ 7,297,652	\$ 1,765,913	\$ 1,058,222	\$ -
Public safety	31,372,155	1,282,646	765,571	-
Community development	3,010,978	1,577,964	288,287	-
Community services	7,267,829	3,021,505	308,245	-
Public works	13,544,061	1,257,168	978,986	2,336,984
Interest on long-term debt	435,207	-	-	-
Total Governmental Activities	62,927,882	8,905,196	3,399,311	2,336,984
Business-Type Activities:				
Urban Runoff	415,328	402,205	-	-
Water Utility	14,085,433	16,520,362	-	-
Sewer Utility	1,590,905	2,236,813	-	-
Sanitation	2,937,684	3,531,648	11,371	-
Information Technology External Support	1,312,899	1,807,305	-	-
Total Business-Type Activities	20,342,249	24,498,333	11,371	-
Total Primary Government	\$ 83,270,131	\$ 33,403,529	\$ 3,410,682	\$ 2,336,984

General Revenues:

Taxes:

Property taxes, levied for general purpose
 Transient occupancy taxes
 Sales taxes
 Franchise taxes
 Business licenses taxes
 Other taxes

Motor vehicle in lieu - unrestricted
 Use of money and property
 Rental Income
 Other

Gain on sale of capital asset

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position at Beginning of Year

Restatement of Net Position

Net Position at End of Year

Net (Expenses) Revenues and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (4,473,517)	\$ -	\$ (4,473,517)
(29,323,938)	-	(29,323,938)
(1,144,727)	-	(1,144,727)
(3,938,079)	-	(3,938,079)
(8,970,923)	-	(8,970,923)
(435,207)	-	(435,207)
(48,286,391)	-	(48,286,391)
-	(13,123)	(13,123)
-	2,434,929	2,434,929
-	645,908	645,908
-	605,335	605,335
-	494,406	494,406
-	4,167,455	4,167,455
(48,286,391)	4,167,455	(44,118,936)
16,656,050	-	16,656,050
1,605,590	-	1,605,590
21,611,873	-	21,611,873
1,589,950	-	1,589,950
1,101,915	-	1,101,915
797,475	-	797,475
72,551	-	72,551
1,602,076	303,514	1,905,590
951,705	-	951,705
2,939,847	328,378	3,268,225
83,139	73,188	156,327
1,590,527	(1,590,527)	-
50,602,698	(885,447)	49,717,251
2,316,307	3,282,008	5,598,315
151,832,665	48,174,365	200,007,030
7,755,792	521,450	8,277,242
\$ 161,904,764	\$ 51,977,823	\$ 213,882,587

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GOVERNMENTAL FUNDS

Major Funds

The **General Fund** is used to account for fiscal resources which are dedicated to governmental operations of the City, and not required to be accounted for in another fund.

The **Housing Successor Fund** is used to account for revenues received and expenditures made for affordable housing. The primary sources of revenue are from loan repayments generated from the use of the former Agency's Low and Moderate Income Housing Funds.

The **Capital Projects Fund Capital Improvements** is used to account for the costs of constructing street improvements, parks and other public improvements not normally included within the other Capital Projects Funds. Financing is provided by Federal and State Grant Revenues and interfund transfers from the Special Revenue Funds and the General Fund.

Non-Major Funds

Non-major governmental funds are those governmental funds which do not meet the criteria of a major fund. For reporting purposes in this section, they are combined together as Other Governmental Funds.

CITY OF BREA

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	<u>General</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>
		<u>Low and Moderate Income Housing Asset</u>	<u>Capital Improvements</u>
Assets:			
Cash and investments	\$ 24,642,356	\$ 1,046,653	\$ 15,096,885
Receivables:			
Accounts	695,220	6,619	29,284
Taxes	156,361	-	-
Notes and loans	-	18,676,381	-
Interest	232,549	1,256,619	-
Due from other funds	604,309	-	-
Due from other governments	7,723,984	-	1,898,410
Due from Successor Agency	24,363	-	89,042
Advances to other funds	615,605	-	-
Restricted assets:			
Cash and investments	6,120,004	-	-
Cash and investments with fiscal agents	269,453	-	-
Total Assets	<u>\$ 41,084,204</u>	<u>\$ 20,986,272</u>	<u>\$ 17,113,621</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:			
Liabilities:			
Accounts payable	\$ 1,097,281	\$ 1,214	\$ 1,503,122
Accrued liabilities	1,546,405	6,915	15,875
Unearned revenues	941,903	-	53,520
Deposits payable	426,825	917	-
Due to other funds	-	-	-
Due to other governments	107,425	-	-
Advances from other funds	-	-	-
Due to Successor Agency	254	-	-
Total Liabilities	<u>4,120,093</u>	<u>9,046</u>	<u>1,572,517</u>
Deferred Inflows of Resources:			
Unavailable revenues	63,183	2,226,625	1,521,329
Total Deferred Inflows of Resources	<u>63,183</u>	<u>2,226,625</u>	<u>1,521,329</u>
Fund Balances:			
Nonspendable	615,605	-	-
Restricted	7,228,012	18,750,601	14,019,775
Committed	9,091,623	-	-
Assigned	590,815	-	-
Unassigned	19,374,873	-	-
Total Fund Balances	<u>36,900,928</u>	<u>18,750,601</u>	<u>14,019,775</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 41,084,204</u>	<u>\$ 20,986,272</u>	<u>\$ 17,113,621</u>

CITY OF BREA

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	Other Governmental Funds	Total Governmental Funds
Assets:		
Cash and investments	\$ 14,048,411	\$ 54,834,305
Receivables:		
Accounts	1,217	732,340
Taxes	10,281	166,642
Notes and loans	1,961,167	20,637,548
Interest	-	1,489,168
Due from other funds	-	604,309
Due from other governments	255,903	9,878,297
Due from Successor Agency	-	113,405
Advances to other funds	-	615,605
Restricted assets:		
Cash and investments	-	6,120,004
Cash and investments with fiscal agents	-	269,453
Total Assets	\$ 16,276,979	\$ 95,461,076
Liabilities, Deferred Inflows of Resources, and Fund Balances:		
Liabilities:		
Accounts payable	\$ 37,126	\$ 2,638,743
Accrued liabilities	6,182	1,575,377
Unearned revenues	-	995,423
Deposits payable	-	427,742
Due to other funds	74,142	74,142
Due to other governments	1,748,167	1,855,592
Advances from other funds	24,227	24,227
Due to Successor Agency	-	254
Total Liabilities	1,889,844	7,591,500
Deferred Inflows of Resources:		
Unavailable revenues	55,324	3,866,461
Total Deferred Inflows of Resources	55,324	3,866,461
Fund Balances:		
Nonspendable	-	615,605
Restricted	14,410,982	54,409,370
Committed	-	9,091,623
Assigned	-	590,815
Unassigned	(79,171)	19,295,702
Total Fund Balances	14,331,811	84,003,115
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 16,276,979	\$ 95,461,076

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CITY OF BREA

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

Fund balances of governmental funds		\$ 84,003,115
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.		
Capital assets	\$ 279,482,373	
Accumulated depreciation	<u>(112,315,109)</u>	167,167,264
Deferred outflows of resources reported for the pension plan for government-wide statements are as follows:		
Pension contributions made subsequent to the measurement date		
Net difference between projected and actual earnings on pension plan investments	6,403,110	
	<u>9,367,527</u>	15,770,637
Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the governmental funds:		
Lease revenue bonds long-term liabilities	(2,760,000)	
Capital leases payable	(4,503,972)	
Compensated absences	(2,447,867)	
Other post employment benefits obligation	<u>(5,652,602)</u>	(15,364,441)
Accrued interest payable for the current portion of interest due on Bonds has not been reported in the governmental funds.		(94,436)
Governmental funds report all pension contributions as expenditures, however, in the the statement of net position, the excess of the total pension liability over the plan fiduciary net position is reported as a net pension liability.		(82,531,270)
Deferred inflows of resources reported for the pension plan for government-wide statements are amortized over 4 years:		
Differences between expected and actual experiences	2,232,003	
Changes in assumptions	3,466,651	
Net difference between projected and actual earnings on pension plan investments	<u>10,552,128</u>	(16,250,782)
Revenues reported as unavailable revenue in the governmental funds and recognized in the statement of activities. These are included in the intergovernmental revenues in the governmental fund activity.		3,866,461
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net position.		<u>5,338,216</u>
Net position of governmental activities		<u>\$ 161,904,764</u>

CITY OF BREA

**STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016**

	<u>General</u>	<u>Special Revenue Fund Low and Moderate Income</u>	<u>Capital Projects Fund Capital Improvements</u>
Revenues:			
Taxes	\$ 38,896,769	\$ -	\$ -
Licenses and permits	782,250	-	-
Intergovernmental	7,346,081	-	2,013,203
Charges for services	3,863,571	-	1,161,033
Investment income	736,385	41,252	307,197
Fines and forfeitures	630,420	-	-
Contributions	-	-	2,080
Rental income	1,403,685	-	-
Miscellaneous	2,678,722	36,101	38,784
Total Revenues	<u>56,337,883</u>	<u>77,353</u>	<u>3,522,297</u>
Expenditures:			
Current:			
General government	5,270,834	-	479,727
Public safety	32,555,433	-	-
Community development	2,833,357	259,787	-
Community services	7,048,955	-	-
Public works	5,241,976	-	-
Capital outlay	2,282,014	-	7,090,416
Debt service:			
Principal retirement	618,132	-	-
Interest and fiscal charges	420,772	-	-
Total Expenditures	<u>56,271,473</u>	<u>259,787</u>	<u>7,570,143</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>66,410</u>	<u>(182,434)</u>	<u>(4,047,846)</u>
Other Financing Sources (Uses):			
Transfers in	1,050,000	-	3,328,333
Transfers out	(1,193,093)	-	-
Capital leases	1,952,104	-	-
Total Other Financing Sources (Uses)	<u>1,809,011</u>	<u>-</u>	<u>3,328,333</u>
Net Change in Fund Balances	1,875,421	(182,434)	(719,513)
Fund Balances, Beginning of Year	<u>35,025,507</u>	<u>18,933,035</u>	<u>14,739,288</u>
Fund Balances, End of Year	<u>\$ 36,900,928</u>	<u>\$ 18,750,601</u>	<u>\$ 14,019,775</u>

CITY OF BREA

**STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016**

	Other Governmental Funds	Total Governmental Funds
Revenues:		
Taxes	\$ 1,629,540	\$ 40,526,309
Licenses and permits	-	782,250
Intergovernmental	1,175,887	10,535,171
Charges for services	426,848	5,451,452
Investment income	289,961	1,374,795
Fines and forfeitures	159,827	790,247
Contributions	-	2,080
Rental income	-	1,403,685
Miscellaneous	98,399	2,852,006
Total Revenues	3,780,462	63,717,995
Expenditures:		
Current:		
General government	477	5,751,038
Public safety	539,947	33,095,380
Community development	98,181	3,191,325
Community services	-	7,048,955
Public works	214,301	5,456,277
Capital outlay	-	9,372,430
Debt service:		
Principal retirement	-	618,132
Interest and fiscal charges	-	420,772
Total Expenditures	852,906	64,954,309
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,927,556	(1,236,314)
Other Financing Sources (Uses):		
Transfers in	-	4,378,333
Transfers out	(1,633,788)	(2,826,881)
Capital leases	-	1,952,104
Total Other Financing Sources (Uses)	(1,633,788)	3,503,556
Net Change in Fund Balances	1,293,768	2,267,242
Fund Balances, Beginning of Year	13,038,043	81,735,873
Fund Balances, End of Year	\$ 14,331,811	\$ 84,003,115

CITY OF BREA

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

Net change in fund balances - total governmental funds \$ 2,267,242

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	\$ 6,171,507	
Depreciation	(7,092,911)	
Disposals	<u>(19,179)</u>	(940,583)

The issuance of long-term debt (e.g., bonds, leases) provides current resources to governmental funds, while the repayment of long-term debt principal consumes the current financial resources of governmental funds. Issuance of bond principal is another financing source and repayment is an expenditure in the governmental funds, but the issuance increases long-term liabilities and the repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities.

Long-term debt issued:		
Capital lease	(1,952,104)	
Capital leases principal payments	<u>618,132</u>	(1,333,972)

Accrued interest for long-term liabilities. This is the net change in accrued interest for the current period. 3,786

Compensated absences 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. (2,380)

Governmental funds report all contributions in relation to the annual required contribution (ARC) for OPEB as expenditures, however in the statement of activities only the ARC is an expense. (727,389)

Pension obligation 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. 3,090,974

Revenues reported as unavailable revenue in the governmental funds and recognized in the statement of activities. These are included in the intergovernmental revenues in the governmental fund activity. (266,004)

Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The net revenues (expenses) of the internal service funds is reported with governmental activities. 224,633

Change in net position of governmental activities \$ 2,316,307

PROPRIETARY FUNDS

Business-type Activities

The ***Water Utility Fund*** is a Major Fund used to account for the operations of the City's water utility, which are operated in a manner similar to a private enterprise. The costs (expenses, including depreciation) of providing these services to the general public on a continuing basis are financed or recovered primarily through user charges.

The ***Sewer Utility Fund*** is a Major Fund used to account for the operations of the City's sewer distribution lines, which are operated in a manner similar to a private enterprise. The costs (expenses, including depreciation) of providing these services to the general public on a continuing basis are financed or recovered primarily through user charges.

Non-Major Funds

Non-major proprietary funds are those proprietary funds which do not meet the criteria of a major fund. For reporting purposes in this section, they are combined together as Other Enterprise Funds.

Governmental Activities

The ***Internal Service Funds*** are used to allocate the cost of providing goods and services by one department to other departments on a cost reimbursement basis.

CITY OF BREA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016

	Business-Type Activities - Enterprise Funds			Total	Governmental Activities- Internal Service Funds
	Water Utility	Sewer Utility	Other Enterprise Funds		
Assets:					
Current:					
Cash and investments	\$ 7,072,923	\$ 1,929,192	\$ 1,014,993	\$ 10,017,108	\$ 5,811,938
Receivables:					
Accounts receivable	2,992,509	349,369	671,461	4,013,339	13,708
Due from other governments	-	-	359,891	359,891	-
Restricted:					
Cash and investments with fiscal agent	6,165,829	-	-	6,165,829	-
Total Current Assets	16,231,261	2,278,561	2,046,345	20,556,167	5,825,646
Noncurrent:					
Capital assets - net of accumulated depreciation	71,217,086	14,460,260	3,203	85,680,549	5,918,914
Other investments	15,606,946	-	-	15,606,946	-
Advances to other funds	-	-	-	-	1,440,795
Total Noncurrent Assets	86,824,032	14,460,260	3,203	101,287,495	7,359,709
Total Assets	103,055,293	16,738,821	2,049,548	121,843,662	13,185,355
Deferred Outflows of Resources:					
Deferred charge on refunding	819,020	-	-	819,020	-
Deferred pension related items	665,342	263,186	637,672	1,566,200	485,171
Total Deferred Outflows of Resources	1,484,362	263,186	637,672	2,385,220	485,171
Total Assets & Deferred Outflows of Resources	\$104,539,655	\$ 17,002,007	\$ 2,687,220	\$124,228,882	\$ 13,670,526
Liabilities:					
Current:					
Accounts payable	\$ 1,642,692	\$ 39,279	\$ 214,175	\$ 1,896,146	\$ 561,385
Accrued liabilities	82,376	31,087	74,777	188,240	55,049
Accrued interest	1,408,029	-	-	1,408,029	5,079
Deposits payable	242,845	-	-	242,845	-
Due to other funds	-	-	530,167	530,167	-
Accrued compensated absences, due within one year	58,267	29,883	75,568	163,718	57,903
Accrued claims and judgments, due within one year	-	-	-	-	2,397,286
Bonds, notes, and capital leases, due within one year	1,425,000	-	-	1,425,000	160,784
Total Current Liabilities	4,859,209	100,249	894,687	5,854,145	3,237,486
Noncurrent:					
Advances from other funds	2,032,173	-	-	2,032,173	-
Accrued compensated absences, due in more than one year	19,422	9,961	25,188	54,571	19,301
Accrued claims and judgments, due in more than one year	-	-	-	-	1,823,634
Net pension liability	3,861,311	1,866,172	3,933,953	9,661,436	2,466,936
Bonds, notes, and capital leases, due in more than one year	51,900,495	-	-	51,900,495	168,315
Total Noncurrent Liabilities	57,813,401	1,876,133	3,959,141	63,648,675	4,478,186
Total Liabilities	62,672,610	1,976,382	4,853,828	69,502,820	7,715,672
Deferred Inflows of Resources:					
Deferred pension related items	1,070,904	519,346	1,092,272	2,682,522	682,355
Total Deferred Inflows of Resources	1,070,904	519,346	1,092,272	2,682,522	682,355
Net Position:					
Net investment in capital assets	18,710,611	14,460,260	3,203	33,174,074	5,589,815
Restricted for debt service	6,165,829	-	-	6,165,829	-
Unrestricted	15,919,701	46,019	(3,262,083)	12,703,637	(317,316)
Total Net Position	40,796,141	14,506,279	(3,258,880)	52,043,540	5,272,499
Total Liabilities, Deferred Inflows of Resources and Net Position	\$104,539,655	\$ 17,002,007	\$ 2,687,220	\$124,228,882	\$ 13,670,526

Reconciliation of Net Position to the Statement of Net Position

Net Position per Statement of Net Position - Proprietary Funds	\$ 52,043,540
Prior years' accumulated adjustment to reflect the consolidation of internal service funds activities related to the enterprise funds	(72,370)
Current years' adjustments to reflect the consolidation of internal service activities related to enterprise funds	6,653
Net Position per Statement of Net Position	\$ 51,977,823

CITY OF BREA

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016

	Business-Type Activities - Enterprise Funds			Total	Governmental Activities- Internal Service Funds
	Water Utility	Sewer Utility	Other Enterprise Funds		
Operating Revenues:					
Charges for services	\$ 15,253,574	\$ 2,195,588	\$ 5,694,795	\$ 23,143,957	\$ 7,536,755
Connection fees	286,380	41,225	-	327,605	-
Miscellaneous	980,408	-	46,363	1,026,771	1,445,487
Total Operating Revenues	16,520,362	2,236,813	5,741,158	24,498,333	8,982,242
Operating Expenses:					
Personnel services	2,700,324	936,178	1,958,420	5,594,922	1,365,838
Maintenance and operation	1,293,134	227,242	2,708,761	4,229,137	3,527,849
Cost of purchased water	5,168,580	-	-	5,168,580	-
Claims and judgements	-	-	-	-	3,348,671
Depreciation expense	2,014,248	428,044	938	2,443,230	731,123
Total Operating Expenses	11,176,286	1,591,464	4,668,119	17,435,869	8,973,481
Operating Income (Loss)	5,344,076	645,349	1,073,039	7,062,464	8,761
Nonoperating Revenues (Expenses):					
Federal interest subsidy on debt	491,539	-	-	491,539	-
Intergovernmental	-	-	11,371	11,371	7,954
Interest revenue	255,095	38,815	9,604	303,514	119,730
Interest expense	(2,913,033)	-	-	(2,913,033)	(18,221)
Gain (loss) on disposal of capital assets	73,188	-	-	73,188	73,987
Total Nonoperating Revenues (Expenses)	(2,256,372)	38,815	20,975	(2,196,582)	183,450
Income (Loss) Before Transfers	3,087,704	684,164	1,094,014	4,865,882	192,211
Transfers in	-	-	-	-	238,250
Transfers out	(634,732)	(355,539)	(600,256)	(1,590,527)	(199,175)
Changes in Net Position	\$ 2,452,972	\$ 328,625	\$ 493,758	\$ 3,275,355	\$ 231,286
Net Position:					
Beginning of year	\$ 37,898,742	\$ 14,100,631	\$ (3,752,638)	\$ 48,246,735	\$ 4,523,186
Restatements	444,427	77,023	-	521,450	518,027
Beginning of year, as restated	38,343,169	14,177,654	(3,752,638)	48,768,185	5,041,213
Changes in Net Position	2,452,972	328,625	493,758	3,275,355	231,286
End of Fiscal Year	\$ 40,796,141	\$ 14,506,279	\$ (3,258,880)	\$ 52,043,540	\$ 5,272,499
Reconciliation of Changes in Net Position to the Statement of Activities:					
Changes in Net Position, per the Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds				\$ 3,275,355	
Adjustment to reflect the consolidation of current fiscal year internal service funds activities related to enterprise funds				6,653	
Changes in Net Position of Business-Type Activities per Statement of Activities				\$ 3,282,008	

CITY OF BREA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016

	Business-Type Activities - Enterprise Funds			Total	Governmental Activities- Internal Service Funds
	Water Utility	Sewer Utility	Other Enterprise Funds		
Cash Flows from Operating Activities:					
Cash received from customers and users	\$ 15,799,115	\$ 2,231,562	\$ 5,700,572	\$ 23,731,249	\$ 9,417,746
Cash paid to suppliers for goods and services	(6,840,442)	(192,772)	(2,781,727)	(9,814,941)	(3,168,433)
Cash paid to employees for services	(2,901,779)	(994,835)	(2,100,837)	(5,997,451)	(4,840,496)
Net Cash Provided (Used) by Operating Activities	6,056,894	1,043,955	818,008	7,918,857	1,408,817
Cash Flows from Non-Capital Financing Activities:					
Cash transfers out for noncapital financing activities	(634,732)	(355,539)	(600,256)	(1,590,527)	(199,175)
Cash transfers in for noncapital financing activities	-	-	-	-	238,250
Repayment from other funds	-	-	75,446	75,446	-
Advances received from other funds	-	-	-	-	572,498
Advances repaid to other funds	(807,482)	-	-	(807,482)	-
Grant subsidy	-	-	11,371	11,371	7,954
Federal interest subsidy on debt	491,539	-	-	491,539	-
Net Cash Provided (Used) by Non-Capital Financing Activities	(950,675)	(355,539)	(513,439)	(1,819,653)	619,527
Cash Flows from Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(292,077)	(208,285)	-	(500,362)	(1,647,373)
Proceeds from sales of capital assets	73,188	-	-	73,188	108,777
Principal paid on capital debt	(1,315,000)	-	-	(1,315,000)	(153,591)
Interest paid on capital debt	(2,849,916)	-	-	(2,849,916)	(20,592)
Net Cash Provided (Used) by Capital and Related Financing Activities	(4,383,805)	(208,285)	-	(4,592,090)	(1,712,779)
Cash Flows from Investing Activities:					
Interest received	255,095	38,815	9,603	303,513	119,730
Net Cash Provided (Used) by Investing Activities	255,095	38,815	9,603	303,513	119,730
Net Increase (Decrease) in Cash and Cash Equivalents	977,509	518,946	314,172	1,810,627	435,295
Cash and Cash Equivalents at Beginning of Year	12,261,243	1,410,246	700,821	14,372,310	5,376,643
Cash and Cash Equivalents at End of Year	\$ 13,238,752	\$ 1,929,192	\$ 1,014,993	\$ 16,182,937	\$ 5,811,938
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:					
Operating income (loss)	\$ 5,344,076	\$ 645,349	\$ 1,073,039	\$ 7,062,464	\$ 8,761
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:					
Depreciation	2,014,248	428,044	938	2,443,230	731,123
(Increase) decrease in accounts receivable	(723,477)	(5,251)	(13,923)	(742,651)	42,322
(Increase) decrease in deposits receivable	-	-	-	-	380,515
(Increase) decrease in due from other governments	-	-	(26,663)	(26,663)	12,667
Increase (decrease) in accounts payable	(378,728)	34,470	(72,966)	(417,224)	326,042
Increase (decrease) in accrued liabilities	27,666	8,512	28,762	64,940	20,780
Increase (decrease) in deposits payable	2,230	-	-	2,230	-
Increase (decrease) in claims and judgments	-	-	-	-	12,594
Increase (decrease) in compensated absences	(57,774)	609	(6,958)	(64,123)	(1,041)
Increase (decrease) in net pension liability	(171,347)	(67,778)	(164,221)	(403,346)	(124,946)
Total Adjustments	712,818	398,606	(255,031)	856,393	1,400,056
Net Cash Provided (Used) by Operating Activities	\$ 6,056,894	\$ 1,043,955	\$ 818,008	\$ 7,918,857	\$ 1,408,817
Non-Cash Investing, Capital, and Financing Activities:					
Amortization of bond discount and premium	\$ (76,469)	\$ -	\$ -	\$ (76,469)	\$ -
Amortization of loss on refunding	163,804	-	-	163,804	-
Gain (loss) on other investments	(163,161)	-	-	(163,161)	-

FIDUCIARY FUNDS

Agency Funds, a type of Fiduciary Fund, are used to account for assets held by the City as an agent for other governmental entities, private organizations, or individuals.

Private-Purpose Trust Fund, a type of Fiduciary Fund, is used to account for assets held by the City as Successor Agency of the former Brea Redevelopment Agency.

CITY OF BREA

STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 JUNE 30, 2016

	Agency Funds	Private- Purpose Trust Fund Successor Agency of the Former RDA
Assets:		
Cash and investments	\$ 4,460,921	\$ 1,159,693
Receivables:		
Accounts	19,111	-
Taxes	11,899	-
Accrued interest	-	149,454
Deferred loans	-	2,100,867
Due from other governments	60,756	426,000
Due from City	-	254
Land held for resale	-	2,244,117
Prepaid insurance	-	192,000
Restricted assets:		
Cash and investments with fiscal agents	1,474,841	32,156,756
Capital assets:		
Capital assets, not being depreciated	-	944,392
Total Assets	\$ 6,027,528	39,373,533
Deferred Outflows of Resources:		
Deferred charge on refunding		1,334,921
Total Deferred Outflows of Resources		1,334,921
Liabilities:		
Accounts payable	\$ 223,353	399,657
Accrued liabilities	538,920	-
Accrued interest	-	2,823,666
Due to other governments	19,111	-
Due to City	-	113,405
Due to external parties/other agencies	5,246,144	-
Long-term liabilities:		
Due in one year	-	9,205,000
Due in more than one year	-	165,572,862
Total Liabilities	\$ 6,027,528	178,114,590
Net Position:		
Held in trust for other purposes		(137,406,136)
Total Net Position		\$ (137,406,136)

CITY OF BREA

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2016

	<u>Private-Purpose Trust Fund Successor Agency of the Former RDA</u>
Additions:	
Taxes	\$ 17,479,764
Interest and change in fair value of investments	229,470
Rental income	418,083
Miscellaneous	<u>15,028</u>
Total Additions	<u>18,142,345</u>
Deductions:	
Administrative expenses	447,710
Contractual services	32,079
Interest expense	8,241,836
Contributions to other governments	13,916
Pass through agreement payments	1,506,944
Project expenditures	<u>394,980</u>
Total Deductions	<u>10,637,465</u>
Changes in Net Position	7,504,880
Net Position:	
Beginning of the year	<u>(144,911,016)</u>
End of the Year	<u>\$ (137,406,136)</u>

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

Note 1: Summary of Significant Accounting Policies

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

a. Description of the Reporting Entity

The City of Brea was incorporated on February 23, 1917, under the general laws of the State of California. The City operates under the Council-Manager form of government and provides the following services: public safety (police and fire), highways and streets, cultural recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governments.

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

Based upon the above criteria, the component units of the City are the Brea Public Financing Authority, the Brea Community Benefit Financing Authority and the Midbury Assessment Authority.

Since City Council serves as the governing board for these component units, all of the City's component units are considered to be blended component units. Blended component units, although legally separate entities, are in substance, part of the City's operations, so data from these units is combined therein. A brief description of each component unit follows:

City of Brea Public Financing Authority

The City of Brea Public Financing Authority was created by a joint exercise of joint powers agreement between the City of Brea and the former Redevelopment Agency of the City of Brea on November 17, 1987. In April 1988, the Brea-Olinda Unified School District became an associate member of the Authority. The purpose of the Authority is to provide, through the issuance of debt, financing necessary for various capital improvements. The Authority is administered by the Board who are the members of the City Council and the Mayor. The Authority's primary source of income will be installment sale, loan and lease payments received from the City and

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 1: Summary of Significant Accounting Policies (Continued)

the Successor Agency to the former Brea Redevelopment Agency, which will be used to meet the debt service requirements on debt issues. The Authority does not have taxing power. Separate financial statements are not prepared for the City of Brea Public Financing Authority.

Brea Community Benefit Financing Authority

The Brea Community Benefit Financing Authority was created by a joint exercise of joint powers agreement between the City of Brea and the Industrial Development Authority of the City of Brea on July 22, 2014. The purpose of the Authority is to provide, through the issuance of debt, financing for various capital improvements. The Authority is administered by the Board who are the members of the City Council and the Mayor. The Authority's primary source of income will be installment sale, loan, and lease payments from the City, which will be used to meet the debt service requirements on debt issues. Separate financial statements are not prepared for the Brea Community Benefit Financing Authority.

Midbury Assessment Authority

The Midbury Assessment Authority was created by a joint exercise of joint powers agreement between the City of Brea, Los Angeles County, and Orange County on May 18, 1999. The purpose of the authority is to provide a means for each party to the agreement to contribute money to street improvement projects, to form an assessment district and to levy an assessment to finance the balance of the projects. The Authority is administered by the Board who are the members of the City Council and the Mayor. The Authority's primary source of income will be from new assessments that result in additional taxes. Separate financial statements are not prepared for the Midbury Assessment Authority.

b. Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 1: Summary of Significant Accounting Policies (Continued)

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The fund financial statements provide information about the government's funds, including its fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, with the exception of sales tax revenue, which are considered available if collected within 90 days of year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City's fiduciary funds consist of agency funds and a private purpose trust fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Private purpose trust funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. 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 liability is incurred.

The City reports the following major governmental funds:

- The **General Fund** is the City's primary operating fund. It accounts for all general revenues of the City not specifically levied or collected for other City funds, and for expenditures related to the rendering of general services by the City. The General Fund is used to account for all resources not required to be accounted for in another fund.
- The **Low and Moderate Income Housing Asset Fund** accounts for the housing assets as a result of the dissolution of the former Brea Redevelopment Agency. Resources generated from these assets are to be used for low to moderate income housing purposes.

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 1: Summary of Significant Accounting Policies (Continued)

- The **Capital Improvements Capital Projects Fund** accounts for the costs of constructing street improvements, parks and other public improvements not normally included within the other Capital Projects Funds. Financing is provided by federal, state and county grant revenues and interfund transfers from the General Fund, and Special Revenue Funds.

The City reports the following major proprietary funds:

- The **Water Utility Fund** accounts for the City's water utility operations, which are financed and operated in a manner similar to a private enterprise. The cost (expenses, including depreciation) of providing these services to the general public on a continuing basis is financed or recovered primarily through user charges.
- The **Sewer Utility Fund** accounts for the operations of the City's sewer distribution lines, which are operated in a manner similar to a private enterprise. The costs (expenses, including depreciation) of providing these services to the general public on a continuing basis are financed or recovered primarily through user charges.

Additionally, the City reports the following fund types:

- **Internal Service Funds** account for financial transactions related to repairs, replacement, and maintenance of City-owned buildings and vehicles and to account for the City's self-insurance programs. These services are provided to other departments or agencies of the City on a cost reimbursement basis.
- **Agency Funds** account for assets held by the City in a custodial capacity as a trustee or as an agent. These assets include deposits from assessment district's property owners. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.
- **Private-Purpose Trust Fund** accounts for the assets and liabilities of the former redevelopment agency and the allocated revenue to pay estimated installment payments of enforceable obligations until the obligations of the former redevelopment agency are paid in full and assets have been liquidated.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Residual net position balances in internal service funds are allocated back to the governmental and enterprise funds that they originally charged.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating 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.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 1: Summary of Significant Accounting Policies (Continued)

The principal operating revenues of the Enterprise Funds and of the Internal Service Funds are charges to customers for sales and services. Operating expenses for Enterprises Funds and Internal Service Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

d. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

Cash and Investments

Cash includes demand deposits, certificates of deposits and savings account balances. The California Government Code and the City of Brea's investment policy permit the City of Brea to invest in various instruments and pools. Investments are reported in the accompanying balance sheet at fair value, except for investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

The City reports its investments at fair value in the balance sheet according to GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Interest earnings, realized gains and losses and, changes in the fair value of investments are recognized as revenue from the use of money and property in the operating statement.

The City pools cash and investments of all funds except for assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents also represent the proprietary funds' share in the cash and investment pool of the City of Brea. Cash equivalents have an original maturity date of three months or less from the date of purchase. For financial statement presentation purposes, cash and cash equivalents are shown as both restricted and unrestricted cash.

Restricted Cash and Investments

Certain proceeds of debt issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. In addition, funds have been restricted for future capital improvements by City resolution.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 1: Summary of Significant Accounting Policies (Continued)

between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

The amounts recorded as a receivable due from other governments include sales taxes, property taxes and grant revenues collected or provided by federal, state, County and City governments and unremitted to the City as of June 30, 2016. The County of Orange assesses bills and collects property taxes for the City.

All trade and tax receivables are shown net of an allowance for uncollectibles.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

Inventories of materials and supplies are carried at cost. The City records inventory using a first-in-first-out (FIFO) basis and the consumption method.

Land Held for Resale

The former Brea Redevelopment Agency has acquired land as part of its primary purpose to develop blighted properties. The Successor Agency to the former Brea Redevelopment Agency records these parcels as land held for resale in its financial statements. The property is being carried at cost or, if lower, the estimated net realizable value upon entering into an agreement to sell the property. Values recorded on the balance sheet are net of allowances for decline in value.

Capital Assets

Capital assets, which include property, plant, equipment, intangible assets and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets and infrastructure are defined by the City as assets with an initial, individual cost of more than \$5,000 and \$100,000 respectively (amount not rounded) and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 1: Summary of Significant Accounting Policies (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Property, plant and equipment of the primary government and its component units are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings	40 - 50
Computers	4 - 5
Equipment	4 - 10
Improvements	10 - 50
Infrastructure	40 - 50
Software	5 - 10
Vehicles	2 - 10

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The City has two items that qualify for reporting in this category. One is deferred charges on refunding reported in the government-wide statement of net position and the proprietary funds statement of net position. Deferred charges on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other item is deferred pension related items reported in the government-wide statement of net position and the proprietary funds statement of net position. The City reports deferred outflows of resources for pension contributions made after the actuarial measurement date, this amount is deferred and will be expensed in the following fiscal year, and deferred outflows of resources for the net difference between projected and actual earning on pension plan, this amount will be amortized over a five-year period on a straight-line basis.

In addition to liabilities, the balance sheet or statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items. The item, unavailable revenue, which arises only under a modified accrual basis of accounting qualifies for reporting in this category. Accordingly, unavailable revenue, is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The other item is deferred pension related items reported in the government-wide statement of net position and the proprietary funds statement of net position. This amount is the result of the net difference between projected and actual earnings on pension plan

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 1: Summary of Significant Accounting Policies (Continued)

investments and is being amortized over a five-year period on a straight-line basis. Deferred pension related items also include differences between expected and actual experience and changes in assumptions. These will be recognized as pension expense over the expected average remaining service lifetime.

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick benefits. Permanent City employees earn from 10 to 20 vacation days a year, depending upon their length of employment, and 12 sick days a year. Employees can carry forward unused sick leave indefinitely. Upon termination or retirement, permanent employees are entitled to receive compensation at their current base salary for all unused vacation leave. Any unused sick leave is forfeited upon termination of employment. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements, proprietary fund types in the fund financial statements and in the fiduciary funds financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, proprietary fund type statement of net position, or the statement of fiduciary net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Claims and Judgments

The City records a liability for litigation, judgments and claims when it is probable that an asset has been impaired or a liability has been incurred prior to year-end and the probable amount of loss (net of any insurance coverage) can be reasonably estimated. This liability is recorded in the Internal Service Funds that account for the City's self-insurance activities.

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 1: Summary of Significant Accounting Policies (Continued)

Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable Fund Balance – This amount indicates the portion of funds balances which cannot be spent because they are either not in spendable form such as prepaid items, inventories, land held for resale or loans/notes receivable, or legally or contractually required to be maintained intact, such as the principal portion of an endowment. Only the general fund may report nonspendable fund balance for long-term interfund receivables and land held for resale.

Restricted Fund Balance – This amount indicates the portion of fund balances which has been restricted a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Long-term interfund receivables and land held for resale in governmental funds other than the general fund are included within restricted fund balance.

Committed Fund Balance – This amount indicates the portion of fund balances which can only be used for specific purposes pursuant to formal resolution of the City Council.

Assigned Fund Balance – This amount indicates the portion of fund balances which is constrained by the City's intent to be used for specific purpose, but is neither restricted nor committed. The Administrative Services Director is authorized to determine and define the amount of assigned fund balances, which was established by City Council through resolution.

Unassigned Fund Balance – This amount indicates the portion of fund balances that do not fall into one of the above categories. The General Fund is the only City fund that can report a positive unassigned fund balance.

The City Council, as the City's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to the adoption of a resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use through the adoption of another resolution. City Council action to commit fund balance needs to occur within the fiscal reporting period; however, the amount can be determined subsequently.

Fund balance flow assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 1: Summary of Significant Accounting Policies (Continued)

Net Position

In the governmental-wide financial statements and proprietary fund financial statements, net position is classified as follows:

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 Net Position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position – This amount is all net position that do not meet the definition of “net investment in capital assets” or “restricted net position.”

Net position flow assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

e. Property Tax

Property tax revenue is recognized on the modified accrual basis, that is, in the fiscal year for which the taxes have been levied providing they become available. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The County of Orange collects property taxes for the City. Tax liens attach annually as of 12:01 A.M. on the first day in January the preceding fiscal year for which the taxes are levied. Taxes are levied on both real and personal property, as it exists on that date. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent, if unpaid, on December 10 and April 10, respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent, if unpaid, on August 31.

f. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 1: Summary of Significant Accounting Policies (Continued)

g. Effect of New Accounting Standards

During the fiscal year ended June 30, 2016, the City implemented the following Governmental Accounting Standards Board (GASB) standards:

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

Note 2: Stewardship, Compliance and Accountability

a. Deficit Fund Balances or Net Position

The following nonmajor funds have a deficit at June 30, 2016:

Community Development Block Grant	\$	59,743
Midbury		19,428
Sanitation		2,418,054
Information Technology External Support		1,100,535

For the Community Development Block Grant fund and the Midbury fund, the City expects to eliminate these deficits with anticipated future revenues from grants, special assessments and fee for services. For the Sanitation and Information Technology External Support funds, the fund balance deficits are the result of the implementation of GASB statement No. 68 in the prior year.

At June 30, 2016, the Successor Agency of the Former RDA had a deficit net position amount of \$137,406,136. The deficit balance will be eliminated with future property tax revenue.

Note 3: Cash and Investments

As of June 30, 2016, cash and investments are classified in the accompanying financial statements as follows:

	Statement of Net Position	Statement of Fiduciary Net Position	Total
Cash and Investments	\$ 70,663,351	\$ 5,620,614	\$ 76,283,965
Restricted assets:			
Cash and Investments	6,120,004	-	6,120,004
Cash and Investments with Fiscal Agents	6,435,282	33,631,597	40,066,879
Total Cash and Investments	<u>\$ 83,218,637</u>	<u>\$ 39,252,211</u>	<u>\$ 122,470,848</u>

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 3: Cash and Investments (Continued)

Cash and investments as of June 30, 2016, consist of the following:

Cash on Hand	\$ 5,534
Deposits with Financial Institutions	3,639,228
Investments	72,639,203
Restricted Cash and Investments	6,120,004
Cash and Investments with Fiscal Agent	<u>40,066,879</u>
Total Cash and Investments	<u>\$ 122,470,848</u>

The City of Brea maintains a cash and investment pool that is available for use for all funds. Each fund type's position in the pool is reported on the combined balance sheet as cash and investments. The City has adopted an investment policy, which authorizes it to invest in various investments.

a. Cash Deposits

The carrying amount of the City's cash deposits was \$3,639,228 at June 30, 2016. Bank balances were \$4,026,614 at that date. The \$387,386 difference represents outstanding checks and other reconciling items. The total amount of which was collateralized or insured with securities held by the pledging financial institutions in the City's name as discussed below:

The California Government Code requires California banks and savings and loan associations to secure a City's deposits by pledging government securities with a value of 110% of a City's deposits. California law also allows financial institutions to secure a City's deposits by pledging first trust deed mortgage notes having a value of 150% of a City's total deposits. The City Treasurer may waive the collateral requirement for deposits that are fully insured up to \$250,000 by the FDIC. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

b. Investments

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

Funds of the City, other than bond proceeds and cash deposits held in restricted accounts, may be invested in any instrument allowable under current legislation of the State of California (Government Code Section 53600 et sec.) so long as the investment is appropriate and consistent with the City's investment policy. The following investments are authorized:

- U.S. Treasury Obligations (Bills, Notes and Bonds)

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 3: Cash and Investments (Continued)

- U.S. Government Agency Securities and Instrumentalities of Government Sponsored Corporations, including a maximum of 5% in callable bonds issued by such agencies
- Banker's Acceptances
- Commercial Paper
- Repurchase Agreements
- Certificates of Deposit
- Negotiable Certificates of Deposit
- Passbook Savings Accounts
- Interest Bearing Investment Accounts
- Medium Term Corporate Notes
- Bank Money Market Accounts
- Local Agency Investment Fund (State Pool)
- County of Orange Investment Fund (County Pool)
- Other investments that are, or may become, legal investments through the State of California Government Code
- Preferred stock/common stock of a private mutual water company

Provisions of Government Code Section 53601 are to be adhered to at all times. This includes, but is not limited to, the following restrictions:

- Bankers Acceptances cannot exceed 40% of the portfolio nor exceed 180 days;
- Commercial Paper cannot exceed 25% of the portfolio. Commercial Paper must be rated P-1 (Moody's), A-1 (Standard & Poor's) and cannot exceed 270 days;
- Money Market Funds cannot exceed 20% of the portfolio;
- Medium Term Corporate Notes cannot exceed 30% of the portfolio and must carry a minimum A rating;
- Pass-through securities including Collateralized Mortgage Obligations cannot exceed 20% of the portfolio and must pass the Federal Financial Institution Examination Council (FFIEC) liquidity test;
- Asset Backed Securities are limited to a maximum of 5% of the portfolio at time of purchase, maximum maturity of 5 years, must be rated AA or higher
- Additionally, the City will use the guidelines established by the joint committee of the California Municipal Treasurers Association and the California Society of Municipal Finance Officers as the basis for investing in government investment pools.

For purposes of complying with legal investment limitations, the percentage referenced in the preceding paragraph refers to the maturity value of the portfolio at the time of purchase.

Prohibited Investments

The City does not invest any funds in derivatives, inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages. The City does not invest any funds in any security that could result in a zero interest accrual if held to maturity.

Investments Authorized by Debt Agreements

The above investments do not address investment of debt proceeds held by a bond trustee. Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the City's investment policy.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 3: Cash and Investments (Continued)

Investments in State Investment Pool

The City is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. The fair value of the position in the investment pool is the same as the value of the pool shares.

Investments in Restricted Cash

The City has invested its restricted cash from its Employee Benefits Fund Pension Plan in various investments. In January 2016, the City adopted an investment policy for the pension plan. The following investments are authorized:

- Debt obligations of the U.S. Government, its agencies, and Government Sponsored Enterprises
- Mortgage-Backed Securities
- Asset Backed Securities
- Collateralized Mortgage Obligations
- Commercial Mortgage-Backed Securities
- Corporate debt securities issued by U.S. or foreign entities including, but not limited to, limited partnerships, equipment trust certificates and enhanced equipment trust certificates

The portfolio will maintain a minimum weighted average quality of A- at all times. Individual securities shall have a minimum quality rating of Baa3 by Moody's or BBB- by Standard & Poor's (S&P).

GASB Statement No. 31

The City adopted GASB Statement No. 31, *Accounting and Financial Reporting for certain investments and for External Investment Pools*, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values.

Accordingly, the City reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

c. Risk Disclosures

Disclosures Relating to Credit Risk

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

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 3: Cash and Investments (Continued)

Investment Type	Minimum legal rating	Rating as of Year-End				
		Not Rated	AAA	AA+	AA-	AA
U.S. Treasury obligations	N/A	\$ -	\$ -	\$ 15,862,495	\$ -	\$ -
U.S. government sponsored enterprise securities	N/A	-	-	28,233,128	-	-
Corporate bonds	A	1,347,700	1,799,747	1,639,153	3,709,667	1,110,155
Money market mutual funds	N/A	38,523	-	-	-	-
Asset backed securities	AA	1,520,819	1,234,154	-	-	-
Commercial paper	A	1,197,147	-	-	-	-
California local agency investment fund	N/A	8,654,090	-	-	-	-
Restricted Cash and Investments						
Corporate bonds	N/A	-	-	425,398	212,412	-
Money market mutual funds	N/A	4,403,844	-	-	-	-
Cash and investments with fiscal agents:						
Money market mutual funds	N/A	30,005,946	-	-	-	-
U.S. Treasury obligations	N/A	-	-	2,619,807	-	-
U.S. government sponsored enterprise securities	N/A	-	-	7,441,126	-	-
Total		\$ 47,168,069	\$ 3,033,901	\$ 56,221,107	\$ 3,922,079	\$ 1,110,155

Investment Type	Minimum legal rating	Rating as of Year-End				Total Market Value
		A+	A	BBB+	BBB	
U.S. Treasury obligations	N/A	\$ -	\$ -	\$ -	\$ -	\$ 15,862,495
U.S. government sponsored enterprise securities	N/A	-	-	-	-	28,233,128
Corporate bonds	A	3,574,143	2,718,282	-	-	15,898,847
Money market mutual funds	N/A	-	-	-	-	38,523
Asset backed securities	AA	-	-	-	-	2,754,973
Commercial paper	A	-	-	-	-	1,197,147
California local agency investment fund	N/A	-	-	-	-	8,654,090
Restricted Cash and Investments						
Corporate bonds	N/A	206,216	529,841	232,926	109,367	1,716,160
Money market mutual funds	N/A	-	-	-	-	4,403,844
Cash and investments with fiscal agents:						
Money market mutual funds	N/A	-	-	-	-	30,005,946
U.S. Treasury obligations	N/A	-	-	-	-	2,619,807
U.S. government sponsored enterprise securities	N/A	-	-	-	-	7,441,126
Total		\$ 3,780,359	\$ 3,248,123	\$ 232,926	\$ 109,367	\$ 118,826,086

Custodial Credit Risk

The 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 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 to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City uses a third party investment manager to manage their investments. The third party investment manager has authority from City Council to execute purchases and sales of investments according to the parameters in their investment policy without the approval of management.

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 3: Cash and Investments (Continued)

Concentration of Credit Risk

The City's investment policy imposes restrictions for certain types of investments with any one issuer. In addition, GASB 40 requires a separate disclosure if any single issuer comprises more than 5% of the total investment value.

Investments in any one issuer that represents 5% or more of the total City's investments are as follows:

Issuer	Investment Type	Amount
FHLB	U.S. Government Sponsored Enterprise Securities	\$ 10,733,666
FHLMC	U.S. Government Sponsored Enterprise Securities	9,688,857
FNMA	U.S. Government Sponsored Enterprise Securities	13,674,528

Interest Rate Risk

The City's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's investment policy states that at least 25% of the City's portfolio will mature in one year or less. The only exception to these maturity limits will be the investment for the bond proceeds for the Reserve Fund, and funded/ capitalized interest fund. The City has elected to use the segmented time distribution method of disclosure for its interest rate risk.

As of June 30, 2016, the City had the following investments and original maturities:

	Investment Maturities (in Years)				Total Market Value
	12 months or less	13 to 24 Months	25 to 60 Months	More than 60 Months	
U.S. Treasury obligations	\$ -	\$ 2,559,368	\$ 13,303,127	\$ -	\$ 15,862,495
U.S. government sponsored enterprise securities	6,469,667	6,333,224	15,430,237	-	28,233,128
Corporate bonds	-	5,687,122	10,211,725	-	15,898,847
Money market mutual funds	38,523	-	-	-	38,523
Asset backed securities	-	1,241,908	1,513,065	-	2,754,973
Commercial Paper	1,197,147	-	-	-	1,197,147
California local agency investment fund	8,654,090	-	-	-	8,654,090
Restricted cash and investments:					
Corporate bonds	-	-	844,026	872,134	1,716,160
Money market mutual funds	4,403,844	-	-	-	4,403,844
Cash and investments with fiscal agents:					
Money market mutual funds	30,005,946	-	-	-	30,005,946
U.S. Treasury obligations	-	-	2,619,807	-	2,619,807
U.S. government sponsored enterprise securities	-	1,649,735	5,791,391	-	7,441,126
	<u>\$ 50,769,217</u>	<u>\$ 17,471,357</u>	<u>\$ 49,713,378</u>	<u>\$ 872,134</u>	<u>\$ 118,826,086</u>

CITY OF BREA

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 3: Cash and Investments (Continued)

Fair Value Measurement and Application

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. 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 has the following recurring fair value measurements as of June 30, 2016:

Investment Type	Totals	Investments not Measured at Fair Value	Level		
			1	2	3
U.S. Treasury obligations	\$ 15,862,495	\$ -	\$ -	\$ 15,862,495	\$ -
U.S. government sponsored enterprise securities	28,233,128	-	-	28,233,128	-
Corporate bonds	15,898,847	-	-	15,898,847	-
Money market mutual funds	38,523	-	-	38,523	-
Asset-Backed Securities	2,754,973	-	-	2,754,973	-
Commercial paper	1,197,147	-	-	1,197,147	-
California local agency investment fund	8,654,090	-	-	8,654,090	-
Restricted cash and investments:					
Corporate bonds	1,716,160	-	-	1,716,160	-
Money market mutual funds	4,403,844	-	285,876	4,117,968	-
Cash and investments with fiscal agents:					
Money market mutual funds	30,005,946	30,005,946	-	-	-
U.S. Treasury obligations	2,619,807	-	-	2,619,807	-
U.S. government sponsored enterprise securities	7,441,126	-	-	7,441,126	-
Total Investments	\$ 118,826,086	\$ 30,005,946	\$ 285,876	\$ 88,534,266	\$ -

Note 4: Other Investments

At June 30, 2016, the City holds 687.85 shares of Class A Preferred Stock in California Domestic Water Company valued at cost of \$8,444,404. In addition, the City holds 2,106.50 shares of Common Stock in California Domestic Water Company valued under the equity method at \$7,162,542. The City's total investment in California Domestic Water Company amounts to \$15,606,946 at June 30, 2016. The investments were made to secure water supply for the City of Brea. See Note 18, Related Party Transactions, for additional information.

As of the date of the audit report, the purchase of preferred stocks is under legal review and under review by the California Fair Political Practices Commission.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 5: Notes, Loans, and Deferred Loans Receivable

Notes and loans receivable consist of rehabilitation loans made from Community Development Block Grant ("CDBG") and HOME grant funds to low income individuals that need assistance in rehabilitating their homes or mobile homes to meet current code standards. Amounts are due from the proceeds only upon the sale or transfer of the property. Loans made to mobile home owners are forgiven if the owner lives in the property 5 years or more. Repayments received by the City from homeowners are paid to the County. Thus, the City has offset the notes and loans receivable balance with a liability due to other governments on the accompanying balance sheet. Notes and loans receivable from each of these funds are comprised of the following at June 30, 2016:

CDBG Grant funds	\$ 1,712,926
HOME Grant funds	<u>35,241</u>
Total notes and loans receivable	<u>\$ 1,748,167</u>

The City (through the former redevelopment agency) has made long term loans to various developers and organizations to stimulate low and moderate income housing projects and to low and moderate income individuals to rehabilitate their homes to meet current code standards or to assist them in purchasing a home. Some assistance given gave the City rights to receive "silent seconds" on property when sold to a low and moderate income individual. These "silent seconds" gave the City the right to a portion of the proceeds from the sale of the property. In these cases, if the property has been sold by the developer, the Successor Agency has recorded their portion of the proceeds as notes receivable and deferred revenue. Collection terms of these loans vary and range from 5 years to 55 years. The majority of loans made to developers will be repaid from residual receipts and from monies earned on the property once they are built. Home buyer assistance loans begin repayment after 5 years and will be repaid over a 30-year period. For the remainder of loans and notes receivable, the Agency has classified fund balance as "restricted" indicating that these resources are not current available resources.

The outstanding balance of these notes and loans are reported in the Low and Moderate Income Housing Asset Fund and are comprised of the following at June 30, 2016:

Home Buyer Assistance Loans	\$ 5,365,316
Rehabilitation Loans	214,079
Developer/ Organization Loans:	
Acacia Apartments	1,498,986
Birch Hills Affordable Apartments	4,750,000
Bonterra Apartments	1,200,000
Imperial Apartments	2,853,000
La Habra Housing	637,000
South Walnut Bungalows	826,000
Olen Point Apartments	<u>1,332,000</u>
Total notes, loans and deferred loans receivable	<u>\$ 18,676,381</u>

The City made loans funded under its Homebuyer Assistance Program for the Summerwind residential development. The balance at June 30, 2016, amounts to \$213,000.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 6: Interfund Receivables, Payables and Transfers

The composition of interfund balances as of June 30, 2016, is as follows:

Due To/From Other Funds

<u>Due To Other Funds</u>	<u>Due From Other Funds</u>
	<u>General Fund</u>
Other Governmental Funds	\$ 74,142
Other Enterprise Funds	530,167
Total	\$ 604,309

The interfund balances at June 30, 2016, were a result of routine transactions not cleared prior to the end of the fiscal year.

Advances To/From Other Funds

<u>Advances To Other Funds</u>	<u>Advances from Other Funds</u>		<u>Total</u>
	<u>Water Utility Fund</u>	<u>Other Governmental Funds</u>	
General Fund	\$ 591,378	\$ 24,227	\$ 615,605
Internal Service Funds	1,440,795	-	1,440,795
Total	\$ 2,032,173	\$ 24,227	\$ 2,056,400

The General Fund and the Internal Service Funds advanced \$2,032,173 to the Water Utility Fund in order to purchase water rights. The General Fund advanced to Other Governmental Funds \$24,227 to fund street improvements.

Transfers In/Out from Other Funds

<u>Transfers Out</u>	<u>Transfers In</u>			<u>Total</u>
	<u>General Fund</u>	<u>Capital Improvements</u>	<u>Internal Service Funds</u>	
Governmental Activities				
General Fund	\$ -	\$ 1,193,093	\$ -	\$ 1,193,093
Other Governmental Funds	400,000	1,233,788	-	1,633,788
Internal Service Funds	150,000	49,175	-	199,175
Business-type Activities				
Water Utility	-	515,607	119,125	634,732
Sewer Utility	-	236,414	119,125	355,539
Other Enterprise Funds	500,000	100,256	-	600,256
Total Transfers Out	\$ 1,050,000	\$ 3,328,333	\$ 238,250	\$ 4,616,583

- a. The General Fund transferred \$1,193,093 to the Capital Improvements Fund for reimbursement of capital improvement program projects.
- b. Other Non-Major Governmental Funds transferred \$400,000 to the General Fund for street maintenance purposes.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 6: Interfund Receivables, Payables and Transfers (Continued)

- c. Other Non-Major Governmental Funds transferred \$1,233,788 to the Capital Improvements Fund for reimbursement of capital improvement program projects.
- d. The Internal Service Funds transferred \$150,000 to the General Fund for general purposes.
- e. The Internal Service Funds transferred \$49,175 to the Capital Improvements Fund for reimbursement of capital improvement program projects.
- f. The Water Utility Fund transferred \$515,607 to reimburse the Capital Improvements Fund for capital improvement program projects that are not subject to being capitalized.
- g. The Sewer Utility Fund transferred \$236,414 to reimburse the Capital Improvements Fund for capital improvement program projects that are not subject to being capitalized.
- h. The Other Enterprise Funds transferred \$500,000 to the General Fund which the majority of this transfer was from the Sanitation Fund for franchise fees collected from our contract refuse hauling company.
- i. The Other Enterprise Funds transferred \$100,256 to reimburse the Capital Improvements Fund for capital improvement program projects that are not subject to being capitalized.

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 7: Capital Assets

Summary of changes in capital assets for the governmental activities for the year ended June 30, 2016, is as follows:

	Beginning Balance	Adjustments	Transfers	Additions	Disposals	Ending Balance
Governmental Activities:						
Capital assets, not being depreciated:						
Land	\$ 44,742,843	\$ -	\$ -	\$ -	\$ -	\$ 44,742,843
Construction-in-progress	4,236,796	-	(530,115)	2,301,647	-	6,008,328
Total Capital Assets, not being depreciated	48,979,639	-	(530,115)	2,301,647	-	50,751,171
Capital assets, being depreciated:						
Structures and improvements	87,523,364	334,157	530,115	366,474	-	88,754,110
Equipment	20,988,911	285,446	-	4,364,791	(4,804,326)	20,834,822
Infrastructure	121,013,862	9,548,029	-	785,968	-	131,347,859
Total Capital Assets, being depreciated	229,526,137	10,167,632	530,115	5,517,233	(4,804,326)	240,936,791
Less accumulated depreciation:						
Structures and improvements	(41,487,838)	(2,483,707)	-	(3,025,647)	-	(46,997,192)
Equipment	(15,982,851)	203,167	-	(1,079,278)	4,750,357	(12,108,605)
Infrastructure	(55,645,578)	(131,300)	-	(3,719,109)	-	(59,495,987)
Total accumulated depreciation	(113,116,267)	(2,411,840)	-	(7,824,034)	4,750,357	(118,601,784)
Total capital assets, being depreciated, net	116,409,870	7,755,792	530,115	(2,306,801)	(53,969)	122,335,007
Governmental Activities Capital Assets, Net	\$ 165,389,509	\$ 7,755,792	\$ -	\$ (5,154)	\$ (53,969)	\$ 173,086,178

	Beginning Balance	Adjustments	Additions	Disposals	Ending Balance
Business-Type Activities:					
Capital assets, not being depreciated:					
Land	\$ 2,074,536	\$ -	\$ -	\$ -	\$ 2,074,536
Water rights	23,931,020	-	-	-	23,931,020
Construction-in-progress	2,837,322	-	141,295	-	2,978,617
Total Capital Assets, not being depreciated	28,842,878	-	141,295	-	28,984,173
Capital assets, being depreciated:					
Equipment	210,725	-	133,826	-	344,551
Infrastructure	107,186,677	-	225,240	(417,891)	106,994,026
Total Capital Assets, being depreciated	107,397,402	-	359,066	(417,891)	107,338,577
Less accumulated depreciation:					
Equipment	(210,725)	(16,535)	(19,555)	-	(246,815)
Infrastructure	(48,927,589)	537,987	(2,423,675)	417,891	(50,395,386)
Total Accumulated depreciation	(49,138,314)	521,452	(2,443,230)	417,891	(50,642,201)
Total capital assets, being depreciated, net	58,259,088	521,452	(2,084,164)	-	56,696,376
Business-Type Activities Capital Assets, Net	\$ 87,101,966	\$ 521,452	\$ (1,942,869)	\$ -	\$ 85,680,549

Adjustments are the result of reconciling infrastructure and accumulated depreciation balances.

CITY OF BREA

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 7: Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

City:

General government	\$ 1,247,928
Public safety	221,215
Community development	19,928
Community services	527,368
Public works	<u>5,076,472</u>
Total City	<u>7,092,911</u>

Internal service:

Vehicle maintenance	624,928
Building occupancy	<u>106,195</u>
Total internal service	<u>731,123</u>
Total Governmental Activities	<u>\$ 7,824,034</u>

Business-Type Activities:

Water utility	\$ 2,014,248
Sewer utility	428,044
Urban runoff	<u>938</u>
Total Business-Type Activities	<u>\$ 2,443,230</u>

Note 8: Long-Term Debt

a. Governmental Activities Long-Term Debt

A summary of changes in governmental activities long-term debt for the year ended June 30, 2016, is noted below:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Lease Revenue Bonds					
2010 lease revenue bonds	\$ 2,760,000	\$ -	\$ -	\$ 2,760,000	\$ -
Capital leases payable	3,652,690	1,952,104	(771,723)	4,833,071	571,195
Compensated absences payable	2,523,732	3,058,412	(3,057,073)	2,525,071	1,893,803
Claims and Judgments (Note 12)	<u>4,208,326</u>	<u>2,402,727</u>	<u>(2,390,133)</u>	<u>4,220,920</u>	<u>2,397,286</u>
	<u>\$ 13,144,748</u>	<u>\$ 7,413,243</u>	<u>\$ (6,218,929)</u>	<u>\$ 14,339,062</u>	<u>\$ 4,862,284</u>

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 8: Long-Term Debt (Continued)**Lease Revenue Bonds**

2010 Lease Revenue Bonds

The \$2,835,000 principal amount of the 2010 Lease Revenue Bonds was issued by the Brea Public Financing Authority in April 2010. The proceeds will be used to finance a portion of the costs of the installation of photovoltaic energy systems and energy efficient improvements on city property. The Authority elected to treat the bonds as "Build America Bonds" under Section 54AA(g)(2) of the Tax Code which made the Authority eligible for cash subsidy payments from the United States Treasury equal to 35% of the interest payable on the bonds. These are referred to as "refundable credits" in the bond indenture and are recorded as intergovernmental revenue in the accompanying basic financial statements. These refundable credits are pledged for the payment of the bonds.

Bonds maturing on April 1, 2011 are serial bonds payable in one annual installment of \$75,000 bearing interest of 1.31 %. Bonds maturing on April 1, 2030, in the amount of \$1,260,000 are term bonds and bear interest at 6.734%. Installments are \$380,000, \$420,000 and \$460,000 and are due in 2028, 2029 and 2030. Bonds maturing on April 1, 2036, in the amount of \$1,500,000, are term bonds and bear interest at 6.884%. Installments range from \$165,000 to \$510,000 every year from 2031 to 2036.

Bonds are payable from the lease payments to be made by the City of Brea for the leasing of certain real property pursuant to the lease agreement dated April 1, 2010. The required reserve for the 2010 lease revenue bonds is \$261,807. As of June 30, 2016, the reserve amount was \$263,421.

The outstanding balance at June 30, 2016, was \$2,760,000.

The debt service schedule of the 2010 Lease Revenue Bonds are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 188,108	\$ 188,108
2018	-	188,108	188,108
2019	-	188,108	188,108
2020	-	188,108	188,108
2021	-	188,108	188,108
2022-2026	-	940,540	940,540
2027-2031	1,770,000	776,232	2,546,232
2032-2036	990,000	216,503	1,206,503
Total	<u>\$ 2,760,000</u>	<u>\$ 2,873,815</u>	<u>\$ 5,633,815</u>

Capital Leases

In February 2006, the City entered into a lease agreement with LaSalle National Leasing Corporation to acquire new energy management equipment. Per the lease agreement, the semi-annual payments of \$87,091 are due in February and August of each year with the final payment due in February 2018. The outstanding balance at June 30, 2016, was \$329,099.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 8: Long-Term Debt (Continued)

In April 2010, the City entered into equipment lease purchase agreement with Banc of America Leasing & Capital, LLC to finance the Brea Civic and Cultural Center Project, the Brea Community Center Project and Berry Street Reservoir Project. Per the lease agreement, semi annual payments ranging from \$11,467 to \$492,288 are due in April and October of each year with the final payment due in April 2027. The outstanding balance at June 30, 2016, was \$2,775,000.

In August 2015, the City entered into an equipment lease purchase agreement with Banc of America Public Capital Corp in the amount of \$1,952,104 for the acquisition of public safety radio communication equipment in connection with the upgrade of the Orange County 800 Megahertz Countywide Coordinated Communication System. Per the lease agreement, semi annual payments ranging from \$111,566 to \$150,611 are due in June and December of each year with the final payment due in June 2022. The outstanding balance at June 30, 2016, was \$1,728,972.

The gross amount of assets acquired through capital lease is as follows:

Land	\$ 924,850
Equipment	<u>11,501,518</u>
Total	<u><u>\$ 12,426,368</u></u>

Total capital leases payable outstanding at June 30, 2016, was \$4,833,071.

The debt service schedules of these leases are as follows:

Fiscal Year Ending June 30,	
2017	\$ 793,735
2018	805,013
2019	645,818
2020	654,191
2021	666,271
2022-2026	2,258,909
2027	<u>377,933</u>
Total minimum lease payments	6,201,870
Less: amount representing interest	<u>(1,368,799)</u>
Present value of minimum lease payment	<u><u>\$ 4,833,071</u></u>

Compensated Absences

The City's policies relating to compensated absences are described in Note 1. The Governmental Activities' liability, at June 30, 2016, will be paid in future years from the General Fund, Vehicle Maintenance Fund, and Building Occupancy Fund in amounts of \$2,447,867, \$33,343 and \$43,861 respectively. Total compensated absences at June 30, 2016, were \$2,525,071.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 8: Long-Term Debt (Continued)

b. Business-Type Activities Long-Term Debt

A summary of changes in business-type activities long-term debt for the year ended June 30, 2016, is noted below:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Water Revenue Bonds					
2009 Water Revenue Bonds	\$ 23,405,000	\$ -	\$ (555,000)	\$ 22,850,000	\$ 570,000
2010 Water Revenue Bonds	10,930,000	-	(505,000)	10,425,000	540,000
2014 Water Revenue Bonds	18,555,000	-	(255,000)	18,300,000	315,000
Compensated absences payable	282,412	261,128	(325,251)	218,289	163,718
Totals	<u>\$ 53,172,412</u>	<u>\$ 261,128</u>	<u>\$ (1,640,251)</u>	51,793,289	<u>\$ 1,588,718</u>
			Bond discount	(290,942)	
			Bond premium	<u>2,041,437</u>	
			Total long-term debt	<u>\$ 53,543,784</u>	

Water Revenue Bonds

2009 Water Revenue Bonds

In May of 2009, the Brea Public Financing Authority issued \$25,800,000 of 2009 Water Revenue Bonds structured into two series. The \$12,855,000 2009 Water Revenue Refunding Bond Series A and the \$12,945,000 2009 Water Revenue Bonds, Series B. The proceeds from Series A bonds was used to current refund all of the remaining outstanding 1998 Water Revenue Bonds and proceeds from the Series B Bonds financed the acquisition of additional water rights and various capital projects relating to the Water System. Proceeds were also used to fund a debt service reserve fund and pay cost of issuance expenses.

Series A bonds consist of \$12,855,000 serial bonds and term bonds. Bonds maturing in the years 2010 through 2027 are serial bonds payable in annual installments of \$335,000 to \$885,000 and bear interest at 2.0% to 4.75%. Bonds maturing July 1, 2029, in the amount of \$1,375,000 are term bonds and bear interest at 4.75%. Series B bonds consist of \$12,945,000 term bonds. Bonds mature from 2029 through 2039 in annual installments of \$525,000 to \$1,495,000 and bear interest at 6.75%.

The required reserve for the 2009 Water Revenue Bonds is \$1,869,750. As of June 30, 2016, the reserve was \$1,913,136 being held in the Water Fund of the City of Brea. The outstanding balance at June 30, 2016, was \$22,850,000.

2010 Water Revenue Bonds

In April of 2010, the Brea Public Financing Authority sold \$12,295,000 of water revenue bonds into two series. Both Series A and B were issued to finance a portion of the costs of the installation of photovoltaic energy systems and energy efficient improvements at the City. Proceeds were also used to fund a debt service reserve fund and pay issuance costs and capitalized interest on the bonds through the end of the construction phase.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 8: Long-Term Debt (Continued)

Series A bonds consist of \$2,410,000 of tax exempt serial bond maturing on July 1 of each year beginning in 2012 through 2016. Annual principal installments range from \$430,000 to \$540,000. Interest is payable July 1 and January 1 of each year and range from Series B bonds consist of \$9,885,000 of federally taxable "Build America Bonds." \$2,195,000 of these bonds are serial bonds maturity on July 1 of each year beginning in 2017 through 2025. Annual principal installments range from \$125,000 to \$385,000. Interest payments are due July 1 and January 1 of each year and range from 4.37% to 5.99%. The remaining \$7,690,000 are term bonds due maturing on July 1, 2030 and July 1, 2036 in the amounts of \$2,685,000 and \$5,005,000. The Series B bonds are also subject to mandatory sinking fund requirements. These "Build America Bonds" under Section 54AA(g)(1) of the Tax Code make the Authority eligible for cash subsidy payments from the United States Treasury equal to 35% of the interest payable on the bonds. These are referred to as "refundable credits" in the bond indenture and are recorded as federal interest subsidy revenue in the accompanying basic financial statements. These refundable credits are pledged for the payment of the bonds.

The required reserve for the 2010 Water Revenue Bonds, Series A and B is \$233,579 and \$958,060, respectively. As of June 30, 2016, the reserve amount was \$264,903 and \$1,086,003, respectively. The outstanding balance at June 30, 2016, was \$10,425,000.

2014 Water Revenue Bonds

In August of 2014, the Brea Community Benefit Financing Authority issued \$18,555,000 of 2014 Water Revenue Bonds. The proceeds will be used to repay an interfund loan made by the City of Brea to its Water Utility Fund from other available funds for the purchase of water rights completed in May 2014 for the benefit of the City's water system. Proceeds were also used to pay cost of issuance expenses.

The bonds consist of \$9,440,000 serial bonds maturing in the years 2015 to 2034, payable July 1 in annual installments of \$255,000 to \$700,000 and bear interest at 3.50% to 4.00%. Bonds maturing July 1, 2039, in the amount of \$4,005,000 are term bonds and bear interest at 5.00%. Bonds maturing July 1, 2044, in the amount of \$5,110,000 are term bonds and bear interest at 5.00%. The outstanding balance at June 30, 2016, was \$18,300,000.

Water Revenue Bonds Debt Coverage Requirement

The City has covenanted that gross revenues (including interest revenue and excluding connection fees) less operation and maintenance costs as defined in the bond document shall be at least 1.25 times the sum of all debt service on all parity obligations. Gross revenues for the year ended June 30, 2016, were \$17,340,181. Operation and maintenance costs for the year ended June 30, 2016, were \$9,162,038, excluding depreciation. This resulted in a debt coverage ratio of 1.89 for the year ended June 30, 2016.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 8: Long-Term Debt (Continued)

Pledged Revenues

Future net revenues of the Water Utility Fund for each year's debt service payment are pledged until the extinguishment of the debt in 2044 and are not available for other uses. Remaining principal and interest payments on this debt as of June 30, 2016, is \$96,179,835.

The debt service schedules of these Water Revenue Bonds are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 1,425,000	\$ 2,788,982	\$ 4,213,982
2018	1,040,000	2,741,609	3,781,609
2019	1,100,000	2,698,827	3,798,827
2020	1,165,000	2,652,304	3,817,304
2021	1,235,000	2,600,695	3,835,695
2022-2026	7,395,000	12,061,031	19,456,031
2027-2031	10,035,000	9,841,904	19,876,904
2032-2036	13,235,000	6,385,338	19,620,338
2037-2041	10,760,000	2,402,770	13,162,770
2042-2046	4,185,000	431,375	4,616,375
Total	<u>\$ 51,575,000</u>	<u>\$ 44,604,835</u>	<u>\$ 96,179,835</u>

Compensated Absences

The City's policies relating to compensated absences are described in Note 1. This liability at June 30, 2016, will be paid in future years by the enterprise funds. Total compensated absences at June 30, 2016, were \$218,289.

c. Debt Without Government Commitment

Assessment District Bonds

The special assessment bonds are secured by valid assessment liens upon certain lands within the special assessment district and are not direct liabilities of the City and, accordingly, are not included in the accompanying general purpose financial statements. The City has no obligation beyond the balances in the designated agency funds for any delinquent assessment district bond payments. If delinquencies occur beyond the amounts held in the reserve funds created from bond proceeds, the City has no duty to pay the delinquency out of any available funds of the City. Neither the full faith and credit nor taxing power of the City is pledged to the payment of the bonds. The City acts solely as an agent for those paying assessments and for the bondholders.

In December 1999, the City borrowed for and on behalf of the Community Facilities District No. 1990-1 (Imperial Center East) \$1,478,000 principal amount of 1999 Special Tax Refunding Note to current refund the District's 1990 Special Tax Bonds. The money borrowed was pursuant to the Mello-Roos Community Facilities Act of 1982 and is payable from the proceeds of an annual special tax levied on the property within the District. The note matures from 2000 to 2015, with annual installments ranging from \$99,000 to \$122,000 per year. The interest rate on the note is 5.780%. The outstanding balance was paid in full as of June 30, 2016.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 8: Long-Term Debt (Continued)

In June 2005, the Brea Public Financing Authority issued \$15,405,000 Brea Public Financing Authority 2005 Series A Local Agency Revenue Bonds for and on behalf of the City of Brea Community Facilities District No. 1997-1 (Olinda Heights Public Improvements) and the Brea Olinda Unified School District Community Facilities District No. 95-1 (Olinda Heights). The Brea Olinda Unified School District Community Facilities District Bonds are not part of the City; therefore, additional information is not provided. \$6,665,000 of the City of Brea Community Facilities District Bonds were to current refund in full of the Community Facilities District No. 1997-1 (Olinda Heights Public Improvements) 1998 Special Tax Bonds. The bonds were issued pursuant to the Mello-Roos Community Facilities Act of 1982, and are payable from the proceeds of annual special tax to be levied on property. The bonds mature from 2006 to 2028, with annual installments ranging from \$195,000 to \$430,000 per year. The interest rates on the bonds range from 2.500% to 4.125%. The outstanding balance at June 30, 2016, was \$3,925,000.

In December 2009, the City of Brea on behalf of the City of Brea Community Facilities District No. 2008- 2 issued \$8,145,000 in bonds known as the Brea Plaza Area Public Improvements 2009 Special Tax Bonds to finance acquisition and construction of certain public capital improvements in Brea Plaza. Proceeds will also be used to pay administrative expenses of the Community Facilities District, bond issuance costs, and capitalized interest on the bonds through the end of the construction. These bonds are not obligations of the City and will be paid solely from special tax revenues levied on certain property within the Community Facilities District. The bonds mature from 2012 to 2039, with annual installments including sinking fund requirements range from \$50,000 to \$765,000 per year. The interest rates on the bonds range from 4% to 7%. The outstanding balance at June 30, 2016, was \$7,910,000.

In February 2014, the City issued for and on in behalf of the Community Facilities District No. 1996-1 (Downtown Brea Public Improvements) \$1,630,000 aggregate principal amount of 2014 Special Tax Refunding Bonds to current refund in full the Community Facilities District No. 1996-1 (Downtown Brea Public Improvements) 1997 Special Tax Bonds. The bonds were issued pursuant to the Mello-Roos Community Facilities Act of 1982 and are payable from the proceeds of an annual special tax levied on property within the District. The bonds mature from 2014 to 2021, with annual installments ranging from \$165,000 to \$225,000 per year. The annual interest rate on the bonds is 2.580%. The outstanding balance at June 30, 2016, was \$1,270,000.

Note 9: Defined Benefit Pension Plan

General Information about the Pension Plans

Plan Description

The City of Brea contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of PERS' annual financial report may be obtained from its executive office: 400 P Street, Sacramento, California 95814.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**
Note 9: Defined Benefit Pension Plan (Continued)**Benefits Provided**

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

	Miscellaneous Plan		
	Tier 1 *	Tier 2	PEPRA (Tier 3)
Hire date	Prior to September 17, 1999	September 17, 1999 to December 31, 2012 and Non- PEPRA hired on or after January 1, 2013	January 1, 2013 and after
Benefit formula	2.0% @ 55	2.0% @ 55	2.0% @ 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 years	minimum 50 years	minimum 52 years
Monthly benefits, as a % of eligible compensation	1.426% - 2.418%, 50 yrs - 55+ yrs, respectively	1.426% - 2.418%, 50 yrs - 55+ yrs, respectively	1.000% - 2.500%, 52 yrs - 67+ yrs, respectively
Required employee contribution rates	7.000%	7.000%	6.250%
Required employer contribution rates	15.656%	15.656%	15.656%

* Closed to new entrants

	Safety Plan			
	Tier 1 *	Tier 2 *	Tier 3	PEPRA (Tier 4)
Hire date	Prior to June 30, 1984	On June 30, 1984 and prior to September 17, 2011	September 17, 2011 to December 31, 2012 and Non-PEPRA hired on or after January 1, 2013	January 1, 2013 and after
Benefit formula	3.0% @ 50	3.0% @ 50	2.0% @ 50	2.7% @ 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	minimum 50 years	minimum 50 years	minimum 50 years	minimum 50 years
Monthly benefits, as a % of eligible compensation	3.000% 50 yrs - 55+ yrs, respectively	3.000% 50 yrs - 55+ yrs, respectively	2.000 - 2.700% 50 yrs - 57+ yrs, respectively	2.000 - 2.700% 50 yrs - 57+ yrs, respectively
Required employee contribution rates	9.000%	9.000%	9.000%	11.500%
Required employer contribution rates	41.193%	41.193%	41.193%	41.193%

* Closed to new entrants

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 9: Defined Benefit Pension Plan (Continued)

Employees Covered

At June 30, 2016, the following employees were covered by the benefit terms of the Plan:

<u>Description</u>	<u>Number of members</u>	
	<u>Miscellaneous Plan</u>	<u>Safety Police Plan</u>
Active members	199	100
Transferred members	165	63
Terminated members	109	13
Retired members and beneficiaries	241	193
Total	714	369

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 an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2016, the employer contributions recognized as a reduction to the net pension liability for the Miscellaneous Plan and the Safety Plan were \$2,133,735 and \$3,589,221 respectively.

Net Pension Liability

The City's net pension liability is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each plan is measured as of June 30, 2015 using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 9: Defined Benefit Pension Plan (Continued)***Actuarial Methods and Assumptions Used to Determine Total Pension Liability***

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
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
Payroll Growth	3.00%
Investment Rate of Return*	7.50%
Mortality Rate Table**	Derived using CalPERS' Membership Data for all Funds

* Net of pension plan investment and administrative expenses, including inflation.

** The mortality table used was developed based on CalPERS' Experience Study. The table includes 5 years of projected mortality improvements using Society of Actuaries Scale AA.

Change of Assumptions

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

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, 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. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 9: Defined Benefit Pension Plan (Continued)

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 (Public Employees' Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (1)	Real Return Years 11+ (2)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	2.0	-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

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 9: Defined Benefit Pension Plan (Continued)

Changes in the Net Pension Liability

The changes in Net Pension Liability for each Plan follows:

Miscellaneous Plan	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at: 6/30/2015 (Valuation Date of 6/30/14)	\$ 119,065,216	\$ 94,105,744	\$ 24,959,472
Changes recognized for the Measurement Period:			
Service Cost	2,062,984	-	2,062,984
Interest on TPL	8,692,445	-	8,692,445
Changes in benefit terms	-	-	-
Differences between expected and actual experience	(1,784,268)	-	(1,784,268)
Changes in assumptions	(2,142,611)	-	(2,142,611)
Contributions from the employer	-	2,133,735	(2,133,735)
Contributions from the employees	-	1,087,960	(1,087,960)
Net investment income	-	2,140,976	(2,140,976)
Benefit payments, including refunds of employee contributions	(5,086,167)	(5,086,167)	-
Administrative expenses	-	(106,071)	106,071
Net changes during 2014-15	1,742,383	170,433	1,571,950
Balance at: 6/30/16 (Measurement Date of 6/30/15)	\$ 120,807,599	\$ 94,276,177	\$ 26,531,422

Safety Plan	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at: 6/30/2015 (Valuation Date of 6/30/14)	\$ 222,230,032	\$ 158,850,236	\$ 63,379,796
Changes recognized for the Measurement Period:			
Service Cost	2,865,433	-	2,865,433
Interest on TPL	16,223,231	-	16,223,231
Changes in benefit terms	-	-	-
Differences between expected and actual experience	(2,307,435)	-	(2,307,435)
Changes in assumptions	(3,994,113)	-	(3,994,113)
Contributions from the employer	-	3,589,221	(3,589,221)
Contributions from the employees	-	1,084,088	(1,084,088)
Net investment income	-	3,541,260	(3,541,260)
Benefit payments, including refunds of employee contributions	(10,585,623)	(10,585,623)	-
Administrative expenses	-	(175,877)	175,877
Net changes during 2014-15	2,201,493	(2,546,931)	4,748,424
Balance at: 6/30/16 (Measurement Date of 6/30/15)	\$ 224,431,525	\$ 156,303,305	\$ 68,128,220

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of each Plan, calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% point lower (6.65%) or 1% point higher (8.65%) than the current rate:

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 9: Defined Benefit Pension Plan (Continued)

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
Miscellaneous Plan's Net Pension Liability	\$ 42,824,752	\$ 26,531,422	\$ 13,055,709
Safety Police Plan's Net Pension Liability	98,280,025	68,128,220	43,294,831
Total Net Pension Liability	\$ 141,104,777	\$ 94,659,642	\$ 56,350,540

Pension Plan Fiduciary Net Position

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and OPEB expense included as assets. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves. Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports. See CalPERS website for additional information.

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

As of the start of the measurement period (July 1, 2014), the combined net pension liability for the Miscellaneous Plan and the Safety Police Plan was \$88,339,268. For the measurement period ending June 30, 2015 (the measurement date), the City of Brea incurred an aggregate pension expense of \$3,539,495 for the plans. Note that no adjustments have been made for contributions subsequent to the measurement date. As of June 30, 2015, the City of Brea has deferred outflows and deferred inflows of resources related to pensions as follows:

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 9: Defined Benefit Pension Plan (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>Miscellaneous Plan</u>		
Contributions made after the measurement date	\$ 2,164,579	\$ -
Difference between expected and actual experience	-	(1,123,428)
Change in assumptions	-	(1,349,050)
Net difference between projected and actual earnings on pension plan investments	<u>3,984,616</u>	<u>(4,837,748)</u>
Miscellaneous Plan Total	<u>6,149,195</u>	<u>(7,310,226)</u>
<u>Safety Police Plan</u>		
Contributions made after the measurement date	4,960,634	-
Difference between expected and actual experience	-	(1,483,351)
Change in assumptions	-	(2,567,644)
Net difference between projected and actual earnings on pension plan investments	<u>6,712,179</u>	<u>(8,254,438)</u>
Safety Police Plan Total	<u>11,672,813</u>	<u>(12,305,433)</u>
Total	<u>\$ 17,822,008</u>	<u>\$ (19,615,659)</u>

\$7,125,213 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, 2016. Other amounts reported as deferred outflows or deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30,	Deferred Outflows/(Inflows) or Resources
2016	\$ (5,394,816)
2017	(4,508,384)
2018	(1,689,863)
2019	<u>2,674,199</u>
	<u>\$ (8,918,864)</u>

Note 10: PARS Post-Employment Benefits Trust

The City established the PARS Post-Employment Benefits Trust as a tax-exempt trust within the meaning of Section 115 of the IRS Code to accumulate resources to “stabilize” the amount of its general fund resources that it will need to meet future contribution requirements to the California Public Employees Retirement System (PERS). The balances and activities of the Trust are not part of the pension plan. Instead, the assets will benefit the employer through reduced future cash flow demands on the City’s general fund resources and continue to be assets of the individual employer. At June 30, 2016, \$6,120,004 in restricted cash and investment in the General fund is restricted for pension contribution stabilization.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 11: Other Post-Employment Benefits***Plan Description***

In addition to providing pension benefits, the City provides medical insurance for certain employees after they separate from the City, through a single-employer defined benefit plan as provided under the City's contractual agreements with members from each unit. Members who retire from the City on or after attaining the age of 50 with at least five years of service are eligible for these benefits. A separate annual financial report is not available for this plan.

Funding Policy

Currently the City funds retiree healthcare benefits on a pay-as-you-go basis, paying a maximum of \$350 per month for retiree benefits from the City funds as they are due with no pre-funding for future years. The City recognizes expenditure for its share of the annual premiums as these benefits become due. For fiscal year ended June 30, 2016, the City paid \$820,611 for benefits of 201 retired employees.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other post-employment benefit ("OPEB") cost is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

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

Annual required contribution (ARC)	\$ 1,740,000
Interest on net pension obligation	179,000
Adjustment to ARC	<u>(371,000)</u>
Annual OPEB cost	1,548,000
Contribution made	<u>820,611</u>
Increase (decrease) in net OPEB obligation	727,389
Net OPEB obligation - July 1, 2015	<u>4,925,213</u>
Net OPEB obligation - June 30, 2016	<u><u>\$ 5,652,602</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2016, and the two preceding years were as follows:

Fiscal Year	Annual OPEB Cost	OPEB Cost Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 1,385,000	\$ 811,722	58.61%	\$ 4,263,288
6/30/2015	1,479,000	817,075	55.25%	4,925,213
6/30/2016	1,548,000	820,611	53.01%	5,652,602

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**
Note 11: Other Post-Employment Benefits (Continued)
Funded Status and Funding Progress

The required contribution is based on projected pay-as-you-go financing requirements with additional amount to prefund benefits as determined annually by the City under an actuarial valuation. 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 trends.

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 below presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. This is the latest information available:

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as % of Payroll
6/30/2009	\$ 17,269,000	\$ -	\$ 17,269,000	0.0%	\$ 27,603,000	62.6%
6/30/2011	18,197,000	-	18,197,000	0.0%	24,983,000	72.8%
6/30/2013	20,560,000	-	20,560,000	0.0%	26,674,000	77.1%

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.

The actuarial valuation, dated June 30, 2013, used the Entry Age Normal actuarial cost method, a discount rate of 4.00% which is the long-term expected rate of return on the City's investment fund, an annual general inflation rate of 3.00%, and an annual aggregate payroll increase of 3.25%. Annual healthcare cost trend 7.0% to 7.2% beginning in 2017, reduced by decrements of 0.5% per year to an ultimate rate of 5% after 2021. The unfunded accrued actuarial liability (UAAL) is being amortized over a closed 23-year period as a level percentage of payroll. As of the actuarial valuation date, the City had 302 active participants and 201 retirees receiving benefits.

Note 12: Self-Insurance Program

The City is a member of the California Insurance Pool Authority ("CIPA"). CIPA, a consortium of 11 cities in Los Angeles County and Orange County, California, that was established to pool resources, share risks, purchase excess insurance and to share costs for professional risk management and claims administration.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 12: Self-Insurance Program (Continued)

At June 30, 2016, the City was self-insured for workers' compensation up to \$400,000 per occurrence and general liability and auto liability insurance up to \$350,000 per occurrence. The coverage for general and auto liability extends to \$20,000,000 per occurrence with a \$20,000,000 annual pooled aggregate. Member agencies may be assessed the difference between funds available and the \$20,000,000 annual pooled aggregate in proportion to their annual premium. Settled claims have not exceeded this commercial coverage in the past three years.

The Governing Board is comprised of one member from each participating city and is responsible for the selection of management and for the budgeting and financial management of CIPA. At the termination of the risk pool agreement and after all claims have been settled, any excess or deficit will be divided among the cities in proportion to the aggregate amount of contribution made by each.

At June 30, 2016, \$4,220,920 has been accrued for general liability and workers' compensation claims in the Internal Service Risk Management Fund. These amounts represent estimates of amounts to be paid for reported claims and incurred but not yet reported claims based upon past experience, modified for current trends and information. While the ultimate amount of losses incurred through June 30, 2016, is dependent on future developments, based upon information from the City Attorney, the City's claims administrators and others involved with the administration of the programs, City management believes the accrual is adequate to cover such losses.

Changes in the claims liability amounted to the following for the years ended June 30:

Fiscal Year Ended	Beginning Balance	Claims and Changes in Estimates	Claim Payments	Ending Balance
2014	\$ 5,071,498	\$ 629,798	\$ (1,418,889)	\$ 4,282,407
2015	4,282,407	1,342,587	(1,416,668)	4,208,326
2016	4,208,326	2,402,727	(2,390,133)	4,220,920

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

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 13: Fund Balance Classifications

Fund balances in the governmental funds at June 30, 2016, have been classified as follows:

	General	Special Revenue Fund Housing Successor	Capital Projects Fund Capital Improvements	Other Governmental Funds	Total
Nonspendable:					
Advances to other funds	\$ 615,605	\$ -	\$ -	\$ -	\$ 615,605
Total nonspendable	615,605	-	-	-	615,605
Restricted:					
Debt service	269,453	-	-	-	269,453
Prop 172	440,760	-	-	-	440,760
COPS	28,975	-	-	-	28,975
Lighting and maintenance districts	354,864	-	-	-	354,864
Low and moderate income housing	-	18,750,601	-	-	18,750,601
Capital projects	-	-	14,019,775	-	14,019,775
Gas tax	-	-	-	1,287,356	1,287,356
Narcotic enforcement	-	-	-	370,217	370,217
Air quality improvement	-	-	-	217,815	217,815
Park development	-	-	-	83,324	83,324
Measure M	-	-	-	2,040,615	2,040,615
Affordable housing trust	-	-	-	2,319,807	2,319,807
Blackstone CFD	-	-	-	2,347,760	2,347,760
La Floresta CFD	-	-	-	185,244	185,244
Taylor-Morrison CFD	-	-	-	71,748	71,748
Capital and mitigation improvement	-	-	-	5,230,740	5,230,740
Storm drain	-	-	-	256,356	256,356
Pension stabilization	6,133,960	-	-	-	6,133,960
Total restricted	7,228,012	18,750,601	14,019,775	14,410,982	54,409,370
Committed:					
Asset replacement	9,091,623	-	-	-	9,091,623
Total committed	9,091,623	-	-	-	9,091,623
Assigned:					
Community center	590,815	-	-	-	590,815
Total assigned	590,815	-	-	-	590,815
Unassigned:					
General Fund	19,374,873	-	-	-	19,374,873
Other Governmental Funds	-	-	-	(79,171)	(79,171)
Total unassigned	19,374,873	-	-	(79,171)	19,295,702
Total	\$ 36,900,928	\$ 18,750,601	\$ 14,019,775	\$ 14,331,811	\$ 84,003,115

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 14: Net Position Restatements

Governmental Activities:		
To reconciling infrastructure and adjust accumulated depreciation balances due to misrecording in prior years		\$ 7,755,792
		<u>\$ 7,755,792</u>
Business-Type Activities		
To reconciling infrastructure and adjust accumulated depreciation balances due to misrecording in prior years		\$ 521,450
		<u>\$ 521,450</u>
Proprietary funds:		
Water Fund		
To adjust accumulated depreciation balances due to misrecording in prior years		\$ 444,427
Sewer Fund		
To adjust accumulated depreciation balances due to misrecording in prior years		77,023
		<u>\$ 521,450</u>
Internal Service Funds		
To reconciling capital assets and adjust accumulated depreciation balances due to misrecording in prior years		\$ 518,027
		<u>\$ 518,027</u>

Note 15: Construction and Other Significant Commitments

The following material construction commitments existed at June 30, 2016:

Project Name	Contract Amount	Expenditures to date as of June 30, 2016	Remaining Commitments
Capital Improvements Fund:			
57 Freeway & Lamber Road Interchange Improvement Project	\$ 3,420,000	\$ 1,364,428	\$ 2,055,572
The Track at Brea Trail Project - EPA RLF	1,153,000	-	1,153,000
Glenbrook Tract Waterline Improvements	2,636,763	141,295	2,495,468
Super Block I Parking Structure	8,381,880	-	8,381,880
Total			<u>\$ 14,085,920</u>

Note 16: Contingencies

The City is a defendant in several pending lawsuits of a nature common to many similar jurisdictions. City management estimates that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial position of the City.

The City incurs various costs under federal and state grant reimbursement programs and records the related revenue and receivables for grant claims. Such grant claims are subject to final audit by federal and state agencies.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 17: California Redevelopment Agency Dissolution

On December 29, 2011, the California Supreme Court upheld Assembly Bill X1 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 Brea that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On August 25, 2011, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution number 2011-085.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be 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 directed 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 was not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller was required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

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 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 are reported in a fiduciary fund (private purpose trust fund) in the financial statements of the City.

a. Cash and investments

Cash and investments reported in the accompanying financial statements consisted of the following:

Cash and investments	\$ 1,159,693
Cash and investments with fiscal agent	<u>32,156,756</u>
	<u>\$ 33,316,449</u>

CITY OF BREA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 17: California Redevelopment Agency Dissolution (Continued)

b. Loans Receivable

The City (through the former redevelopment agency) has made long term loans to various developers and organizations to stimulate development in the City and remove blight in designated project areas. The outstanding balance at June 30, 2016, is as follows:

Rehabilitation Loans	\$ 16,000
Developer/ Organization Loans:	
Brea Improv	376,312
Brea Olinda Unified School District	<u>1,708,555</u>
Total notes, loans and deferred loans receivable	<u>\$ 2,100,867</u>

c. Capital Assets

Summary of changes in capital assets of the Successor Agency for the year ended June 30, 2016, is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 944,392	\$ -	\$ -	\$ 944,392
Total Capital Assets, not being depreciated	<u>944,392</u>	<u>-</u>	<u>-</u>	<u>944,392</u>
Capital Assets, Net	<u>\$ 944,392</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 944,392</u>

d. Long-Term Debt

A description of long-term debt outstanding (excluding defeased debt) of the Successor Agency as of June 30, 2016, follows:

	Beginning Balance	Additions	Repayments	Ending Balance	Due Within One Year
Tax Allocation Bonds					
2003 Tax Allocation Bonds	\$ 27,287,014	\$ 566,858	\$ -	\$ 27,853,872	\$ -
2008 Tax Allocation Bonds Series A	14,120,000	-	(905,000)	13,215,000	955,000
2008 Tax Allocation Bonds Series B	1,620,000	-	(80,000)	1,540,000	90,000
2011 Tax Allocation Bonds Series A	23,029,392	1,378,490	(25,000)	24,382,882	25,000
2011 Tax Allocation Bonds Series B	10,125,000	-	(90,000)	10,035,000	95,000
2013 Tax Allocation Bonds	88,450,000	-	(6,650,000)	81,800,000	6,920,000
Lease Revenue Bonds					
2004 Refunding Lease Revenue Bonds	2,150,000	-	(270,000)	1,880,000	285,000
2010 Refunding Lease Revenue Bonds	6,350,000	-	(805,000)	5,545,000	835,000
	<u>\$ 173,131,406</u>	<u>\$ 1,945,348</u>	<u>\$ (8,825,000)</u>	<u>166,251,754</u>	<u>\$ 9,205,000</u>
				<u>8,526,108</u>	
				<u>\$ 174,777,862</u>	

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 17: California Redevelopment Agency Dissolution (Continued)

Tax Allocation Bonds

2003 Tax Allocation Bonds

In July 2003, the former Brea Redevelopment Agency issued \$120,497,866 principal amount of 2003 Redevelopment Project AB Tax Allocation Bonds. The proceeds were used to: 1) current refund the Agency's Brea Redevelopment Agency 1993 Tax Allocation Refunding Bonds, 2) pay the costs of additional redevelopment activities with respect to Project Area AB, 3) pay the cost of a reserve fund security instrument, and 4) pay costs of issuance related to the bonds.

Bonds in the years 2014 to 2026, are current interest bonds payable with no annual installments, while bonds maturing in the years 2028 to 2030, are capital appreciation bonds payable August 1 in annual installments of \$2,151,714 to \$1,801,707. Bonds maturing in the years 2027, 2031 and 2032, in the amount of \$16,475,000 are term bonds.

The current interest bonds bear interest at 4.450% due February 1 and August 1, of each year. The term bonds bear interest at 4.45% and are due August 1, 2032. The capital appreciation bonds have a face value of \$22,640,000. By their nature, there is no regular interest payments associated with capital appreciation bonds. The "interest" on the debt results from the difference between the amounts paid by the investors when the debt was issued and the significantly larger value at maturity. The \$22,640,000 of face value capital appreciation bonds were initially recorded at the amount of proceeds received, \$5,987,866. Each year, the outstanding balance is increased for the accretion of interest associated with the bonds.

A financial guaranty insurance policy has been issued and, accordingly, no cash reserve balance is required. Bond payments are secured by a first pledge on all of the tax revenues on parity with the 2011 and 2013 bonds.

In December 2013, the Successor Agency issued the 2013 Tax Allocation Refunding Bonds to redeem the current interest bonds and term bonds outstanding balance of the 2003 Tax Allocation Bonds. Upon issuance of the 2013 Bonds, a portion of the sale proceeds of the 2013 Bonds was transferred to the 2003 Escrow Fund. On the redemption date, moneys deposited in the escrow funds was used to pay the redemption price for the refunded bonds. As a result, except for the capital appreciation bonds, the liability for current interest bonds and term bonds has been removed. The outstanding balance of the capital appreciation bonds at June 30, 2016, was \$27,853,872.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 17: California Redevelopment Agency Dissolution (Continued)

2008 Tax Allocation Revenue Bonds, Series A and B

In October 2008, the Brea Public Financing Authority issued its 2008 Tax Allocation Revenue Bonds, Series A and 2008 Tax Allocation Revenue Bonds, Series B in the amount of \$18,900,000 and \$2,025,000 respectively to make three separate loans to the Brea Redevelopment Agency pursuant to three loan agreements dated November 1, 2008. The proceeds of the loans were used to current refund the Agency's outstanding 1997 Senior Lien Tax Allocation Bonds in the amount of \$9,825,000, to current refund the 1997 Subordinate Lien Tax Allocation Bonds in the amount of \$2,235,000, to finance additional projects benefiting the Agency's Project Area C including low and moderate income housing programs.

The Series A Serial Bonds totaling \$9,715,000 have principal repayments ranging from \$710,000 to \$1,070,000 with interest rates ranging from 4.25% to 6.5%. The Series A Term Bonds totaling \$4,710,000 due September 1, 2023, have sinking fund maturities ranging from \$1,060,000 to \$1,300,000 with interest at 7.0%. The Series A Term Bonds totaling \$4,475,000 due September 1, 2026, have sinking fund maturities ranging from \$1,390,000 to \$1,595,000 with interest at 7.125%. The outstanding balance at June 30, 2016, was \$13,215,000.

The Series B Term Bonds totaling \$330,000 due September 1, 2013, have sinking fund maturities ranging from \$55,000 to \$80,000 with interest at 7.25%; the Series B Term Bonds totaling \$445,000 due September 1, 2018, have sinking fund maturities ranging from \$75,000 to \$105,000 with interest at 8.375%; and the Series B Term Bonds totaling \$1,250,000 due September 1, 2026, have sinking fund maturities ranging from \$115,000 to \$205,000 with interest at 9.0%. The outstanding balance at June 30, 2016, was \$1,540,000.

The required reserve for the Series A and Series B bonds is \$1,829,853 and \$202,500, respectively. As of June 30, 2016, the reserve amount was \$1,939,553 and \$206,494, respectively.

2011 Tax Allocation Bonds, Series A

In June 2011, the former Brea Redevelopment Agency issued \$18,839,323 principal amount of Brea Redevelopment Agency 2011 Tax Allocation Bonds, Series A. The proceeds were used to: 1) refund all of the Agency's remaining outstanding 2001 Subordinate Tax Allocation Refunding Bonds, Series B, 2) finance projects benefiting the Agency's Redevelopment Project AB, 3) fund a reserve account, and 4) pay costs of issuance.

Bonds maturing in the years 2031 are current interest bonds payable August 1 in one installment of \$4,315,000, while bonds maturing in the years 2013 to 2036, are capital appreciation bonds payable August 1 in annual installments of \$28,489 to \$1,958,307. The Series A Capital Appreciation Bonds maturing on August 1, 2025 and August 1, 2034 are subject to special mandatory redemption in whole by the Agency on July 1, 2025 and May 15, 2034, respectively, at redemption price equal to 100 percent of the accreted value of the Series A Capital Appreciation Bonds to be redeemed, without premium.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 17: California Redevelopment Agency Dissolution (Continued)

The current interest bonds maturing on August 1, 2031, are subject to redemption in whole or in part at the option of the Agency from any available source of funds. The capital appreciation bonds maturing on or after August 1, 2022, are subject to redemption in whole or in part at the option of the Agency, from any available source of funds.

The current interest bonds bear interest at 5.00% due February 1 and August 1, of each year. The capital appreciation bonds have a face value of \$57,725,000. By their nature, there is no regular interest payments associated with capital appreciation bonds. The "interest" on the debt results from the difference between the amounts paid by the investors when the debt was issued and the significantly larger value at maturity. The \$57,725,000 of face value capital appreciation bonds were initially recorded at the amount of proceeds received, \$14,524,323. Each year, the outstanding balance is increased for the accretion of interest associated with the bonds.

Series A bonds are secured by a pledge of and lien on all the surplus tax revenues. The bonds are further secured by a required cash reserve of \$1,883,932 deposited with the trustee. As of June 30, 2016, the reserve was \$1,929,100.

Bond payments are secured by a first pledge on all of the tax revenues on parity with 2003 and 2013 bonds.

The outstanding balance at June 30, 2016, was \$24,382,882.

2011 Taxable Tax Allocation Housing Bonds, Series B

In June 2011, the former Brea Redevelopment Agency issued \$10,295,000 principal amount of Brea Redevelopment Agency 2011 Taxable Tax Allocation Housing Bonds, Series B. The proceeds were used to: 1) finance projects in the Agency's low and moderating income housing program of benefit to the project area, 2) fund a reserve account, and 3) pay costs of issuance.

Series B bonds consist of \$5,045,000 serial bonds maturing in the years 2013 to 2025, payable August 1 in annual installments of \$85,000 to \$1,735,000. The bonds bear interest at 2.126% to 6.862%. Bonds maturing in the year 2026 to 2029, in the amount of \$5,250,000 are term bonds and bear interest at 7.392%. The Series B Bonds maturing on August 1, 2025 are subjected to special mandatory redemption in whole by the Agency on July 1, 2025, at redemption price equal to 100 percent of the principal amount, together with accrued interest, without premium.

Serial bonds maturing on or after August 1, 2022, are subject to redemption in whole or in part at the option of the Agency from any available source of funds. Term bonds are subject to mandatory redemption in part by lot on August 1, 2026, August 1, 2027, August 1, 2028 and August 1, 2029, in the amount of \$1,410,000, \$1,515,000 \$1,625,000, \$700,000, respectively, from sinking fund payments made by the Agency.

Series B bonds are secured by a pledge of and lien on housing tax revenues. The bonds are further secured by a required cash reserve of \$1,029,500 deposited with the trustee. As of June 30, 2016, the reserve was \$1,048,215.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 17: California Redevelopment Agency Dissolution (Continued)

Bond payments are secured by a first pledge on all of the tax revenues on parity with 2003 and 2013 bonds.

The outstanding balance at June 30, 2016, was \$10,035,000.

2013 Tax Allocation Refunding Bonds

In December 2013, the Successor Agency to the Brea Redevelopment Agency issued its \$96,620,000 Successor Agency to the Brea Redevelopment Agency Redevelopment Project AB 2013 Tax Allocation Refunding Bonds to refund the outstanding balance of the Brea Redevelopment Agency 2001 Tax Allocation Refunding Bonds, Series A in the amount of \$36,205,000 and to refund the current interest bonds and term bonds outstanding of the 2003 Tax Allocation Bonds in the amount of \$68,390,000. Upon issuance of the 2013 Bonds, a portion of the sale proceeds of the 2013 Bonds was transferred to the 2001A Escrow Fund and to the 2003 Escrow Fund. On the Redemption Date, moneys deposited in the Escrow Funds were used to pay the redemption price for the Refunded Bonds.

The refunding resulted in the recognition of an accounting loss of \$1.83 million for the year ended June 30, 2016. The Successor Agency in effect reduced its aggregate debt service payments by almost \$10.47 million over the next 22 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$8.85 million.

Bonds Maturing in the years 2014 to 2026 are payable in August 1, of each year with annual installments ranging from \$1,500,000 to \$8,595,000. The interest rates on the bonds range from 4.00% to 5.00%.

A financial guaranty insurance policy has been issued and, accordingly, no cash reserve balance is required. Bond payments are secured by a first pledge on all tax revenues on parity with the 2003 and 2011 Tax Allocation Bonds.

The outstanding balance at June 30, 2016, was \$81,800,000.

Total Tax Allocation Bonds outstanding at June 30, 2016, was \$158,826,754. The debt service schedules of these Lease Revenue Bonds are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 8,085,000	\$ 6,456,063	\$ 14,541,063
2018	8,424,178	6,073,635	14,497,813
2019	8,831,720	5,668,187	14,499,907
2020	9,122,240	5,234,315	14,356,555
2021	9,559,548	4,775,057	14,334,605
2022-2026	55,451,908	20,146,160	75,598,068
2027-2031	39,509,549	20,690,731	60,200,280
2032-2036	19,238,411	26,181,014	45,419,425
2037	604,200	2,400,800	3,005,000
Total	<u>\$ 158,826,754</u>	<u>\$ 97,625,962</u>	<u>\$ 256,452,716</u>

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 17: California Redevelopment Agency Dissolution (Continued)

Pledged Revenues

The Successor Agency pledged, as security for bonds issued, either directly or through the Financing Authority, a portion of tax increment revenue (including Low and Moderate Income Housing set-aside and pass through allocations) that it receives. The bonds issued were to provide financing for various capital projects, accomplish Low and Moderate Income Housing projects and to defease previously issued bonds. Assembly Bill X1 26 provided that upon dissolution of the Redevelopment Agency, property taxes allocated to redevelopment agencies no longer are deemed tax increment but rather property tax revenues and will be allocated first to successor agencies to make payments on the indebtedness incurred by the dissolved redevelopment agency. Total principal and interest remaining on the debt is \$256,452,716, with annual debt service requirements as indicated above. For the current year, the total property tax revenue recognized by the Successor Agency for the payment of indebtedness incurred by the dissolved redevelopment agency was \$17,479,764 and the debt service obligation was \$14,541,787.

Refunding Lease Revenue Bonds

2004 Refunding Lease Revenue Bonds

The \$4,330,000 principal amount of the 2004 Refunding Lease Revenue Bonds was issued by the Brea Public Financing Authority in November 2004, to advance refund the Brea Public Financing Authority's 1995 Lease Revenue Bonds.

Bonds maturing in the years 2005 to 2021 are serial bonds payable in annual installments ranging from \$165,000 to \$345,000. The bonds bear interest at 3.000% to 4.500%. Bonds maturing on or after July 1, 2015, may be called before maturity and redeemed at the option of the Authority in whole or in part on any date after July 1, 2014, at a redemption price equal to 100% of the principal amount of the bonds redeemed.

Bonds are payable from the lease payments to be made by the City of Brea for the subleasing of certain real property pursuant to a lease agreement dated November 1, 2004. A financial guarantee insurance policy has been issued, and accordingly, no cash reserve balance is required to be established. Simultaneously, the City and the Agency entered into the Fourth Supplement to the Amended and Restated Reimbursement Agreement.

The outstanding balance at June 30, 2016, was \$1,880,000.

2010 Refunding Lease Revenue Bonds

The \$9,460,000 principal amount of the 2010 Refunding Lease Revenue Bonds was issued by the Brea Public Financing Authority in December 2010, to current refund the Brea Public Financing Authority's 1998 Lease Revenue Refunding Bonds.

Bonds maturing in the years 2011 to 2021 are serial bonds payable in annual installments ranging from \$865,000 to \$1,015,000. The bonds bear interest at 2% to 4%, due semi-annually on January 1 and July 1. Bonds maturing on

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 17: California Redevelopment Agency Dissolution (Continued)

July 1, 2021, may be redeemed at the option of the Authority in whole or in part on any date after July 1, 2020, at a redemption price equal to 100% of the principal amount of the bonds redeemed.

Bonds are payable from the lease payments to be made by the City of Brea for the right to use and occupy certain property pursuant to a lease agreement dated December 1, 1998, and further amended by Amended and Restated Sublease Agreement dated December 1, 2010. Simultaneously, the City and the Agency entered into the Fourth Supplement to the Amended and Restated Reimbursement Agreement.

The outstanding balance at June 30, 2016, was \$5,545,000.

Total Refunding Lease Revenue Bonds outstanding at June 30, 2016, was \$7,425,000. The debt service schedules of these Lease Revenue Bonds are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 1,120,000	\$ 274,769	\$ 1,394,769
2018	1,165,000	229,611	1,394,611
2019	1,210,000	182,484	1,392,484
2020	1,260,000	133,275	1,393,275
2021	1,310,000	81,669	1,391,669
2021-2022	1,360,000	27,631	1,387,631
Total	<u>\$ 7,425,000</u>	<u>\$ 929,439</u>	<u>\$ 8,354,439</u>

Pledged Revenues

The Successor Agency pledged, as security for the lease revenue bonds issued, direct General Fund contribution and indirect tax increment revenue via a lease reimbursement agreement. The bonds issued were to defease previously issued bonds. Assembly Bill X1 26 provided that upon dissolution of the Redevelopment Agency, property taxes allocated to redevelopment agencies no longer are deemed tax increment but rather property tax revenues and will be allocated first to successor agencies to make payments on the indebtedness incurred by the dissolved redevelopment agency. Total principal and interest remaining on the debt is \$8,354,439 with annual debt service requirements as indicated above. For the current year, the General Fund contribution was \$1,392,773 and total property tax revenue recognized by the Successor Agency for the payment of indebtedness incurred by the dissolved redevelopment agency was \$17,479,764. The debt service obligation on the lease revenue bonds for the current year was \$1,392,772.

Multifamily Housing Revenue Bonds

In July 2010, the Agency on behalf of Tonner Hills Housing Partners, LP (the "Borrower"), was authorized to issue \$5,858,319 and \$7,741,681 Brea Redevelopment Agency Multifamily Housing Revenue Bonds (Tonner Hills Apartment Homes) 2010 Series A-1 and A-2, respectively, for the purpose of providing funding

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 17: California Redevelopment Agency Dissolution (Continued)

necessary for the acquisition, construction and equipping of a 94-unit multifamily rental housing project in the City. The Agency and the Borrower also entered into a non-interest bearing loan agreement in amount of \$1,200,000 (See Note 4). These bonds are not the obligations of the Agency and will be paid solely from future rent revenue. The outstanding balance is determined when a construction draw requisition is submitted to the bank for payment, limited up to the authorized amounts for each of the series. Currently, the bonds are only paying interest to bondholder for debt service payment. When the bonds are converted, then the Borrower will pay principal and interest per bond conversion. The outstanding balance at June 30, 2016, was \$3,816,445 and \$0 for Series A-1 and Series A-2, respectively.

e. Insurance

The Successor Agency of the former Redevelopment Agency is covered under the insurance policy of the City of Brea at June 30, 2016.

f. Other Significant Commitments

Owner Participation Agreements

In 1987, the Brea Redevelopment Agency entered into an owner participation agreement with the owners of the Brea Mall. This agreement obligates the Agency to pay the owners 80% of the tax increment revenues generated by the Brea Mall above the 1987-1988 base year tax increment, plus \$15,000. The agreement's term is for 33 years beginning the year ended June 30, 1990. The tax increment revenue sharing payments are senior to bond payments.

The amount paid by the Agency as a result of this agreement for the fiscal year ended June 30, 2016, was \$1,506,944. Future minimum payments for the next 5 years and thereafter are estimated as follows:

Fiscal Year Ending June 30	Amount
2017	\$ 1,575,641
2018	1,583,169
2019	1,628,662
2020	1,675,065
2021	1,722,395
2021-22	1,770,673
Total	<u>\$ 9,955,605</u>

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Note 18: Related Party Transactions

During the fiscal year, the City's Water Utility fund purchased from the California Domestic Water Company water for resale to residential and commercial customers. At June 30, 2016, the City's Water Utility owns 2,106.50 shares of Common Stocks or 26.3% of the total Common Stocks issued and 687.85 shares of Class A Preferred Stocks or 40.8% of the total Class A Preferred Stock in California Domestic Water Company. The shares of Common Stocks and Preferred Stocks are reported as Other Investments in the Water Utility Fund. The latest information available from California Domestic Water Company is as of June 30, 2016.

Note 19: Subsequent Events

On October 18, 2016, the Successor Agency to the Brea Redevelopment Agency issued the 2016 Tax Allocation Refunding Bonds, Series A and B, in the amount of \$10,425,000 and \$1,540,000, respectively. The proceeds were used to refund the 2008 Tax Allocation Revenue Bonds, Series A and B.

In January 2017, the City purchased 6000 acre feet of Metropolitan Water District Tier 1 water in the amount of \$4,182,000 to be applied toward the City's future over entitlement water purchases from California Domestic Water Company.

In March 2017, the Successor Agency sold a property in the amount of \$364,015

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BREA

**MISCELLANEOUS PLAN
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS (1)**

	<u>2015</u>	<u>2016</u>
TOTAL PENSION LIABILITY		
Service Cost	\$ 2,192,940	\$ 2,062,984
Interest	8,386,263	8,692,445
Changes of Benefits Terms	-	-
Difference Between expected and Actual Experience	-	(1,784,268)
Changes in Assumptions	-	(2,142,611)
Benefit Payments, Including Refunds of employee Contributions	(4,468,721)	(5,086,167)
Net Change in Total Pension Liability	6,110,482	1,742,383
Total Pension Liability - Beginning	112,954,734	119,065,216
Total Pension Liability - Ending (a)	\$ 119,065,216	\$ 120,807,599
PLAN FIDUCIARY NET POSITION		
Contribution - Employer	\$ 1,957,360	\$ 2,133,735
Contribution - Employee	1,140,919	1,087,960
Net Investment Income	14,101,824	2,140,976
Benefit Payments, Including Refunds of Employee Contributions	(4,468,721)	(5,086,167)
Administrative Expense	-	(106,071)
Net Change in Fiduciary Net Position	12,731,382	170,433
Plan Fiduciary Net Position - Beginning	81,374,362	94,105,744
Plan Fiduciary Net Position - Ending (b)	\$ 94,105,744	\$ 94,276,177
Plan Net Pension Liability/(Assets) - Ending (a) - (b)	\$ 24,959,472	\$ 26,531,422
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.04%	78.04%
Covered-Employee Payroll	\$ 15,024,118	\$ 15,474,842
Plan Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll	166.13%	171.45%

(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 two years are shown.

(2) Net of administrative expenses.

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, 2014. 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: The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent.

CITY OF BREA

SAFETY PLAN

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS (1)

	2015	2016
TOTAL PENSION LIABILITY		
Service Cost	\$ 3,080,297	\$ 2,865,433
Interest	15,749,580	16,223,231
Changes of Benefits Terms	-	-
Difference Between expected and Actual Experience	-	(2,307,435)
Changes in Assumptions	-	(3,994,113)
Benefit Payments, Including Refunds of employee Contributions	(10,108,174)	(10,585,623)
Net Change in Total Pension Liability	8,721,703	2,201,493
Total Pension Liability - Beginning	213,508,329	222,230,032
Total Pension Liability - Ending (a)	\$ 222,230,032	\$ 224,431,525
PLAN FIDUCIARY NET POSITION		
Contribution - Employer	\$ 3,635,010	\$ 3,589,221
Contribution - Employee	1,024,137	1,084,088
Net Investment Income	24,058,889	3,541,260
Benefit Payments, Including Refunds of Employee Contributions	(10,108,174)	(10,585,623)
Administrative Expense	-	(175,877)
Net Change in Fiduciary Net Position	18,609,862	(2,546,931)
Plan Fiduciary Net Position - Beginning	140,240,374	158,850,236
Plan Fiduciary Net Position - Ending (b)	\$ 158,850,236	\$ 156,303,305
Plan Net Pension Liability/(Assets) - Ending (a) - (b)	\$ 63,379,796	\$ 68,128,220
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.48%	69.64%
Covered-Employee Payroll	\$ 11,359,365	\$ 11,700,146
Plan Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll	557.95%	596.77%

(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 two years are shown.

(2) Net of administrative expenses.

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, 2014. 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: The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent.

CITY OF BREA

**SCHEDULE OF PLAN CONTRIBUTIONS
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS (1)**

	<u>2014</u>	<u>2015</u>	<u>2016</u>
<u>Miscellaneous Plan</u>			
Actuarially Determined Contribution	\$ 1,957,360	\$ 2,133,735	\$ 2,164,579
Contribution in Relation to the Actuarially Determined Contribution	(1,957,360)	(2,133,735)	(2,164,579)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll (3) (4)	\$ 15,024,118	\$ 15,474,842	\$ 15,315,398
Contributions as a Percentage of Covered-Employee Payroll (3)	13.03%	13.79%	14.13%
<u>Safety Plan</u>			
Actuarially Determined Contribution	\$ 3,635,011	\$ 3,589,221	\$ 4,960,634
Contribution in Relation to the Actuarially Determined Contribution	(3,635,011)	(3,589,221)	(4,960,634)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll (3) (4)	\$ 11,359,365	\$ 11,700,146	\$ 11,416,067
Contributions as a Percentage of Covered-Employee Payroll (3)	32.00%	30.68%	43.45%

(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, 2013

Methods and assumptions

used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Assets valuation method	Actuarial value of assets
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.50% net of pension investment and administrative expenses, including inflation.

Retirement age The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.

Mortality The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

CITY OF BREA

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2016**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary Fund Balance, July 1	\$ 35,025,507	\$ 35,025,507	\$ 35,025,507	\$ -
Resources (Inflows):				
Taxes	37,483,710	38,053,710	38,896,769	843,059
Licenses and permits	576,350	576,350	782,250	205,900
Intergovernmental	6,385,252	7,189,539	7,346,081	156,542
Charges for services	3,452,825	3,453,825	3,863,571	409,746
Use of money and property	2,356,290	2,356,290	2,140,070	(216,220)
Fines and forfeitures	889,100	889,100	630,420	(258,680)
Miscellaneous	2,980,005	3,084,443	2,678,722	(405,721)
Transfers in	1,065,000	1,065,000	1,050,000	(15,000)
Capital leases	-	1,952,104	1,952,104	-
Amounts Available for Appropriations	90,214,039	93,645,868	94,365,494	719,626
Charges to Appropriations (Outflow):				
General government				
Management services	2,065,457	2,224,257	2,195,672	28,585
Administrative services	3,499,320	3,488,233	3,075,162	413,071
Public safety				
Police	19,469,648	20,753,413	20,521,275	232,138
Fire	11,726,476	12,249,769	12,034,158	215,611
Community development	2,826,989	3,089,489	2,833,357	256,132
Community services	7,131,388	7,556,312	7,048,955	507,357
Public works	5,276,216	5,557,573	5,241,976	315,597
Capital outlay	770,690	3,548,571	2,282,014	1,266,557
Debt service:				
Principal retirement	395,000	618,132	618,132	-
Interest and fiscal charges	392,890	420,772	420,772	-
Transfers out	2,197,240	9,809,257	1,193,093	8,616,164
Total Charges to Appropriations	55,751,314	69,315,778	57,464,566	11,851,212
Budgetary Fund Balance, June 30	\$ 34,462,725	\$ 24,330,090	\$ 36,900,928	\$ 12,570,838

CITY OF BREA

**BUDGETARY COMPARISON SCHEDULE
 LOW AND MODERATE INCOME HOUSING ASSET
 YEAR ENDED JUNE 30, 2016**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 18,933,035	\$ 18,933,035	\$ 18,933,035	\$ -
Resources (Inflows):				
Investment income	2,600	21,000	41,252	20,252
Miscellaneous	117,000	117,000	36,101	(80,899)
Amounts Available for Appropriations	19,052,635	19,071,035	19,010,388	(60,647)
Charges to Appropriations (Outflow):				
Community development	219,135	281,135	259,787	21,348
Total Charges to Appropriations	219,135	281,135	259,787	21,348
Budgetary Fund Balance, June 30	\$ 18,833,500	\$ 18,789,900	\$ 18,750,601	\$ (39,299)

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

Budget Information

General Budget Policies

The City adheres to the following procedures in establishing the budgetary data reflected in its financial statements:

1. In May of each year, the City Manager submits to the City Council a proposed financial plan with an annual operating budget for the upcoming fiscal year commencing July 1. The operating budget includes proposed expenditures and the sources of financing.
2. Public hearings are conducted at City Council meetings to obtain taxpayer comments.
3. On or before July 1, the financial plan for the fiscal year is adopted by Council action.
4. The City Manager is authorized to transfer funds appropriated with respect to those classifications designated as other services and material and supplies within the same department. The City Manager may transfer appropriated funds from any classification within other expenditure categories to the capital outlay classification within the same department only; however, any revisions that alter the total expenditures of any department must be approved by the City Council. Activities of the General Fund, Special Revenue Funds, Capital Projects Funds and Debt Service Funds are included in the annual appropriated budget. As an additional internal control mechanism, project-length financial plans are adopted for the Capital Improvement Program. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the department level within the General Fund and at the fund level for total expenditures and transfers out for all other budgeted funds.
5. Formal budgetary integration is employed as a management control device during the year for the governmental funds.
6. Legally adopted budgets for all governmental funds are established on a basis consistent with generally accepted accounting principles (GAAP). For the current fiscal year, the HOME Program special revenue fund had no adopted budget.

Excess of Expenditures Over Appropriation

For purposes of evaluating legal compliance at the budgetary level of control (that is, the level at which expenditures cannot legally exceed the appropriated amount), control is established at the department level within the General Fund and at the fund level for total expenditures and transfers out for all other budgeted funds.

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NON-MAJOR GOVERNMENTAL FUNDS

Non-major Special Revenue Funds

The **Gas Tax Fund** is used to account for revenues received and expenditures made for street improvements and street maintenance. Financing is provided by the City's share of State gasoline taxes made pursuant to the California State Constitution and authorized by the State Legislature.

The **Narcotics Enforcement Asset Seizure Fund** is used to account for revenues seized by the Police Department during narcotic investigations.

The **Air Quality Improvement Fund** is used to account for revenues received from vehicle registration fees and restricted for improvement of air quality.

The **Park Development Fund** is used to account for revenues received and expenditures made for park development and improvement. The primary source of revenue is park development fees collected from developers under the State of California's Quimby Act.

The **Measure M Fund** is used to account for ½ ¢ sales tax restricted for expenditure for road maintenance and street expenditures.

The **Affordable Housing Trust Fund** is used to account for revenues received and expenditures made for the development of low to moderate income housing. The primary source of revenue is fees collected from developers.

The **Community Development Block Grant Fund** is used to account for the revenues received and expenditures made for the City's Community Development Block Grant Program. Financing is provided under an agreement with the County of Orange whereby the City is a secondary recipient of funds made available from the U.S. Department of Housing and Urban Development under the Housing and Community Development Act of 1974 and 1977.

The **HOME Program Fund** is used to account for the revenues received and expenditures made for housing rehabilitation. Financing is provided under an agreement with the County of Orange whereby the City is a secondary recipient of funds made available from the U.S. Department of Housing and Urban Development.

The **Blackstone Community Facilities District 2008-1 Fund** is used to account for the collection of special taxes and expenditure for police, fire, maintenance and general city services including park maintenance and open space.

NON-MAJOR GOVERNMENTAL FUNDS

Non-major Special Revenue Funds, Continued

The ***La Floresta Facilities District 2011-1 Fund*** is used to account for the collection of special taxes and expenditure for police, fire, maintenance and general city services.

The ***Taylor Morrison Facilities District 2013-1 Fund*** is used to account for the collection of special taxes and expenditure for police, fire, maintenance and general city services.

Non-major Capital Projects Funds

The ***Capital and Mitigation Improvement Fund*** is used to account for the revenues received and expenditures made for the City Council-designated Capital Improvement projects, as well as the implementation of measures designed to mitigate impacts related to development, and the operation of government facilities, including, but not limited to: traffic, noise, aesthetics, and open space preservation. Financing is provided by the July 14, 2009 Agreement between the City and County of Orange regarding the extension of the Olinda Alpha Landfill.

The ***Storm Drain Fund*** is used to account for the financing and construction of storm drains throughout the City. Financing is provided by storm drain assessment fees.

The ***Midbury Assessment Authority Fund*** is an Agency Fund used to account for the collection and payment of neighborhood street improvements.

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CITY OF BREA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

	Special Revenue Funds			
	Gas Tax	Narcotics Enforcement Asset Seizure	Air Quality Improvement	Park Development
Assets:				
Cash and investments	\$ 1,287,356	\$ 387,951	\$ 202,991	\$ 83,324
Receivables:				
Accounts	-	-	-	-
Taxes	-	-	-	-
Notes and loans	-	-	-	-
Due from other governments	-	7,784	14,824	-
Total Assets	\$ 1,287,356	\$ 395,735	\$ 217,815	\$ 83,324
Liabilities, Deferred Inflows of Resources, and Fund Balances:				
Liabilities:				
Accounts payable	\$ -	\$ 25,162	\$ -	\$ -
Accrued liabilities	-	356	-	-
Due to other governments	-	-	-	-
Due to other funds	-	-	-	-
Advances from other funds	-	-	-	-
Total Liabilities	-	25,518	-	-
Deferred Inflows of Resources:				
Unavailable revenues	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-
Fund Balances:				
Restricted for:				
Community development projects	-	-	-	83,324
Public safety	-	370,217	-	-
Public works	1,287,356	-	217,815	-
Capital projects	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	1,287,356	370,217	217,815	83,324
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,287,356	\$ 395,735	\$ 217,815	\$ 83,324

CITY OF BREA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

(CONTINUED)

	Special Revenue Funds			
	Measure M	Affordable Housing Fund	Community Development Block Grant	HOME Program
Assets:				
Cash and investments	\$ 1,877,463	\$ 2,106,807	\$ -	\$ -
Receivables:				
Accounts	-	-	-	-
Taxes	-	-	-	-
Notes and loans	-	213,000	1,712,926	35,241
Due from other governments	163,572	-	69,723	-
Total Assets	\$ 2,041,035	\$ 2,319,807	\$ 1,782,649	\$ 35,241
Liabilities, Deferred Inflows of Resources, and Fund Balances:				
Liabilities:				
Accounts payable	\$ 64	\$ -	\$ -	\$ -
Accrued liabilities	356	-	-	-
Due to other governments	-	-	1,712,926	35,241
Due to other funds	-	-	74,142	-
Advances from other funds	-	-	-	-
Total Liabilities	420	-	1,787,068	35,241
Deferred Inflows of Resources:				
Unavailable revenues	-	-	55,324	-
Total Deferred Inflows of Resources	-	-	55,324	-
Fund Balances:				
Restricted for:				
Community development projects	-	2,319,807	-	-
Public safety	-	-	-	-
Public works	2,040,615	-	-	-
Capital projects	-	-	-	-
Unassigned	-	-	(59,743)	-
Total Fund Balances	2,040,615	2,319,807	(59,743)	-
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,041,035	\$ 2,319,807	\$ 1,782,649	\$ 35,241

CITY OF BREA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

	Special Revenue Funds			Capital Projects Funds
	Blackstone CFD	La Floresta CFD	Taylor- Morrison CFD	Capital and Mitigation Improvement
Assets:				
Cash and investments	\$ 2,355,013	\$ 184,444	\$ 71,167	\$ 5,230,740
Receivables:				
Accounts	1,217	-	-	-
Taxes	8,900	800	581	-
Notes and loans	-	-	-	-
Due from other governments	-	-	-	-
Total Assets	\$ 2,365,130	\$ 185,244	\$ 71,748	\$ 5,230,740
Liabilities, Deferred Inflows of Resources, and Fund Balances:				
Liabilities:				
Accounts payable	\$ 11,900	\$ -	\$ -	\$ -
Accrued liabilities	5,470	-	-	-
Due to other governments	-	-	-	-
Due to other funds	-	-	-	-
Advances from other funds	-	-	-	-
Total Liabilities	17,370	-	-	-
Deferred Inflows of Resources:				
Unavailable revenues	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-
Fund Balances:				
Restricted for:				
Community development projects	-	-	-	-
Public safety	-	-	-	-
Public works	2,347,760	185,244	71,748	-
Capital projects	-	-	-	5,230,740
Unassigned	-	-	-	-
Total Fund Balances	2,347,760	185,244	71,748	5,230,740
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,365,130	\$ 185,244	\$ 71,748	\$ 5,230,740

CITY OF BREA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>Capital Projects Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Storm Drain</u>	<u>Midbury</u>	
Assets:			
Cash and investments	\$ 256,356	\$ 4,799	\$ 14,048,411
Receivables:			
Accounts	-	-	1,217
Taxes	-	-	10,281
Notes and loans	-	-	1,961,167
Due from other governments	-	-	255,903
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 256,356</u>	<u>\$ 4,799</u>	<u>\$ 16,276,979</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ 37,126
Accrued liabilities	-	-	6,182
Due to other governments	-	-	1,748,167
Due to other funds	-	-	74,142
Advances from other funds	-	24,227	24,227
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>-</u>	<u>24,227</u>	<u>1,889,844</u>
Deferred Inflows of Resources:			
Unavailable revenues	-	-	55,324
	<u> </u>	<u> </u>	<u> </u>
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>55,324</u>
Fund Balances:			
Restricted for:			
Community development projects	-	-	2,403,131
Public safety	-	-	370,217
Public works	-	-	6,150,538
Capital projects	256,356	-	5,487,096
Unassigned	<u> </u>	<u> </u>	<u> </u>
	-	(19,428)	(79,171)
Total Fund Balances	<u>256,356</u>	<u>(19,428)</u>	<u>14,331,811</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 256,356</u>	<u>\$ 4,799</u>	<u>\$ 16,276,979</u>

CITY OF BREA

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	Special Revenue Funds			
	Gas Tax	Narcotics Enforcement Asset Seizure	Air Quality Improvement	Park Development
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	950,611	-	55,069	-
Charges for services	-	-	-	426,848
Investment income	26,070	11,112	3,866	3,634
Fines and forfeitures	-	159,827	-	-
Miscellaneous	-	-	-	-
Total Revenues	976,681	170,939	58,935	430,482
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	539,947	-	-
Community development	-	-	-	-
Public works	-	-	-	-
Total Expenditures	-	539,947	-	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	976,681	(369,008)	58,935	430,482
Other Financing Sources (Uses):				
Transfers out	(760,582)	-	-	(599,233)
Total Other Financing Sources (Uses)	(760,582)	-	-	(599,233)
Net Change in Fund Balances	216,099	(369,008)	58,935	(168,751)
Fund Balances, Beginning of Year	1,071,257	739,225	158,880	252,075
Fund Balances, End of Year	\$ 1,287,356	\$ 370,217	\$ 217,815	\$ 83,324

CITY OF BREA

COMBINING STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2016

(CONTINUED)

	Special Revenue Funds			
	Measure M	Affordable Housing Fund	Community Development Block Grant	HOME Program
Revenues:				
Taxes	\$ 912,692	\$ -	\$ -	\$ -
Intergovernmental	-	-	170,207	-
Charges for services	-	-	-	-
Investment income	35,254	44,068	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	98,399	-	-
Total Revenues	947,946	142,467	170,207	-
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Community development	-	50,000	48,181	-
Public works	10,123	-	-	-
Total Expenditures	10,123	50,000	48,181	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	937,823	92,467	122,026	-
Other Financing Sources (Uses):				
Transfers out	(96,271)	-	(130,041)	-
Total Other Financing Sources (Uses)	(96,271)	-	(130,041)	-
Net Change in Fund Balances	841,552	92,467	(8,015)	-
Fund Balances, Beginning of Year	1,199,063	2,227,340	(51,728)	-
Fund Balances, End of Year	\$ 2,040,615	\$ 2,319,807	\$ (59,743)	\$ -

CITY OF BREa

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	Special Revenue Funds			Capital Projects Funds
	Blackstone CFD	La Floresta CFD	Taylor- Morrison CFD	Capital and Mitigation Improvement
Revenues:				
Taxes	\$ 537,800	\$ 125,675	\$ 45,679	\$ -
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Investment income	46,620	2,950	1,152	109,759
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	-	-
Total Revenues	584,420	128,625	46,831	109,759
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Community development	-	-	-	-
Public works	204,178	-	-	-
Total Expenditures	204,178	-	-	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	380,242	128,625	46,831	109,759
Other Financing Sources (Uses):				
Transfers out	-	-	-	(47,661)
Total Other Financing Sources (Uses)	-	-	-	(47,661)
Net Change in Fund Balances	380,242	128,625	46,831	62,098
Fund Balances, Beginning of Year	1,967,518	56,619	24,917	5,168,642
Fund Balances, End of Year	\$ 2,347,760	\$ 185,244	\$ 71,748	\$ 5,230,740

CITY OF BREA

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	Capital Projects Funds		Total Nonmajor Governmental Funds
	Storm Drain	Midbury	
Revenues:			
Taxes	\$ -	\$ 7,694	\$ 1,629,540
Intergovernmental	-	-	1,175,887
Charges for services	-	-	426,848
Investment income	5,352	124	289,961
Fines and forfeitures	-	-	159,827
Miscellaneous	-	-	98,399
Total Revenues	5,352	7,818	3,780,462
Expenditures:			
Current:			
General government	-	477	477
Public safety	-	-	539,947
Community development	-	-	98,181
Public works	-	-	214,301
Total Expenditures	-	477	852,906
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,352	7,341	2,927,556
Other Financing Sources (Uses):			
Transfers out	-	-	(1,633,788)
Total Other Financing Sources (Uses)	-	-	(1,633,788)
Net Change in Fund Balances	5,352	7,341	1,293,768
Fund Balances, Beginning of Year	251,004	(26,769)	13,038,043
Fund Balances, End of Year	\$ 256,356	\$ (19,428)	\$ 14,331,811

CITY OF BREA

**BUDGETARY COMPARISON SCHEDULE
GAS TAX
YEAR ENDED JUNE 30, 2016**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,071,257	\$ 1,071,257	\$ 1,071,257	\$ -
Resources (Inflows):				
Intergovernmental	1,143,848	1,143,848	950,611	(193,237)
Investment income	10,000	10,000	26,070	16,070
Amounts Available for Appropriations	2,225,105	2,225,105	2,047,938	(177,167)
Charges to Appropriations (Outflow):				
Transfers out	2,480,900	2,659,358	760,582	1,898,776
Total Charges to Appropriations	2,480,900	2,659,358	760,582	1,898,776
Budgetary Fund Balance, June 30	\$ (255,795)	\$ (434,253)	\$ 1,287,356	\$ 1,721,609

CITY OF BREA

**BUDGETARY COMPARISON SCHEDULE
NARCOTICS ENFORCEMENT ASSET SEIZURE
YEAR ENDED JUNE 30, 2016**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 739,225	\$ 739,225	\$ 739,225	\$ -
Resources (Inflows):				
Investment income	14,000	14,000	11,112	(2,888)
Fines and forfeitures	150,000	150,000	159,827	9,827
Amounts Available for Appropriations	903,225	903,225	910,164	6,939
Charges to Appropriations (Outflow):				
Public safety	602,793	615,462	539,947	75,515
Total Charges to Appropriations	602,793	615,462	539,947	75,515
Budgetary Fund Balance, June 30	\$ 300,432	\$ 287,763	\$ 370,217	\$ 82,454

CITY OF BREA

**BUDGETARY COMPARISON SCHEDULE
AIR QUALITY IMPROVEMENT
YEAR ENDED JUNE 30, 2016**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 158,880	\$ 158,880	\$ 158,880	\$ -
Resources (Inflows):				
Intergovernmental	44,000	44,000	55,069	11,069
Investment income	1,200	1,200	3,866	2,666
Amounts Available for Appropriations	204,080	204,080	217,815	13,735
Budgetary Fund Balance, June 30	\$ 204,080	\$ 204,080	\$ 217,815	\$ 13,735

CITY OF BREA

BUDGETARY COMPARISON SCHEDULE
 PARK DEVELOPMENT
 YEAR ENDED JUNE 30, 2016

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 252,075	\$ 252,075	\$ 252,075	\$ -
Resources (Inflows):				
Charges for services	-	426,848	426,848	-
Investment income	2,500	2,500	3,634	1,134
Amounts Available for Appropriations	254,575	681,423	682,557	1,134
Charges to Appropriations (Outflow):				
Transfers out	-	633,685	599,233	34,452
Total Charges to Appropriations	-	633,685	599,233	34,452
Budgetary Fund Balance, June 30	\$ 254,575	\$ 47,738	\$ 83,324	\$ 35,586

CITY OF BREA

**BUDGETARY COMPARISON SCHEDULE
MEASURE M
YEAR ENDED JUNE 30, 2016**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,199,063	\$ 1,199,063	\$ 1,199,063	\$ -
Resources (Inflows):				
Taxes	934,069	934,069	912,692	(21,377)
Investment income	5,000	5,000	35,254	30,254
Amounts Available for Appropriations	2,138,132	2,138,132	2,147,009	8,877
Charges to Appropriations (Outflow):				
Public works	27,303	27,303	10,123	17,180
Transfers out	1,300,027	1,310,027	96,271	1,213,756
Total Charges to Appropriations	1,327,330	1,337,330	106,394	1,230,936
Budgetary Fund Balance, June 30	\$ 810,802	\$ 800,802	\$ 2,040,615	\$ 1,239,813

CITY OF BREA

**BUDGETARY COMPARISON SCHEDULE
AFFORDABLE HOUSING FUND
YEAR ENDED JUNE 30, 2016**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 2,227,340	\$ 2,227,340	\$ 2,227,340	\$ -
Resources (Inflows):				
Investment income	35,000	35,000	44,068	9,068
Miscellaneous	95,000	95,000	98,399	3,399
Amounts Available for Appropriations	2,357,340	2,357,340	2,369,807	12,467
Charges to Appropriation (Outflow):				
Community development	-	100,000	50,000	50,000
Total Charges to Appropriations	-	100,000	50,000	50,000
Budgetary Fund Balance, June 30	\$ 2,357,340	\$ 2,257,340	\$ 2,319,807	\$ 62,467

CITY OF BREA

**BUDGETARY COMPARISON SCHEDULE
COMMUNITY DEVELOPMENT BLOCK GRANT
YEAR ENDED JUNE 30, 2016**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ (51,728)	\$ (51,728)	\$ (51,728)	\$ -
Resources (Inflows):				
Intergovernmental	280,440	310,423	170,207	(140,216)
Amounts Available for Appropriations	228,712	258,695	118,479	(140,216)
Charges to Appropriations (Outflow):				
Community development	180,000	209,983	48,181	161,802
Transfers out	100,440	175,157	130,041	45,116
Total Charges to Appropriations	280,440	385,140	178,222	206,918
Budgetary Fund Balance, June 30	\$ (51,728)	\$ (126,445)	\$ (59,743)	\$ 66,702

CITY OF BREA

**BUDGETARY COMPARISON SCHEDULE
BLACKSTONE CFD
YEAR ENDED JUNE 30, 2016**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,967,518	\$ 1,967,518	\$ 1,967,518	\$ -
Resources (Inflows):				
Taxes	357,000	357,000	537,800	180,800
Investment income	27,000	27,000	46,620	19,620
Amounts Available for Appropriations	2,351,518	2,351,518	2,551,938	200,420
Charges to Appropriations (Outflow):				
Public works	253,775	253,775	204,178	49,597
Total Charges to Appropriations	253,775	253,775	204,178	49,597
Budgetary Fund Balance, June 30	\$ 2,097,743	\$ 2,097,743	\$ 2,347,760	\$ 250,017

CITY OF BREA

BUDGETARY COMPARISON SCHEDULE
 LA FLORESTA CFD
 YEAR ENDED JUNE 30, 2016

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 56,619	\$ 56,619	\$ 56,619	\$ -
Resources (Inflows):				
Taxes	100,000	100,000	125,675	25,675
Investment income	3,000	3,000	2,950	(50)
Amounts Available for Appropriations	159,619	159,619	185,244	25,625
Charges to Appropriations (Outflow):				
Public works	2,841	2,841	-	2,841
Total Charges to Appropriations	2,841	2,841	-	2,841
Budgetary Fund Balance, June 30	\$ 156,778	\$ 156,778	\$ 185,244	\$ 28,466

CITY OF BREA

BUDGETARY COMPARISON SCHEDULE
 TAYLOR-MORRISON CFD
 YEAR ENDED JUNE 30, 2016

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 24,917	\$ 24,917	\$ 24,917	\$ -
Resources (Inflows):				
Taxes	16,085	16,085	45,679	29,594
Investment income	200	200	1,152	952
Amounts Available for Appropriations	41,202	41,202	71,748	30,546
Budgetary Fund Balance, June 30	\$ 41,202	\$ 41,202	\$ 71,748	\$ 30,546

CITY OF BREA

**BUDGETARY COMPARISON SCHEDULE
CAPITAL IMPROVEMENTS
YEAR ENDED JUNE 30, 2016**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 14,739,288	\$ 14,739,288	\$ 14,739,288	\$ -
Resources (Inflows):				
Intergovernmental	12,123,901	13,262,035	2,013,203	(11,248,832)
Charges for services	387,000	419,490	1,161,033	741,543
Investment income	200,000	200,000	307,197	107,197
Contributions	1,448,892	1,497,892	2,080	(1,495,812)
Miscellaneous	-	-	38,784	38,784
Transfers in	10,968,606	24,397,718	3,328,333	(21,069,385)
Amounts Available for Appropriations	39,867,687	54,516,423	21,589,918	(32,926,505)
Charges to Appropriations (Outflow):				
General government	360,094	360,094	479,727	(119,633)
Capital outlay	19,103,540	44,178,810	7,090,416	37,088,394
Total Charges to Appropriations	19,463,633	44,538,904	7,570,143	36,968,761
Budgetary Fund Balance, June 30	\$ 20,404,054	\$ 9,977,519	\$ 14,019,775	\$ 4,042,256

CITY OF BREA

**BUDGETARY COMPARISON SCHEDULE
CAPITAL AND MITIGATION IMPROVEMENT
YEAR ENDED JUNE 30, 2016**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 5,168,642	\$ 5,168,642	\$ 5,168,642	\$ -
Resources (Inflows):				
Investment income	-	-	109,759	109,759
Amounts Available for Appropriations	5,168,642	5,168,642	5,278,401	109,759
Charges to Appropriations (Outflow):				
Transfers out	-	4,136,900	47,661	4,089,239
Total Charges to Appropriations	-	4,136,900	47,661	4,089,239
Budgetary Fund Balance, June 30	\$ 5,168,642	\$ 1,031,742	\$ 5,230,740	\$ 4,198,998

CITY OF BREA

BUDGETARY COMPARISON SCHEDULE
 STORM DRAIN
 YEAR ENDED JUNE 30, 2016

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 251,004	\$ 251,004	\$ 251,004	\$ -
Resources (Inflows):				
Investment income	16,000	16,000	5,352	(10,648)
Amounts Available for Appropriations	267,004	267,004	256,356	(10,648)
Budgetary Fund Balance, June 30	\$ 267,004	\$ 267,004	\$ 256,356	\$ (10,648)

CITY OF BREA

BUDGETARY COMPARISON SCHEDULE
MIDBURY
YEAR ENDED JUNE 30, 2016

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ (26,769)	\$ (26,769)	\$ (26,769)	\$ -
Resources (Inflows):				
Taxes	7,718	7,718	7,694	(24)
Investment income	100	100	124	24
Amounts Available for Appropriations	(18,951)	(18,951)	(18,951)	-
Charges to Appropriations (Outflow):				
General government	368	368	477	(109)
Total Charges to Appropriations	368	368	477	(109)
Budgetary Fund Balance, June 30	\$ (19,319)	\$ (19,319)	\$ (19,428)	\$ (109)

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NON-MAJOR PROPRIETARY FUNDS

The ***Urban Runoff Fund*** is used to account for the City's urban runoff operations, which are financed and operated in a manner similar to a private enterprise. The costs (expenses, including depreciation) of providing these services to the general public on a continuing basis are financed or recovered primarily through user charges.

The ***Sanitation Fund*** is used to account for the City's refuse collection and street sweeping operations, which are operated in a manner similar to a private enterprise. User charges finance the operations of this fund.

The ***Information Technology External Support Fund*** is used to account for the operations of the Information Technology Division's contractual information technology services to other agencies. The costs (expenses including depreciation) of providing these services to member cities on a continuing basis are financed or recovered primarily through user charges.

CITY OF BREA

**COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2016**

	Urban Runoff	Sanitation	Information Technology External Support	Total
Assets and Deferred Outflows of Resources				
Assets:				
Current:				
Cash and investments	\$ 503,621	\$ -	\$ 511,372	\$ 1,014,993
Accounts receivable	60,213	611,248	-	671,461
Due from other governments	-	-	359,891	359,891
Total Current Assets	563,834	611,248	871,263	2,046,345
Noncurrent:				
Capital assets - net of accumulated depreciation	3,203	-	-	3,203
Total Noncurrent Assets	3,203	-	-	3,203
Total Assets	567,037	611,248	871,263	2,049,548
Deferred Outflows of Resources:				
Deferred pension related items	33,206	142,047	462,419	637,672
Total Deferred Outflows of Resources	33,206	142,047	462,419	637,672
Total Assets and Deferred Outflows of Resources	\$ 600,243	\$ 753,295	\$ 1,333,682	\$ 2,687,220
Liabilities, Deferred Inflows of Resources and Net Position:				
Liabilities:				
Current:				
Accounts payable	\$ 15,155	\$ 193,630	\$ 5,390	\$ 214,175
Accrued liabilities	3,466	14,802	56,509	74,777
Due to other funds	-	530,167	-	530,167
Accrued compensated absences, due within one year	-	10,850	64,718	75,568
Total Current Liabilities	18,621	749,449	126,617	894,687
Noncurrent:				
Accrued compensated absences, due in more than one year	-	3,616	21,572	25,188
Net pension liability	251,776	1,888,842	1,793,335	3,933,953
Total Noncurrent Liabilities	251,776	1,892,458	1,814,907	3,959,141
Total Liabilities	270,397	2,641,907	1,941,524	4,853,828
Deferred Inflows of Resources:				
Deferred pension related items	70,137	529,442	492,693	1,092,272
Total Deferred Inflows of Resources	70,137	529,442	492,693	1,092,272
Net Position:				
Investment in capital assets	3,203	-	-	3,203
Unrestricted	256,506	(2,418,054)	(1,100,535)	(3,262,083)
Total Net Position	259,709	(2,418,054)	(1,100,535)	(3,258,880)
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 600,243	\$ 753,295	\$ 1,333,682	\$ 2,687,220

CITY OF BREA

COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016

	<u>Urban Runoff</u>	<u>Sanitation</u>	<u>Information Technology External Support</u>	<u>Total</u>
Operating Revenues:				
Charges for services	\$ 393,941	\$ 3,493,549	\$ 1,807,305	\$ 5,694,795
Miscellaneous	8,264	38,099	-	46,363
Total Operating Revenues	402,205	3,531,648	1,807,305	5,741,158
Operating Expenses:				
Personnel services	219,535	562,138	1,176,747	1,958,420
Maintenance and operation	195,832	2,382,933	129,996	2,708,761
Depreciation expense	938	-	-	938
Total Operating Expenses	416,305	2,945,071	1,306,743	4,668,119
Operating Income (Loss)	(14,100)	586,577	500,562	1,073,039
Nonoperating Revenues (Expenses):				
Intergovernmental	-	11,371	-	11,371
Interest revenue	10,492	(9,373)	8,485	9,604
Total Nonoperating Revenues (Expenses)	10,492	1,998	8,485	20,975
Income (Loss) Before Transfers	(3,608)	588,575	509,047	1,094,014
Transfers out	(256)	(550,000)	(50,000)	(600,256)
Changes in Net Position	(3,864)	38,575	459,047	493,758
Net Position:				
Beginning of Year	263,573	(2,456,629)	(1,559,582)	(3,752,638)
End of Fiscal Year	\$ 259,709	\$ (2,418,054)	\$ (1,100,535)	\$ (3,258,880)

CITY OF BREA

**COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016**

	Urban Runoff	Sanitation	Information Technology External Support	Total
Cash Flows from Operating Activities:				
Cash received from customers and users	\$ 398,967	\$ 3,520,963	\$ 1,780,642	\$ 5,700,572
Cash paid to suppliers for goods and services	(200,677)	(2,452,004)	(129,046)	(2,781,727)
Cash paid to employees for services	(226,702)	(596,403)	(1,277,732)	(2,100,837)
Net Cash Provided (Used) by Operating Activities	(28,412)	472,556	373,864	818,008
Cash Flows from Non-Capital Financing Activities:				
Cash transfers out for noncapital financing activities	(256)	(550,000)	(50,000)	(600,256)
Repayment paid to other funds	-	75,446	-	75,446
Grant subsidy	-	11,371	-	11,371
Net Cash Provided (Used) by Non-Capital Financing Activities	(256)	(463,183)	(50,000)	(513,439)
Cash Flows from Investing Activities:				
Interest received	10,491	(9,373)	8,485	9,603
Net Cash Provided (Used) by Investing Activities	10,491	(9,373)	8,485	9,603
Net Increase (Decrease) in Cash and Cash Equivalents	(18,177)	-	332,349	314,172
Cash and Cash Equivalents at Beginning of Year	521,798	-	179,023	700,821
Cash and Cash Equivalents at End of Year	\$ 503,621	\$ -	\$ 511,372	\$ 1,014,993
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ (14,100)	\$ 586,577	\$ 500,562	\$ 1,073,039
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:				
Depreciation	938	-	-	938
(Increase) decrease in accounts receivable	(3,238)	(10,685)	-	(13,923)
(Increase) decrease in due from other governments	-	-	(26,663)	(26,663)
Increase (decrease) in accounts payable	(4,845)	(69,071)	950	(72,966)
Increase (decrease) in accrued liabilities	1,385	1,896	25,481	28,762
Increase (decrease) in compensated absences	-	421	(7,379)	(6,958)
Increase (decrease) in net pension liability	(8,552)	(36,582)	(119,087)	(164,221)
Total Adjustments	(14,312)	(114,021)	(126,698)	(255,031)
Net Cash Provided (Used) by Operating Activities	\$ (28,412)	\$ 472,556	\$ 373,864	\$ 818,008

Non-Cash Investing, Capital, and Financing Activities:

There was no non-cash investing, capital or financing activities during fiscal year 2015-2016.

INTERNAL SERVICE FUNDS

The ***Risk Management Fund*** is used to account for costs of operating a self-insurance program for general liability, workers' compensation, long-term disability and unemployment compensation. Such costs to other departments are billed at a predetermined rate set annually during the budget process.

The ***Vehicle Maintenance Fund*** is used to account for the costs of operating a maintenance facility for automotive equipment used by other City departments. Such costs to other departments are billed at a predetermined cost per mile charge that includes depreciation. This charge is set annually during the budget process. The Vehicle Maintenance Fund is responsible for financing replacement vehicles, as necessary.

The ***Building Occupancy Fund*** is used to account for costs of operating a building maintenance program for City facilities. Such costs to other departments are billed at a predetermined rate set annually during the budget process.

CITY OF BREA

**COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2016**

	<u>Risk Management</u>	<u>Vehicle Maintenance</u>	<u>Building Occupancy</u>	<u>Total</u>
Assets:				
Current:				
Cash and investments	\$ 4,240,995	\$ 1,206,730	\$ 364,213	\$ 5,811,938
Receivables:				
Accounts receivable	5,364	8,344	-	13,708
Total Current Assets	4,246,359	1,215,074	364,213	5,825,646
Noncurrent:				
Advances to other funds	1,440,795	-	-	1,440,795
Capital assets - net of accumulated depreciation	-	4,342,424	1,576,490	5,918,914
Total Noncurrent Assets	1,440,795	4,342,424	1,576,490	7,359,709
Total Assets	5,687,154	5,557,498	1,940,703	13,185,355
Deferred Outflows of Resources:				
Deferred pension related items	62,106	194,315	228,750	485,171
Total Deferred Outflows of Resources	62,106	194,315	228,750	485,171
Total Assets & Deferred Outflows of Resources	\$ 5,749,260	\$ 5,751,813	\$ 2,169,453	\$ 13,670,526
Liabilities:				
Current:				
Accounts payable	\$ 423,369	\$ 27,765	\$ 110,251	\$ 561,385
Accrued liabilities	6,839	21,748	26,462	55,049
Accrued interest	-	-	5,079	5,079
Accrued compensated absences, due within one year	-	25,007	32,896	57,903
Accrued claims and judgments, due within one year	2,397,286	-	-	2,397,286
Capital leases, due within one year	-	-	160,784	160,784
Total Current Liabilities	2,827,494	74,520	335,472	3,237,486
Noncurrent:				
Accrued compensated absences, due in more than one year	-	8,336	10,965	19,301
Accrued claims and judgments, due in more than one year	1,823,634	-	-	1,823,634
Net pension liability	306,429	1,053,202	1,107,305	2,466,936
Capital leases, due in more than one year	-	-	168,315	168,315
Total Noncurrent Liabilities	2,130,063	1,061,538	1,286,585	4,478,186
Total Liabilities	4,957,557	1,136,058	1,622,057	7,715,672
Deferred Inflows of Resources:				
Deferred pension related items	84,702	291,707	305,946	682,355
Total Deferred Inflows of Resources	84,702	291,707	305,946	682,355
Net Position:				
Net investment in capital assets	-	4,342,424	1,247,391	5,589,815
Unrestricted	707,001	(18,376)	(1,005,941)	(317,316)
Total Net Position	707,001	4,324,048	241,450	5,272,499
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 5,749,260	\$ 5,751,813	\$ 2,169,453	\$ 13,670,526

CITY OF BREA

COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2016

	<u>Risk Management</u>	<u>Vehicle Maintenance</u>	<u>Building Occupancy</u>	<u>Total</u>
Operating Revenues:				
Charge for services	\$ 2,908,422	\$ 2,173,294	\$ 2,455,039	\$ 7,536,755
Miscellaneous	1,311,437	89,880	44,170	1,445,487
Total Operating Revenues	4,219,859	2,263,174	2,499,209	8,982,242
Operating Expenses:				
Personnel services	170,093	555,244	640,501	1,365,838
Maintenance and operation	1,011,540	956,066	1,560,243	3,527,849
Claims and judgments	3,348,671	-	-	3,348,671
Depreciation expense	-	624,928	106,195	731,123
Total Operating Expenses	4,530,304	2,136,238	2,306,939	8,973,481
Operating Income (Loss)	(310,445)	126,936	192,270	8,761
Nonoperating Revenues (Expenses):				
Intergovernmental	-	-	7,954	7,954
Interest revenue	85,614	26,453	7,663	119,730
Interest expense	-	-	(18,221)	(18,221)
Gain (loss) on disposal of capital assets	-	73,987	-	73,987
Total Nonoperating Revenues (Expenses)	85,614	100,440	(2,604)	183,450
Income (Loss) Before Transfers	(224,831)	227,376	189,666	192,211
Transfers in	-	238,250	-	238,250
Transfers out	(100,000)	(49,175)	(50,000)	(199,175)
Changes in Net Position	<u>\$ (324,831)</u>	<u>\$ 416,451</u>	<u>\$ 139,666</u>	<u>\$ 231,286</u>
Net Position:				
Beginning of Year, as originally reported	\$ 1,031,832	\$ 3,840,665	\$ (349,311)	\$ 4,523,186
Restatements	-	66,932	451,095	518,027
Beginning of Fiscal Year, as restated	1,031,832	3,907,597	101,784	5,041,213
Changes in Net Position	(324,831)	416,451	139,666	231,286
End of Fiscal Year	\$ 707,001	\$ 4,324,048	\$ 241,450	\$ 5,272,499

CITY OF BREA

**COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2016**

	Risk Management	Vehicle Maintenance	Building Occupancy	Total
Cash Flows from Operating Activities:				
Cash received from customers and users	\$ 4,273,055	\$ 2,645,482	\$ 2,499,209	\$ 9,417,746
Cash paid to suppliers for goods and services	(581,445)	(990,845)	(1,596,143)	(3,168,433)
Cash paid to employees for services	(3,534,758)	(602,146)	(703,592)	(4,840,496)
Net Cash Provided (Used) by Operating Activities	156,852	1,052,491	199,474	1,408,817
Cash Flows from Non-Capital Financing Activities:				
Cash transfers out for noncapital financing activities	(100,000)	(49,175)	(50,000)	(199,175)
Cash transfers in for noncapital financing activities	-	238,250	-	238,250
Advances received from other funds	572,498	-	-	572,498
Grant subsidy	-	-	7,954	7,954
Net Cash Provided (Used) by Non-Capital Financing Activities	472,498	189,075	(42,046)	619,527
Cash Flows from Capital and Related Financing Activities:				
Acquisition and construction of capital assets	-	(1,451,384)	(195,989)	(1,647,373)
Proceeds from sales of capital assets	-	108,777	-	108,777
Principal paid on capital debt	-	-	(153,591)	(153,591)
Interest paid on capital debt	-	-	(20,592)	(20,592)
Net Cash Provided (Used) by Capital and Related Financing Activities	-	(1,342,607)	(370,172)	(1,712,779)
Cash Flows from Investing Activities:				
Interest received	85,614	26,453	7,663	119,730
Net Cash Provided (Used) by Investing Activities	85,614	26,453	7,663	119,730
Net Increase (Decrease) in Cash and Cash Equivalents	714,964	(74,588)	(205,081)	435,295
Cash and Cash Equivalents at Beginning of Year	3,526,031	1,281,318	569,294	5,376,643
Cash and Cash Equivalents at End of Year	\$ 4,240,995	\$ 1,206,730	\$ 364,213	\$ 5,811,938
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ (310,445)	\$ 126,936	\$ 192,270	\$ 8,761
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:				
Depreciation	-	624,928	106,195	731,123
(Increase) decrease in accounts receivable	46,149	(3,827)	-	42,322
(Increase) decrease in deposits receivable	-	380,515	-	380,515
(Increase) decrease in due from other governments	7,047	5,620	-	12,667
Increase (decrease) in accounts payable	414,223	(42,505)	(45,676)	326,042
Increase (decrease) in accrued liabilities	3,278	7,726	9,776	20,780
Increase (decrease) in claims and judgments	12,594	-	-	12,594
Increase (decrease) in compensated absences	-	3,140	(4,181)	(1,041)
Increase (decrease) in net pension liability	(15,994)	(50,042)	(58,910)	(124,946)
Total Adjustments	467,297	925,555	7,204	1,400,056
Net Cash Provided (Used) by Operating Activities	\$ 156,852	\$ 1,052,491	\$ 199,474	\$ 1,408,817

Non-Cash Investing, Capital, and Financing Activities:

There was no non-cash investing, capital or financing activities during fiscal year 2015-2016.

FIDUCIARY FUNDS

The ***Bexley Assessment District 2001-1 Fund*** is an Agency Fund used to account for the collection and payment of neighborhood sewer improvements.

The ***Hillside Open Space Education Coalition*** is an Agency Fund used to account for the funds received to educate the public as to the importance of hillside preservation.

The ***Imperial Center East Community Facilities District 1990-1 Fund*** is an Agency Fund used to account for the collection and payment to the holders of the 1999 Special Tax Note.

The ***Downtown Community Facilities District 1996-1 Fund*** is an Agency Fund used to account for the collection and payment to the holders of the 2014 Special Tax Bonds.

The ***Olinda Heights Community Facilities District 1997-1 Fund*** is an Agency Fund used to account for the collection and payment to the holders of the 2005 Special Tax Bonds.

The ***Brea Plaza Community Facilities District 2008-02 Fund*** is an Agency Fund used to account for the collection and payment to the holders of the 2009 Special Tax Bonds.

The ***Integrated Law and Justice Agency of Orange County (ILJAOC) Fund*** is an Agency Fund used to account for the collection and payment related to a joint venture agreement with several other public agencies of Orange County. The City acts as a treasurer for the ILJAOC.

CITY OF BREA

COMBINING BALANCE SHEET
 ALL AGENCY FUNDS
 JUNE 30, 2016

	<u>Bexley</u>	<u>Hillside Open Space Education Coalition</u>	<u>Imperial Center East</u>	<u>Downtown Community Facilities District</u>
Assets:				
Cash and investments	\$ -	\$ 536,842	\$ -	\$ 263,607
Receivables:				
Accounts	19,111	-	-	-
Taxes	-	-	-	-
Due from other governments	-	-	-	-
Restricted assets:				
Cash and investments with fiscal agents	-	-	-	163,087
Total Assets	<u>\$ 19,111</u>	<u>\$ 536,842</u>	<u>\$ -</u>	<u>\$ 426,694</u>
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ 1,205
Accrued liabilities	-	536,842	-	426
Due to City of Brea	19,111	-	-	-
Due to external parties/other agencies	-	-	-	425,063
Total Liabilities	<u>\$ 19,111</u>	<u>\$ 536,842</u>	<u>\$ -</u>	<u>\$ 426,694</u>

CITY OF BREA

COMBINING BALANCE SHEET
 ALL AGENCY FUNDS
 JUNE 30, 2016

	<u>Olinda Heights</u>	<u>Brea Plaza</u>	<u>ILJAOC</u>	<u>Total</u>
Assets:				
Cash and investments	\$ 336,624	\$ 390,354	\$ 2,933,494	\$ 4,460,921
Receivables:				
Accounts	-	-	-	19,111
Taxes	11,899	-	-	11,899
Due from other governments	-	-	60,756	60,756
Restricted assets:				
Cash and investments with fiscal agents	467,302	844,452	-	1,474,841
Total Assets	<u>\$ 815,825</u>	<u>\$ 1,234,806</u>	<u>\$ 2,994,250</u>	<u>\$ 6,027,528</u>
Liabilities:				
Accounts payable	\$ 33	\$ 59	\$ 222,056	\$ 223,353
Accrued liabilities	1,066	586	-	538,920
Due to City of Brea	-	-	-	19,111
Due to external parties/other agencies	814,726	1,234,161	2,772,194	5,246,144
Total Liabilities	<u>\$ 815,825</u>	<u>\$ 1,234,806</u>	<u>\$ 2,994,250</u>	<u>\$ 6,027,528</u>

CITY OF BREA

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 ALL AGENCY FUNDS
 YEAR ENDED JUNE 30, 2016

	Balance 7/1/2015	Additions	Deductions	Balance 6/30/2016
<u>Bexley</u>				
Assets:				
Receivables:				
Accounts	\$ 21,361	\$ 17,677	\$ 19,927	\$ 19,111
Taxes	835	-	835	-
Total Assets	<u>\$ 22,196</u>	<u>\$ 17,677</u>	<u>\$ 20,762</u>	<u>\$ 19,111</u>
Liabilities:				
Due to City of Brea	\$ 22,196	\$ 27,529	\$ 30,614	\$ 19,111
Total Liabilities	<u>\$ 22,196</u>	<u>\$ 27,529</u>	<u>\$ 30,614</u>	<u>\$ 19,111</u>
<u>Hillside Open Space Education Coalition</u>				
Assets:				
Cash and investments	\$ 525,684	\$ 11,209	\$ 51	\$ 536,842
Total Assets	<u>\$ 525,684</u>	<u>\$ 11,209</u>	<u>\$ 51</u>	<u>\$ 536,842</u>
Liabilities:				
Accrued liabilities	\$ 525,684	\$ 11,209	\$ 51	\$ 536,842
Total Liabilities	<u>\$ 525,684</u>	<u>\$ 11,209</u>	<u>\$ 51</u>	<u>\$ 536,842</u>
<u>Imperial Center East</u>				
Assets:				
Cash and investments	\$ 126,955	\$ 130,006	\$ 256,961	\$ -
Total Assets	<u>\$ 126,955</u>	<u>\$ 130,006</u>	<u>\$ 256,961</u>	<u>\$ -</u>
Liabilities:				
Accrued liabilities	\$ 126,955	\$ 148,413	\$ 275,368	\$ -
Total Liabilities	<u>\$ 126,955</u>	<u>\$ 148,413</u>	<u>\$ 275,368</u>	<u>\$ -</u>
<u>Downtown Community Facilities District</u>				
Assets:				
Cash and investments	\$ 260,890	\$ 582,770	\$ 580,053	\$ 263,607
Restricted assets:				
Cash and investments with fiscal agents	163,019	230,350	230,282	163,087
Total Assets	<u>\$ 423,909</u>	<u>\$ 813,120</u>	<u>\$ 810,335</u>	<u>\$ 426,694</u>
Liabilities:				
Accounts payable	\$ 1,048	\$ 18,437	\$ 18,280	\$ 1,205
Accrued liabilities	602	426	602	426
Due to external parties/other agencies	422,259	261,275	258,471	425,063
Total Liabilities	<u>\$ 423,909</u>	<u>\$ 280,138</u>	<u>\$ 277,353</u>	<u>\$ 426,694</u>

CITY OF BREA

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 ALL AGENCY FUNDS
 YEAR ENDED JUNE 30, 2016**

(CONTINUED)

	Balance 7/1/2015	Additions	Deductions	Balance 6/30/2016
<u>Olinda Heights</u>				
Assets:				
Cash and investments	\$ 303,775	\$ 1,126,982	\$ 1,094,133	\$ 336,624
Receivables:				
Taxes	8,212	11,899	8,212	11,899
Restricted assets:				
Cash and investments with fiscal agents	455,008	457,887	445,593	467,302
Total Assets	\$ 766,995	\$ 1,596,768	\$ 1,547,938	\$ 815,825
Liabilities:				
Accounts payable	\$ 31	\$ 9,587	\$ 9,585	\$ 33
Accrued liabilities	1,504	1,066	1,504	1,066
Due to external parties/other agencies	765,460	528,376	479,110	814,726
Total Liabilities	\$ 766,995	\$ 539,029	\$ 490,199	\$ 815,825
<u>Brea Plaza</u>				
Assets:				
Cash and investments	\$ 375,754	\$ 1,371,164	\$ 1,356,564	\$ 390,354
Restricted assets:				
Cash and investments with fiscal agents	822,531	657,347	635,426	844,452
Total Assets	\$ 1,198,285	\$ 2,028,511	\$ 1,991,990	\$ 1,234,806
Liabilities:				
Accounts payable	\$ 59	\$ -	\$ -	\$ 59
Accrued liabilities	702	586	702	586
Due to external parties/other agencies	1,197,524	690,482	653,845	1,234,161
Total Liabilities	\$ 1,198,285	\$ 691,068	\$ 654,547	\$ 1,234,806
<u>ILJAO</u>				
Assets:				
Cash and investments	\$ 2,512,171	\$ 5,083,124	\$ 4,661,801	\$ 2,933,494
Receivables:				
Accounts	12,240	-	12,240	-
Due from other governments	17,329	1,591,940	1,548,513	60,756
Total Assets	\$ 2,541,740	\$ 6,675,064	\$ 6,222,554	\$ 2,994,250
Liabilities:				
Accounts payable	\$ 56,354	\$ 1,367,771	\$ 1,202,069	\$ 222,056
Due to external parties/other agencies	2,485,386	2,669,647	2,382,839	2,772,194
Total Liabilities	\$ 2,541,740	\$ 4,037,418	\$ 3,584,908	\$ 2,994,250

CITY OF BREA

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 ALL AGENCY FUNDS
 YEAR ENDED JUNE 30, 2016

	<u>Balance 7/1/2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/2016</u>
<u>Total - All Agency Funds</u>				
Assets:				
Cash and investments	\$ 4,105,229	\$ 8,305,255	\$ 7,949,563	\$ 4,460,921
Receivables:				
Accounts	33,601	17,677	32,167	19,111
Taxes	9,047	11,899	9,047	11,899
Due from other governments	17,329	1,591,940	1,548,513	60,756
Restricted assets:				
Cash and investments with fiscal agents	1,440,558	1,345,584	1,311,301	1,474,841
Total Assets	<u>\$ 5,605,764</u>	<u>\$ 11,272,355</u>	<u>\$ 10,850,591</u>	<u>\$ 6,027,528</u>
Liabilities:				
Accounts payable	\$ 57,492	\$ 1,395,795	\$ 1,229,934	\$ 223,353
Accrued liabilities	655,447	161,700	278,227	538,920
Due to City of Brea	22,196	27,529	30,614	19,111
Due to external parties/other agencies	4,870,629	4,149,780	3,774,265	5,246,144
Total Liabilities	<u>\$ 5,605,764</u>	<u>\$ 5,734,804</u>	<u>\$ 5,313,040</u>	<u>\$ 6,027,528</u>

STATISTICAL SECTION

This part of the City of Brea’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City’s overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the city’s financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the factors affecting the city’s ability to generate its property and sales taxes.

Debt Capacity

These schedules present information to help the reader assess the affordability of the city’s current levels of outstanding debt and the city’s ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the city’s financial activities take place.

Operating Information

These schedules contain information about the city’s operations and resources to help the reader understand how the city’s financial information relates to the services the city provides and the activities it performs.

Sources: *Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.*

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CITY OF BREA

**NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(Accrual basis of accounting)**

	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13	Fiscal Year 2013-14	Fiscal Year 2014-15	Fiscal Year 2015-16
Governmental Activities										
Net investment in capital assets	\$ 43,121,285	\$ 44,751,794	\$ 43,350,936	\$ 49,313,284	\$ 40,774,347	\$ 36,846,317	\$ 165,031,654	\$ 164,750,324	\$ 158,976,819	\$ 165,493,107
Restricted	39,185,059	43,477,959	46,271,092	62,325,348	73,800,755	26,596,796	53,379,627	48,418,876	56,883,753	54,409,370
Unrestricted	(35,249,892)	(25,459,519)	(21,203,642)	(34,372,602)	(33,277,968)	157,129,179	29,028,179	30,997,188	(64,027,907)	(57,997,713)
Total governmental activities net position	\$ 47,056,452	\$ 62,770,234	\$ 68,418,386	\$ 77,266,030	\$ 81,297,134	\$ 220,572,292	\$ 247,439,460	\$ 244,166,388	\$ 151,832,665	\$ 161,904,764
Business-type Activities										
Net investment of capital assets	\$ 39,952,397	\$ 42,960,060	\$ 44,774,355	\$ 45,690,842	\$ 27,869,296	\$ 36,107,809	\$ 36,804,832	\$ 31,396,904	\$ 33,367,826	\$ 33,174,074
Restricted	2,613,592	2,623,071	1,885,573	-	7,028,848	5,217,299	7,411,252	5,213,677	6,203,193	6,165,829
Unrestricted	7,457,416	6,930,527	6,368,112	7,101,987	13,592,110	7,695,077	6,023,885	19,603,041	8,603,346	12,637,920
Total business-type activities net position	\$ 50,023,405	\$ 52,513,658	\$ 53,028,040	\$ 52,792,829	\$ 48,490,254	\$ 49,020,185	\$ 50,239,969	\$ 56,213,622	\$ 48,174,365	\$ 51,977,823
Primary Government										
Net investment of capital assets	\$ 83,073,682	\$ 87,711,854	\$ 88,125,291	\$ 95,004,126	\$ 68,643,643	\$ 72,954,126	\$ 201,836,486	\$ 196,147,228	\$ 192,344,645	\$ 198,667,181
Restricted	41,798,651	46,101,030	48,156,665	62,325,348	80,829,603	31,814,095	60,790,879	53,632,553	63,086,946	60,575,199
Unrestricted	(27,792,476)	(18,528,992)	(14,835,530)	(27,270,615)	(19,685,858)	164,824,256	35,052,064	50,600,229	(55,424,561)	(45,359,793)
Total primary government net position	\$ 97,079,857	\$ 115,283,892	\$ 121,446,426	\$ 130,058,859	\$ 129,787,388	\$ 269,592,477	\$ 297,679,429	\$ 300,380,010	\$ 200,007,030	\$ 213,882,587

CITY OF BREA

**CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(Accrual basis of accounting)**

	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13	Fiscal Year 2013-14	Fiscal Year 2014-15	Fiscal Year 2015-16
Expenses:										
Governmental activities:										
General government	\$ 12,437,009	\$ 10,179,967	\$ 11,501,616	\$ 8,516,391	\$ 7,530,948	\$ 9,747,589	\$ 7,495,185	\$ 7,352,190	\$ 7,569,787	\$ 7,297,652
Public safety	30,785,379	34,611,575	36,993,799	35,756,811	36,221,221	39,166,833	35,849,288	31,408,789	32,409,727	31,372,155
Community Development	10,488,918	7,623,158	9,214,020	17,213,948	11,056,047	2,312,830	2,615,088	5,201,569	2,836,727	3,010,978
Community services	6,316,665	6,659,386	6,907,228	6,154,495	6,106,128	6,623,220	6,622,332	7,023,682	7,441,012	7,267,829
Public Works	4,033,064	8,836,925	10,608,001	7,075,598	19,991,034	15,240,604	9,718,841	10,092,864	12,367,078	13,544,061
Interest on long-term debt	9,379,808	9,142,551	8,779,300	9,607,504	9,228,093	2,414,053	501,265	458,021	435,772	435,207
Total governmental activities expenses	73,440,843	77,053,562	84,003,964	84,324,547	90,133,471	75,505,129	62,801,999	61,537,115	63,060,103	62,927,882
Business-type activities:										
Urban run-off	200,158	174,302	226,256	284,692	244,479	269,518	288,517	310,717	388,493	415,328
Water utility	11,220,538	11,195,152	11,272,767	14,025,354	14,067,772	15,512,551	14,883,425	16,048,442	15,752,822	14,085,433
Sewer utility	698,152	758,968	1,307,733	1,073,775	1,080,134	1,227,087	1,353,552	1,525,820	1,575,738	1,590,905
Sanitation	2,289,888	2,348,281	2,444,076	2,486,588	2,565,324	2,706,954	2,789,289	2,849,515	2,910,840	2,937,684
Information Technology External Support	898,850	979,157	1,329,165	1,958,140	1,230,704	1,269,800	1,271,540	1,228,919	1,240,462	1,312,899
Total business-type activities expenses	15,307,586	15,455,850	16,579,997	19,828,549	19,188,413	20,985,910	20,586,323	21,963,413	21,868,355	20,342,249
Total primary government expenses	\$ 88,748,429	\$ 92,509,412	\$ 100,583,961	\$ 104,153,096	\$ 109,321,884	\$ 96,491,039	\$ 83,388,322	\$ 83,500,528	\$ 84,928,458	\$ 83,270,131
Program Revenues:										
Governmental activities:										
Charges for services:										
General government	\$ 604,856	\$ 1,036,421	\$ 1,013,985	\$ 730,875	\$ 433,932	\$ 2,177,602	\$ 1,890,749	\$ 1,631,098	\$ 1,663,401	\$ 1,765,913
Public safety	11,192,257	12,201,407	12,624,891	13,651,052	12,878,402	13,155,339	7,315,925	1,533,213	1,376,553	1,282,646
Community Development	1,041,275	783,633	21,926	604,565	567,237	583,339	1,535,351	1,092,041	998,141	1,577,964
Community services	2,856,575	3,015,379	3,074,717	3,304,933	2,248,603	1,737,725	3,638,056	4,672,523	5,640,412	3,021,505
Public Works	553,802	484,085	490,302	469,533	2,262,329	1,955,188	1,688,142	1,909,409	1,706,630	1,257,168
Operating contributions and grants	6,972,249	8,279,190	6,362,517	5,111,923	3,542,733	6,364,114	4,955,213	3,502,773	3,238,366	3,399,311
Capital contributions and grants	5,480,879	6,941,249	6,761,134	15,640,554	4,501,863	8,472,778	3,495,573	1,187,623	3,908,617	2,336,984
Total governmental activities program revenues	28,701,893	32,741,364	30,349,472	39,513,435	26,435,099	34,446,085	24,519,009	15,528,680	18,532,120	14,641,491
Business-type activities:										
Charges for services:										
Urban run-off	196,799	314,762	329,143	333,760	351,123	377,950	361,321	380,256	384,523	402,205
Water utility	10,302,495	10,456,507	10,565,259	11,344,697	11,834,601	14,085,133	16,401,415	18,813,373	18,242,242	16,520,362
Sewer utility	1,443,307	1,776,075	1,875,014	1,894,176	2,008,507	1,932,161	2,018,405	2,136,760	2,141,422	2,236,813
Sanitation	2,734,180	2,844,356	2,959,536	3,037,508	3,138,125	3,158,430	3,199,135	3,317,183	3,431,013	3,531,648
Information Technology External Support	759,967	1,026,609	1,679,249	1,546,020	1,642,756	1,676,577	1,499,019	1,472,730	1,532,097	1,807,305
Operating contributions and grants	-	-	-	-	11,323	11,323	11,323	11,371	-	11,371
Capital contributions and grants	358,240	192,527	214,182	389,905	-	-	-	1,209,000	1,521,000	-
Total business-type activities program revenues	15,794,988	16,610,836	17,622,383	18,546,066	18,986,435	21,241,574	23,490,618	27,340,673	27,252,297	24,509,704
Primary government program revenues	\$ 44,496,881	\$ 49,352,200	\$ 47,971,855	\$ 58,059,501	\$ 45,421,534	\$ 55,687,659	\$ 48,009,627	\$ 42,869,353	\$ 45,784,417	\$ 39,151,195

CITY OF BREa

FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS

(Modified accrual basis of accounting)

	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11 ¹	Fiscal Year 2011-12 ²	Fiscal Year 2012-13 ³	Fiscal Year 2013-14	Fiscal Year 2014-15	Fiscal Year 2015-16
General Fund										
Reserved	\$ 2,669,465	\$ 2,322,137	\$ 1,380,677	\$ 785,545	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	19,727,910	19,831,412	20,855,888	21,339,180	-	-	-	-	-	-
Nonspendable	-	-	-	-	362,049	1,580,778	1,675,150	1,096,665	856,591	615,605
Restricted	-	-	-	-	870,294	926,483	1,191,585	1,161,494	1,392,800	7,228,012
Committed	-	-	-	-	7,048,285	6,546,809	7,496,895	8,649,210	8,616,218	9,091,623
Assigned	-	-	-	-	798,915	590,613	667,696	800,857	573,064	590,815
Unassigned	-	-	-	-	16,998,367	21,075,761	21,224,287	21,046,657	23,586,834	19,374,873
Total general fund	\$ 22,397,375	\$ 22,153,549	\$ 22,236,565	\$ 22,124,725	\$ 26,077,910	\$ 30,720,444	\$ 32,255,613	\$ 32,754,883	\$ 35,025,507	\$ 36,900,928
All Other Governmental Funds										
Reserved	\$ 39,552,796	\$ 38,414,600	\$ 28,011,213	\$ 47,477,075	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	13,300,481	8,441,729	10,753,310	9,623,245	-	-	-	-	-	-
Capital projects funds	22,022,416	17,893,745	32,341,656	22,796,432	-	-	-	-	-	-
Debt service funds	16,667,790	18,483,272	17,927,243	12,049,980	-	-	-	-	-	-
Nonspendable	-	-	-	-	21,711,076	-	-	18,212,052	18,067,123	-
Restricted	-	-	-	-	70,255,597	25,670,313	52,188,042	29,045,330	28,721,740	47,181,358
Assigned	-	-	-	-	9,915,996	1,705,413	-	-	-	-
Unassigned	-	-	-	-	(335,374)	(54,141)	(144,652)	(89,971)	(78,497)	(79,171)
Total all other governmental funds	\$ 91,543,483	\$ 83,233,346	\$ 89,033,422	\$ 91,946,732	\$ 101,547,295	\$ 27,321,585	\$ 52,043,390	\$ 47,167,411	\$ 46,710,366	\$ 47,102,187

¹ During the fiscal year ended June 30, 2011, the City adopted GASB Statement 54 which established new categories for fund balance.

² During the fiscal year ended June 30, 2012, the assets, liabilities (current and long-term debt obligations) and fund balances of the former Brea Redevelopment Agency were transferred to the Successor Agency on February 1, 2012, as a result of the dissolution of redevelopment agencies in California.

³ During the fiscal year ended June 30, 2013, the Successor Agency transferred to the City of Brea the housing assets of the former Brea Redevelopment Agency.

CITY OF BREA

CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Modified accrual basis of accounting)

	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13	Fiscal Year 2013-14	Fiscal Year 2014-15	Fiscal Year 2015-16
Revenues:										
Taxes	\$ 57,844,388	\$ 58,184,372	\$ 56,253,190	\$ 55,174,409	\$ 53,658,443	\$ 52,965,161	\$ 33,464,585	\$ 35,621,119	\$ 37,453,770	\$ 40,526,309
Licenses and permits	414,587	389,220	496,386	468,491	502,449	468,154	485,113	608,664	645,054	782,250
Intergovernmental	3,762,077	8,114,101	6,208,976	3,678,295	9,065,309	9,057,154	7,391,599	5,921,198	7,992,057	10,535,171
Contributions	-	-	-	13,400,000	-	6,012,024	2,299,568	199,811	497,304	2,080
Charges for services	13,524,516	13,946,450	15,041,718	14,754,248	17,578,136	16,383,685	12,386,985	7,416,279	8,125,141	5,451,452
Use of money and property ¹	7,393,552	7,647,945	5,219,651	3,833,071	3,625,103	3,212,863	1,797,849	2,580,210	2,379,065	2,778,480
Fines and forfeitures	1,359,796	2,064,038	1,834,868	2,160,058	1,823,981	1,811,929	1,500,354	1,067,593	842,001	790,247
Miscellaneous	2,509,005	2,549,669	2,612,448	2,566,836	3,431,088	5,032,030	5,377,484	2,907,555	3,025,883	2,852,006
Total revenues	86,807,921	92,895,795	87,667,237	96,035,408	89,684,509	94,943,000	64,703,537	56,322,429	60,960,275	63,717,995
Expenditures:										
General Government	8,514,794	6,680,795	7,125,057	6,302,472	6,199,044	6,889,583	5,569,582	5,479,851	5,635,476	5,751,038
Public Safety	32,344,220	34,381,768	36,548,783	35,669,855	34,916,663	36,925,686	35,270,155	31,461,089	31,340,804	33,095,380
Development Services ²	8,122,315	7,568,746	9,177,580	5,177,066	-	-	-	-	-	-
Community Development ²	-	-	-	-	6,581,513	2,213,502	2,669,989	5,206,914	2,853,942	3,191,325
Community Services	5,729,198	5,982,070	6,470,313	6,108,153	5,808,160	5,930,685	6,141,746	6,450,201	6,750,909	7,048,955
Maintenance Services ²	3,765,916	4,299,500	6,935,005	4,201,954	-	-	-	-	-	-
Public Works ²	-	-	-	-	4,550,487	4,715,759	4,769,385	4,925,155	5,200,858	5,456,277
Capital Outlay	6,940,525	22,321,493	7,601,076	13,152,533	26,027,011	12,901,819	6,896,432	7,350,289	8,129,441	9,372,430
Debt service:										
Principal retirement	7,485,660	7,716,246	7,268,934	8,476,465	8,402,943	9,021,235	368,460	350,000	370,000	618,132
Interest and fiscal charges	8,968,007	8,800,953	7,900,652	8,899,460	8,980,763	4,246,122	460,878	439,402	416,792	420,772
Debt issuance costs	-	-	720,002	145,961	649,830	-	-	-	-	-
Pass-through agreement payments	2,449,524	2,193,506	2,564,792	3,437,854	2,537,558	457,812	-	-	-	-
SERAF payment	-	-	-	8,983,766	1,849,599	-	-	-	-	-
Total expenditures	84,320,159	99,945,077	92,312,194	100,555,539	106,503,571	83,302,203	62,146,627	61,662,901	60,698,222	64,954,309
Excess (deficiency) of revenues over (under) expenditures	2,487,762	(7,049,282)	(4,644,957)	(4,520,131)	(16,819,062)	11,640,797	2,556,910	(5,340,472)	262,053	(1,236,314)
Other Financing Sources (Uses):										
Transfers in	17,112,729	31,616,075	27,097,193	23,268,409	33,603,347	11,074,821	6,904,709	5,890,552	6,507,993	4,378,333
Transfers out	(18,771,512)	(33,120,756)	(25,761,520)	(23,361,808)	(28,816,796)	(10,207,113)	(4,733,798)	(4,934,249)	(4,956,467)	(2,826,881)
Sale of capital assets	-	-	-	-	-	-	6,850	7,460	-	-
Capital leases	1,782,000	-	327,376	-	-	-	-	-	-	1,952,104
Long-term debt issued	-	-	20,925,000	7,415,000	38,594,323	-	-	-	-	-
Refunded debt redeemed	-	-	(12,060,000)	-	(13,185,000)	-	-	-	-	-
Bond premium	-	-	-	-	351,694	-	-	-	-	-
Bond discount	-	-	-	(174,757)	(174,757)	-	-	-	-	-
Total other financing sources (uses)	123,217	(1,504,681)	10,528,049	7,321,601	30,372,811	867,708	2,177,761	963,763	1,551,526	3,503,556
Extraordinary gain on dissolution of Redevelopment Agency ^{3,4}	-	-	-	-	-	(82,091,681)	21,522,303	-	-	-
Net change in fund balances	\$ 2,610,979	\$ (8,553,963)	\$ 5,883,092	\$ 2,801,470	\$ 13,553,749	\$ (69,583,176)	\$ 26,256,974	\$ (4,376,709)	\$ 1,813,579	\$ 2,267,242
Debt service as a percentage of noncapital expenditures	22.21%	21.28%	18.76%	20.05%	20.10%	17.30%	1.52%	1.43%	1.41%	1.87%

¹ Beginning fiscal year ended June 30, 2010, the amount reported is a combination of investment and rental income.

² Effective July 1, 2010, the Development and Maintenance Services Departments were eliminated and the Community Development and Public Works Departments were created due to the City of Brea's reorganization plan.

³ During the fiscal year ended June 30, 2012, the assets, liabilities (current and long-term debt obligations) and fund balances of the Brea Redevelopment Agency were transferred to the Successor Agency on February 1, 2012, as a result of the dissolution of redevelopment agencies in California.

⁴ During the fiscal year ended June 30, 2013, the Successor Agency transferred to the City of Brea the housing assets of the former Brea Redevelopment Agency.

CITY OF BREA

**ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30	Residential Property	Commercial Property	Industrial Property	Other Property ¹	Total Taxable Assessed Value ²	Total Direct Tax Rate
2007	\$ 3,150,677,401	\$ 1,121,437,204	\$ 725,636,109	\$ 1,503,284,513	\$ 6,501,035,227	0.17402
2008	3,369,302,387	1,178,077,438	730,088,623	1,528,851,283	6,806,319,731	0.17402
2009	3,420,432,796	1,535,537,061	1,161,803,074	917,687,313	7,035,460,244	0.17402
2010	3,319,962,213	1,554,892,370	1,199,008,537	905,419,292	6,979,282,412	0.17402
2011	3,579,683,419	1,548,534,540	1,135,559,625	753,830,318	7,017,607,902	0.17402
2012	3,637,044,394	1,543,677,299	1,077,624,463	723,537,802	6,981,883,958	0.17402
2013	3,805,741,803	1,544,954,532	1,145,495,173	682,982,424	7,179,173,932	0.17402
2014	3,927,143,843	1,569,625,782	1,112,039,475	839,411,616	7,448,220,716	0.17402
2015	4,377,268,712	1,580,151,775	1,167,513,932	826,734,462	7,951,668,881	0.17402
2016	4,945,219,822	1,670,210,797	1,168,849,914	740,725,273	8,525,005,806	0.17402

¹ Other property includes recreational, institutional, vacant, and miscellaneous property.

² Tax-exempt property is excluded from the total taxable assessed value.

NOTE:

In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Sources: HdL Coren & Cone; Orange County Assessor

CITY OF BREa

DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS

	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13	Fiscal Year 2013-14	Fiscal Year 2014-15	Fiscal Year 2015-16
City Direct Rates:										
City of Brea	\$ 0.12902	\$ 0.12902	\$ 0.12902	\$ 0.12902	\$ 0.12902	\$ 0.12902	\$ 0.12902	\$ 0.12902	\$ 0.12902	\$ 0.12902
City of Brea Paramedics Tax ¹	0.04500	0.04500	0.04500	0.04500	0.04500	0.04500	0.04500	0.04500	0.04500	0.04500
Total City Direct Rate	0.17402	0.17402	0.17402	0.17402	0.17402	0.17402	0.17402	0.17402	0.17402	0.17402
Overlapping Rates:										
Brea-Olinda Unified School District General Fund	0.43988	0.44000	0.43990	0.43990	0.43990	0.43990	0.43990	0.43990	0.43990	0.43990
Brea-Olinda Unified School District Bonds	0.02183	0.02241	0.02270	0.02285	0.02426	0.02367	0.02365	0.02470	0.02528	0.02292
NOC Community College General Fund	0.06663	0.06700	0.06660	0.06660	0.06660	0.06660	0.06660	0.06660	0.06660	0.06660
NOC Community College Bonds	0.01444	0.01502	0.01493	0.01662	0.01758	0.01742	0.01902	0.01704	0.01704	0.01704
Educational Revenue Augmentation Fund	0.18261	0.18300	0.18260	0.18260	0.18260	0.18260	0.18260	0.18260	0.18260	0.18260
Orange County Department of Education	0.03908	0.03900	0.03910	0.03910	0.03910	0.03910	0.03910	0.03910	0.03910	0.03910
Orange County Flood Control District	0.01888	0.01900	0.01888	0.01880	0.01880	0.01880	0.01888	0.01888	0.01888	0.01888
Orange County General Fund	0.05885	0.05900	0.05890	0.05890	0.05890	0.05890	0.05890	0.05890	0.05890	0.05890
Orange County Harbors, Beaches & Parks	0.01459	0.01460	0.01459	0.01459	0.01459	0.01459	0.01459	0.01459	0.01459	0.01459
Orange County Library District	0.01592	0.01590	0.01592	0.01592	0.01592	0.01592	0.01592	0.01592	0.01592	0.01592
Orange County Sanitation District Two Operating	0.03080	0.03100	0.03080	0.03080	0.03080	0.03080	0.03080	0.03080	0.03080	0.03080
Orange County Transportation Authority	0.00268	0.00270	0.00268	0.00268	0.00268	0.00268	0.00268	0.00268	0.00268	0.00268
Orange County Vector Control	0.00107	0.00110	0.00107	0.00107	0.00107	0.00107	0.00107	0.00107	0.00107	0.00107
Metropolitan Water District	0.00470	0.00450	0.00430	0.00430	0.00370	0.00370	0.00350	0.00350	0.00350	0.00350
Total Direct Rate	\$ 1.08598	#####	\$ 1.08699	\$ 1.08875	\$ 1.09052	\$ 1.08977	\$ 1.09123	\$ 1.09030	\$ 1.09088	\$ 1.08852

¹ The City of Brea Paramedic Tax rate is per \$100 of assessed value.

NOTES:

In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of bonded debt and property tax overrides.

The Redevelopment Agency tax rate is not presented above in that property within the project area is subject to a tax rate of 1.0495%, which includes the Proposition 13 property tax rate of 1.00% and the applicable voter approved debt.

Source: HdL Coren & Cone, Orange County Assessor Combined Tax Rolls

CITY OF BREA

**PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND TEN YEARS AGO**

Taxpayer	Fiscal Year 2015-16			Fiscal Year 2006-07		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Retail Property Trust	\$ 240,984,374	1	2.77%	\$ 206,327,128	1	3.11%
ABS CA-O DC2 LLC	138,635,130	2	1.60%			
Beckman Coulter Inc.	129,493,646	3	1.49%	96,921,673	5	1.46%
CRE Brea Valencia LLC	110,000,000	4	1.27%			
FW CA-Brea Marketplace LLC	103,428,644	5	1.19%	84,185,900	7	1.27%
Brea Union Plaza II LLC	76,829,449	6	0.88%			
Olen Pointe Brea LLC	70,802,010	7	0.82%	95,651,614	6	1.44%
ICE Holdings LLC	52,836,928	8	0.61%	46,264,528	10	0.70%
Mercury Casualty Company	51,848,007	9	0.60%			
BPAP West 135 & 145 LLC	50,500,000	10	0.58%			
Acquiport Brea LP				116,836,920	3	1.76%
New Albertson's Inc				106,313,906	4	1.60%
Equity Office Properties				54,095,020	8	0.82%
La Floresta				133,139,906	2	2.01%
Union Oil Company of California				50,978,990	9	0.77%
	<u>\$ 1,025,358,188</u>		<u>11.81%</u>	<u>\$ 990,715,585</u>		<u>14.94%</u>

The amounts shown above include assessed value data for both the City and the Redevelopment Agency.

Sources: HdL Coren & Cone, County of Orange Assessor's Office

CITY OF BREA

**PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2007	\$ 31,242,316	\$ 30,996,950	99.21	\$ 397,421	\$ 31,394,371	100.49
2008	34,675,457	34,287,289	98.88	370,616	34,657,905	99.95
2009	34,655,751	34,504,139	99.56	354,837	34,858,976	100.59
2010	33,304,101	32,620,080	97.95	252,721	32,872,801	98.70
2011	34,970,273	35,335,027	101.04	145,204	35,480,231	101.46
2012	32,242,292	31,678,555	98.25	295,525	31,974,080	99.17
2013 ¹	12,449,282	12,125,387	97.40	195,502	12,320,889	98.97
2014	13,412,523	13,173,993	98.22	140,765	13,314,758	99.27
2015	14,720,458	14,481,121	98.37	145,952	14,627,073	99.37
2016	16,669,635	16,489,408	98.92	166,642	16,656,050	99.92

¹ Beginning February 1, 2012, the property tax revenues of the former Brea Redevelopment Agency are now accounted for in the Successor Agency to the Brea Redevelopment Agency.

NOTE:

The amounts presented include property taxes and Redevelopment Agency tax increment. This schedule also includes amounts collected by the City and Redevelopment Agency that were passed-through to other agencies.

Source: County of Orange Auditor Controller's Office

CITY OF BREa

TAXABLE SALES BY CATEGORY
LAST TEN FISCAL YEARS

Category	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Department Stores	\$ 3,075,397	\$ 2,983,783	\$ 2,759,775	\$ 2,950,535	\$ 3,037,419	\$ 3,158,876	\$ 3,060,495	\$ 3,000,876	\$ 3,020,454	\$ 2,959,079
Restaurant	1,797,889	1,765,436	1,595,896	1,556,835	1,679,527	1,902,210	2,004,400	2,082,644	2,159,263	2,258,542
Light Industry	687,898	1,666,225	1,485,575	1,497,016	1,854,804	1,713,504	1,759,297	2,142,298	2,049,527	2,171,917
Building Materials-Wholesale	1,151,761	1,125,562	1,105,874	1,061,908	1,348,297	1,346,742	1,622,498	1,676,631	1,799,592	2,051,748
Apparel Stores	1,938,090	1,798,551	1,525,844	1,443,568	1,581,487	1,661,679	1,755,021	1,697,734	1,732,123	1,696,435
Miscellaneous Retail	1,759,575	1,722,736	1,440,366	1,287,074	1,372,512	1,560,446	1,600,599	1,707,983	1,779,009	1,652,697
Furniture/Appliance	444,564	673,297	534,043	558,615	683,424	764,254	708,157	686,308	801,114	763,158
Service Stations	649,312	739,166	734,678	649,050	917,704	998,449	991,760	1,001,724	844,593	712,761
Food Markets	354,271	354,159	261,529	269,150	263,462	271,680	284,288	358,917	358,917	469,420
Building Materials-Retail	402,326	375,248	326,520	328,472	366,253	345,832	450,631	450,013	446,278	470,340
Heavy Industry	406,750	371,096	382,130	309,395	391,235	369,982	498,859	346,253	356,465	408,035
Auto Sales-New	2,937	2,938	1,908	769	160	247	262	330,614	315,306	288,732
Other	4,085,429	2,733,598	2,289,386	1,925,965	2,135,394	2,084,482	1,798,200	1,774,919	1,805,690	1,922,933
Total	\$ 16,756,199	\$ 16,311,795	\$ 14,443,524	\$ 13,838,352	\$ 15,631,678	\$ 16,178,383	\$ 16,534,467	\$ 17,256,914	\$ 17,468,331	\$ 17,825,797

Note: Totals do not include portion of State and County pool as well as the impact of the State Triple Flip.

Source: MuniServices

CITY OF BREa

RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Fiscal Year Ended June 30	Governmental Activities				Business-Type Activities			Total Primary Government	Percentage of Personal Income ⁸	Debt Per Capita ⁸
	Tax Allocation Bonds ^{4,5}	Lease Revenue Bonds ⁵	Capital Leases ^{2,7}	Total Governmental Activities	Water Revenue Bonds ^{1,3,6}	Total	Income ⁸			
2007	\$ 187,943,944	\$ 16,095,000	\$ 4,356,399	\$ 208,395,343	\$ 15,740,000	\$ 224,135,343	11.91%	5,622		
2008	181,975,649	15,310,000	3,552,175	200,837,824	14,975,000	215,812,824	11.17%	5,384		
2009	188,442,073	14,495,000	2,993,624	205,930,697	25,800,000	231,730,697	11.43%	5,768		
2010	178,909,196	16,485,000	6,716,146	202,110,342	38,095,000	240,205,342	11.46%	5,949		
2011	197,967,628	15,360,000	6,106,031	219,433,659	37,760,000	257,193,659	13.10%	6,419		
2012	-	2,760,000	5,161,902	7,921,902	37,265,000	45,186,902	2.21%	1,104		
2013	-	2,760,000	4,659,564	7,419,564	36,325,000	43,744,564	2.10%	1,057		
2014	-	2,760,000	4,169,409	6,929,409	35,350,000	42,279,409	1.83%	997		
2015	-	2,760,000	3,652,690	6,412,690	52,890,000	59,302,690	2.48%	1,369		
2016	-	2,760,000	4,833,071	7,593,071	53,325,495	60,918,566	2.41%	1,394		

¹ For the fiscal year ended June 30, 2009, the Brea Public Financing Authority issued \$12,855,000 in water revenue refunding bonds and \$12,945,000 in new money bonds.

² For the fiscal year ended June 30, 2010, the City of Brea entered into a lease-purchase agreement for \$4,580,000.

³ For the fiscal year ended June 30, 2010, the Brea Public Financing Authority issued over \$12 million of water revenue bonds.

⁴ For the fiscal year ended June 30, 2011, the Brea Redevelopment Agency issued over \$29 million of tax allocation bonds.

⁵ For the fiscal year ended June 30, 2012, outstanding long term debts of the Brea Redevelopment Agency were transferred to the Successor Agency on February 1, 2012, as a result of dissolution of redevelopment agencies in California.

⁶ For the fiscal year ended June 30, 2015, the Brea Community Benefit Financing Authority issued over \$18 million of water revenue bonds.

⁷ For the fiscal year ended June 30, 2016, the City of Brea entered into a lease purchase agreement for \$1,952,104.

⁸ See the Schedule of Demographic and Economic Statistics for personal income and population data.

NOTE: Details regarding the outstanding debt can be found in the notes of the financial statements.

CITY OF BREA

**RATIO OF NET GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30	General Bonded Debt Outstanding			Total	Restricted for Debt Service ²	Net Bonded Debt	Percentage of Assessed Value of Property ³	Per Capita ⁴
	Tax Allocation Bonds ^{1,2}	Lease Revenue Bonds ²						
2007	\$ 187,943,944	\$ 16,095,000	\$ 204,038,944	\$ 3,147,593	\$ 200,891,351	3.09%	\$ 4,748	
2008	181,975,649	15,310,000	197,285,649	3,188,031	194,097,618	2.85%	4,477	
2009	185,442,073	14,495,000	199,937,073	3,713,382	196,223,691	2.79%	4,592	
2010	178,909,196	16,485,000	195,394,196	3,758,776	191,635,420	2.75%	4,629	
2011	197,967,628	15,360,000	213,327,628	6,647,628	206,680,000	2.95%	5,247	
2012	-	2,760,000	2,760,000	301,972	2,458,028	0.04%	60	
2013	-	2,760,000	2,760,000	291,130	2,468,870	0.03%	60	
2014	-	2,760,000	2,760,000	293,713	2,466,287	0.03%	58	
2015	-	2,760,000	2,760,000	264,636	2,495,364	0.03%	58	
2016	-	2,760,000	2,760,000	269,453	2,490,547	0.03%	57	

¹ For the fiscal year ended June 30, 2011, the Redevelopment Agency issued over \$29 million of tax allocation bonds in June, 2011, which included over \$22 million in new bonds resulting in the increase

² For the fiscal year ended June 30, 2012, outstanding long term debts of the Brea Redevelopment Agency were transferred to the Successor Agency on February 1, 2012, as a result of dissolution of Redevelopment Agencies in California.

³ See schedule of Assessed Value and Estimated Actual Value of Taxable Property for property value data.

⁴ Population data can be found in schedule of Demographic and Economic Statistics.

NOTE: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

CITY OF BREA

**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2016**

City Assessed Valuation: \$ 8,532,576,967

	Estimated Percentage Applicable ¹	Debt Outstanding	Estimated Share of Overlapping Debt
Overlapping Debt Repaid with Property Taxes:			
Metropolitan Water District	0.348	\$ 92,865,000	\$ 323,170
North Orange County Joint Community College District	7.545	271,564,001	20,489,504
Brea-Olinda Unified School District	93.648	16,549,029	15,497,835
Placentia-Yorba Linda Unified School District	1.255	246,799,202	3,097,330
Rowland Unified School District	0.147	252,439,843	371,087
Fullerton Joint Union High School District	1.851	88,877,910	1,645,130
Fullerton School District	0.008	37,575,458	3,006
La Habra City School District	10.559	19,278,584	2,035,626
City of Brea Community Facilities Districts	100	13,595,000	13,595,000
Brea-Olinda Unified School District Community Facilities District No. 95-1	100	6,570,000	6,570,000
Total overlapping debt repaid with property taxes		<u>1,046,114,027</u>	<u>63,627,688</u>
Overlapping Other Debt:			
Orange County General Fund Obligation	1.710	\$ 124,614,000	\$ 2,130,899
Orange County Pension Obligations Bonds	1.710	353,417,858	6,043,445
Orange County Board of Education Certificates of Participation	1.710	14,840,000	253,764
Municipal Water District of Orange County Water Facilities Corporation	2.037	2,770,000	56,425
North Orange Regional Occupation Program Certificates of Participation	7.743	10,190,000	789,012
Brea-Olinda Unified School District Certificates of Participation	93.648	20,035,000	18,762,377
Placentia-Yorba Linda Unified School District Certificates of Participation	1.255	99,075,355	1,243,396
Rowland Unified School District Certificates of Participation	0.147	5,000,000	7,350
Fullerton Joint Union High School District Certificates of Participation	1.851	20,525,000	379,918
Fullerton School District Certificates of Participation	0.008	5,510,000	441
Total gross and overlapping general fund debt			<u>29,667,027</u> ²
Less: MWDOC Water Facilities Corporation (100% supported)			<u>56,425</u>
Total net and overlapping general fund debt			\$ 29,610,602
Total Gross overlapping debt			\$ 93,294,715
Total net overlapping debt			\$ 93,238,290
City of Brea Direct Debt:			
Lease Revenue Bonds			\$ 2,760,000
Capital Leases			4,833,071
Total City of Brea Direct Debt			<u>\$ 7,593,071.00</u>
Combined total gross direct and overlapping debt			\$ 100,887,786 ³
Combined total net direct and overlapping debt			\$ 100,831,361

¹ Percentage of overlapping agency's assessed valuation located within the boundaries of the City.

² Previously classified Orange County Sanitation District certificates of participation have been reclassified as district revenue supported issues and are no longer included as a general fund debt in the debt statement.

³ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds.

NOTE:

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Brea. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

Source: California Municipal Statistics, Inc.

CITY OF BREa

LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS

	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13	Fiscal Year 2013-14	Fiscal Year 2014-15	Fiscal Year 2015-16
Assessed value	\$ 6,501,035,227	\$ 6,806,319,731	\$ 7,035,460,244	\$ 6,979,282,412	\$ 6,979,282,412	\$ 7,328,303,022	\$ 7,556,214,577	\$ 7,815,157,069	\$ 8,026,908,085	\$ 8,532,576,967
Debt limit: 3.75% of assessed value	243,788,821	255,236,990	263,829,759	261,723,090	261,723,090	274,811,363	283,358,047	293,068,390	301,009,053	319,971,636
Total net debt applicable to limit										
Total general obligation bonded debt										-
Less net assets in debt service fund										-
Total amount of debt applicable to debt limit										\$ -
Legal debt margin										\$ 319,971,636

NOTE:

Under state finance law, the City of Brea's outstanding general obligation debt should not exceed 3.75 percent of total assessed property value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

CITY OF BREA

PLEDGED REVENUE COVERAGE
LAST TEN FISCAL YEARS

Fiscal Year Ended June 30	Tax Allocation Bonds				Water Revenue Bonds						
	Increment ^{5,6}	Tax	Debt Service		Less: Operating Expenses ²	Gross Revenues ¹	Net Available Revenue		Debt Service Principal ³	Interest ⁴	Coverage
			Principal ⁶	Interest ⁶			Revenue	Interest ⁴			
2007	\$ 23,500,001		\$ 6,350,000	\$ 8,610,256	\$ 8,800,006	\$ 10,302,495	\$ 1,502,489	\$ 735,000	\$ 735,775		1.02
2008	23,500,000		6,345,000	7,947,207	8,774,941	10,410,074	1,635,133	765,000	816,508		1.03
2009	23,500,000		5,795,000	7,132,481	9,123,214	10,344,771	1,221,557	790,000	552,885		0.91
2010	20,062,146		6,950,000	8,182,916	10,471,557	11,563,325	1,091,768	-	1,359,105		0.80
2011	19,854,155		6,960,000	7,895,704	10,510,821	11,874,613	1,363,792	335,000	1,291,835		0.84
2012	-		-	-	11,196,371	13,659,142	2,462,771	495,000	1,536,324		1.21
2013	-		-	-	10,700,731	15,639,630	4,938,899	940,000	1,548,591		1.98
2014	-		-	-	11,873,994	18,204,836	6,330,842	975,000	1,540,597		2.52
2015	-		-	-	10,685,147	17,803,755	7,118,608	1,015,000	2,351,374		2.11
2016	-		-	-	9,162,038	16,489,077	7,327,039	1,315,000	2,348,737		2.00

¹ Gross revenues exclude connection fees.

² Operating expenses do not include interest or depreciation.

³ In May 2009, the Brea Public Financing Authority issued over \$12.9 million of water revenue refunding bonds, which refunded the 1998 Water Revenue Refunding Bonds resulting in no principal payment due in July 1, 2009.

⁴ Interest expense is net of the Build America Bonds interest refund credits.

⁵ Beginning fiscal year ended June 30, 2010, tax increment is net of tax increment revenue sharing payments.

⁶ For the fiscal year ended June 30, 2012, outstanding long term debts of the Brea Redevelopment Agency were transferred to the Successor Agency on February 1, 2012, as a result of dissolution of redevelopment agencies in California.

NOTE: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

CITY OF BREA

DEMOGRAPHIC AND ECONOMIC STATISTICS LAST TEN FISCAL YEARS

Fiscal Year Ended June 30	Population ¹	Personal Income (in thousands)	Per Capita Personal Income ²	Unemployment Rate ³
2007	39,870	\$ 1,882,223	\$ 47,209	3.9%
2008	40,081	1,932,265	48,209	4.1%
2009	40,176	2,027,401	50,463	7.2%
2010	40,377	2,095,324	51,894	6.2%
2011	40,065	1,963,986	49,020	6.6%
2012	40,932	2,040,992	49,863	6.0%
2013	41,394	2,087,913	50,440	5.2%
2014	42,397	2,311,442	54,519	4.2%
2015	43,328	2,387,199	55,096	3.9%
2016	43,710	2,524,209	57,749	3.4%

Sources:

¹ City Community Development, Planning Division

² Per capita income for Orange County; U.S. Department of Commerce, Bureau of Economic Analysis

³ State of California Employment Development Department - Labor Market Information Division

CITY OF BREA

**PRINCIPAL EMPLOYERS
CURRENT FISCAL YEAR AND TEN YEARS AGO**

Employer	Fiscal Year 2015-16			Fiscal Year 2006-07		
	Employees	Rank	Percent of Total City Employment ¹	Employees	Rank	Percent of Total City Employment
Bank of America	1,500	1	6.88%	1,500	3	6.86%
Mercury Insurance Group	1,399	2	6.42%	3,000	1	13.72%
Beckman Coulter, Inc.	1,200	3	5.50%	3,000	2	13.72%
Brea Olinda Unified School District	879	4	4.03%	500	6	2.29%
Kirkhill - TA Company	709	5	3.25%	700	5	3.20%
Veterinary Pet Insurance Co.	460	6	2.11%			
Albertson's, Inc.	438	7	2.01%	1,200	4	5.49%
Bristol Industries	400	8	1.83%			
Nordstrom Department Store	352	9	1.61%			
Peterson Brothers Construction	300	10	1.38%			
Harte-Hanks Communications				500	7	2.29%
Capital Group				400	10	1.83%
ITT Hartford Insurance Group				450	8	2.06%
Avery Dennison Administrative				450	9	2.06%
Total	7,637		35.02%	11,700		53.52%

¹ Based upon the Employment Development Department's estimate of 21,800 residents employed in 2015 out of a total population of 43,710.

Source: City of Brea Business License Division

CITY OF BRE A

**FULL-TIME EQUIVALENT CITY EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS**

Function	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Government	67	68	69	56	57	57	59	58	59	60
Public Safety	226	226	226	211	213	213	212	167	158	158
Development Services	32	32	33	29	-	-	-	-	-	-
Community Development ¹	-	-	-	-	20	20	20	21	21	21
Community Services	50	50	52	48	39	48	52	52	52	55
Maintenance Services	38	38	42	32	-	-	-	-	-	-
Public Works ²	-	-	-	-	37	39	42	41	42	45
Water Utility	16	16	14	16	16	14	15	17	17	17
Sewer Utility	4	4	4	6	6	6	6	6	6	6
Sanitation	2	2	2	2	2	2	2	2	2	2
Mobile Data System	3	1	1	-	-	-	-	-	-	-
External Information Technology ³	-	-	-	9	9	9	9	10	10	10
Total	438	437	443	409	399	408	417	373	367	374

¹ Prior to FY2011, Community Development was reported under Development Services function.

² Prior to FY2011, Public Works was reported under Maintenance Services function.

³ Prior to FY2010, External Information Technology Services was reported under General Government function.

Source: City of Brea Adopted Budget and Supplements to the Adopted Budget, 2006-07 through 2015-16.

CITY OF BREA

OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Function:										
Police										
Calls dispatched	20,700	19,334	22,232	22,231	23,071	24,650	22,810	22,412	23,026	24,359
Crime reports	9,882	5,585	7,076	5,475	4,726	4,491	4,450	4,207	4,490	4,798
Moving citations	16,289	8,335	7,123	9,192	9,024	8,215	5,573	3,272	3,426	2,483
Parking citations	14,504	14,836	14,118	20,639	15,469	16,034	10,651	11,178	10,057	10,528
Water										
Number of customer accounts	11,893	11,842	11,863	11,953	11,878	12,095	12,258	12,637	12,951	13,153
Average daily consumption (millions of gallons)	10.12	10.79	9.26	8.83	8.53	9.39	9.77	10.30	9.54	7.86
Water samples taken	1,830	1,753	624	624	627	672	840	624	686	732
Sewers										
Feet of sewer mains root cut/chemically treated	4,825	2,410	-	-	-	-	-	-	-	-
Development Services ⁵										
Permits issued	1,249	1,096	1,218	979	-	-	-	-	-	-
Inspections conducted	3,994	4,945	4,850	4,628	-	-	-	-	-	-
Traffic signals maintained ^{2, 4}	50	50	51	51	-	-	-	-	-	-
Infrastructure improv. projects administered	9	14	12	13	-	-	-	-	-	-
Community Development										
Permits issued	-	-	-	-	1,097	1,180	1,404	1,418	1,561	2,072
Inspections conducted	-	-	-	-	4,316	5,030	5,604	7,955	7,997	6,903
Maintenance Services ⁵										
Square feet of graffiti removal	7,675	11,232	12,755	15,048	-	-	-	-	-	-
Streetsweeping miles	20,618	26,341	22,943	20,777	-	-	-	-	-	-
Trees pruned per year	2,322	2,642	2,706	2,906	-	-	-	-	-	-
Public Works										
Square feet of graffiti removal	-	-	-	-	12,528	9,576	10,944	7,713	4,545	3,609
Streetsweeping miles	-	-	-	-	20,609	18,398	19,365	19,494	20,128	20,333
Trees pruned per year	-	-	-	-	2,702	2,806	3,136	2,069	3,408	3,275
Traffic signals maintained ⁴	-	-	-	-	51	52	52	52	52	53
Infrastructure improv. projects administered	-	-	-	-	9	17	6	9	10	8
Culture and Recreation										
Gallery promotions and mailings	43,962	42,151	43,962	21,647	26,903	22,934	18,500	18,500	18,500	14,800
Gallery attendance	6,624	6,004	7,495	6,934	7,081	11,693	9,596	10,674	10,042	12,807
Theatre annual program brochures mailed	20,000	23,313	24,532	35,053	37,848	37,843	32,359	44,517	26,258	34,670
Theatre attendance	16,419	16,419	17,742	13,964	11,983	12,829	12,516	12,889	12,926	50,476
General government										
Accounts payable warrants issued	8,493	8,624	7,772	6,233	6,043	8,182	7,872	7,829	8,599	7,569

¹ The reporting methodology employed beginning fiscal year 2007-08 was changed; going forward, this methodology will remain consistent for the sake of comparability.

² Figure corrected with fiscal year 2011-12 CAFR.

³ Beginning in fiscal year 2007-08, the reported streetsweeping miles included curb miles from the City's backup sweeper which was not included in the prior fiscal year.

⁴ Doesn't include five flashing beacons the City maintains

⁵ Beginning in fiscal year 2010-11, function classified as Public Works or Community Development.

Source: City of Brea

CITY OF BREA

**CAPITAL ASSET STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Function:										
Public Safety										
Police stations	1	1	1	1	1	1	1	1	1	1
Fire stations	4	4	4	4	4	4	4	4	4	4
Highways and streets										
Miles of streets	119	119	119	119	119	119	119	120	120	121
Street lights	3,388	3,388	3,388	3,388	3,388	3,388	3,388	3,401	3,401	3,452
Water										
Number of water wells	1	1	1	1	1	1	1	1	1	1
Number of reservoirs	6	6	6	6	6	6	6	7	7	7
Miles of lines & mains	167	167	167	167	167	167	167	167	197	197
Sewer										
Miles of sanitary sewers	110.00	110.00	110.00	110.00	110.00	110.00	110.00	111.00	111.00	112.00
Miles of storm drains	25.00	25.00	25.00	25.00	25.00	25.00	25.00	26.00	26.00	27.00
Culture and Recreation										
Number of parks	10	10	11	11	11	11	12	13	13	13
Number of other facilities	7	7	7	7	7	7	7	7	7	7

Source: City of Brea



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 Brea, 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 Brea, California, (the City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 28, 2017.

Internal Control over Financial Reporting

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

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

Infrastructure Capital Assets

During our testing of capital assets, management brought to our attention that several capital projects were not accounted for as infrastructure capital assets and the infrastructure capital assets balance had not been updated for several years. As a result, the infrastructure capital assets balance was understated by over \$7 million. We recommend that management modify its internal control procedures to maintain detailed records of infrastructure projects and keep the detailed records up to date.



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

Management's Response:

During fiscal year 2015-16, the Finance division assumed responsibility for keeping the detailed records for the infrastructure capital assets. Part of the responsibility of the Finance division included examining prior years back to 2011-12 as to reviewing the additions and deletions of capital projects. It was discovered that additions back to 2011-12 had not been included. Instead, the accounting records had been reduced in prior years when agreeing to the detailed records. During fiscal year ended June 30, 2016, the adjustments to the detailed records and the financial system resulted in the \$7 million as noted in the auditors' comment. As part of the new procedure, throughout the fiscal year, upon the completion and acceptance of new infrastructure projects, the Finance division will work with Public Works to obtain the necessary information to update the capital assets schedules and financial system accordingly. During year end closing, a reconciliation will be performed to assure additions and deletions have been accounted for properly.

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 the following instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*:

Housing Successor Annual Report

In accordance with Section 65400 of the Government Code, the Housing Successor is required to submit an Annual Progress Report to the governing body, the Office of Planning and Research, and the Department of Housing and Community Development by April 1 following the fiscal year end. We noted that the Housing Successor's annual report for fiscal year 2014-2015 was submitted on May 9, 2016 to the Office of Planning and Research, and the Department of Housing and Community Development, after its required due date. We recommend that the Housing Successor submit the report on a timely basis.

Management's Response: In order to ensure the Housing Successor's annual report is completed on time and received by HCD prior to the deadline each year, the Planning Staff has scheduled this items for a yearly meeting with the City Council in February. This will allow ample time for preparation, consideration and forwarding the received report to HCD.

City's Response to Findings

The City'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.



CPAs AND ADVISORS

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

Purpose of this Report

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

Lance, Soll & Lughard, LLP

Brea, California
March 28, 2017

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March 28, 2017

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Brea (City) for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 9, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in the notes to the financial statements. Statement of Governmental Accounting Standards (GASB Statement No. 72), Fair Value Measurement and application was implemented in fiscal year 2015-2016. This implementation is noted in footnote No. 2 of Cash and Investments.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimates of the Net Pension Liability and OPEB Obligation is based on actuarial standards estimates. We evaluated the key factors and assumptions used to develop the Net Pension Liability and OPEB Obligation in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.





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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 28, 2017.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to management's discussion and analysis, budgetary comparison schedule for the General Fund and the Low and Moderate Income Housing Asset Fund, the schedule of changes in the net pension liability and related ratios, and the schedule of plan contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.



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

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

New Auditing Standard No. 130

This new auditing standard is effective for financial periods ending on or after December 15, 2016; for most California municipalities it is effective for the period July 1, 2016 through June 30, 2017 and future periods thereafter. The standard allows CPA firms to issue an opinion on the financial statements conformity with generally accepted accounting principles, as well as an opinion on the operating effectiveness of internal controls over financial reporting through an integrated audit. This standard does not change the objectives of a financial statement audit, it only enhances the value and scope of a financial statement audit and increases the level of assurance provided by CPA firms on financial controls. Municipalities should look to perform an integrated audit for more assurance on the operating effectiveness of internal controls over financial reporting.

New Accounting Standards

The following new Governmental Accounting Standards Board (GASB) pronouncements were effective for fiscal year 2015-2016 audit:

GASB Statement No. 72, Fair Value Measurement and Application.

GASB Statement No. 76, The Hierarchy of Generally accepted Accounting Principles for State and Local Governments.

GASB Statement No. 79, Certain External Investment Pools and Pool Participants.

The following Governmental Accounting Standards Board (GASB) pronouncements are effective in the following fiscal year audit and should be reviewed for proper implementation by management:

Fiscal year 2016-2017

GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statement Nos. 67 and 68.

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

GASB Statement No. 77, Tax Abatement Disclosures.

GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.

GASB Statement No. 80, Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14.

GASB Statement No. 82, Pension Issues an Amendment of GASB Statements No. 67, No. 68, and No. 73.



CPAs AND ADVISORS

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

Fiscal year 2017-2018

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

GASB Statement No. 81, Irrevocable Split Interest Agreements.

Restriction on Use

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

Very truly yours,

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

Brea, California